

The Role of Corporations in Society: Creating Shared Value

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The Role of Business in Society

- Only business can **create wealth** and **prosperity**
- There is an ever **growing awareness** of major societal challenges
- Business is facing **growing scrutiny** as the cause or a contributor to many of these problems
- Corporate social responsibility efforts are greater than ever, but the **legitimacy of business has fallen**
- Government and NGO's alone **lack sufficient resources and capabilities** to fully meet social challenges
- These challenges are often the **most acute** in developing countries



We need a **new approach**

The Role of Business in Society

Evolving Approaches



Philanthropy

- Donations to worthy social causes
- Volunteering

The Role of Business in Society

Evolving Approaches



The Role of Business in Society

Evolving Approaches



What is Shared Value?

Creating Shared Value:

Addressing a **social issue** with a **business model**

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Creating Shared Value:

Addressing a **social issue** with a **business model**

Social value + Economic value

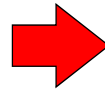
CSR versus Shared Value

Fair Trade



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

Social Needs and Economic Value Creation



- **Social** deficits create **economic** costs
- **“Externalities”** affect **internal** company productivity
- Social needs represent the **largest market opportunities**

Levels of Shared Value

- I. Reconceiving **needs, products, and customers**
 - Meeting **societal needs** through products
 - Addressing **unserved** or **underserved customers**

- II. Redefining **productivity in the value chain**
 - Using resources, energy suppliers, logistics, and employees **more productively**

- III. Improving the **local and regional business environment**
 - Improving the **skills, supplier base, regulatory environment, and supporting institutions** in the communities and regions in which a company operates
 - **Local cluster** development that also improves company productivity

Creating Shared Value in Products and Markets

Jain Irrigation Systems

- **Drip irrigation equipment** for small farmers in Africa and India
- 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 has built a **\$820 million** business that is rapidly growing

Creating Shared Value in Products and Markets

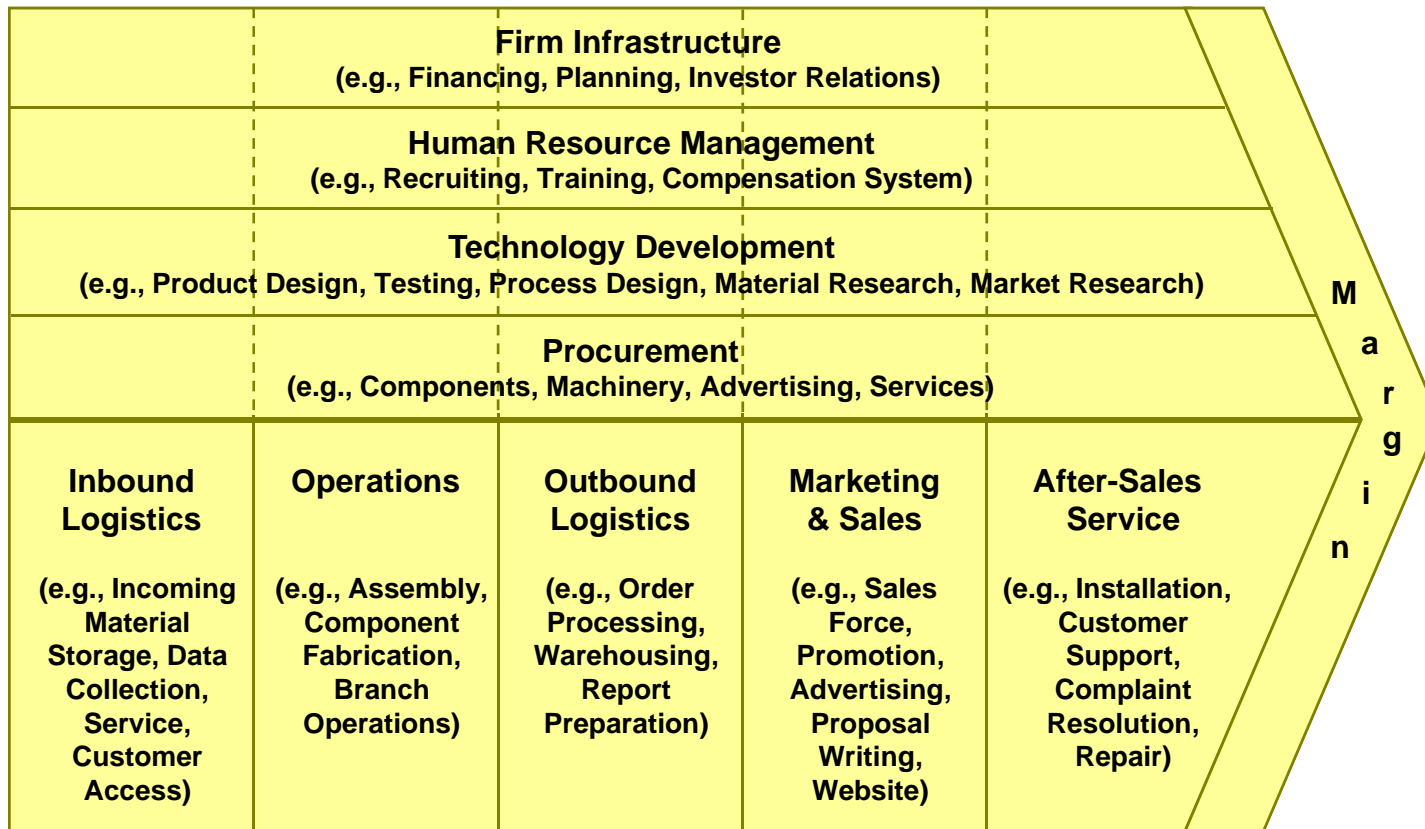
Novo Nordisk in China

- **Product design** that reflects Chinese patient demographics and culture
- **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



