

Competing to Change the World: Creating Shared Value

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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); *On Competition* (*Harvard Business Review*, 2008); and "Creating Shared Value" (*Harvard Business Review*, Jan 2011). 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**
- Societies everywhere are also facing significant **social, environmental and economic development** challenges
- Government and NGO's **lack sufficient resources, technology and capabilities** themselves to fully meet these challenges alone
- Corporate philanthropy and corporate social responsibility programs continue to grow, but the **legitimacy of business has fallen**



We need a **new approach**

The Role of Business in Society

Evolving Approaches

Philanthropy

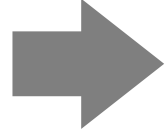
- Donations to worthy social causes
- Volunteering

The Role of Business in Society

Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering



Corporate Social Responsibility (CSR)

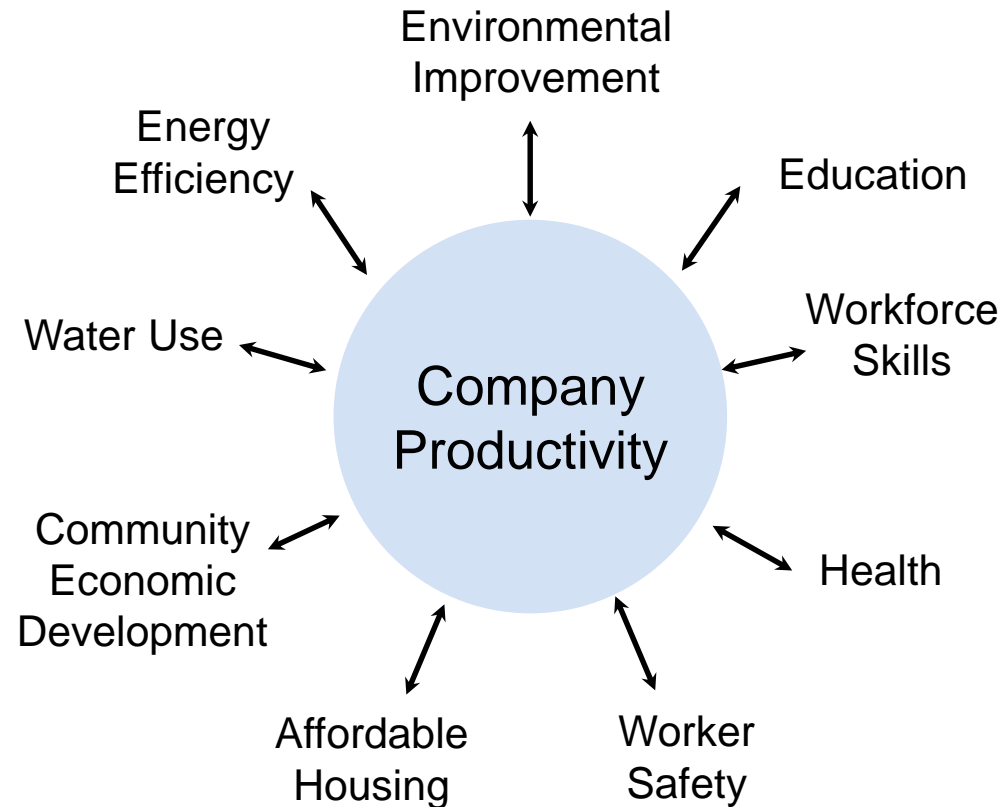
- Compliance with community standards
 - Good corporate citizenship
 - “Sustainability” initiatives
- 
- Mitigating risk and harm
 - Improving trust and reputation

