

# Harnessing the Power of Capitalism for Society: 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](http://www.isc.hbs.edu).

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# The Role of Business in Society

- Only business can **create prosperity**
- Healthy businesses need a **healthy community**

BUT

- There is a **growing awareness** of major societal challenges
- 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 citizenship activities, the **legitimacy of business** has fallen

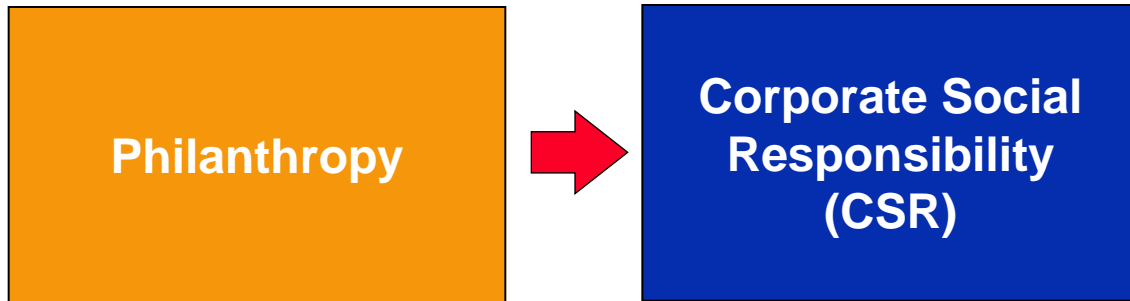
# The Role of Business in the Community



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- Compliance with community standards
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# 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 the business

# The Concept of Shared Value

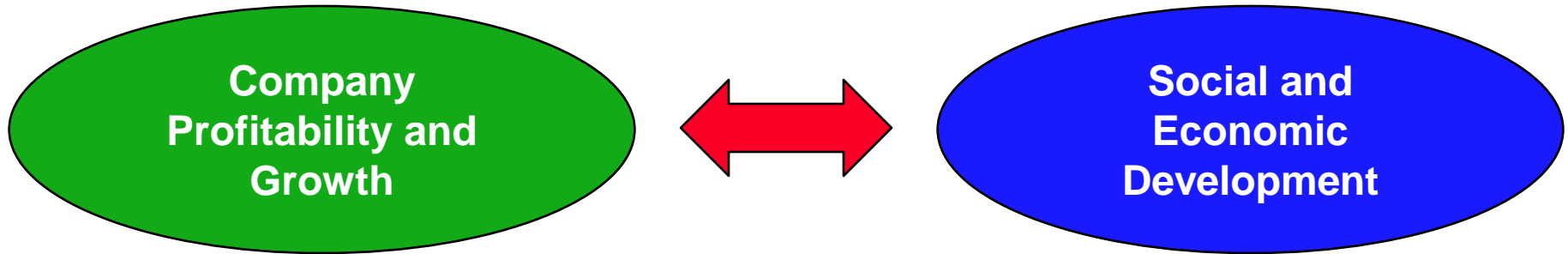
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- The pursuit of shared value represents the next evolution of **capitalism**
- Concern with **societal issues** will be a defining characteristic of the post-crisis era
- Incorporating societal issues into strategy and operations is **the next major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

