

Harnessing the Power of Capitalism: 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); 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 Society

- Only business can **create prosperity**

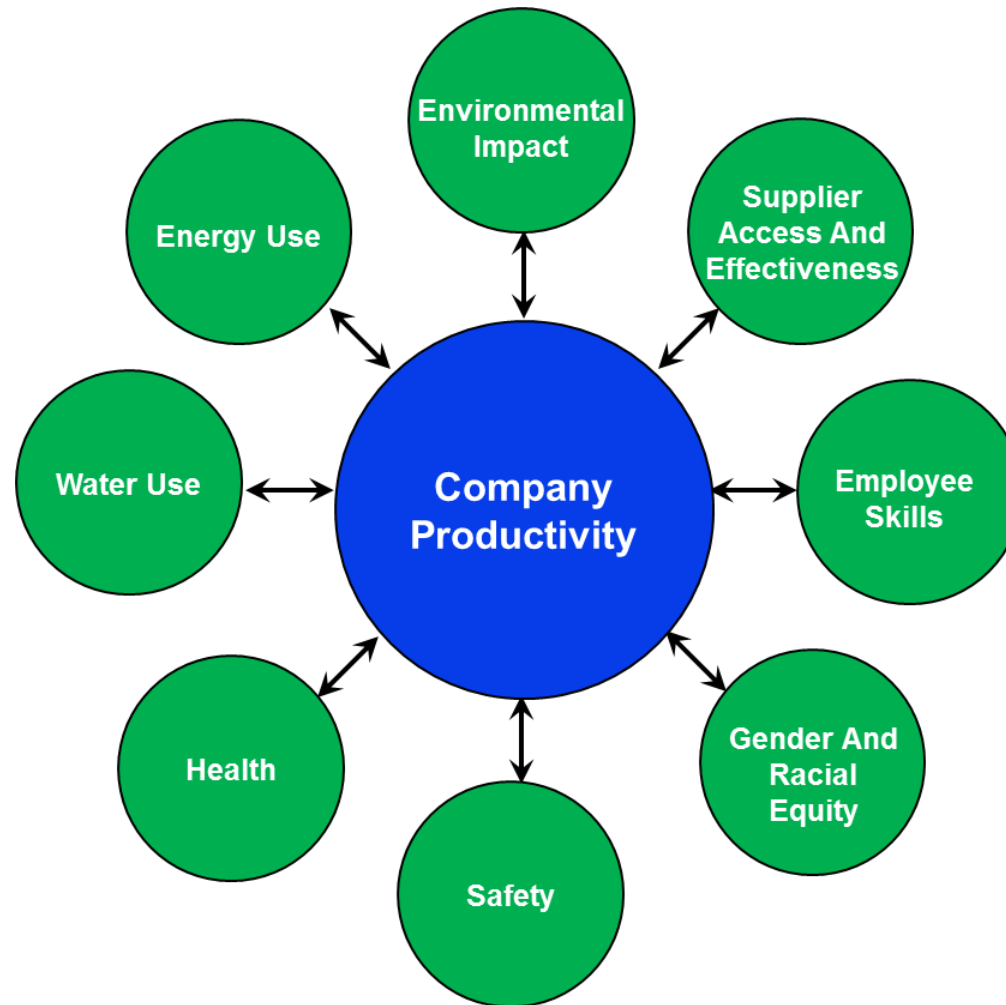
BUT

- 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

Creating Economic Value and Societal Needs



- **Social** deficits create **economic** cost
- Social needs represent many of the largest **market opportunities**
- **External** conditions shape **internal** company productivity
- There is a growing **congruence** between economic value creation and societal objectives

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



- 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 (redistribution of income)
- Philanthropy
- Giving back
- Ethics
- Personal values
- Harm reduction
- Triple bottom line
- Balancing stakeholder interests
- (Just) sustainability