- Novo's market share in China increased from **0% to 63%**, and China became the company's third largest market with revenues of \$935 million in 2011

Redefining Productivity in the Value Chain



- Purchasing that enhances **supplier capabilities** and **efficiency**
- Improving **energy, water** and **resource** efficiency
- 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

Shared Value in the Value Chain

Fibria, Brazil

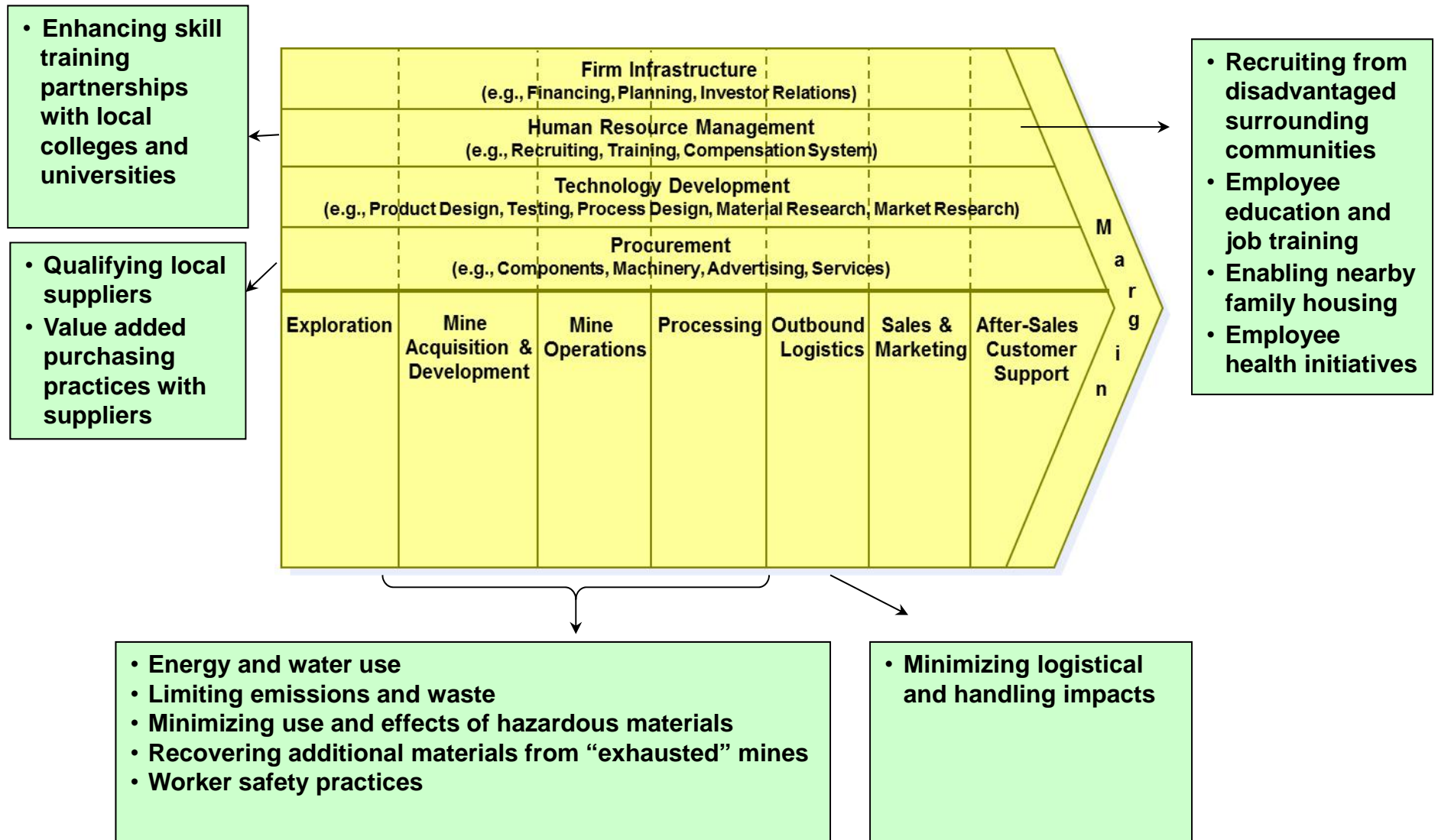
- Fibria, a large manufacturer of pulp for paper, utilizes **planted eucalyptus trees** rather than native and old growth forests
- The company also encourages **small-scale producers** near its mills to plant eucalyptus in conjunction with other crops, assisting them with technical training and inputs



- Fibria achieves far greater resource efficiency versus old growth forest production, with eucalyptus yielding **30 times higher** yield per acre of wood pulp
- Small scale producers contribute 27% of the **raw material** volume utilized in Fibria mills, improving efficiency
- **4000 households** have significantly increased their income

Identifying Opportunities for Shared Value in the Value Chain

Mining



Improving the Local and Regional Business Environment

- Companies, working individually and collaboratively, can catalyze major improvements in the **local business environment** where they have major operations
- Improving the business environment enhances **company productivity** while improving **economic development** in the community and region

