

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

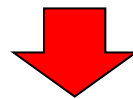
Professor Michael E. Porter
Harvard Business School

*BBA Chairman's Luncheon
Birmingham, AL
January 28, 2014*

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 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

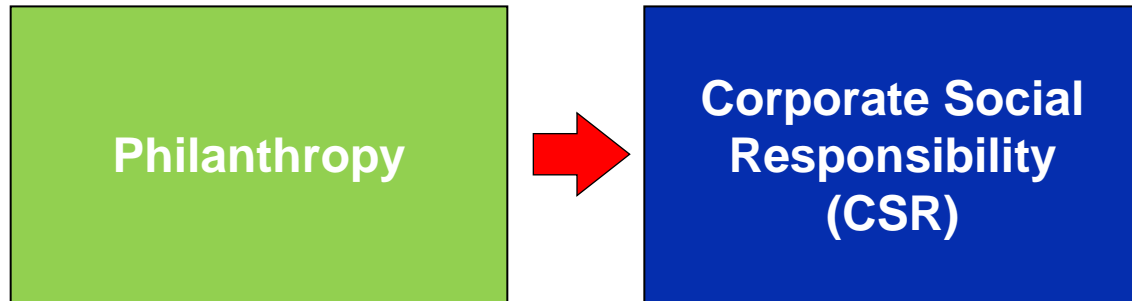
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

The Role of Business in Social and Economic Development

Evolving Approaches



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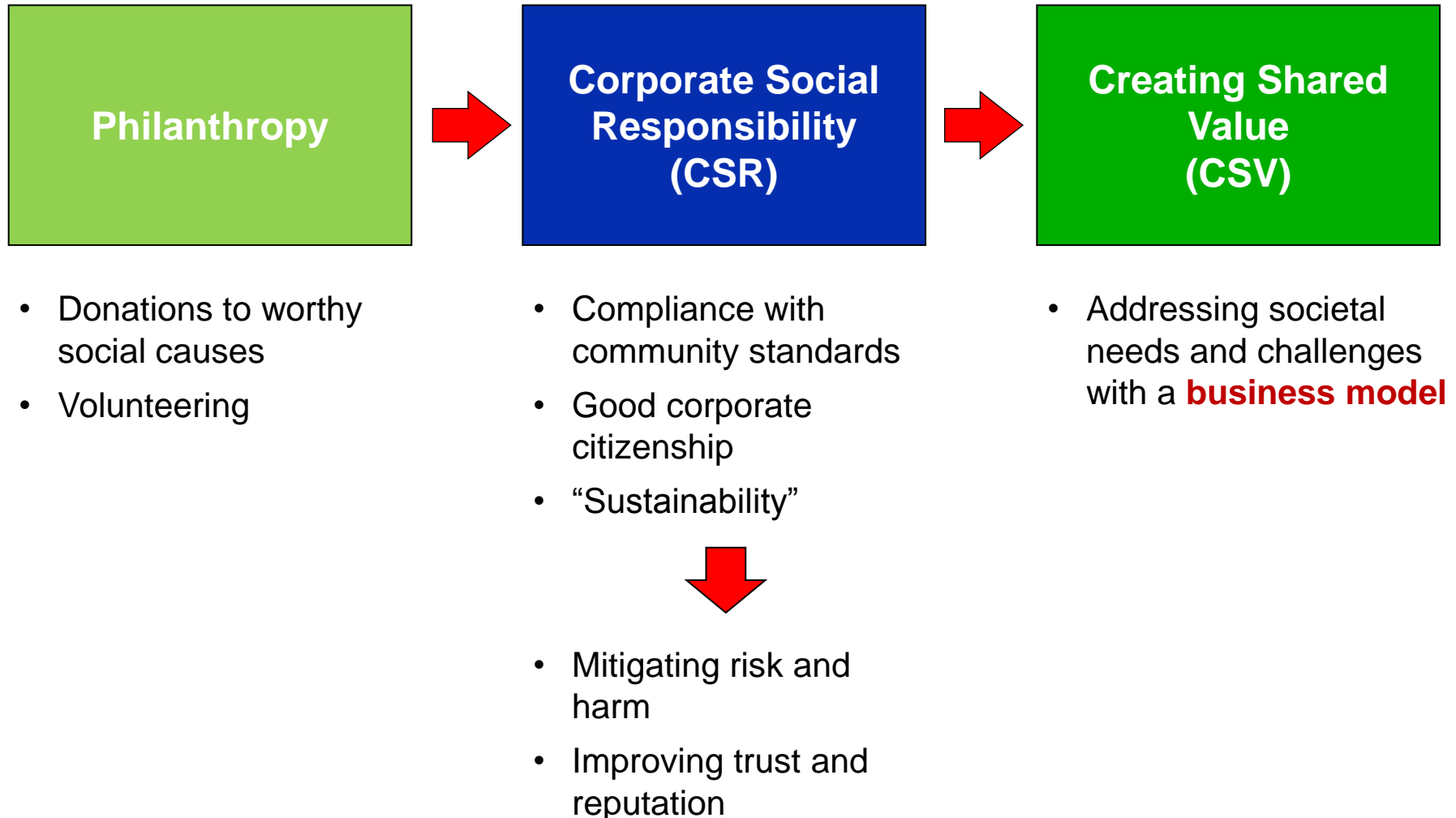
- Compliance with community standards
- Good corporate citizenship
- “Sustainability”



