

# The Future of Corporate Citizenship: Creating Shared Value

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*100 Best Corporate Citizens*  
New York, NY  
March 2, 2011

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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](http://www.isc.hbs.edu).

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# The Role of Business in Prosperity

- Only business can **create prosperity**

BUT

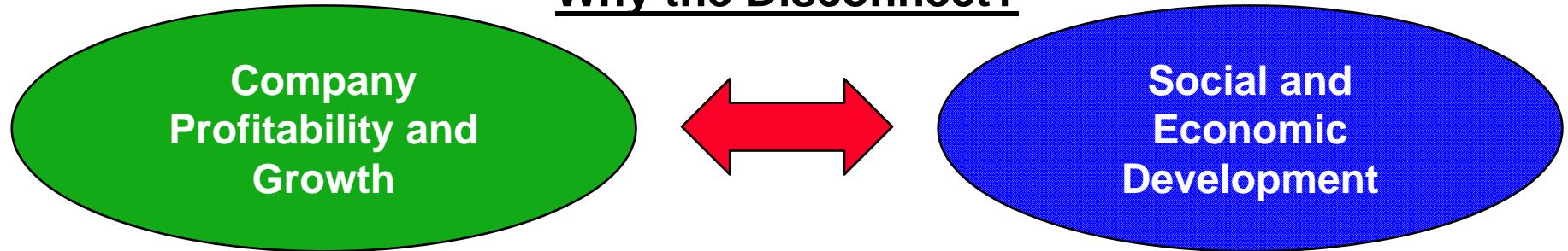
- Companies are often perceived to be prospering **at the expense of the broader community**
- Business increasingly is seen as **a major cause of social, environmental, and economic problems**
- Government and civil society often attempt to address societal issues **at the expense of business**




- The **legitimacy of business** has fallen

# Business and Society

## Why the Disconnect?



### A Narrow Model of Economic Value Creation

- Societal issues have been treated as **outside** the scope of business
    - CSR to improve reputation and “give back”
  - Companies focus on driving revenue through meeting conventional needs, often overlooking **fundamental** needs in the process
  - Profit improvement has been dominated by **outsourcing, downsizing, relocating**, and **globalizing**
  - Companies have become **less connected** to any location
  - **Shortening time horizons** have reinforced these approaches
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- **Growth** and **innovation** have suffered

# Economic Value and Societal Needs


## Evolving Learning



- **Social** deficits create **economic** cost
- **External** conditions shape **internal** company productivity

# 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 operates**

- Create **economic value** by creating **societal value**
    - What is good for the community is good for business
  - All profit is **not equal**. Profit imbued with social purpose enables society to advance more rapidly while allowing companies to grow even more.
  - Shared value represents the next evolution in **capitalism**
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- 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

# 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, living with disability, housing, financial security
  - Businesses have the potential to be more effective than governments and non profits in **marketing** solutions to social problems
- Open **new markets** by serving unmet needs in underserved communities and developing countries
  - Often requires **redesigned products** or different **distribution methods**
  - Serving these needs spurs self-reinforcing **social** and **economic** development



- New needs and new markets open up opportunities for **growth, innovation, and differentiation**
- A new generation of **social entrepreneurs** is capturing these opportunities, often faster than existing businesses

