

The Role of Business in Social and Economic Development: Creating Shared Value

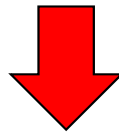
Professor Michael E. Porter
Harvard Business School

*World Bank CSV Discussion
Washington, D.C.
August 2, 2012*

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 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
- Business is sometimes seen as prospering **at the expense** of the society
- Despite growing corporate citizenship activities, the **legitimacy of business** has fallen

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

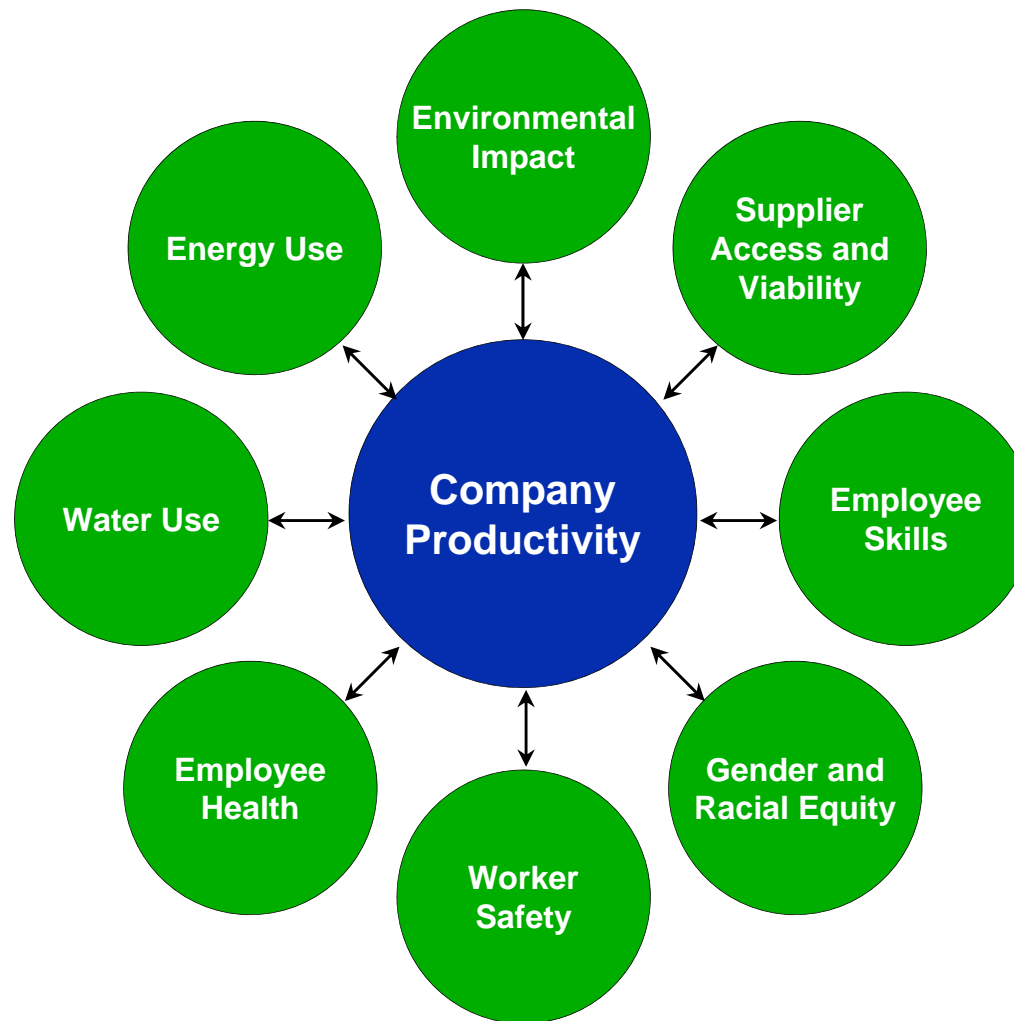
- **Shared Value IS:**

- 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)
- Acting based on strong **personal values** and **ethical standards**
- **Balancing** stakeholder interests
- The same as **sustainability**

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

Intuit SnapTax

SnapTax provides low-income consumers with access to tax preparation services over the phone and enables rapid refunds

- **15 minutes for \$15**, electronic filing included
- Data extracted from **mobile phone photos** of W-2s via optical character recognition
- **Debit card** option for direct deposit of refunds for unbanked households
- **Simple IRA option** to enable use of refund for retirement savings