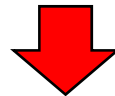
Skill and Supplier Development

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

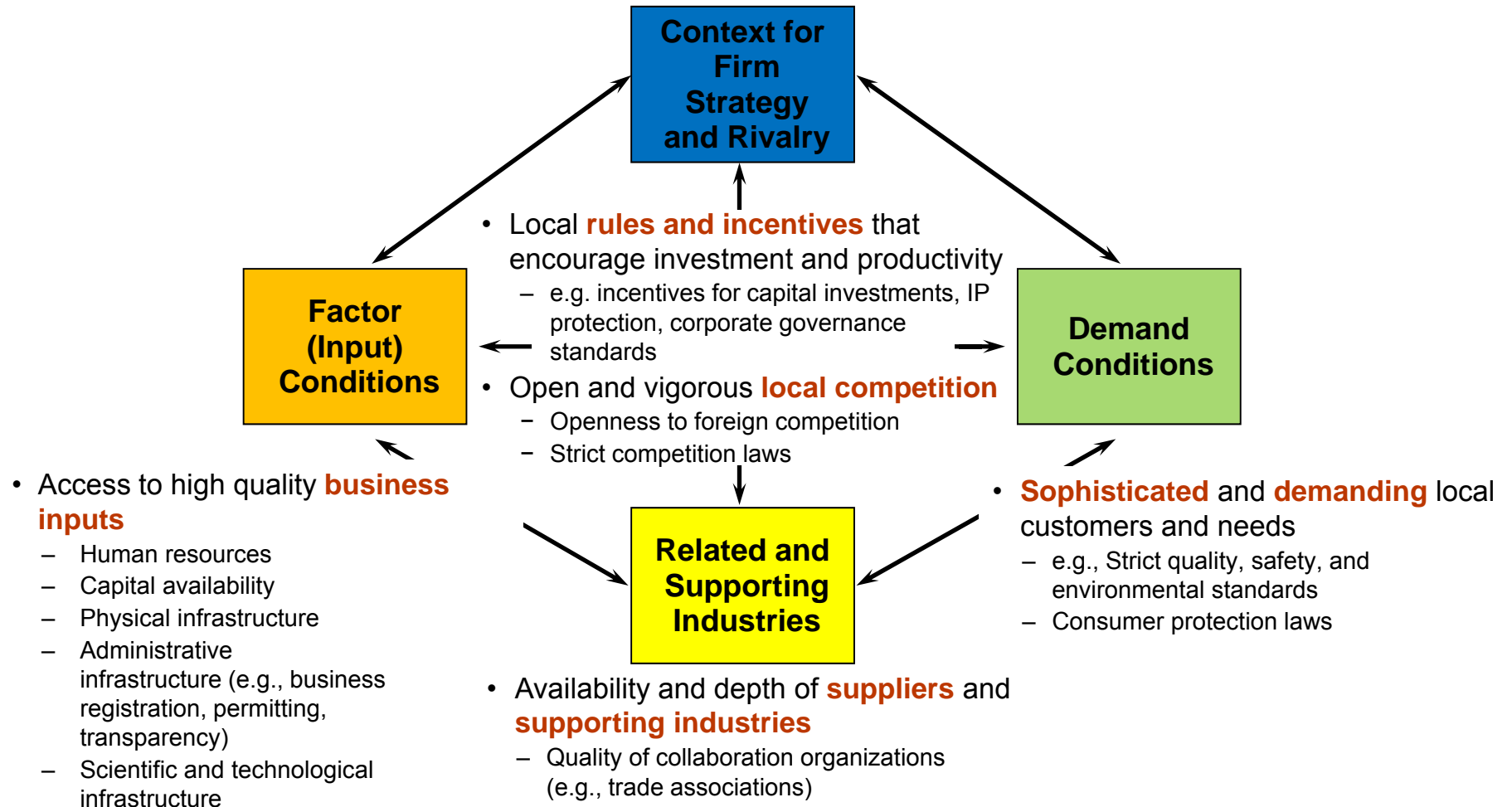


- **Education:** Promotes careers in diamond mining. Offers apprenticeships that employ and train students
- **Worker training:** Partners with communities, colleges and government to train workers in mining related activities
- **Supplier development:** Sources local inputs and capacity building for local providers of goods and services



- Rio Tinto hires **62% of its employees locally**
- The company sources **71% of goods and services locally**