- Mitigating risk and harm
- Improving trust and reputation

The Role of Business in Social and Economic Development

Evolving Approaches



Opportunities 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
- 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

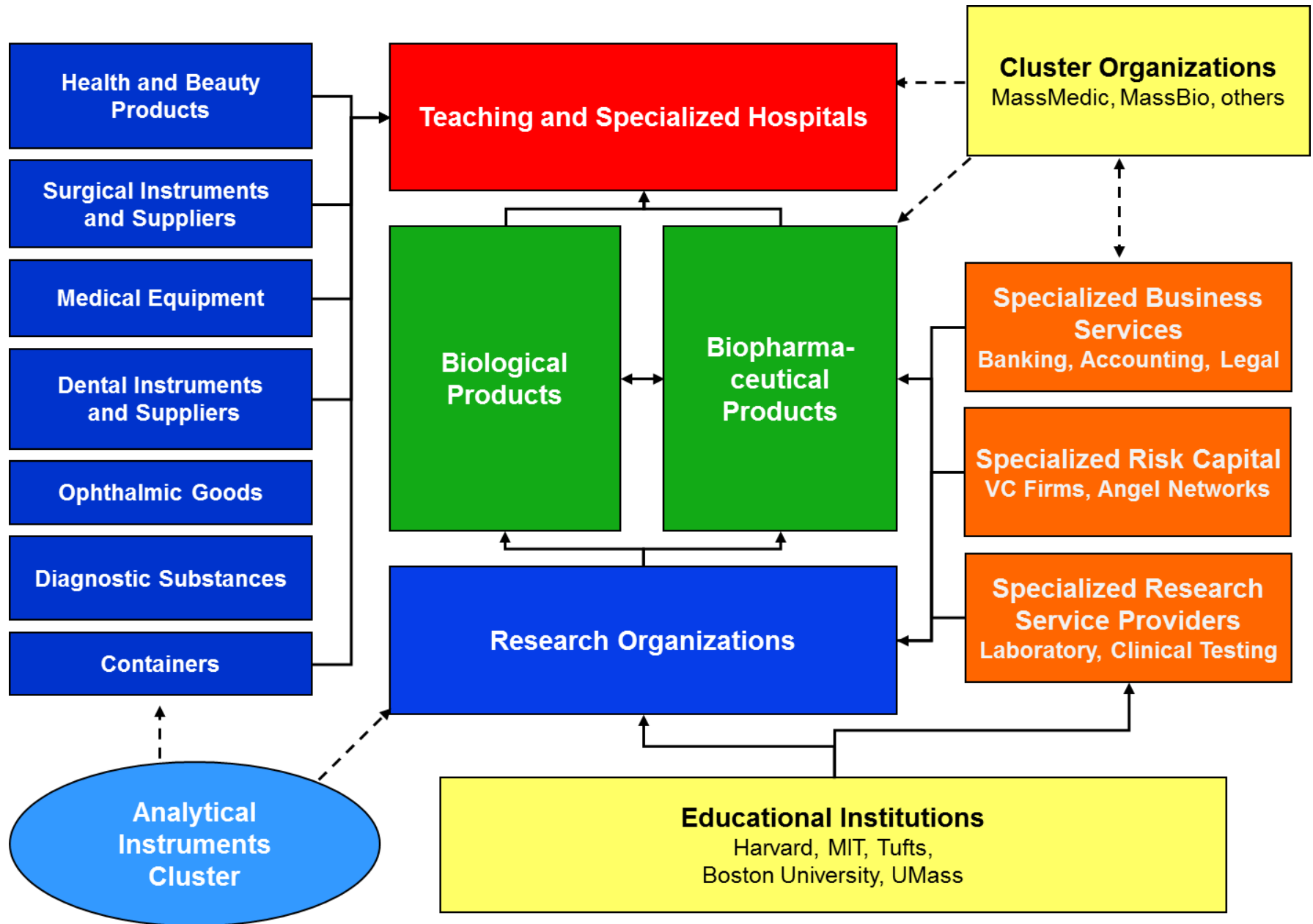


- IHG hotels have achieved energy savings of **up to 25%** to date, and other improvements are following
- Environmental performance also **differentiates** IHG hotels with consumers and corporate clients