# Business and Society: Why the Disconnect?



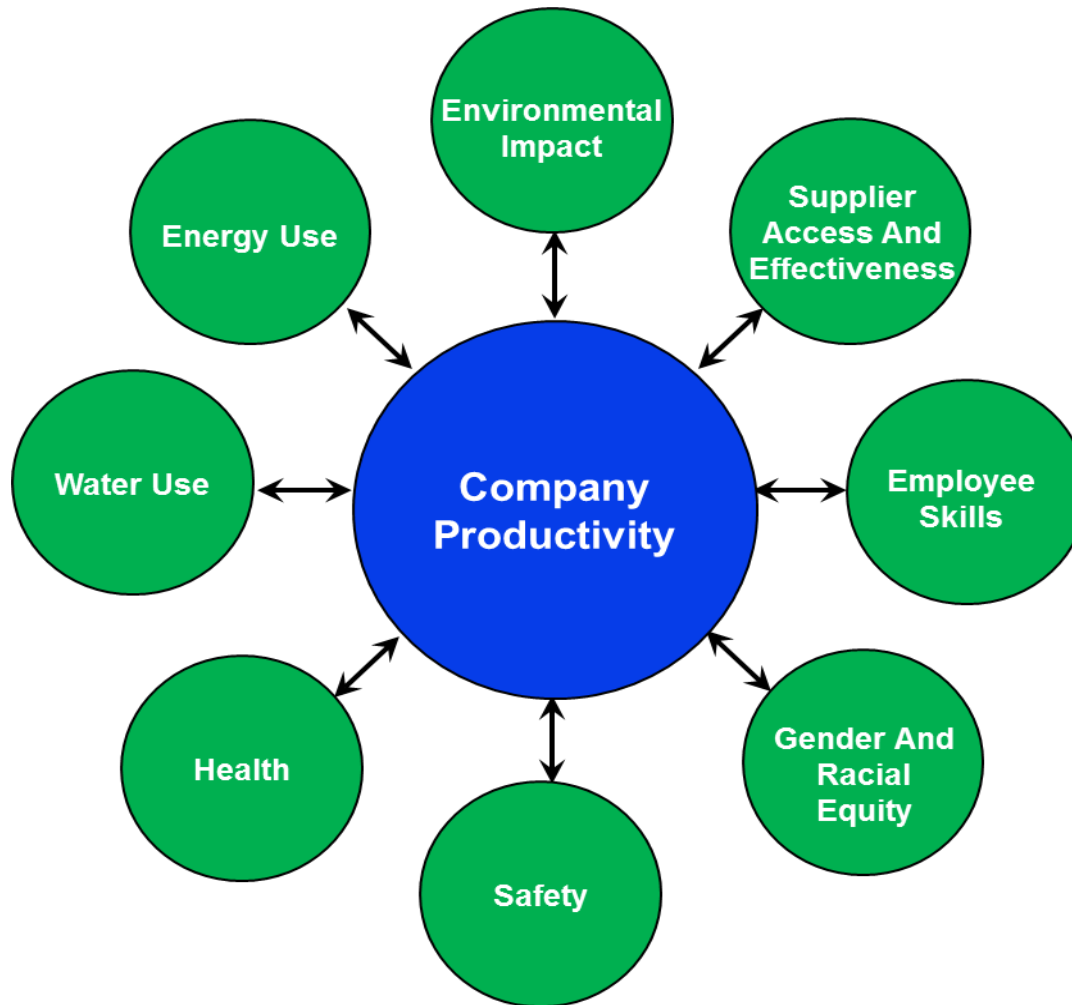
- Companies have adopted a **narrow model** of economic value creation
  - Meeting **conventional** needs of **conventional** customers
  - Driving revenue through **acquisitions** instead of new expansion
  - Profit improvement through **downsizing, outsourcing, relocating**, and **globalizing**
  - Short **time horizons**
  - Societal issues treated as **outside** the scope of business



- Huge **societal needs** go unmet
- **Growth** and **innovation** have suffered



# Creating Economic Value and Societal Needs



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

# Levels of Shared Value

- Reconceiving customer **needs, products, and markets**
- **Redefining productivity** in the value chain
  - How the organization conducts its business
- 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**



- 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

# Creating Shared Value in Products

## Dow Chemical Insect Control

The Spinetoram™ Family of insect control products are derived from a **biological organism** that provides control of a broad spectrum of insect pests in a variety of crops

- Natural degradation through UV light and soil microbes
- Low solubility in water
- Favorable toxological profile
- Carries lowest human hazard label
- Organic version available



- Ability to be applied at **lower rates** than conventional insecticides
- **Low impact** on beneficial insects
- **Double-digit growth** since launch in 2010

# 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** together with governments, NGOs, and opinion leaders to promote the latest thinking among physicians on diabetes prevention, screening, treatment, and patient communication

- Targeting smaller cities
- 220,000 sessions to date

“**Diabetes bus**” program to raise patient awareness and provide on-site advice, NovoCare telephone hotline allows patients to reach specialists with questions. NovoCare Club provides ongoing updates to members.

