

Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society

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 Prosperity

- Only business can **create prosperity**

BUT

- Companies are increasingly perceived to be prospering **at the expense of the broader community**
- Business increasingly is seen as **a major cause of social, environmental, and economic problems**
- Government and civil society often attempt to address societal issues **at the expense of business**



- Despite growing corporate social responsibility (CSR) activities, the **legitimacy of business** has fallen

The Concept of Shared Value

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

- Create **economic value** by creating **societal value**
 - What is good for the community is good for business
- All profit is **not equal**. Profit involving shared value enables society to advance more rapidly and allows companies to grow faster



- The pursuit of shared value represents the next evolution of **capitalism**
- Concern with **societal issues** will be a defining characteristic of the post-crisis era
- Incorporating societal issues into strategy and operations is **the next major transformation** in management thinking

Misconceptions About Creating Shared Value

Creating Shared Value is **NOT**:

- **Sharing created value**
- **Philanthropy**
- **Giving back**
- **Ethics**
- **Personal values**
- **Harm reduction**
- **(Just) sustainability**
- **Triple bottom line**
- **Balancing stakeholder interests**

Levels of Shared Value

- Reconceiving customer **needs, products, and markets**
- **Redefining productivity** in the value chain
- Enabling **local cluster development**

Reconceiving Products and Markets

- Design products and services to **address societal needs**
 - E.g., environmental impact, safety, health, education, nutrition, living with disability, housing, financial security
- Open **new markets** by serving unmet needs in underserved communities
 - Often requires **redesigned products** or different **distribution methods**
- Meeting such needs spurs **self-reinforcing** economic growth



- Businesses have the potential to be more effective than governments and NGOs in **marketing** solutions to social problems
- Shared value offers new opportunities for **differentiation, innovation, and growth**
- A new generation of **social entrepreneurs** is capturing these opportunities, often faster than mainstream businesses



Creating Shared Value in Products

Dow Chemical: Insect Control

The **Spinetoram™ Family of insect control products** represent an innovative insect control technology derived from a biological organism (nature's own) that provides control of a broad spectrum of insect pests in a variety of crops.

Social Impact

- Ability to be **applied at lower rates** than conventional insecticides
- Low impact on **beneficial insects**
- **Natural degradation** through UV light and soil microbes
- **Low solubility** in water
- Favorable **toxological profile**
- Carries **lowest human hazard label**
- **Organic** version available

Business Impact

- **Substantial growth product** since launch, recording **double-digit growth in 2010**