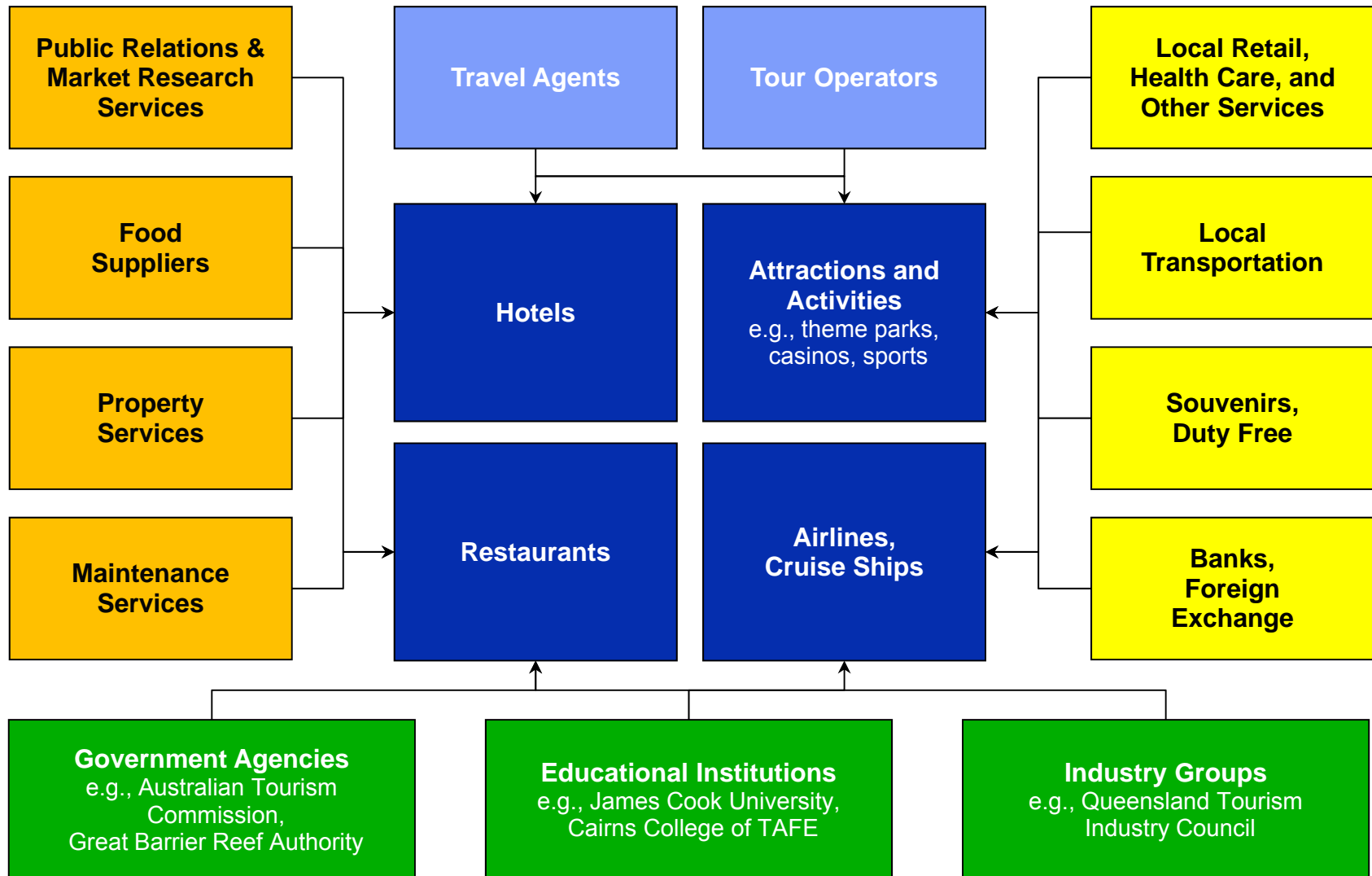
Improving the Quality of the Business Environment



- **Many things matter** for competitiveness
- Successful economic development is a process of **successive upgrading**, in which the business environment improves to enable increasingly sophisticated ways of competing