# Creating Shared Value

## Intuit

### Advanced Countries

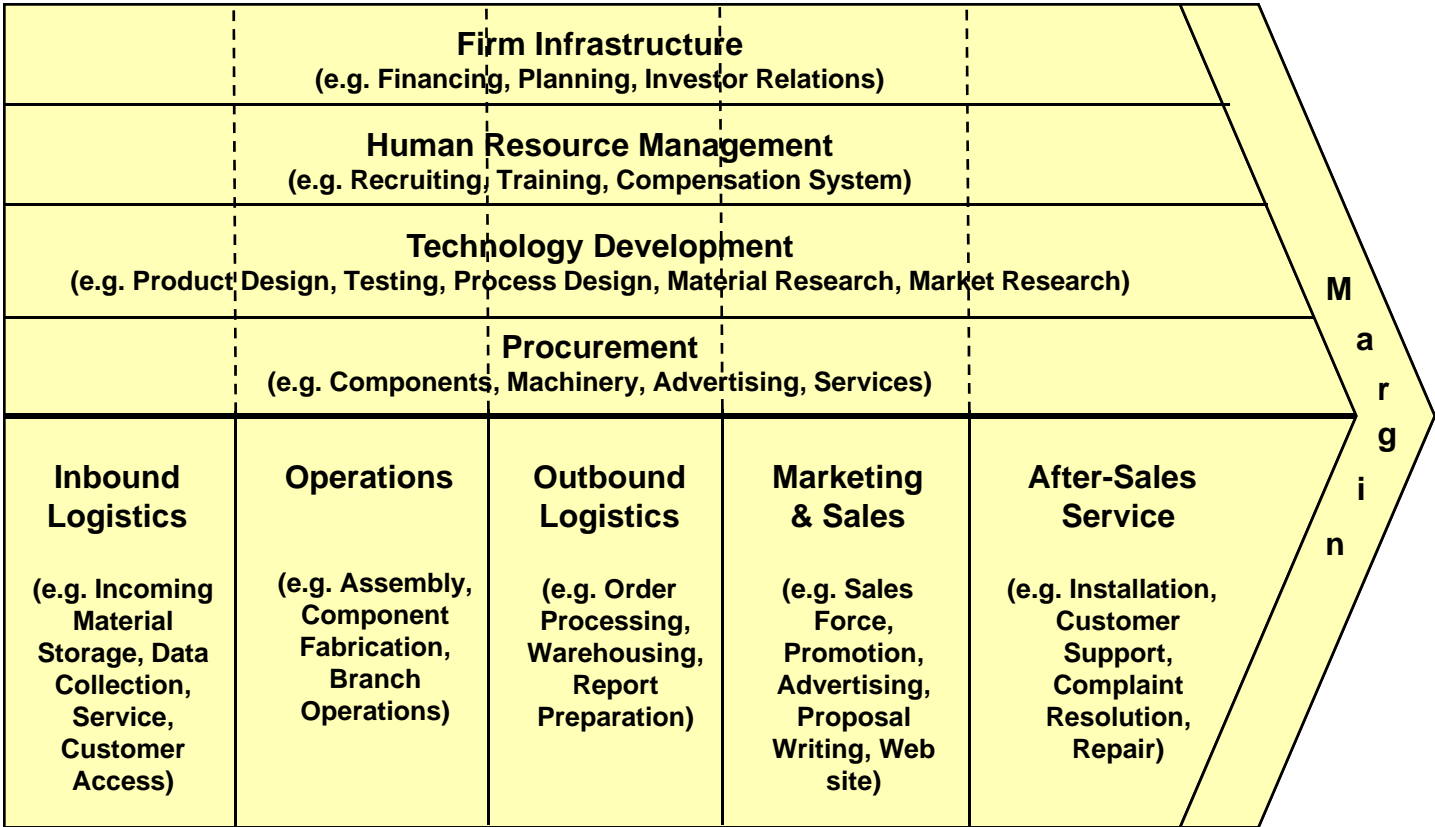
- **Intuit Health Debit Card** allows small employers who cannot afford to provide health insurance to provide healthcare to support their staff
  - Employers pay in pre-tax
  - Card automatically recognizes healthcare expenditures vs. other kinds of spend
  - Rolls over year to year
- **SnapTax** provides low-income access to tax preparation over the phone
  - Takes 15 minutes and costs \$15
  - Data extracted from phone photos of W-2s via optical character recognition
  - Electronic filing included

### Developing Countries

- **Mobile Bazaar** provides local market price information to farmers via mobile phones.
  - Farmers realize an average of 16% higher prices and 25% higher household income
- **TxtWeb** product enables the people with no internet access who have a cell phone to access much of the internet using SMS
  - e.g., students can find information on Google; rural residents can see train schedules; farmers can use the tool to check for weather updates



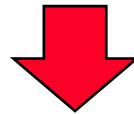
# Redefining Productivity in the Value Chain



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

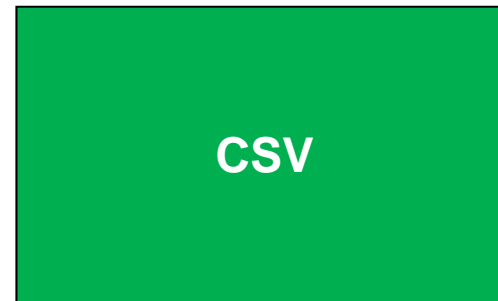
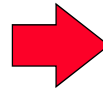
# Local Cluster Development

- A strong local cluster **improves company productivity**
  - e.g., **more capable local suppliers** increase supply chain efficiency and lessen environmental impact
- **Companies**, working collaboratively, can catalyze major improvements in their local cluster and business environment



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

# Moving to Shared Value



- **Values:** doing good
- Good citizenship, philanthropy, and sustainability
- **Discretionary**, or in response to external pressure
- **Separate** from profit maximization
- Agenda is determined by **external standards** and personal preferences
- Impact is **limited** by the corporate footprint and CSR budget

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

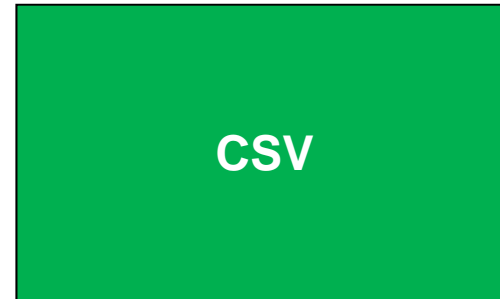
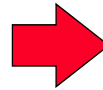
## Example