- Patient education focuses on prevention, lifestyle changes, and effective use of insulin products
- 280,000 patients educated to date

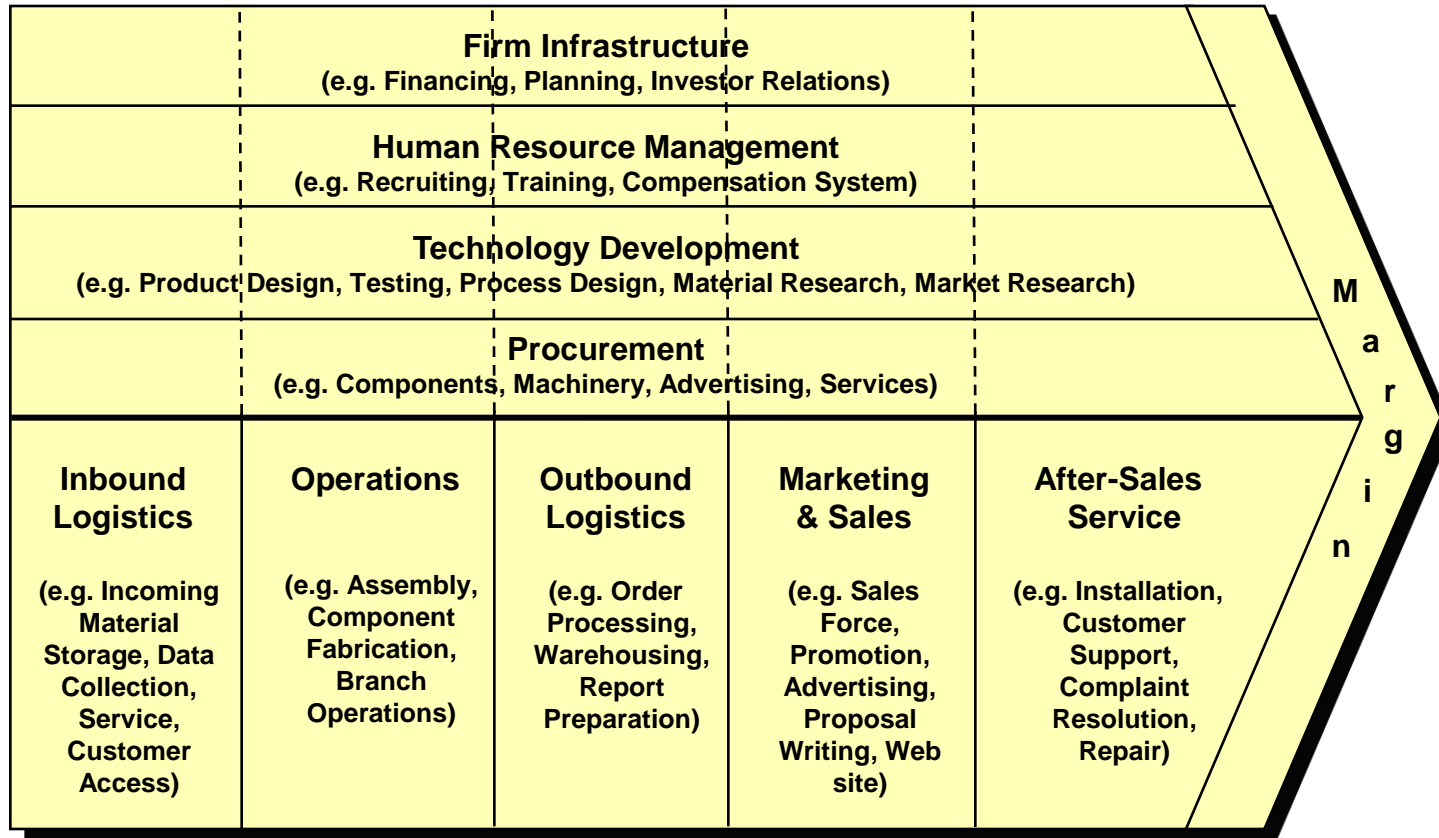


- Since 1997, this program is estimated to have **reduced healthcare costs** in China by **\$700 million** through reducing diabetes related complications
- Novo Nordisk **sales have increased** by an estimated **\$114 million**