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

Massachusetts Life Science Cluster



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

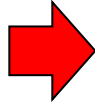
Driving Economic Development: The Role of Anchors



Partnering for Shared Value

NGOs

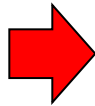
- Hold business accountable
- Seek donations



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

Government

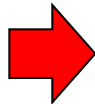
- Regulate how businesses operate
- Operate social programs
- Tax businesses



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

Foundations

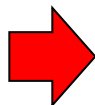
- Donate to charitable causes



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

Competitors

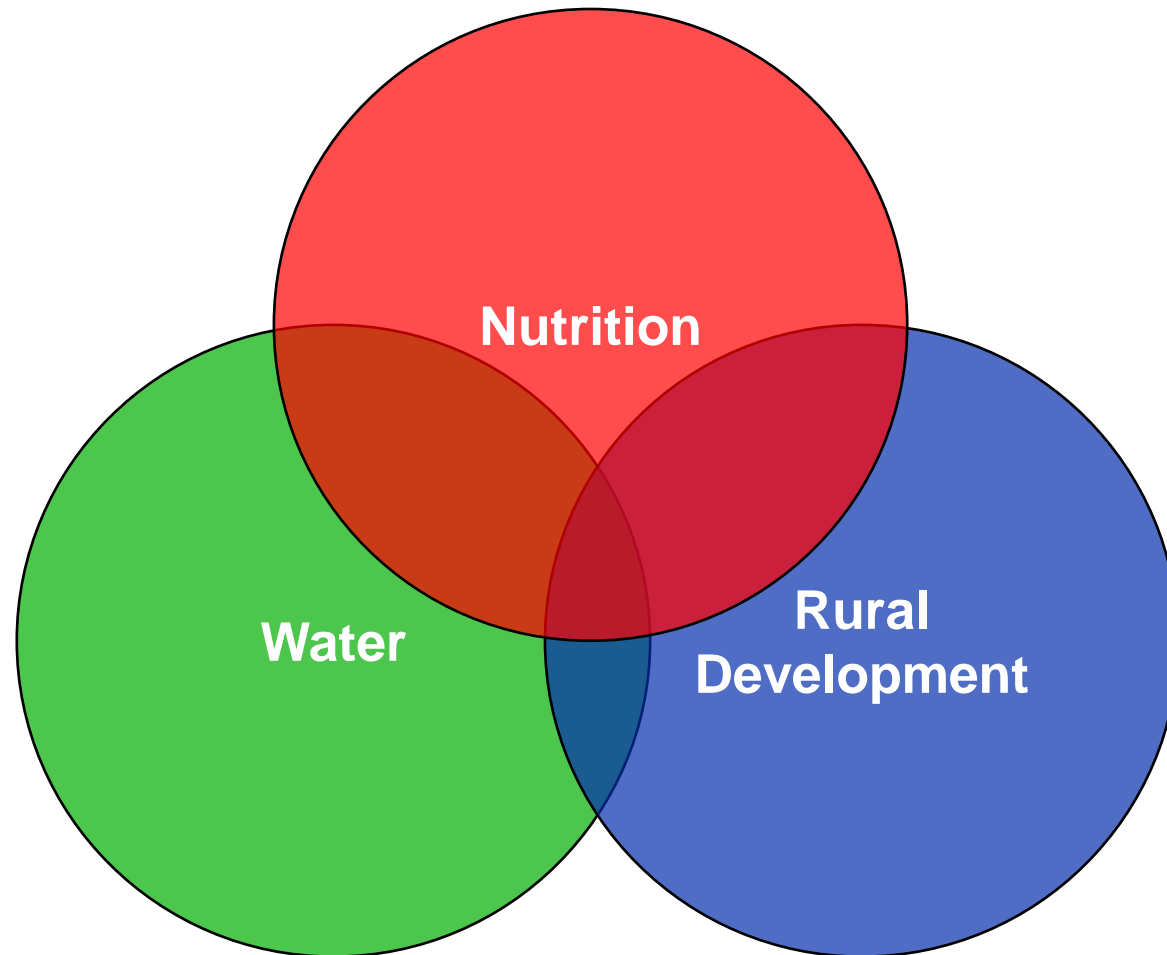
- “Brand” solo social initiatives



- **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

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

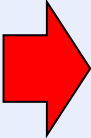
Distinctive Activities

- 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



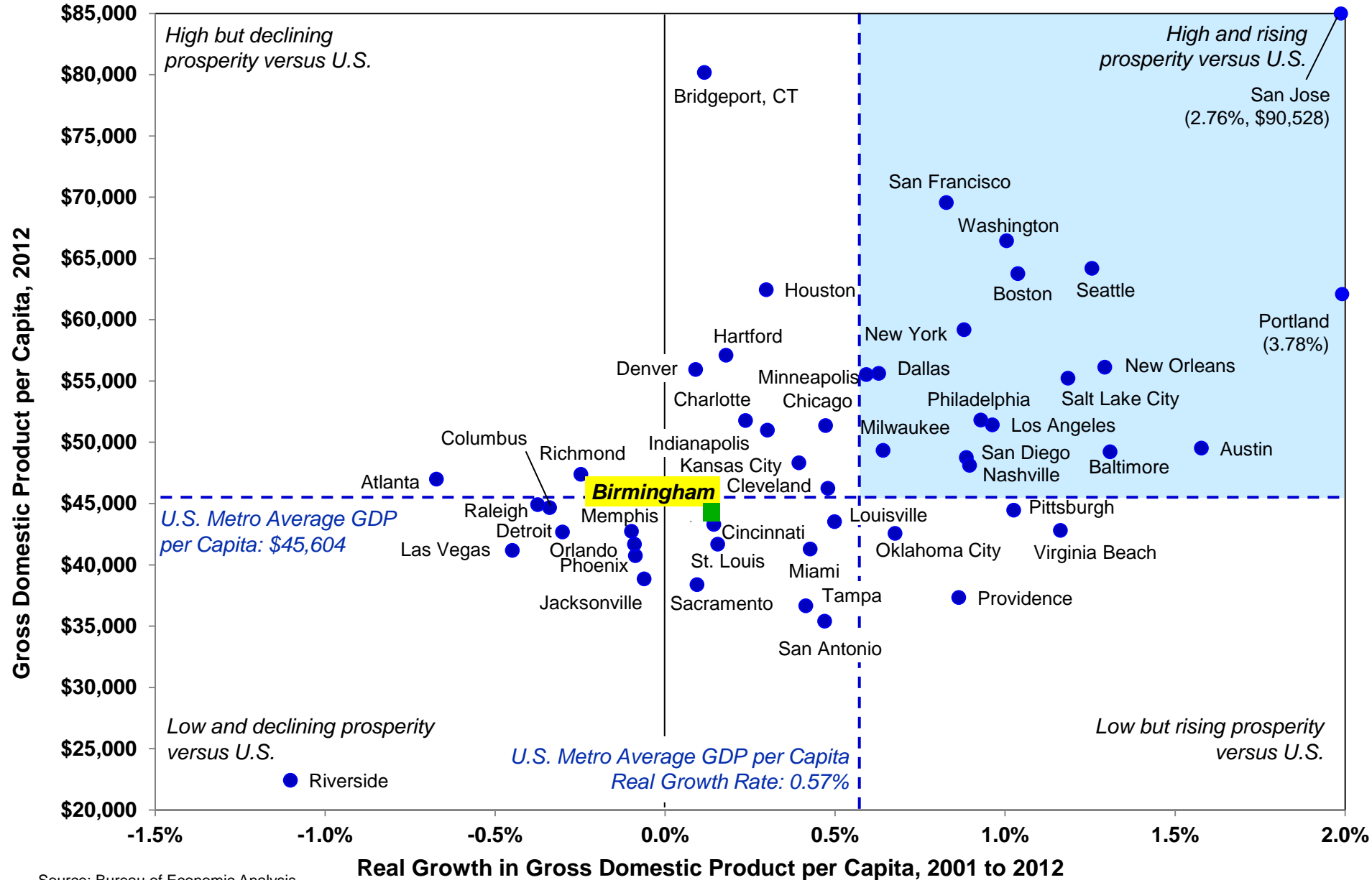
- Whole Foods is the most **economically successful** food retailer in North America
- Successful strategies in the future will embody a significant **shared value dimension**

