

New Opportunities for Company Performance and Purpose: Creating Shared Value

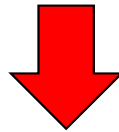
Professor Michael E. Porter
Harvard Business School

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This presentation draws on ideas from Professor Porter's books and articles, in particular, *Competitive Strategy* (The Free Press, 1980); *Competitive Advantage* (The Free Press, 1985); "What is Strategy?" (*Harvard Business Review*, Nov/Dec 1996); and *On Competition* (*Harvard Business Review*, 2008). 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. Additional information may be found at the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu.

The Role of Business in Society

- Only business can **create prosperity**
- Healthy businesses need a **healthy community**



- There is an ever **growing awareness** of major societal challenges
- Government and NGO's **lack sufficient resources and capabilities** to fully meet these challenges
- Companies are sometimes perceived to be prospering **at the expense of the broader community**, and a **cause** of social, environmental, and economic problems
- Despite growing corporate citizenship activities, the **legitimacy of business** has fallen

The Role of a Company in Its Communities

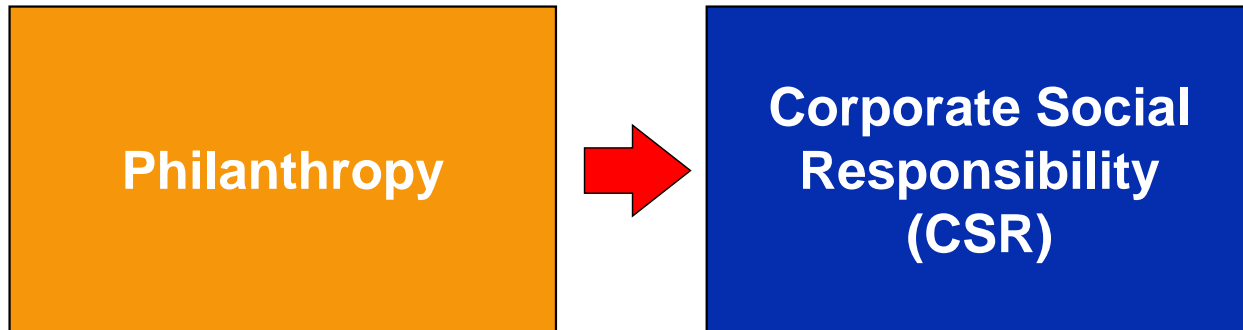
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

The Role of a Company in Its Communities

Evolving Approaches



- Donations to worthy social causes
- Volunteering

- Compliance with community standards
- Good corporate citizenship
- “Sustainability”

The Role of a Company in Its Communities

Evolving Approaches



The Concept of Shared Value

Shared Value: Corporate policies and practices that **enhance the competitiveness** of the company while simultaneously **advancing social and economic conditions** in the communities in which it sells and operates

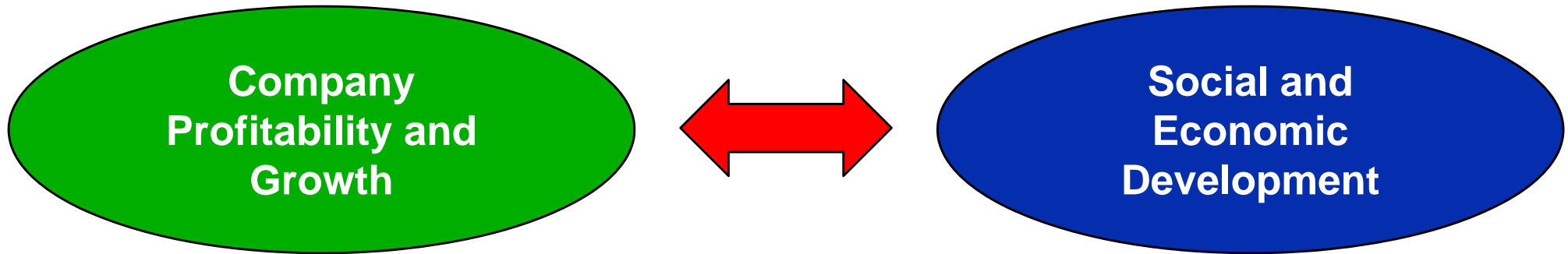
- **Shared Value IS:**

- Creating **economic value** by creating **societal value**
- Using **capitalism** to address social problems
- Solutions to social problems that are **scalable** and **self-sustaining**