# Discovering 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

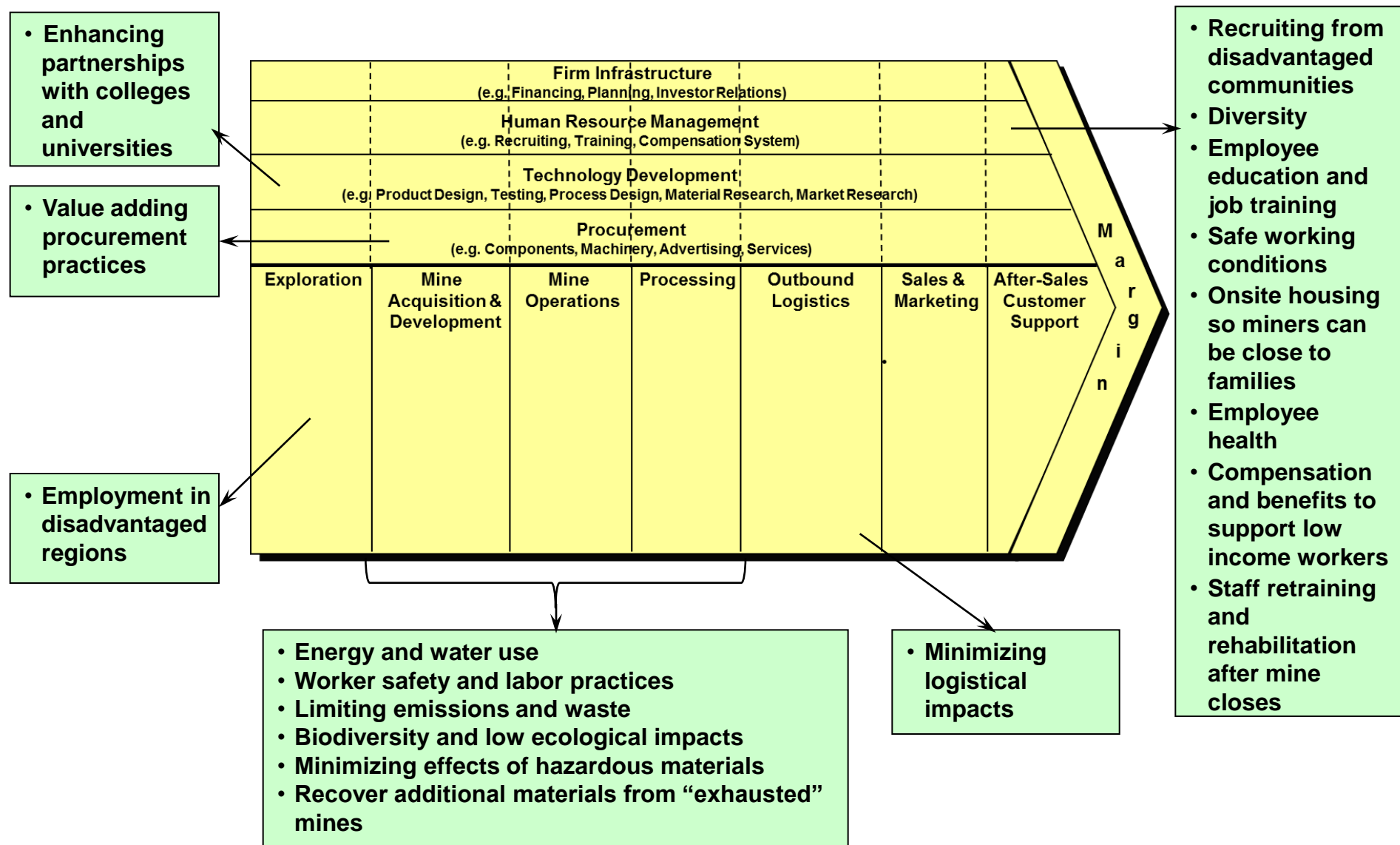


- Purchasing
- Resource use
- Energy use
- Logistical efficiency
- Employee productivity
- Location of facilities and the supply chain