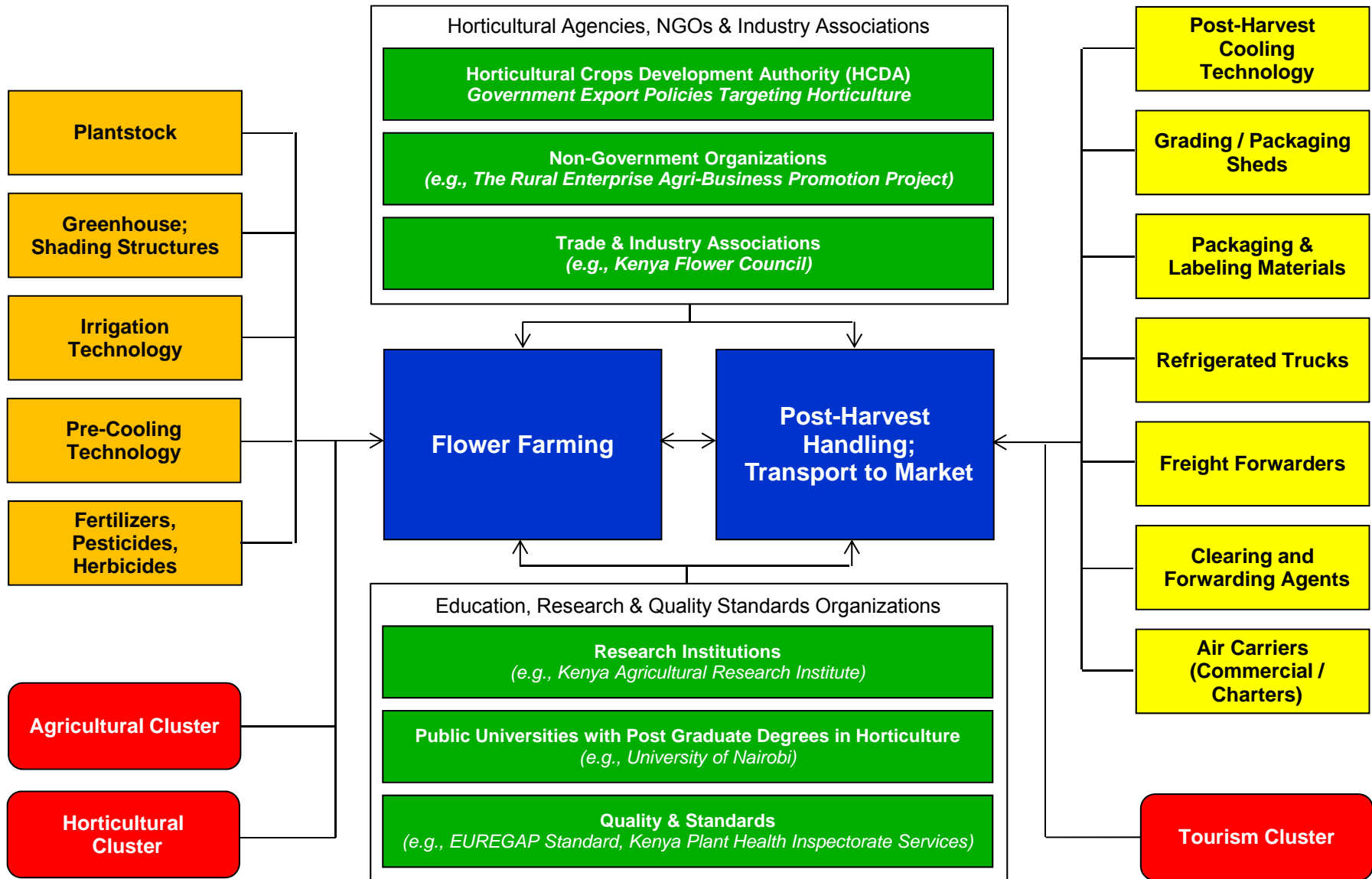
Building Clusters

Tourism in Cairns, Australia



Building Clusters

Cut Flowers in Kenya



Sources: MOC student team research by Kusi Hornberger, Nick Ndiritu, Lalo Ponce-Brito, Melesse Tashu, Tijan Watt, Harvard Business School, 2007

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 costs and can improve **service levels** and **product tailoring**

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

Cluster Development: Upgrading Channels

Arca Continental

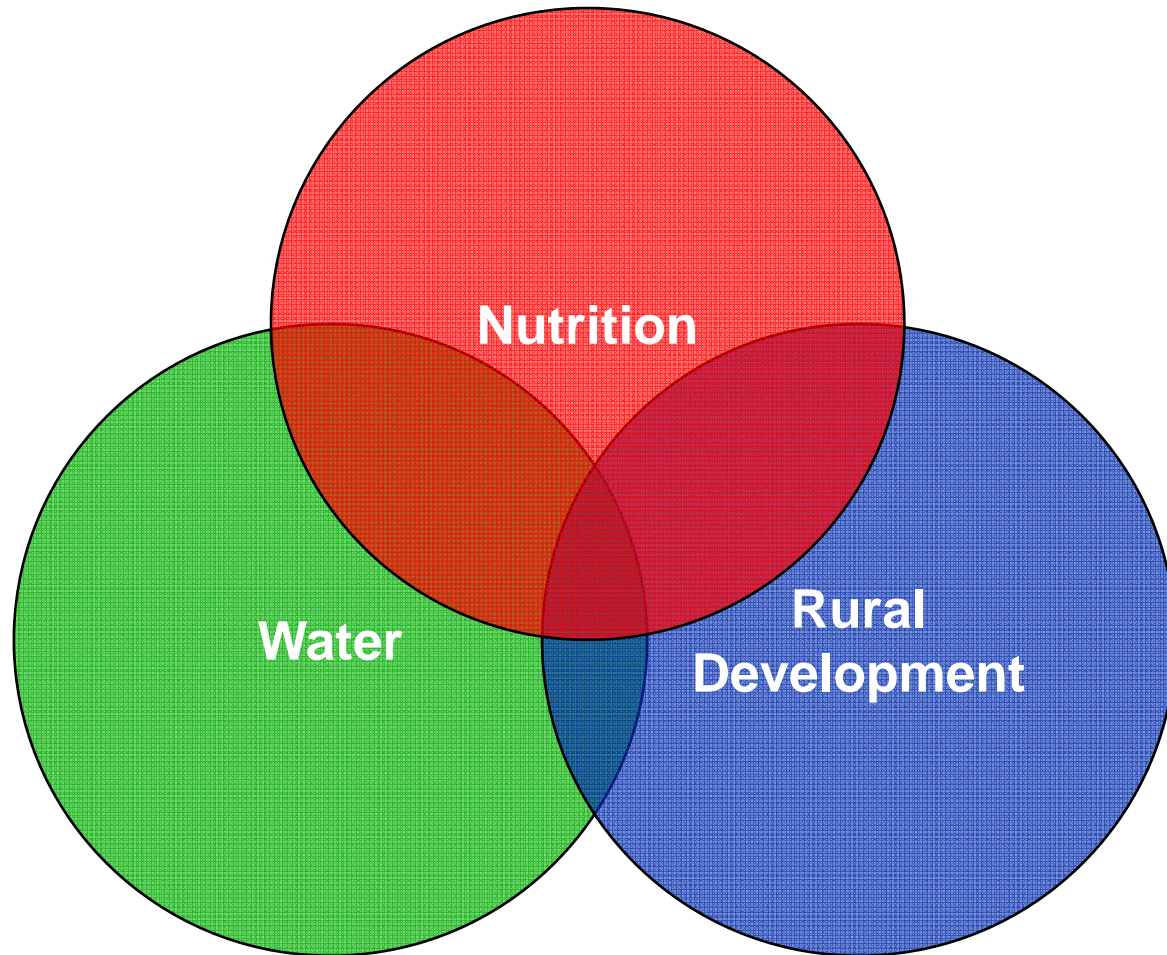
- Arca Continental is the **second largest bottling company** in Latin America, and **one of the largest Coca-Cola bottlers** in the world
- Arca Continental established a program to train and invest in the **micro-entrepreneur retailers** who sell more than 60% of the Company's products, including **management, 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**