The Role of Business in Society

Evolving Approaches

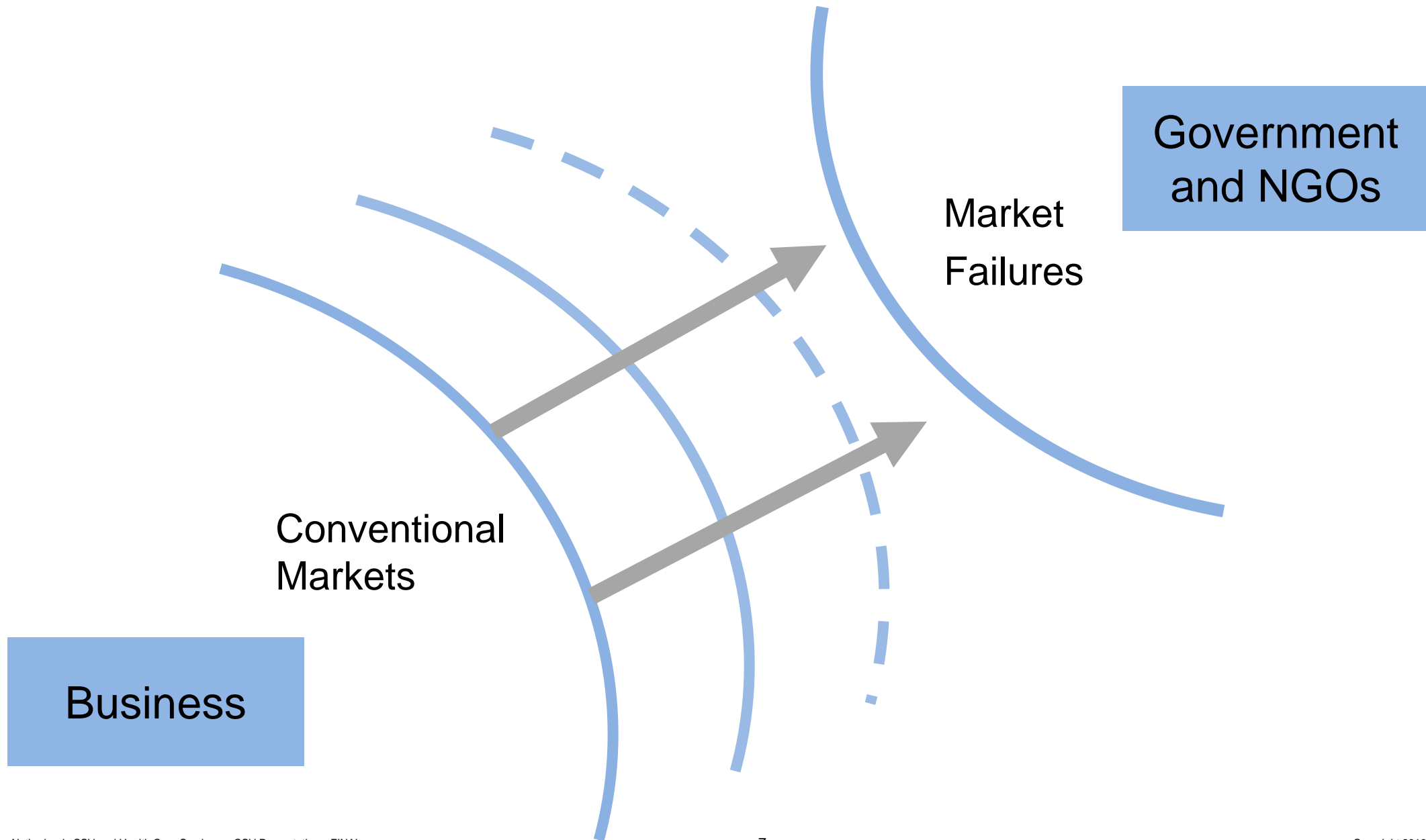


The Opportunity for Shared Value



- **Societal deficits** and **environmental impacts** create **economic costs** for companies
- **Community weaknesses** affect company productivity
- Social needs represent the **largest unserved market opportunities**

Shifting the Frontier between Markets and Market Failures



Moving to Shared Value in Pharmaceuticals

Novartis in Rural India

CSR

- **Donating drugs** to lower-income populations

CSV

- Implementing a new **drug business model for low-income populations** (Arogya Parivar)
- Understanding **non-traditional customer** behavior and a new business model
- New **quantity, packaging, distribution** and patient **education**
- Improvement in local **healthcare delivery infrastructure**

Levels of Shared Value

1

**Reconceiving Needs,
Products, and Customers**

2

**Redefining Productivity in
the Value Chain**

3

**Improving the Local
Business Environment**

Levels of Shared Value

1

Reconceiving Needs, Products, and Customers

- Products and services that meet **societal needs**
- Providing products to **unserved** or **underserved** customers and communities