# Identifying Opportunities for Shared Value in Mining

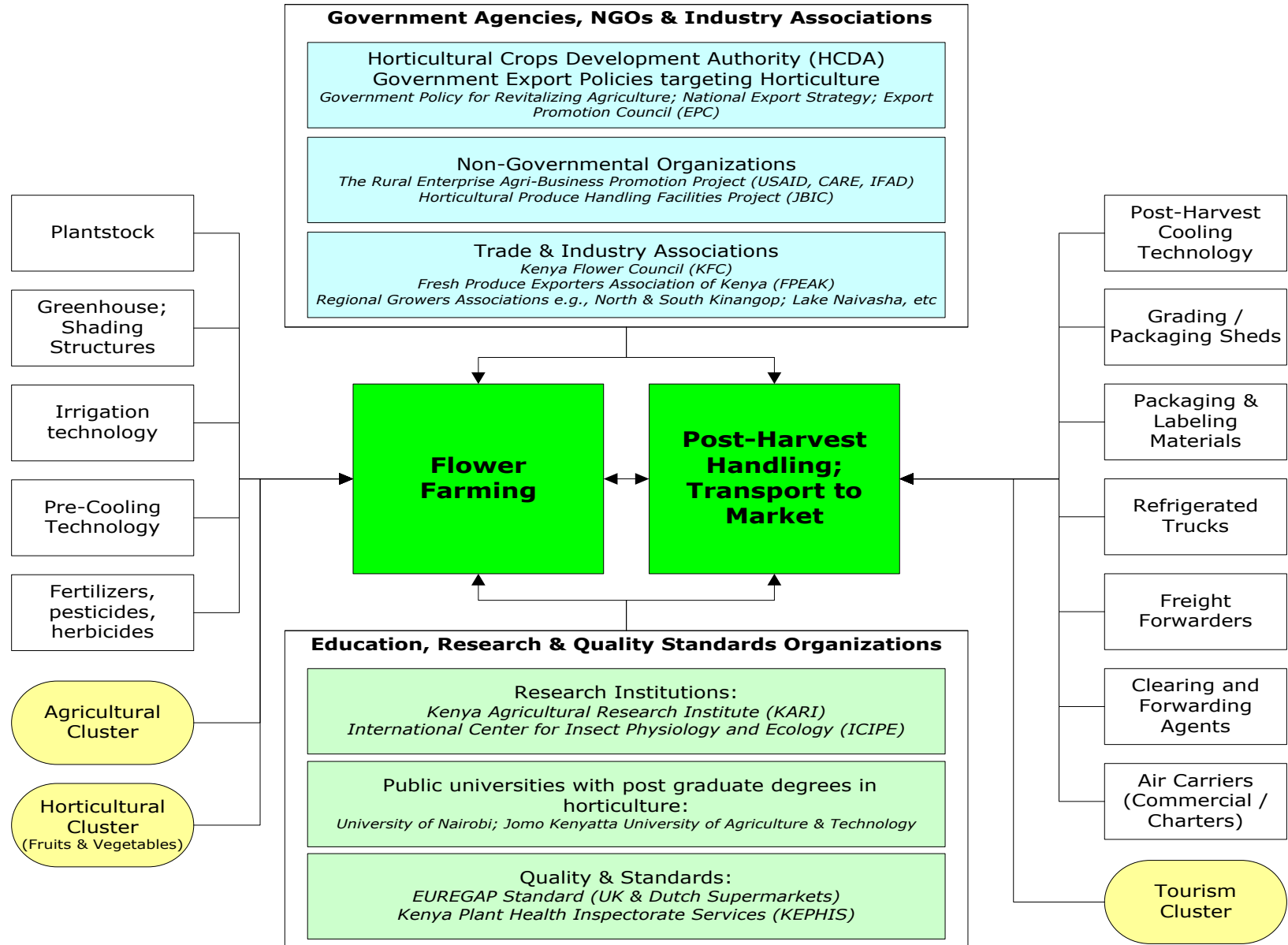
## The Value Chain



# Cluster Development in the Company's Major Locations

- A strong local cluster improves company **growth** and **productivity**
  - Local suppliers
  - Supporting institutions and infrastructure
  - Related businesses
- **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

# Kenya's Cut Flower Cluster



Sources: MOC student team research by Kusi Hornberger, Nick Ndiritu, Lalo Ponce-Brito, Melesse Tashu, Tijan Watt, Harvard Business School, 2007