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”)
- The company recognized that global social issues represent **huge market opportunities**
- It 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

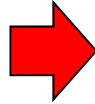


- One of Dow’s biggest selling product lines with total **revenues of approximately \$700 million**

Partnering for Shared Value

NGOs

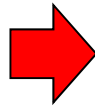
- Hold business accountable
- Seek donations



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

Government

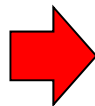
- Regulate how businesses operate
- Operate social programs
- Tax businesses



- Regulate to **encourage** market solutions
- **Partner** to deliver shared value solutions to social services
- **Jumpstart market solutions** through minimum purchases or subsidies
- Invest in **infrastructure** to enable shared value approaches (e.g. roads, skills)

Foundations

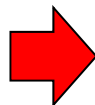
- Donate to charitable causes



- Invest **with** companies, NGOs and government to enable shared value solutions

Competitors

- “Brand” social initiatives



- **Partner** on business environment improvements

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

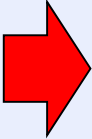
Distinctive Activities

- 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**

From Product to Purpose

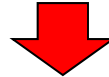
	<u>Traditional Positioning</u>		<u>New Positioning</u>
Nestlé	<ul style="list-style-type: none">• Food and Beverage Company		<ul style="list-style-type: none">• Nutrition Company
Nike	<ul style="list-style-type: none">• Footwear Company		<ul style="list-style-type: none">• Health and Fitness Company
Thermo Fisher	<ul style="list-style-type: none">• Scientific and Laboratory Instruments Company		<ul style="list-style-type: none">• Making the World Healthier, Cleaner, and Safer

- A **broader sense of social purpose** opens up **new opportunities** for growth and profitability, while **motivating** and **attracting** employees, consumers, business partners, shareholders, and the public

Redefining Corporate Purpose

Danone

- 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

Creating Shared Value: Opportunities for Pacific Rubiales

- **Redefining productivity** in the value chain
 - Recruiting and workforce development
 - Energy efficiency and waste reduction
 - Water optimization for irrigation
- Enabling **local cluster development** and participating in national and regional **competitiveness initiatives**
 - Create a local supplier base
 - Spur community infrastructure development
 - Build the oil and gas cluster in the region
 - Spur development of other clusters in the region
 - Provide training to government officials on infrastructure investment and regulatory
 - Reactivate the Regional Competitiveness Commission by increasing private sector participation

What is Competitiveness?

A nation or region is competitive to the extent that firms operating there are able to **compete successfully** in the global economy while supporting **rising wages and living standards** for the average citizen

- Competitiveness depends on the **long term productivity** with which a nation or region uses its human, capital, and natural resources
 - Productivity **sets sustainable wages, job growth, and standard of living**
 - It is not **what** industries a nation or region competes in that matters for prosperity, but **how productively** it competes in those industries
 - Productivity in a national or regional economy benefits from a **combination of domestic and foreign firms**