Shared Value in Products and Markets

Regions Bank



- An estimated **25% of all U.S. consumers** are unbanked and under-banked
- **Now Banking** product suite focused on these customers
- **Accessible, low cost, user-friendly** financial solutions:
 - Low cost check cashing
 - No fee, no minimum savings accounts with monthly and annual savings bonuses
 - Money transfers and expedited bill pay services
 - Pre-paid debit card
 - Embedded web-based financial education




- Customers pay **lower fees**, achieve better financial **security**, and get on a **path** to financial literacy and a fuller banking relationship
- Now Banking is **profitable, growing**, and **expands demand** for Regions' more traditional products

Shared Value Through Products

Discovery Health



- Discovery was founded as a **conventional health insurance** company incorporating HSAs
 - It faced **rapid imitation** as all competitors followed this approach
 - Discovery pioneered **health plans** paired with the **Vitality Wellness Program**:
 - **Rewarded healthy behavior** through **incentives** such as discounts on health club memberships and healthy food purchases, fitness devices, and cashbacks on retail purchases
 - Clinical studies show that Vitality members are **healthier**, **live longer** and have **lower healthcare costs**
 - The combination of health coverage and Vitality allowed Discovery to offer health coverage at **lower premiums**
- 
- Discovery is one of the world's **fastest growing** and **most profitable** health insurance companies

Shared Value in Products and Markets

Novo Nordisk in China



- **Product design** that reflects Chinese patient demographics and culture
- New types of **diabetes education programs for patients** focusing on awareness, prevention, lifestyle changes, and effective use of insulin products
- **Diabetes training for physicians** in partnership with government, NGOs, and opinion leaders. Disseminates the latest thinking on diabetes prevention, screening and treatment
 - Novo Nordisk has **trained 55,000 physicians** to date



- The company's insulin market share in China increased from **0% to 59%**, and revenues reached \$1.28 billion by 2013

Levels of Shared Value

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Reconceiving Needs, Products, and Customers

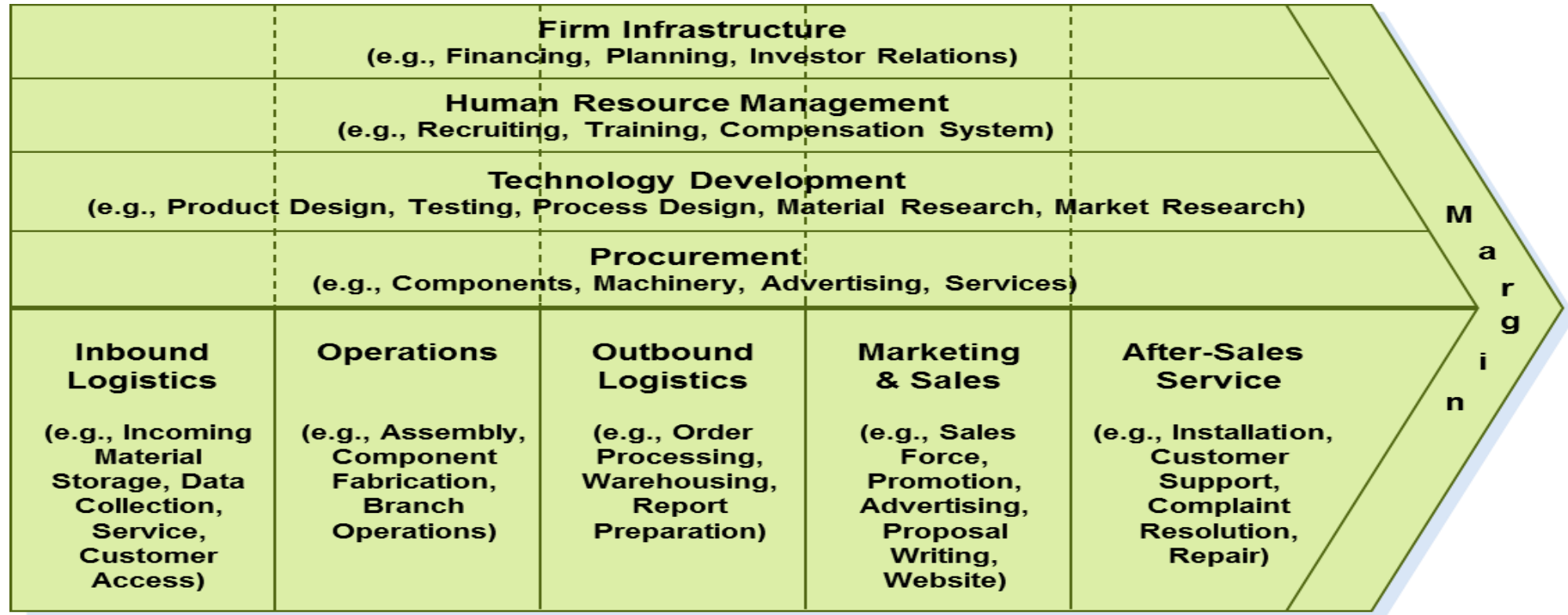
- Products and services that meet **societal needs**
- Providing products to **unserved** or **underserved** customers and communities