Creating Shared Value in Products and Markets

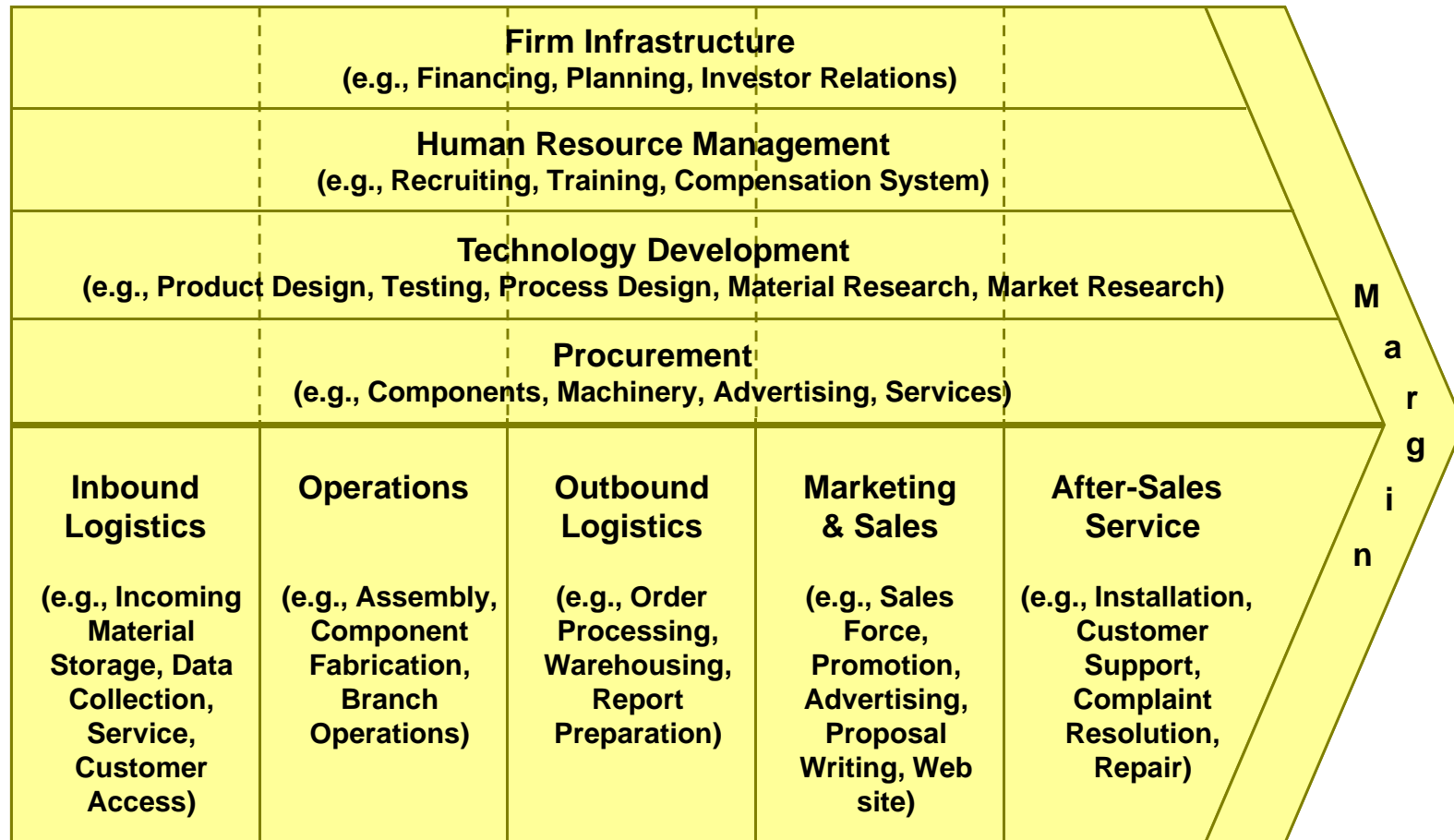
Novo Nordisk in China