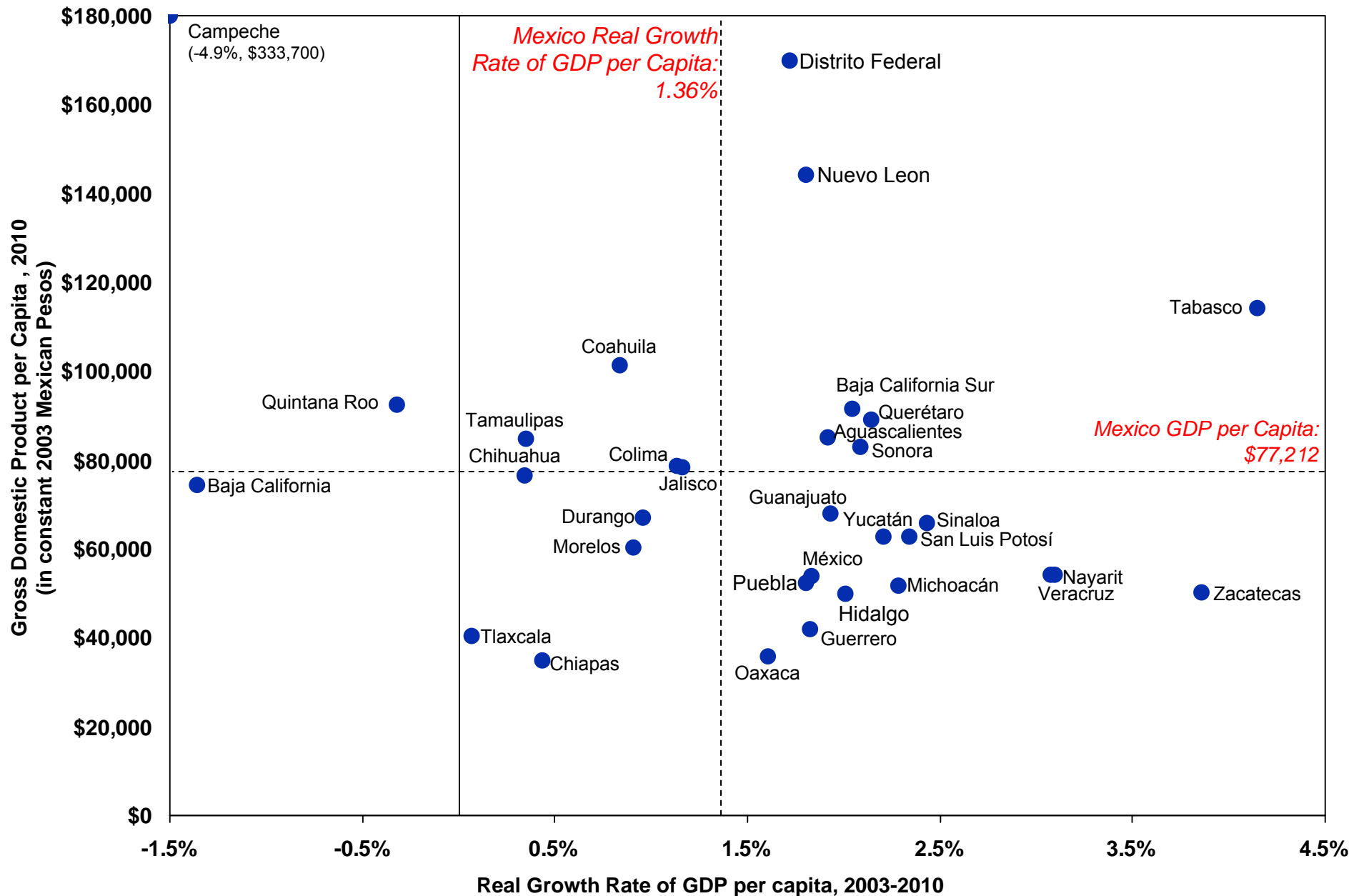


- Nations and regions compete to offer a **more productive environment for business**
- Competitiveness is **not a zero sum game**

Regional Competitiveness and Economic Prosperity

- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)

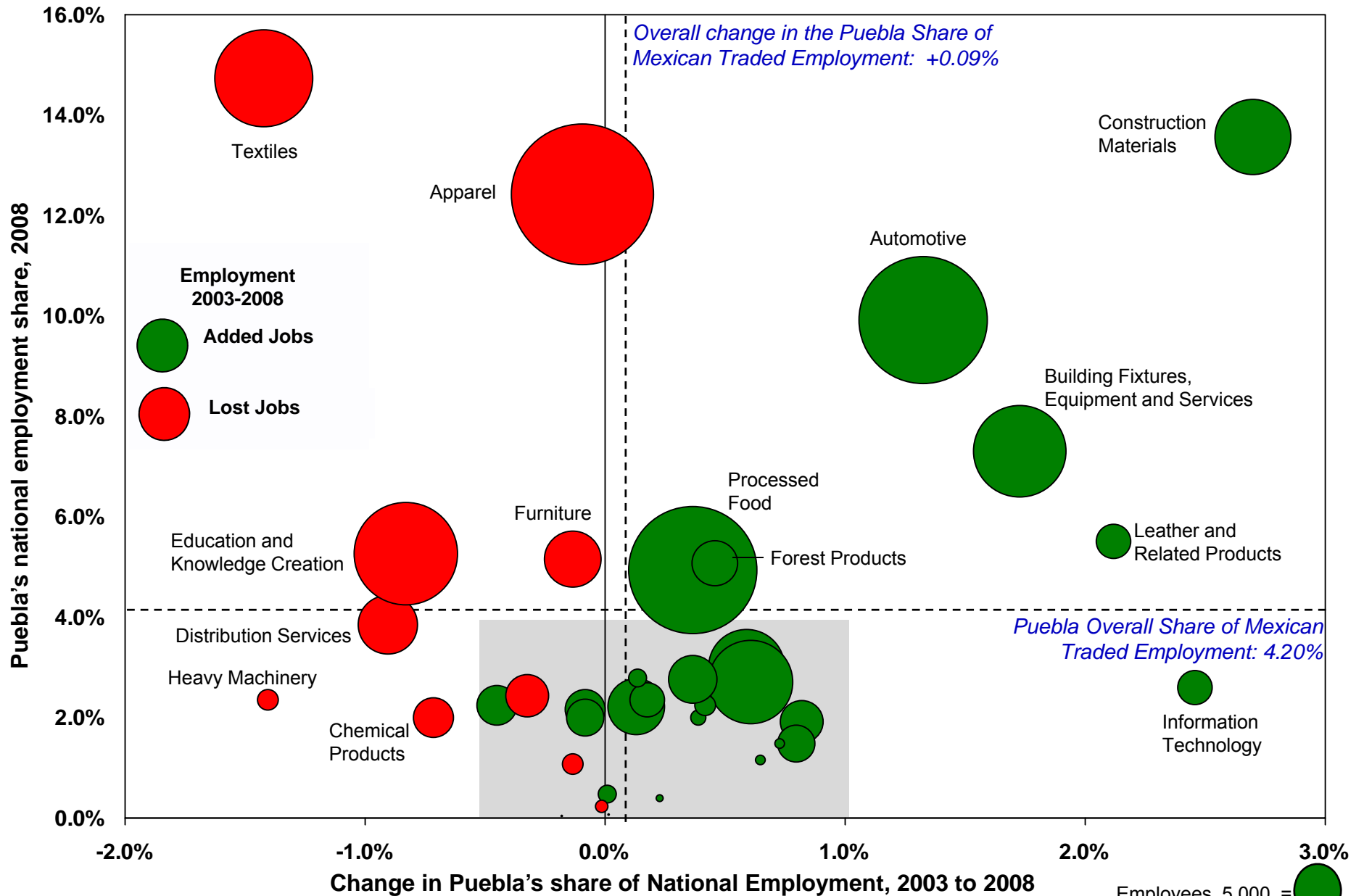
Prosperity of Mexican States



Regional Competitiveness and Economic Prosperity

- Economic performance **varies significantly across** sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**
- Regions **specialize** in different sets of clusters

Traded Cluster Composition of the Puebla Economy



Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Contributions by Prof. Niels Ketelhohn.