Creating Shared Value in Products

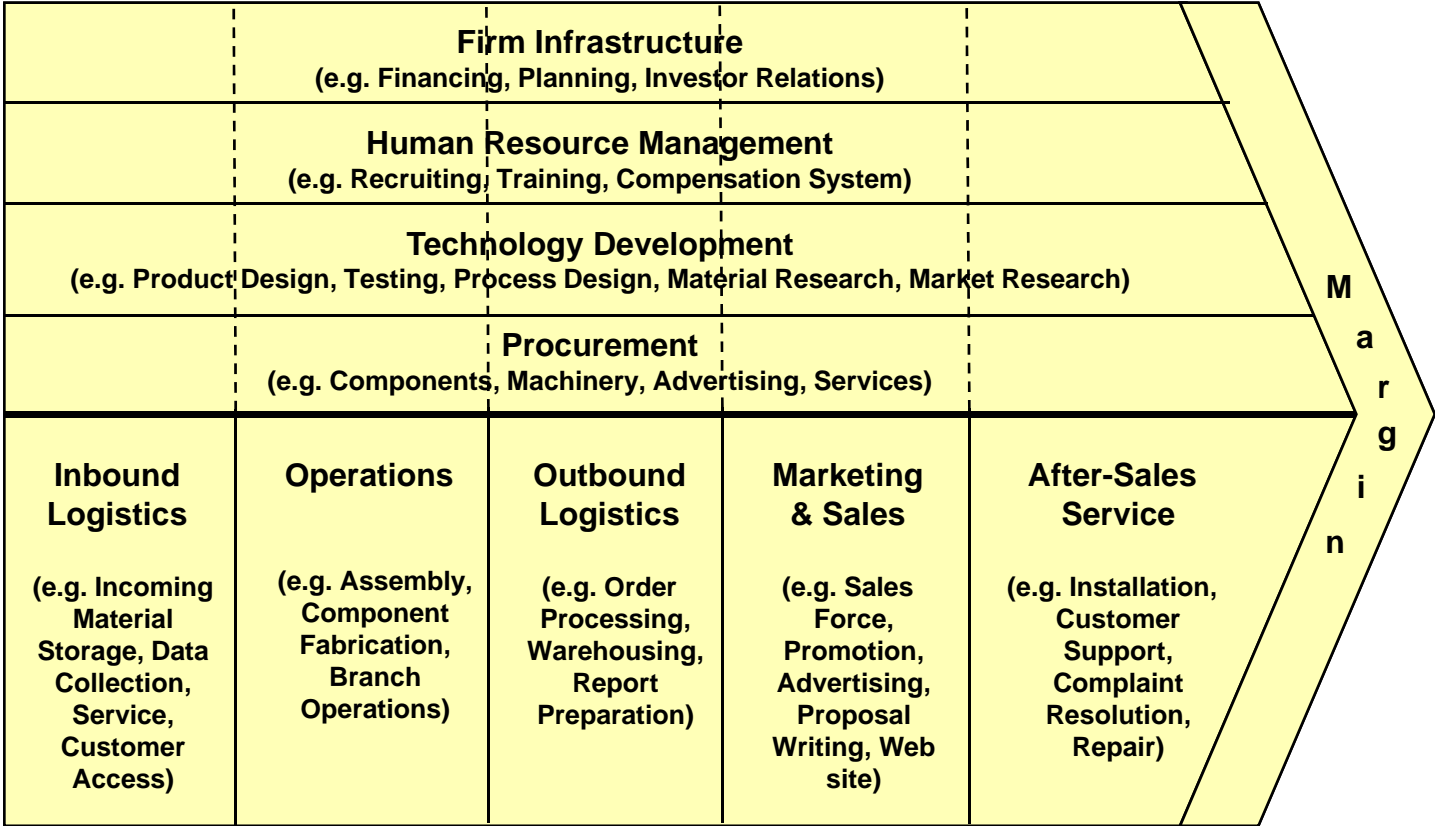
Intuit

- **Intuit Health Debit Card** allows small employers who cannot afford health insurance to provide pre-tax healthcare support to their employees
 - Card automatically recognizes healthcare expenditures vs. other kinds of spending
 - Unspent funds roll over year to year
- **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

Finding 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 consumer needs
- Identify customer groups that have been **poorly served** or **overlooked** by the industry's products in both advanced and emerging markets
- Start with **no preconceived constraints** about product attributes, channel configuration, or the economic model of the business (e.g., small loans are unprofitable)