- **Shared Value is NOT:**

- Sharing the value **already created** (philanthropy)
- Personal **values**
- **Balancing** stakeholder interests
- The same as **sustainability**

Business and Society: Why the Disconnect?

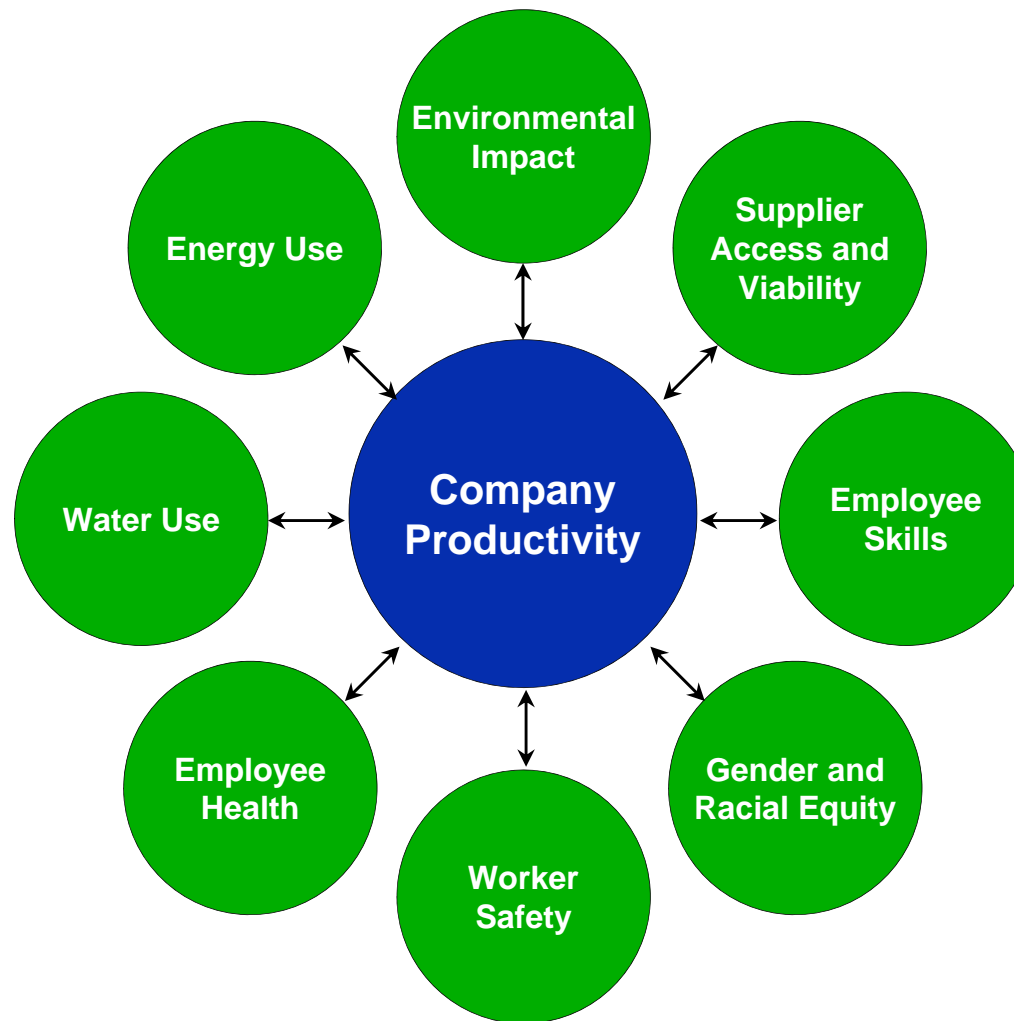


- Many companies (and investors) have pursued a **narrow model** of economic value creation
 - Meeting **conventional** needs of **conventional** customers
 - Optimizing within **traditional company boundaries**
 - Profit improvement through **outsourcing, relocating, and globalizing**
 - Driving growth through **acquisitions** instead of new business creation
 - Societal issues are treated as **outside the scope of the business**



- Huge **societal needs** go unmet
- **Growth** and **innovation** suffer

Societal Needs and Economic Value Creation



- **Social** deficits create **economic** cost
- **External** conditions shape **internal** company productivity
- Social needs represent the **largest market opportunities**

Levels of Shared Value

- Reconceiving **products, needs, and customers**
 - Meeting **societal needs** and reaching **unserved** or **underserved customers**
- **Redefining productivity** in the value chain
 - How the organization **better uses resources** in value chain, including employees, to improve fundamental productivity
- Enabling **local cluster development**
 - Improving available **skills, suppliers, and supporting institutions** in the region

Creating Shared Value in Products

Dow Chemical Insect Control

The Spinetoram™ Family of insect control products are derived from a **biological organism** that provides control of a broad spectrum of insect pests in a variety of crops

- Natural degradation through UV light and soil microbes
- Low solubility in water
- Favorable toxicological profile
- Carries lowest human hazard label



- Applied in **lower quantities** than conventional insecticides
- **Low impact** on beneficial insects
- **Double-digit growth** since launch in 2010

Creating Shared Value in Products and Markets

Novo Nordisk in China

- **Diabetes training programs for physicians** in partnership with government, NGOs, and opinion leaders to promote the latest thinking on diabetes prevention, screening, treatment, and patient communication
 - The program has **trained 55,000 physicians** to date, each treating approximately 230 patients
- New types of **diabetes education programs for patients** focusing on prevention, lifestyle changes, and effective use of insulin products
- **Product design** that reflects Chinese patient demographics and culture



- Since 1994, Novo Nordisk **market share in China increased from 0% to 63%**, and China became the **third largest market** with **revenues of \$935 million** in 2011
- Company efforts saved **140,000 life years in China** by 2010, and **\$2,317 of total lifetime costs per patient**