# Local Cluster Development

## Nespresso

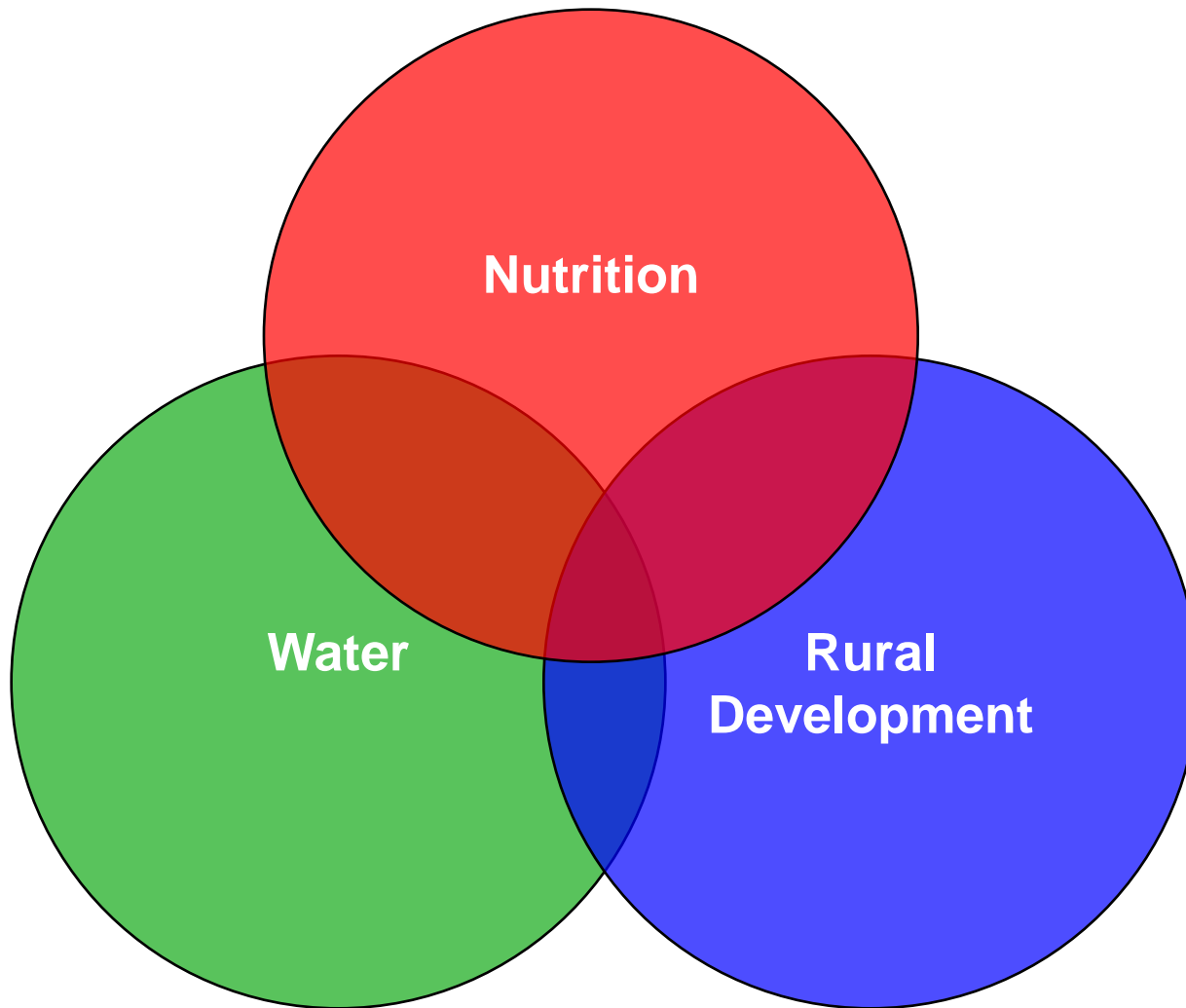
- Implementing shared value in sourcing premium coffees from farmers in Costa Rica, Guatemala, Colombia, and Ghana
- Upgrading the cluster
  - Supporting local **cluster development** in coffee growing regions, including establishment of cluster institutions
  - **Partnering** with stakeholders

### Shared Value

<u>Farmers</u>	<u>Community</u>	<u>Nespresso</u>
→ Better yields	→ Environmental sustainability	→ Stable supply
→ Better prices	→ Economic development	→ Better quality
→ Better processing		→ Reinforces strategic positioning