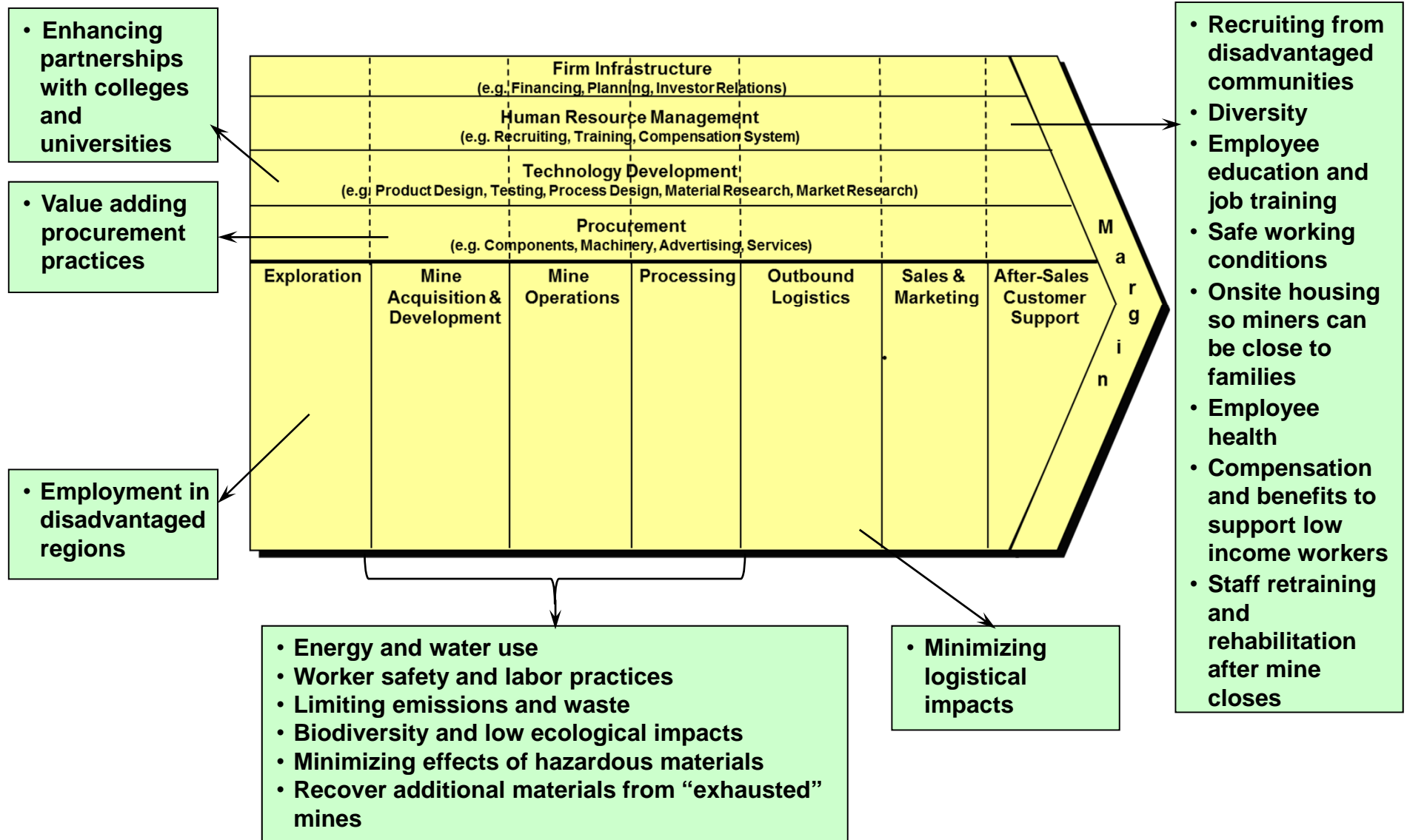
Redefining Productivity in the Value Chain



- Procurement
- Resource use
- Energy use
- Logistical efficiency
- Employee productivity
- Location of facilities and the supply chain

Identifying Opportunities for Shared Value in Mining

The Value Chain

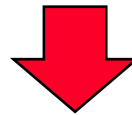




Redefining Productivity in the Value Chain

Fibria Pulp Manufacturing

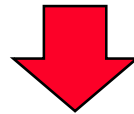
- Fibria is a Brazilian company that is the world's largest manufacturer of pulp for paper
- All production is based on planted eucalyptus
 - **No use** of tropical native trees
 - **Conservation** of native tree reserves (1/3 of the total area under eucalyptus cultivation)
 - Mosaics of native reserves within forests to insure **biodiversity**
- Uses soil science and forestry management to maximize the quantity and quality of organic matter found in the soil of its eucalyptus plantations
- State-of-the-art technologies for pollution control in the mills
 - All plantations certified by CER FLOR/ PE FC
- Support small-scale producers under forest partnership program
- Small-scale farmers are permitted to grow maize, beans and manioc in areas belonging to the company, under a program fostering cultivation of food crops within plantations



- 170,000 hectares of **preserved native reserves** interspersed with 286,000 hectares of eucalyptus plantations (more than 37% of its planted areas)
- Areas covered with native vegetation are fundamental for ensuring ecosystem balance and the maintenance of biodiversity
- Studies have concluded that there has been minimal negative impact due to eucalyptus plantations
- Helps reduce agriculture inputs needed, incidence of pest / disease
- ~4,000 households currently obtain income from eucalyptus production by selling wood to Fibria under a forest partnership program
- Fibria benefits as well since 1 hectare of planted eucalyptus can produce about the **same volume** of wood as 30 hectare of native forest