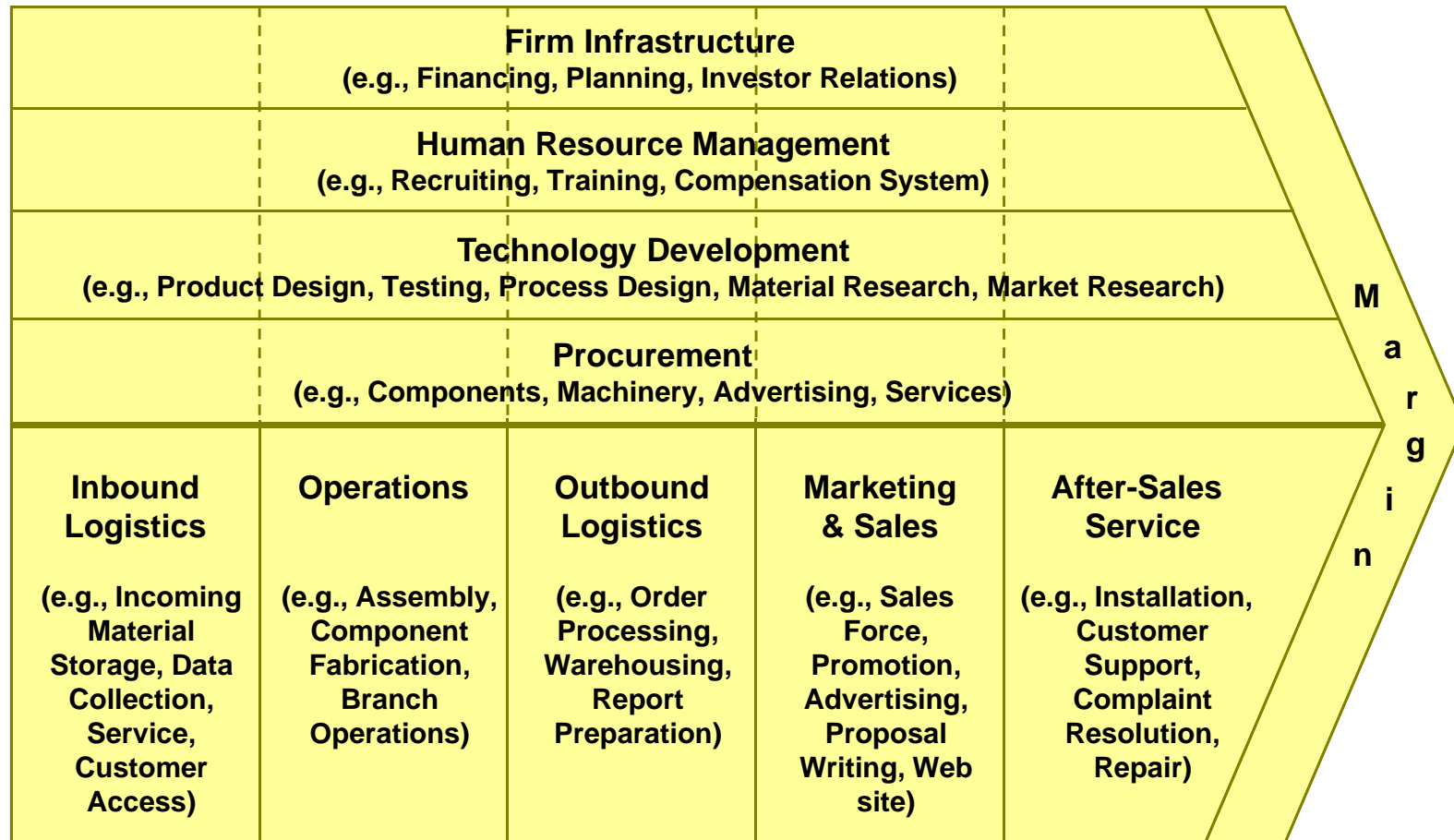
Discovering Product and Market Opportunities to Create Shared Value

- Redefine the business around **unsolved customer problems or concerns**, not traditional product definitions
- Think in terms of **improving lives**, not just meeting customer needs
- Identify customer groups that have been **poorly served** or **overlooked** by the industry's products
- Start with **no preconceived constraints** about product attributes, channel configuration, or the economic model of the business (e.g., small loans are unprofitable)