- Fair trade purchasing
- Transforming procurement to increase quality and yield

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- 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 discounted price
- Modest improvement in product access



- Reduced revenue with the same cost

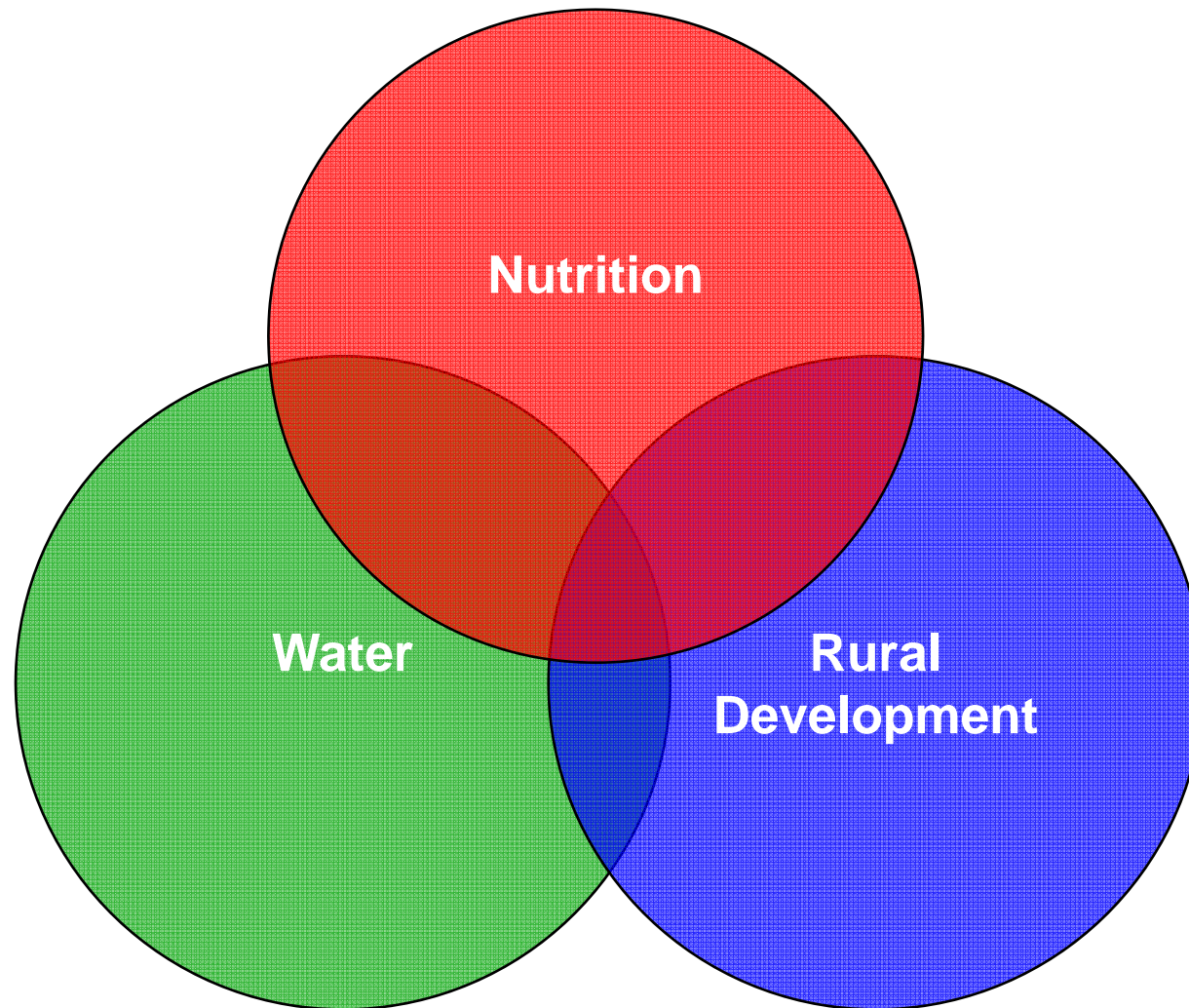
- Arogya Parivar: Implementing a new drug distribution channel for low-income populations
- New quantity, packaging, patient education, and distribution
- Long-term investment in healthcare delivery infrastructure
- Learning about customer behavior and new business models



- Expanded revenue; profitable business model

# Creating Shared Value: Deciding Where to Concentrate

## Nestlé



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

# Creating Shared Value

## Nestle Nespresso

*Implementing shared value in sourcing premium coffees from farmers in Costa Rica, Guatemala, Colombia, and Ghana*