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- Regions are ultimately the **most important unit** in competitiveness
- Each region needs its own distinctive **strategy and action agenda**
 - Business environment improvement
 - Cluster upgrading

Clusters as a Tool for Competitiveness Policy

- A forum for **collaboration** between the private sector, trade associations, government, educational, and research institutions
- Brings together **firms of all sizes**, including SME's
- Creates a **mechanism** for **constructive** business-government dialog
- A tool to identify **problems** and **action recommendations**
- A vehicle for investments that strengthen **multiple firms/institutions** simultaneously
- Fosters **greater competition** rather than distorting the market
- Enhances the efficiency and effectiveness of **traditional economic policy** areas, such as training, R&D, export promotion, FDI attraction, etc.

Creating a Regional Economic Strategy

Regional Value Proposition

- What is the **distinctive competitive position** of a geographic area given its location, legacy, existing strengths, and potential strengths?
 - What unique advantage as a business location?
 - For what types of activities and clusters?
 - And what roles with the surrounding regions, nation, and the broader world?

Developing Unique Strengths

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

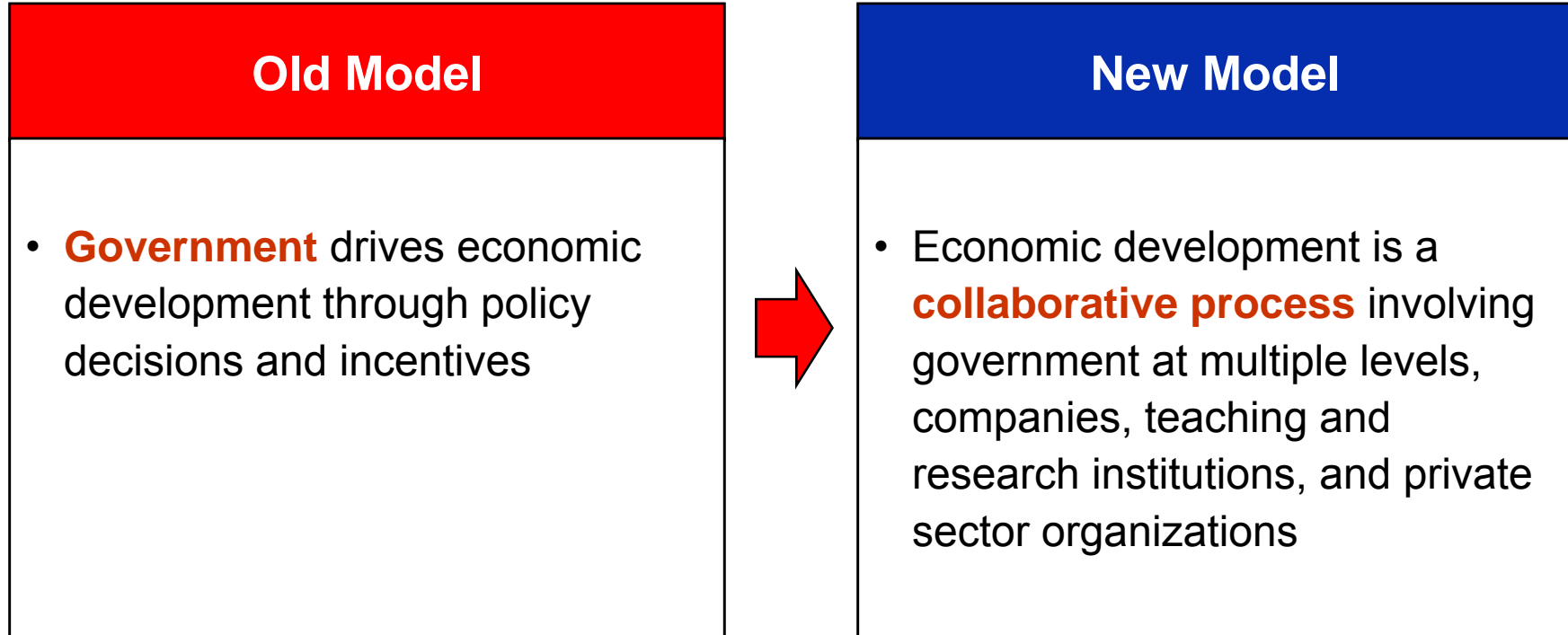
Achieving and Maintaining Parity with Peers

- What **weaknesses** must be addressed to remove key constraints and achieve parity with peer locations?

- **Priorities** and **sequencing** are necessity in economic development

Transforming The New Process of Economic Development

Competitiveness is the result of both **top-down** and **bottom-up processes** in which many companies and institutions take responsibility



The Purpose of Business

- Our purpose in business is to **create shared value for society**, not economic value for its own sake
- 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 economic value creation
- Shared value thinking 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 and represents our best chance to **legitimize business again**