- Opens up **new opportunities** for customer segmentation and marketing

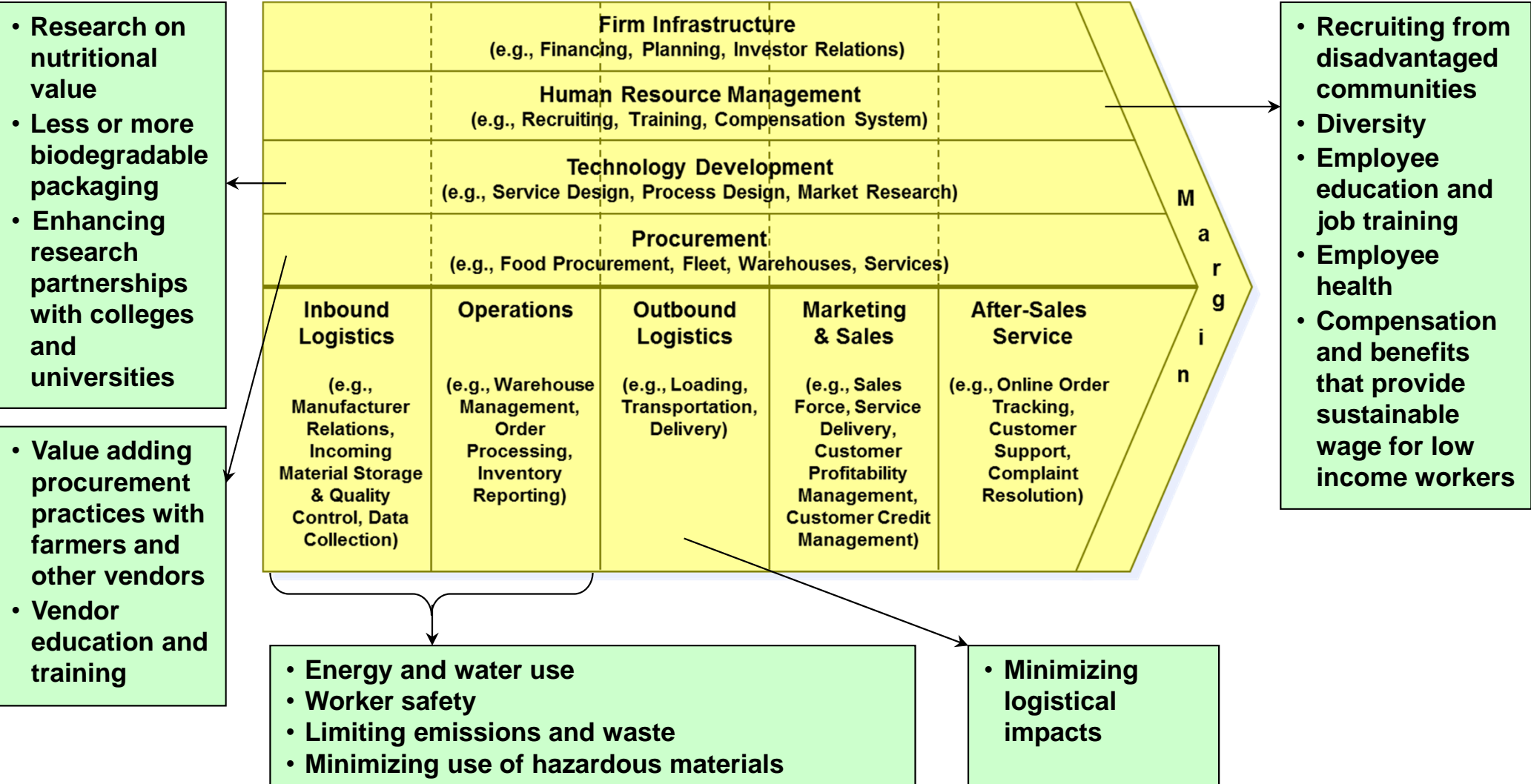
Redefining Productivity in the Value Chain



- Shared value purchasing
- Energy use
- Resource use
- Location of facilities / supply chain
- Logistical efficiency
- Employee productivity

Identifying Opportunities for Shared Value in Food Services

The Value Chain



Cluster Development in the Company's Major Locations

- A strong local cluster improves **company growth and productivity**
 - Local suppliers
 - Supporting institutions and infrastructure
 - Related businesses
- **Companies**, working collaboratively, can catalyze major improvements in the cluster and the local business environment



- Local cluster development **strengthens the link** between a company's success and community success

Local Cluster Development

Anglo-American

- Anglo American has established Anglo Zimele, a South African enterprise investment fund, for **mining-related small and medium-sized businesses** in South Africa
- As of 2010, the fund had invested in **509 businesses**, which collectively employed 9,514 people with annual revenues of \$215 million