- Reconfiguring the value chain
  - Reconceiving **procurement**
- Upgrading the cluster
  - Supporting local **cluster development** in coffee growing regions, including establishment of cluster institutions
  - **Partnering** with stakeholders

<b>Shared Value</b>		
<b><u>Farmers</u></b>	<b><u>Community</u></b>	<b><u>Nespresso</u></b>
<ul style="list-style-type: none"><li>• <b>Better yields</b></li><li>• <b>Better prices</b></li><li>• <b>Better processing</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Environmental sustainability</b></li><li>• <b>Economic development</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Stable supply</b></li><li>• <b>Better quality</b></li><li>• <b>Reinforces strategic positioning</b></li></ul>

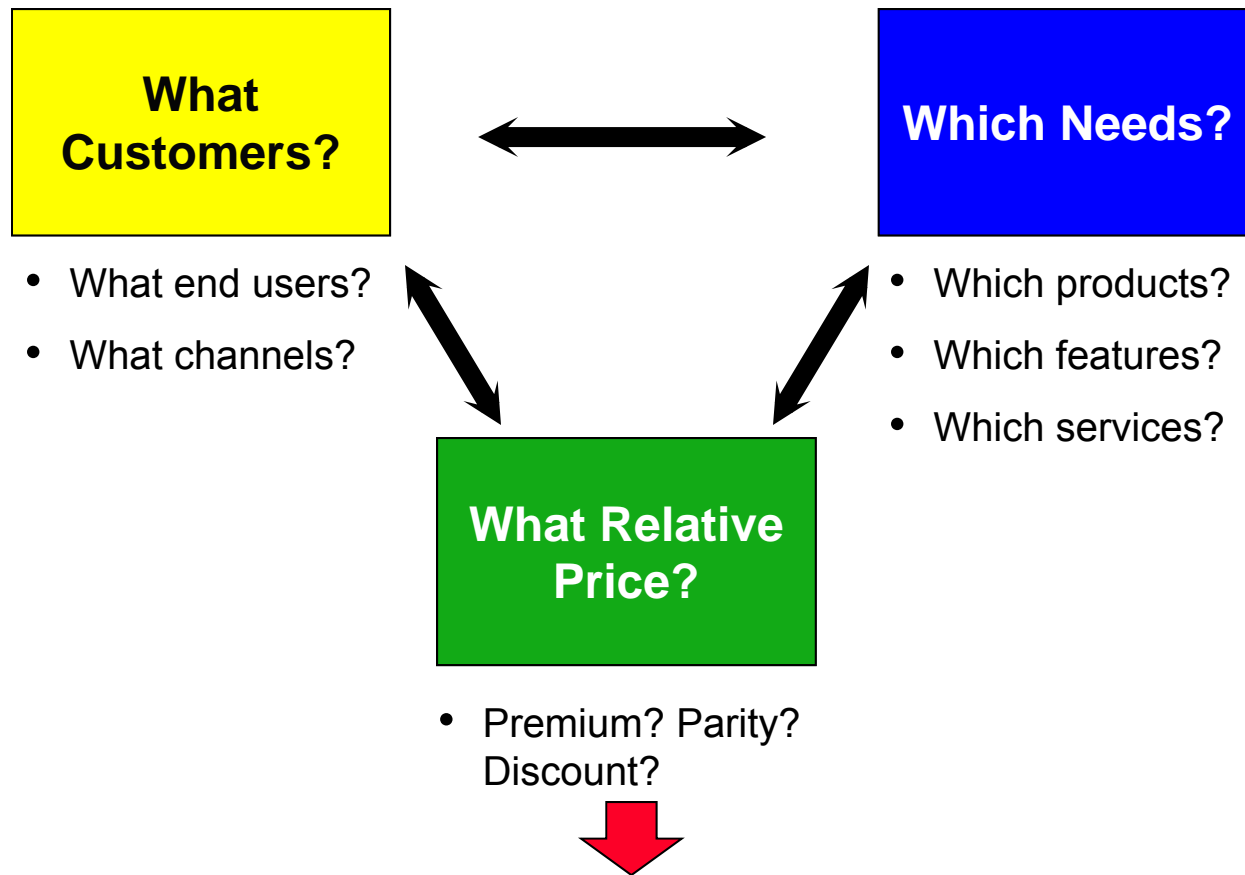
# Adding a Social Dimension to Strategy

- Shared value opens up new **needs**, new **markets**, and new **value chain configurations**
- Creates opportunities for **new strategic positioning**, and new dimensions for **extending existing positions**



- Companies should incorporate a **social dimension** to their value proposition

# Defining the Value Proposition



- A novel value proposition often **expands the market**



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- 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 versus 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, using the concept of **shared value**
- 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 to capitalism itself, and represents our best chance to **legitimize business again**