- **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**

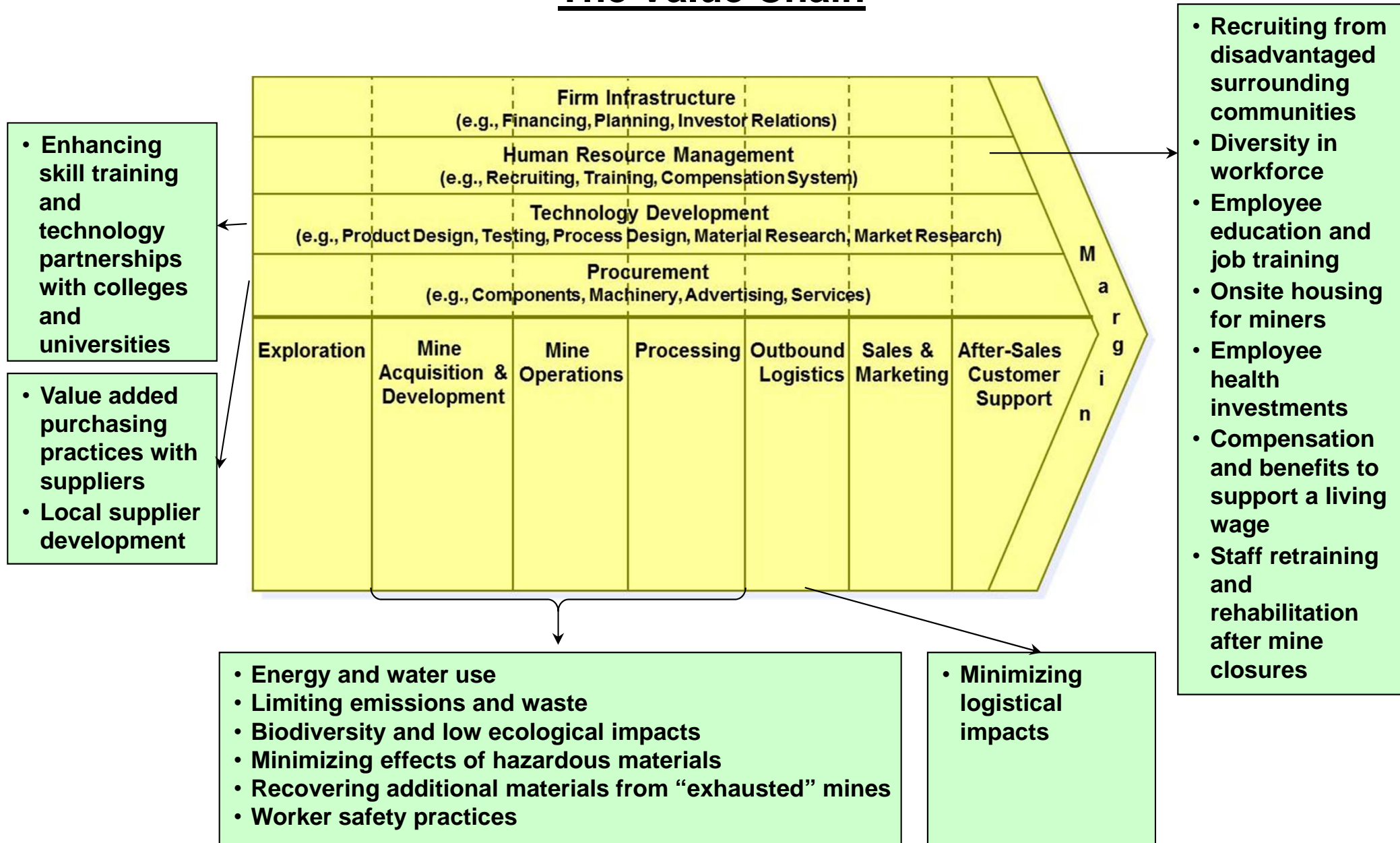
Redefining Productivity in the Value Chain