Economic value

- Anglo-American has created reliable, high-quality **local suppliers**
- Local suppliers reduce transaction costs and improve **service levels** and **quality**

Community value

- **10,000 new jobs** created
- Significant increase in **income** for SME employees and owners
- **Spillover effects** of these new businesses on their communities

Creating Shared Value

Opportunities for Pharmaceutical and Medical Devices Companies

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
- **Tailored product offerings** to meet local market conditions

Redefining Productivity in Value Chains

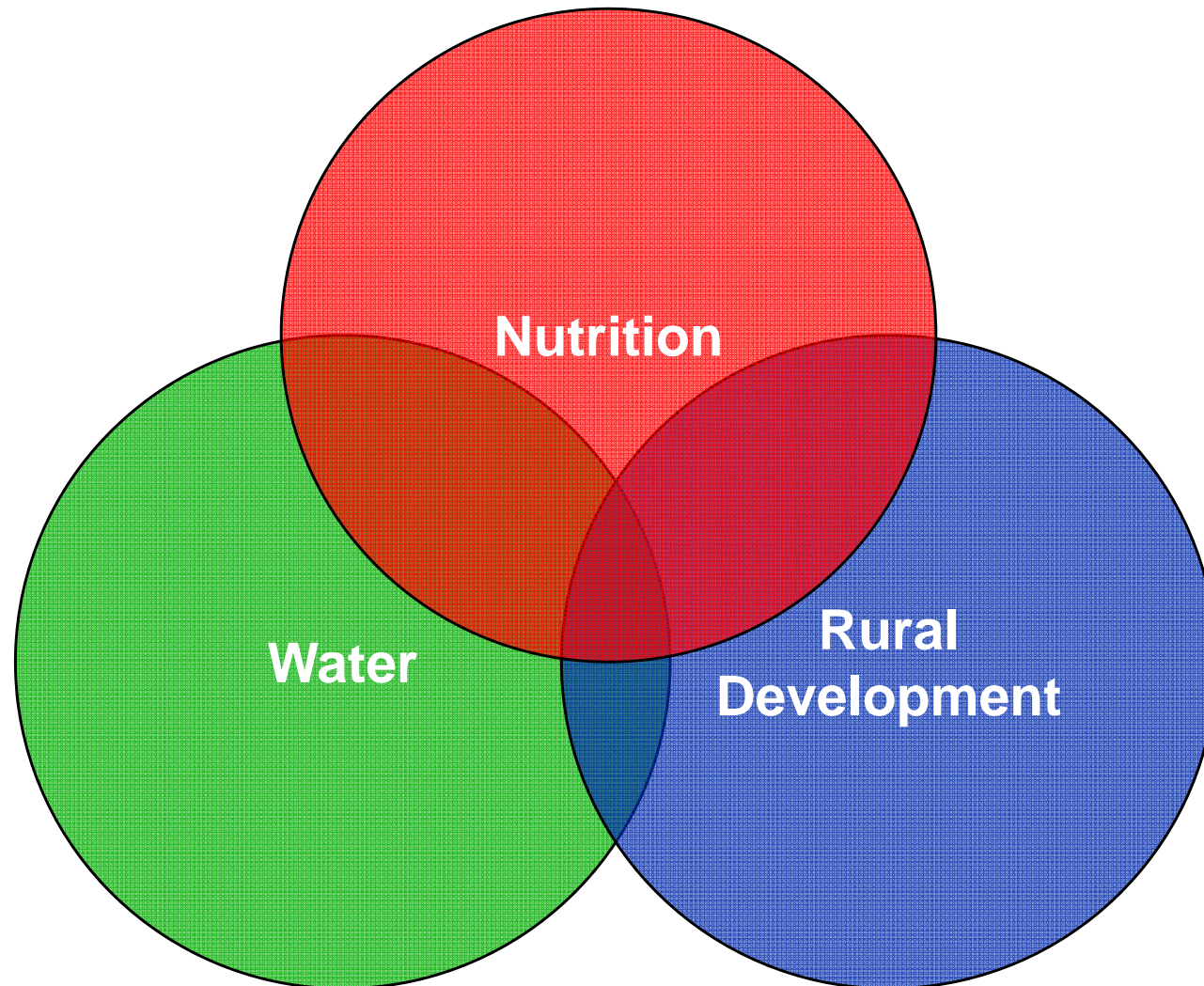
- **Efficient, local supply chains** and **manufacturing** to reduce production costs
- **Locally-adapted sales and distribution** to reduce cost, access new markets, and better meet patient needs