2

Redefining Productivity in the Value Chain

- Accessing and utilizing resources, energy, suppliers, logistics, and employees **differently and more productively**

Shared Value in the Value Chain



- Procurement that **enhances supplier capabilities and efficiency**
- Improving **energy**, **water** and **resource** efficiency across activities
- Redesigning or recycling to minimize or eliminate **waste**
- Minimizing **logistical intensity**
- Improving employee **health** and **safety**
- Enhancing productivity and retention through wages and benefits for **lower income** employees
- Recruiting to reflect the **diversity of customers** and the **communities** in which a company operates
- Others...

Shared Value in the Value Chain

Fibria, Brazil



- World's leading manufacturer of chemical pulp utilizes planted eucalyptus trees and integration with native habitat to **dramatically reduce the land required** and improve **sustainability** of wood fiber cultivation



Shared Value in the Value Chain

Fibria, Brazil



- World's leading manufacturer of chemical pulp utilizes planted eucalyptus trees and integration with native habitat to **dramatically reduce the land required** and improve **sustainability** of wood fiber cultivation
- Encourages **small-scale producers** near its mills to plant eucalyptus **in conjunction with other crops**, providing technical training and inputs



- Far greater **land and water efficiency** compared to traditional plantation methods. **35% of planted areas** preserved as native forest
- Small scale producers currently contribute **27% of raw material volume** used in Fibria mills
- Over **4,000 households** have significantly increased employment and incomes

Shared Value in the Value Chain

Employee Health, Walmart

- Walmart's **employee health benefit program** to improve the health and productivity of its 1.1 million associates and family members
- Focus on **prevention and disease management**: Health assessment & counseling services, 100% coverage of preventative screenings, on-site fitness center, incentives and programs to encourage employees and their families to make healthy choices and improve health literacy

Outcomes

- Substantial **health improvements** for employees (e.g. smoking cessation, lower blood pressure, and cholesterol control)
- Health care costs expected to **decrease by 16%** in 2016
- Higher employee **productivity** and **retention**



Levels of Shared Value

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Improving the Local Business Environment

- Improving **skills**, local **suppliers**, **infrastructure**, and **supporting institutions** in the areas where the company operates

Shared Value in the Local Business Environment

Cisco Networking Academy



- Cisco established the **Networking Academy** in 1997 to train network operators
- The company has trained more than **5.5 million** young people from **165 countries** in ICT skills



- 70% of graduates secure a **new job**, or a **better job** at their existing employer
- The Networking Academy has alleviated a **key workforce constraint** for the company and for Cisco's customers
- The program strengthens Cisco's **relationships** with suppliers, customers and government

Shared Value in Talent Development



- A corporate coalition to engage at least 100,000 “Opportunity Youth” age 16-24 who face **systemic barriers to jobs and education** by 2018
- **Hire, retain and advance** these young people while addressing partner companies’ **talent acquisition and retention needs**

Corporate Coalition

Disseminate effective practices around recruitment, retention and advancement

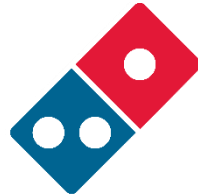
Demonstration Cities

Build connections between employers and local workforce systems

Recruiting Events

Connect employers with talent and disseminate the message about youth potential

Participating Employers



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, with tea **100% locally-grown**