Shared Value Through Local Cluster Development

- A strong local cluster with capable local suppliers and institutions **improves company productivity**
 - e.g., greater supply chain efficiency, lower environmental impact, and better access to skills
- **Companies**, working collaboratively, can catalyze major improvements in the local cluster and the local business environment
- Local cluster development **strengthens the link** between a company's success and community success



- What suppliers are **inefficient** or **missing locally**?
- What **institutional weaknesses** or **community deficits** create internal costs for the firm?

Shared Value Through Cluster Development

Cisco Networking Academy



Cisco, the world's leading producer of network routers, has established a program to train network operators in economically deprived regions

Business Problem and Innovation

- Cisco's **growth is limited** by the number of trained network administrators worldwide
- As a result, Cisco established **the Networking Academy** to address this key business challenge
 - Developed a **distance learning program** that combines a web-based curriculum with local instructors and lab facilities to train new network administrators
 - **Partnered with industry peers** such as HP, Panduit, and others
 - Implemented the Networking Academy in secondary schools, **primarily located in economically deprived regions**



Social Impact

- Over **10,000 Academies** established in all 50 states and 165 countries
- **Over 4,000,000** students have been trained, while **750,000 students are now considered "Cisco certification ready"**
- More than 50% of graduates have found a new job, and **70% have attained a new job, a better job, increased responsibility, or higher salary**



Business Impact

- The Networking Academy alleviates a **key labor constraint** for Cisco customers
- Trained network administrators become **familiar with Cisco products**
- The Networking Academy has **strengthened relationships** with key suppliers, local businesses and government

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

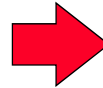
Community value

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

Economic value

- Anglo-American has created reliable, high-quality local suppliers
- A deeper pool of local suppliers reduces transaction costs and improves service levels and quality

Moving to Shared Value



- **Values:** “doing good”
- Good citizenship, philanthropy, and sustainability
- **Discretionary**
- **Separate** from profit maximization
- Agenda **externally determined**
- Impact is **limited** by the corporate footprint and CSR budget

• Example: Fair trade purchasing

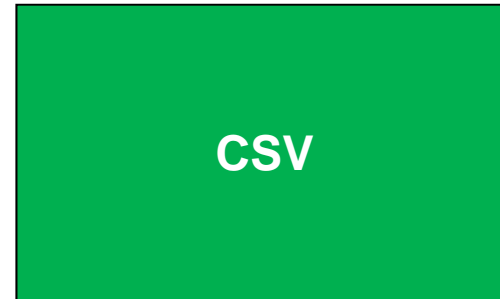
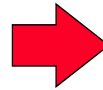
- **Value:** economic and societal benefits relative to cost
- **Joint** company and community value creation
- Integral to **competing**
- **Essential** to profit maximization
- Agenda is **business specific**
- Mobilizes the **entire company** budget

• Example: Transforming procurement to increase quality and yield

In both cases, **compliance** with laws and ethical standards and reducing harm for corporate activities are **assumed**

Moving to Shared Value

Novartis



- Donate drugs to lower-income populations
- Same products, but free or at a discounted price
- Provides product access for affected individuals



- Reduced revenue at the same cost

- Arogya Parivar: Implementing a new drug distribution channel for low-income populations
- New quantity, packaging, patient education, and distribution
- Improvement in local healthcare delivery infrastructure
- Learning about customer behavior and new business models



- Expanded revenue and profitable business model

Adding a Social Dimension to Strategy

- Shared value opens up new **needs**, new **markets**, and new **value chain configurations**
- This creates **new strategic positions**, and new opportunities for **extending existing positions**



- Companies should incorporate a **social dimension** to their value proposition
- Shared value can **reinforce** and even **anchor** a company's strategy
- The social dimension 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 and microcredit if needed
- 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 (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**

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 approaches** to economic value creation
- Shared value thinking will drive the next wave of **innovation, productivity enhancement, and economic growth**
- 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**