Enabling Local Cluster Development

- **Behavior-change campaigns** to create more sophisticated consumer demand for health care
- **Strengthening of health systems** to enable the delivery of needed products and services
- **Advocacy and capacity building** to strengthen the policy and the regulatory environment

Creating Shared Value: Deciding Where to Concentrate

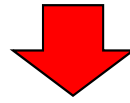
Nestlé



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

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 can incorporate a **social dimension** in their value proposition
- Shared value can **reinforce** and even **anchor** a company's strategy
- The social dimensions of strategy can be more **sustainable vs. competitors** than conventional cost and quality advantages

Shared Value and Strategic Positioning

Whole Foods Markets

Value Proposition

- Natural, fresh, organic, and prepared foods and health items with excellent service at premium prices
- Cater to specialized nutritional requirements (gluten allergies, vegan, etc.)
- Educated, middle class, and affluent customers who are passionate about food and a healthy lifestyle

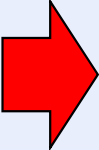
Distinctive Activities

- 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



- Successful strategies in the future will embody a significant **shared value dimension**

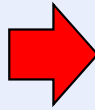
Transforming Strategic Positioning

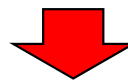
	<u>Traditional Positioning</u>		<u>New Positioning</u>
Nestlé	<ul style="list-style-type: none">• Food		<ul style="list-style-type: none">• Nutrition
Nike	<ul style="list-style-type: none">• Shoes		<ul style="list-style-type: none">• Health and Wellness
IBM	<ul style="list-style-type: none">• Computing / Technology		<ul style="list-style-type: none">• Smarter Planet / Smarter Cities
Thermo Fisher	<ul style="list-style-type: none">• Leader in Serving Science		<ul style="list-style-type: none">• Making the World Healthier, Cleaner, and Safer

- A **broader sense of purpose** motivates and attracts employees, business partners, shareholders, and the public

New Stakeholder Roles and Relationships

- Shared value thinking is driving **new relationships** between **companies**, **philanthropists**, **NGOs**, and **government** in addressing social issues

	<u>Traditional Roles</u>		<u>New Roles</u>
Companies	• Donate to charitable causes		• Initiate and scale shared value strategies
Philanthropists	• Donate to charitable causes		• Partner with companies and NGOs to catalyze shared value initiatives
NGOs	• Receive grants to provide social services		• Enable implementation of new shared value business models
Governments	• Regulate business practices; operate social programs		• Partner with companies and NGOs to make platform investments and support shared value strategies



- **NGOs** that do not harness shared value will face a **decline in traditional funding flows**
- **Governments** that fail to leverage shared value will achieve **slower progress in addressing societal needs**

The Purpose of Business

- There is an opportunity to **transform thinking and practice** about the role of the corporation in society
- Shared value gives rise to **far broader opportunities** for economic value creation
- Shared value thinking will drive the next wave of **innovation, productivity growth, and economic growth**
- Shared value will reignite a whole new generation of **management** thinking
- Businesses **acting as businesses**, not as charitable givers, are arguably the most powerful force for addressing many of the pressing issues facing our society
- A transformation of business practice around shared value will give **purpose** to the corporation and represents our best chance to **legitimize business again**