Shared Value Through Cluster Development

ITO EN, Japanese Tea Cluster



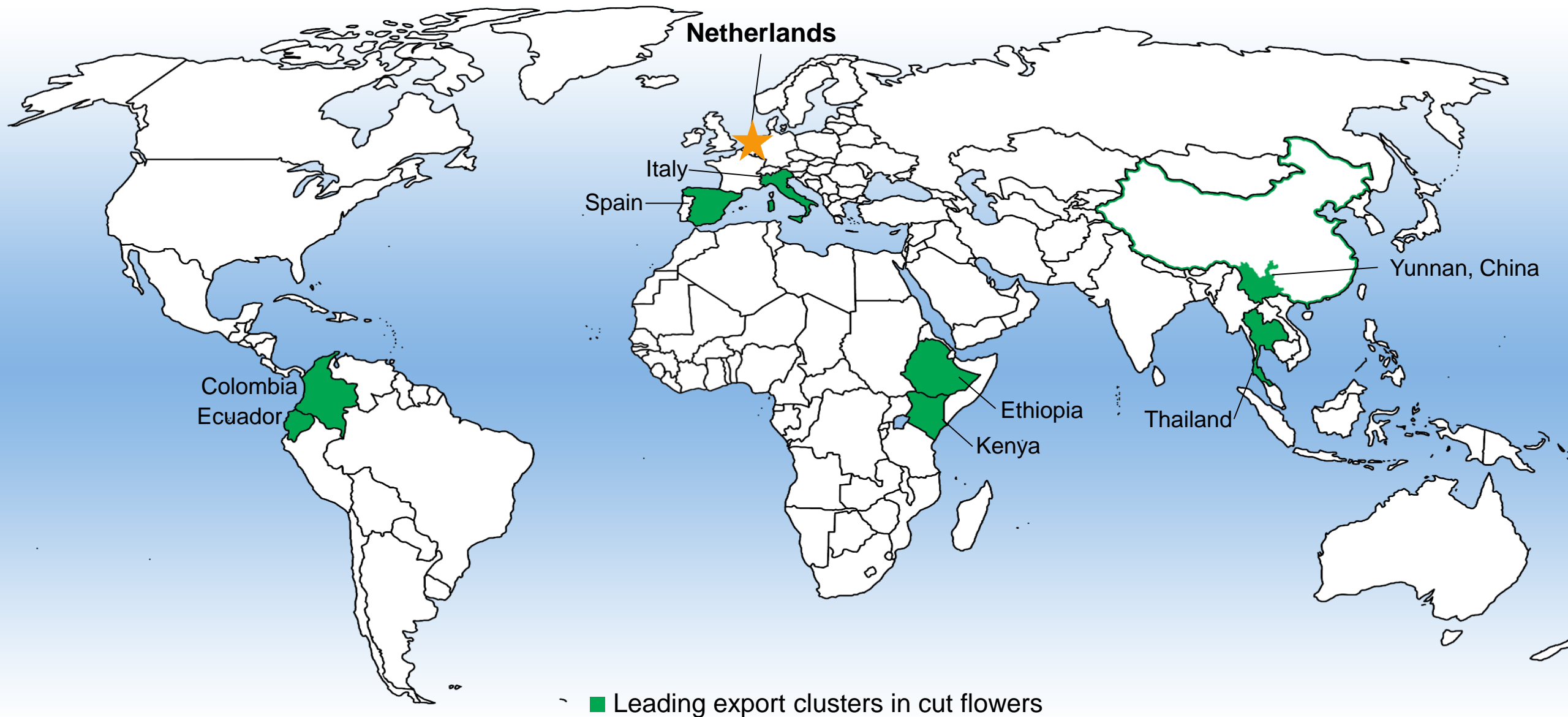
- ITO EN is the world's leading producer and marketer of loose leaf and bottled green tea, with tea **100% locally-grown**
- Partners with farmers and other stakeholders to utilize **abandoned agricultural land**, purchasing the entire crop to **lower selling costs**
- Provides **assistance in modern farm management practices** to growers to **raise quality** to meet ITO EN standards
- **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

Shared Value Through Cluster Development

Cut Flowers, Royal FloraHolland



Integrating Across the Levels

Novartis in Rural India

1

Reconceiving Needs, Products, and Customers

- Portfolio of the **appropriate and affordable medicines** drawn from the company's patented, generics, and over-the-counter (OTC) businesses
- **Packaging** medicines to reflect consumers' limited spending power