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

Identifying Opportunities for Shared Value in Mining

The Value Chain



Cluster Development in the Company's Major Locations

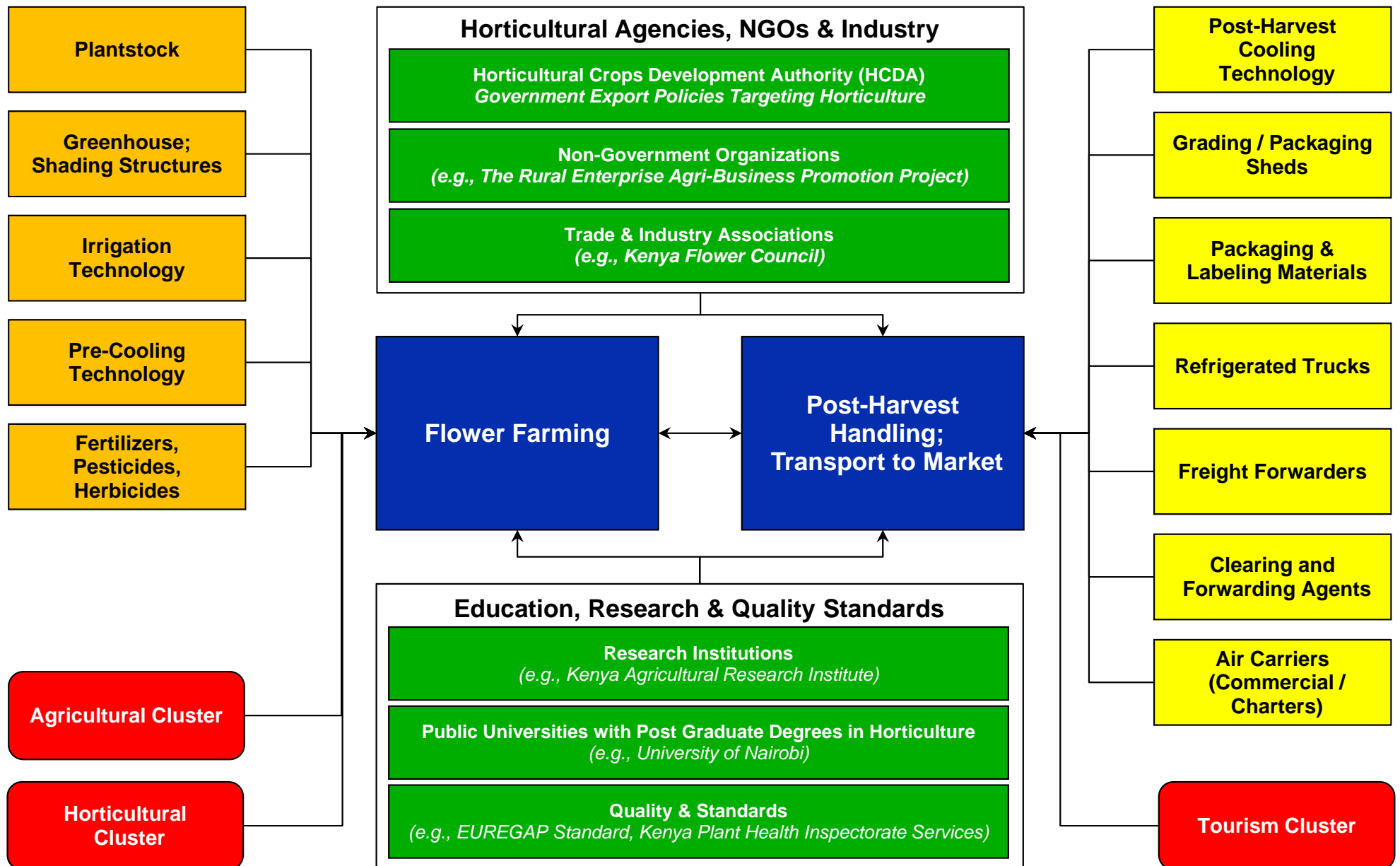
- A strong local cluster improves **company productivity and growth**
 - Local suppliers
 - Supporting institutions and infrastructure
 - Related businesses
- **Companies**, working collaboratively, can catalyze major improvements in the cluster and the local business environment