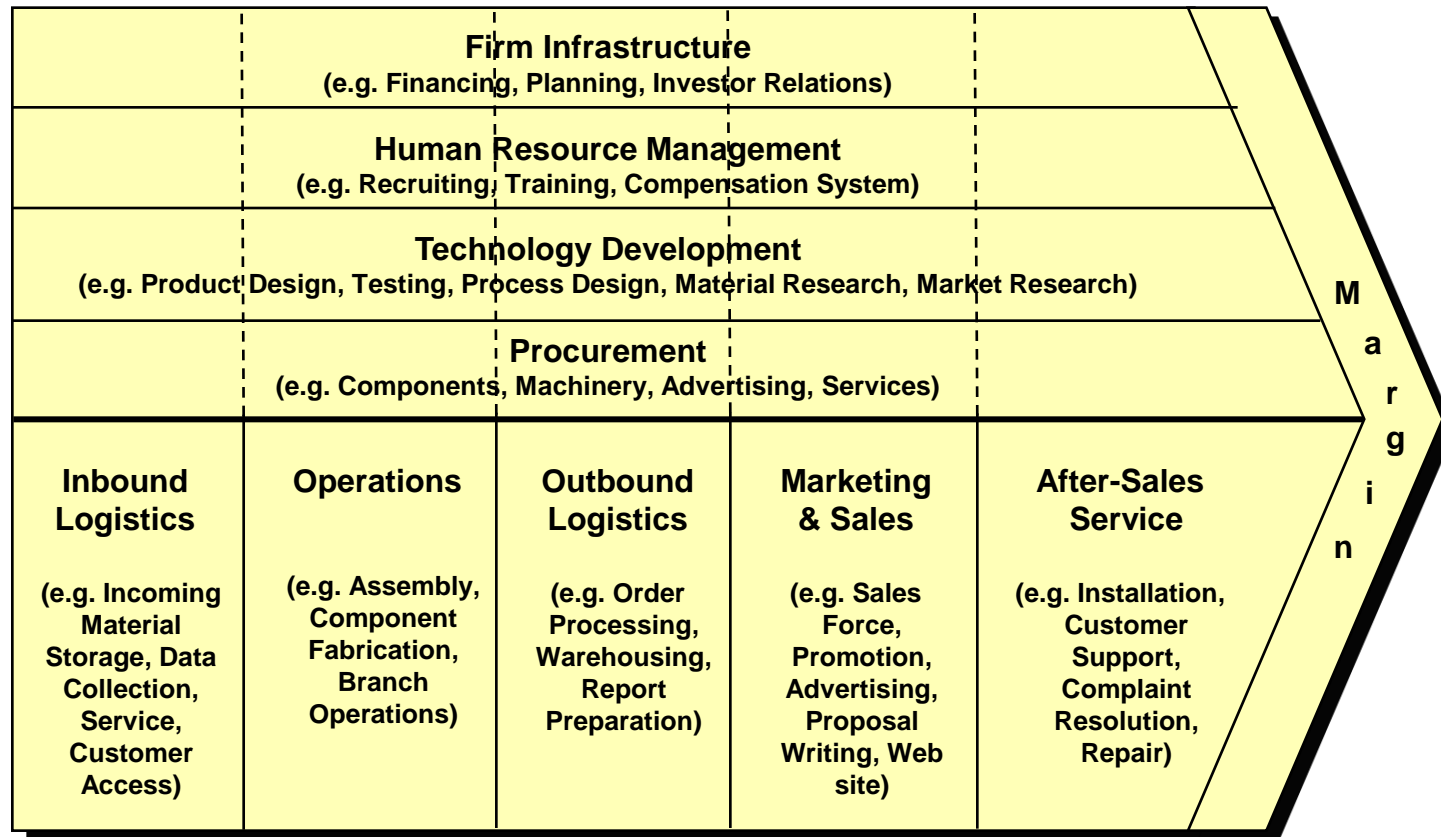
Reconceiving Products and Markets

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

Finding Product and Market Opportunities to Create Shared Value

- Redefine the business around **unsolved customer problems or concerns**, not traditional product definitions
 - Or the customer's customer
- 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
- Start with **no preconceived constraints** about product attributes, channel configuration, or the economic model of the business (e.g., small loans are unprofitable)

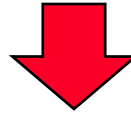
Redefining Productivity in the Value Chain



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

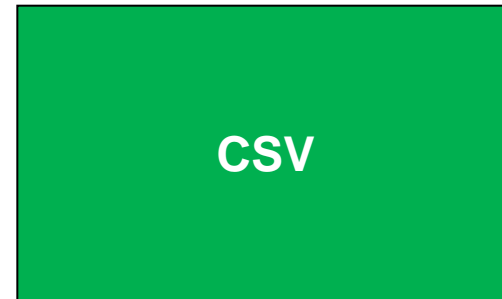
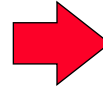
Local Cluster Development

- A strong local cluster with capable local suppliers and other 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 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?

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**

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

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**