2

Redefining Productivity in Value Chain

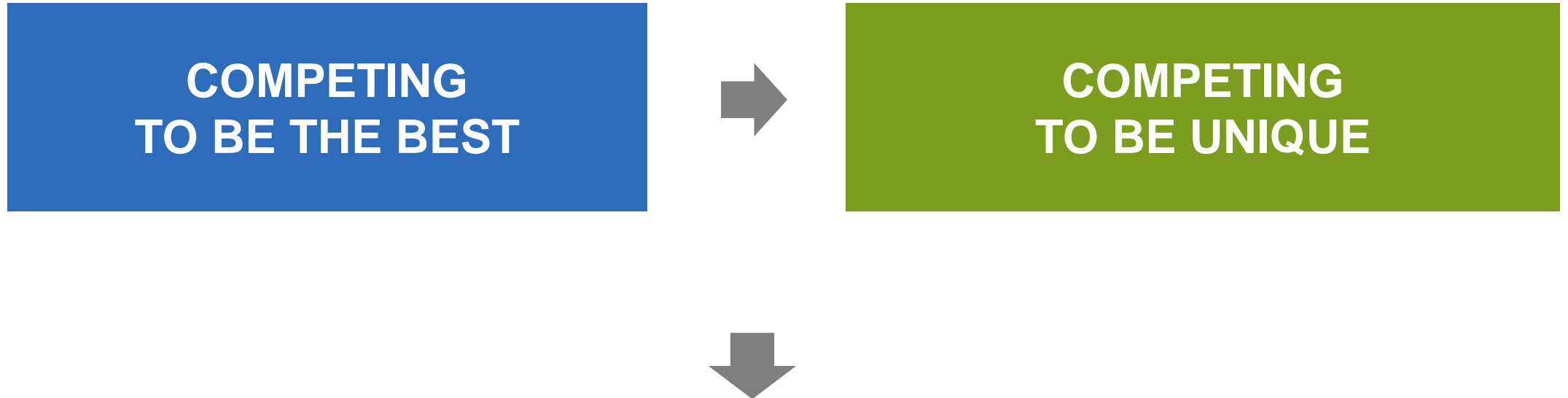
- **Localized sales teams** that know the culture, speak the dialect, and understand needs to build trust
- A dense network of **local distributors** to reduce stock-outs

3

Improving the Local Business Environment

- **Community health education** programs to address lack of health-enhancing behavior
- **Frequent health camps** bring physicians to rural areas
- **Microfinance partners** improve healthcare delivery infrastructure and offer access to working capital

Thinking Strategically



- There is **no one best way** to compete
- The worst error in strategy is to compete with rivals on the **same dimensions**