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

State of Cluster Development

Kenya's Cut Flower Cluster



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

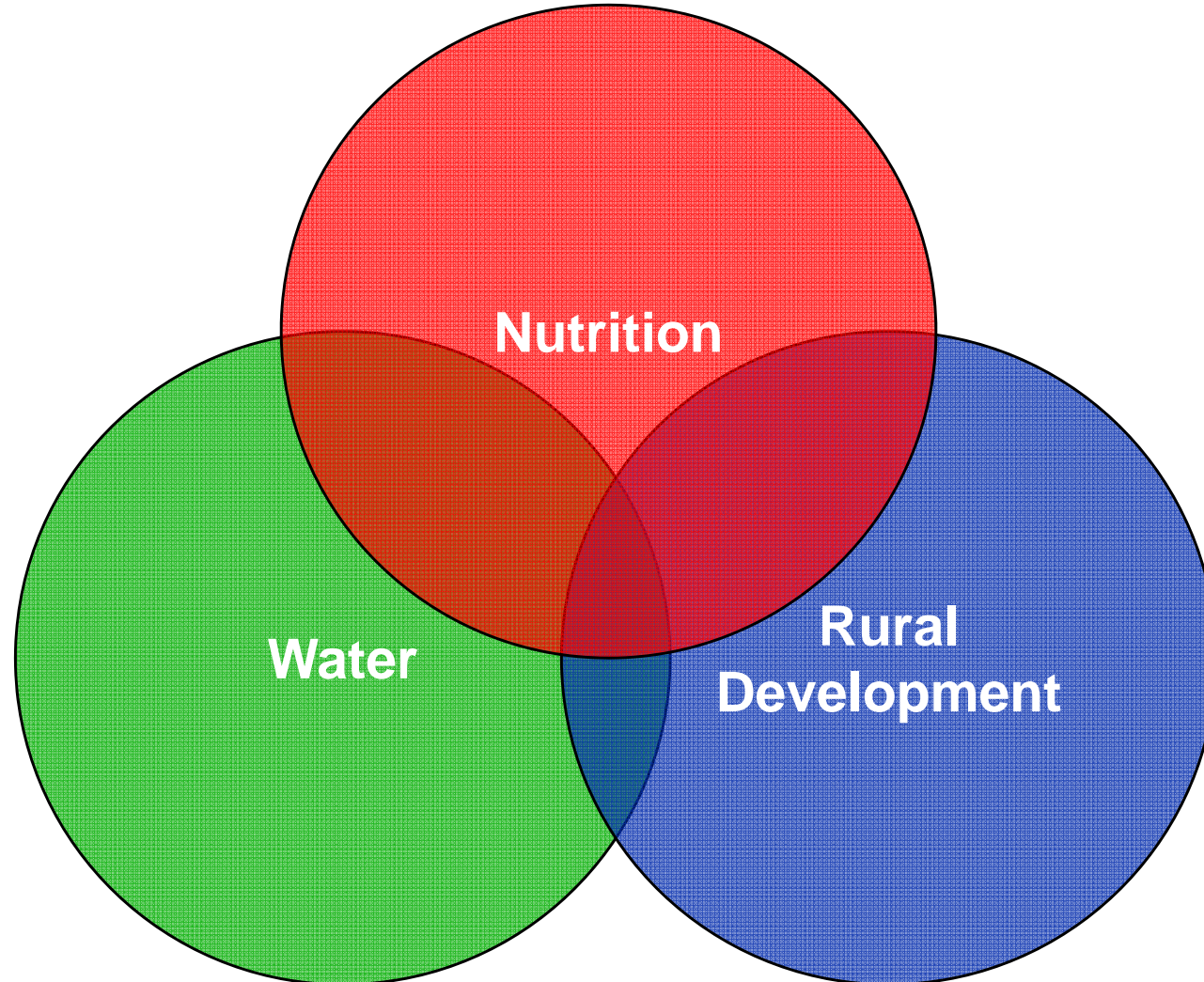
- Anglo-American has created reliable, high-quality **local suppliers**
- Local suppliers reduce transaction costs and improve **service levels** and **quality**

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: Deciding Where to Concentrate

Nestlé



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

Leveraging Shared Value Across Levels

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

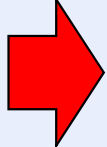
Redefining Productivity in Value Chains

- **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

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

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



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

Creating Shared Value

Implications for Government and Civil Society

- Government and NGOs often assume that **trade-offs** between economic and social benefits are **inevitable**
- Government and NGOs will be most effective if they **enable shared value** by business

Implications for NGOs

- NGOs bring unique **expertise**, **implementation** capacity, and relationships of **trust** with communities

A New Type of NGO

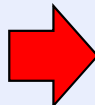
- **TechnoServe** Promotes the development of agricultural clusters in more than 30 countries
- **Root Capital** Provides financing to more than 400,000 farmers and businesses
- **Bill & Melinda Gates Foundation** Forms partnerships with global corporations to foster agricultural clusters

Implications for Governments

- Governments should make **platform investments** in public assets and infrastructure to enable shared value by business
- Governments should regulate in a way that **reinforces and rewards shared value** in business, rather than working against it

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	<ul style="list-style-type: none">• Donate to charitable causes		<ul style="list-style-type: none">• Initiate and scale shared value strategies
Philanthropists	<ul style="list-style-type: none">• Donate to charitable causes		<ul style="list-style-type: none">• Partner with companies and NGOs to catalyze shared value initiatives
NGOs	<ul style="list-style-type: none">• Receive grants to provide social services		<ul style="list-style-type: none">• Enable implementation of new shared value business models
Governments	<ul style="list-style-type: none">• Regulate business practices; operate social programs		<ul style="list-style-type: none">• Partner with companies and NGOs to make platform investments and support shared value strategies

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**