Purpose Based Strategic Positioning

	<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, Health and Wellness Company
Thermo Fisher Scientific	<ul style="list-style-type: none">• Scientific and Laboratory Instruments Company		<ul style="list-style-type: none">• Making the World Healthier, Cleaner, and Safer
Nike	<ul style="list-style-type: none">• Footwear and Apparel Company		<ul style="list-style-type: none">• Health and Fitness Company

- 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

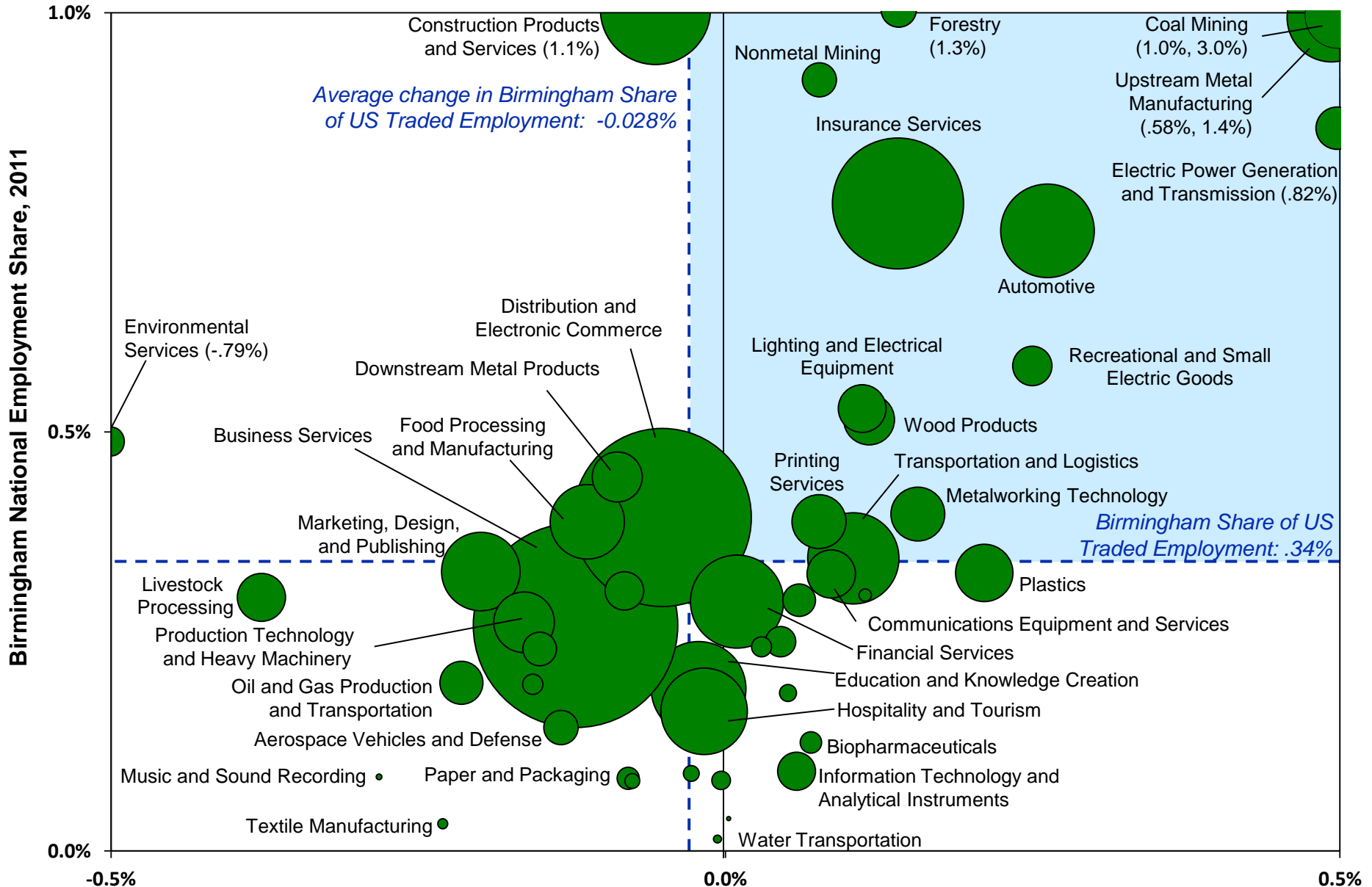


Source: Bureau of Economic Analysis

Notes: Data in 2005 constant dollars; compound annual growth rate on real values. 50 largest of 363 U.S. MSAs are displayed.

20140128—Birmingham Business Alliance CSV presentation—FINAL

Cluster Composition of the Birmingham Economy, 2011



Change in Birmingham Share of National Employment, 2001 to 2011

Developing 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 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 **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 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