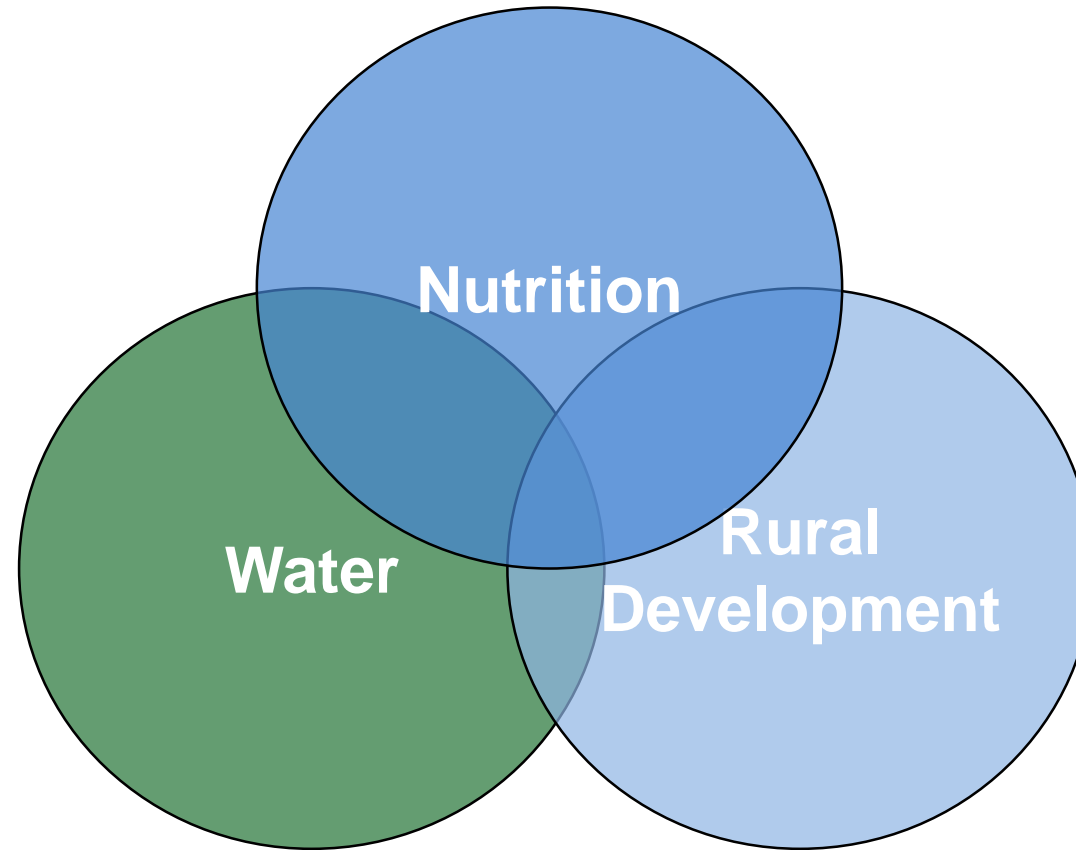
Shared Value and Strategy

- Shared value reveals new **customer segments**, ways of **producing and delivering**, and new **competitive advantages**
- Shared value can enable a new **business definition**



- Shared value creates new **value propositions** and new opportunities for **strategic positioning**
- Shared value strategies are often **more sustainable** than conventional cost, feature, and quality advantages

Creating Shared Value: Where is the Opportunity?



- Opportunities to create shared value are **inevitably tied closely** to a company's particular set of 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
- Targets customers who seek a healthy lifestyle and are passionate about food
- Caters to customers with specialized nutritional requirements (e.g. gluten allergies, vegan, etc.) and who value community and social impacts (e.g. supporting local farmers and businesses, animal welfare)

Distinctive Activities

- Well-lit, inviting supermarket store formats with appealing displays and extensive prepared foods section. Produce section as “theater”
- Café-style seating areas with Wi-Fi for meals and gathering
- High touch in-store customer service via knowledgeable, flexible, and highly motivated personnel
- Extensive nutrition information and education
- Each store carries local produce and has the authority to contract with the local farmers. Company provides low-interest loans if needed
- Own seafood procurement and processing facilities to control quality, ensure sustainable supply, and manage cost from the boat to the counter
- Heavy emphasis on improving environmental performance across the value chain
- HR policies focus on attractive ways, incentives and benefits for front line employees



- Whole Foods has been the most **economically successful** food retailer in North America

Redefining Corporate Purpose

CVS Health



- In 2011, CVS redefined its business around **improving patient health**, not just operating convenience stores with pharmacies and some health products
- CVS was the first pharmacy to **stop selling all tobacco products** in 2014, forgoing **\$2 billion** in annual revenue, while launching a comprehensive smoking cessation program across all sites
- The role of pharmacists and nurse practitioners was expanded to work more closely with patients and health care providers to **improve health outcomes**
- CVS operates a large and growing network of **in-store clinics** as a convenient alternative to traditional doctor's offices
 - Forming partnerships with hospitals, physicians, and employers to integrate clinics into overall care

New Vision

We strive to improve the quality of human life

New Mission

Helping people on their path to better health

Reshaping the Corporate Portfolio

Danone



- In the late 1990's, Danone realized that it had moved away from its origins as a manufacturer of **healthy foods**



- The company **sold off** its beer, meat and cheese business units
- Refocused on **dairy** and **water**
- Acquired new businesses in **medical nutrition** and **baby foods**
- Created **Innovation Committees** in each business unit to provide “healthy food for as many people as possible”

New Vision

The ‘dual economic and social’ project, creating economic value by creating social value

New 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 in a way that **also creates shared value for society**
- Businesses **acting as businesses**, not as charitable givers, are arguably the most powerful force for addressing many of society's pressing issues
 - Innovation and scalability
- Shared value opens up **major strategic opportunities** to create competitive advantage, while driving the next wave of **innovation, productivity, and economic growth**
- Realigning companies around shared value gives **greater purpose** to the corporation and to **capitalism itself**