# 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

## Opportunities for Professional Sports Organizations

- Reconceiving customer **needs, products, and markets**
  - Wider participation in the sport
  - Fitness, health, wellness, and personal development
- **Redefining productivity** in the value chain
  - Energy efficiency and waste reduction
  - Value-added local procurement
  - Workforce development and recruiting
    - Teams and vendors
- Enabling **local cluster development**
  - Spur economic development in the areas surrounding stadiums and other team facilities
  - Create a local supplier base for concessions, souvenirs, etc.
  - Anchor other entertainment and real estate development

# Measuring Shared Value



- Profitability
- Revenue
- ROI
- Industry growth



- Specific societal benefits achieved



- Fundamental to shared value is **linking** economic and social measures

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

### A New Type of NGO

<b><i>TechnoServe</i></b>	Promotes the development of agricultural clusters in more than 30 countries
<b><i>RootCapital</i></b>	Provides financing to more than 400,000 farmers and businesses
<b><i>Bill &amp; Melinda Gates Foundation</i></b>	Forms partnerships with global corporations to foster agricultural clusters

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



# 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**

# Shared Value and Strategic Positioning

## Intrepid Travel

### Value Proposition

- Sustainable small-group travel
- Unique real-life experiences involving significant interaction with the local communities
- Cost-conscious, adventurous, socially aware travellers looking for authentic experiences

#### Mission

“Intrepid’s core purpose is to enrich people’s lives by creating unique, interactive travel experiences. We provide fun, affordable and sustainable travel that is profitable for Intrepid and beneficial to local communities.”

### Distinctive Activities

- Smaller groups allows for frequent use of local public transport, supporting local infrastructure and reducing environmental impact
- Smaller groups allow stays at local hotels and homestay opportunities as well as dining at local restaurants
- Some trips involve community volunteer projects where travellers help build local infrastructure
- Significant training of local tour guides and other local businesses such as hotels to improve quality and efficiency
- Projects such as Kilimanjaro Porters Assistance Project outfits 300+ porters per month with climbing gear and has trained 10,000 porters in first aid, conversational English, money management, and HIV/AIDS awareness since 2004
- Cooperation with Victoria University to study the impact of small group travel on sensitive rural communities



- 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**

# 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

# Adding a Social Dimension to Strategy

## Walmart Central America – *Tierra Fértil* Program

### Value Proposition

- Incorporation of small growers in the value chain
- Producers increase their levels of productivity, become more competitive and improve their income, allowing them to compete in other markets and become suppliers of Walmart.
- Fresh horticultural products in accordance with global high quality standards
- Customer Service
- Supply management
- Fair trade
- Clean production

### Distinctive Activities

- The program offers technical training and financing opportunities for horticultural producers
- Price information provided to farmers
- Safer and more hygienic product conditions were promoted both at the packaging and transport stages, including special requirements for suppliers
- Walmart organizes Costa Rican farmers in order to establish some business criteria, including profit margins and quality standards



- The initiative represents a new conceptualization of the "conventional" value proposition as well as a deep understanding of local needs

# Adding a Social Dimension to Strategy

## Florida Drinks

### Value Proposition

- Core business strategy is based on the simultaneous creation of social, environmental and economic value because the company understands that there is no trade-off among the three dimensions of value creation

### Distinctive Activities

- Employees:  
Zero accidents, culture and development of employees to their full potential.
- Cluster Development:  
Health centers in communities, aqueducts, road safety education , 3BL suppliers, etc.
- Zero Solid Waste 2011
- Water Neutral 2012
- Carbon Neutral 2017
- Market leadership
- Increased sales
- EVA growth
- 3BL Balanced Scorecard

**Economic  
Value Added  
(EVA)**

+

**Environmental  
Value Added  
(EnVA)**

+

**Social  
Value Added  
(SVA)**

# Adding a Social Dimension to Strategy

## Costa Rica Entomological Supply (CRES)

### Value Proposition

- Supply program that incorporates many independent farmers in rural areas of Costa Rica
- Improvement in economic conditions of many rural families in a non-traditional productive activity that has no negative effects on the environment
- Formation of a supply network that offers an unparalleled diversity of species
- CRES has established itself on the world market with high quality products, with reliable supply of a large number of independent suppliers

### Distinctive Activities

- CRES coordinates and markets the butterfly pupae produced by over 100 independent small-scale farmers
- The company pays a price differential to farmers, ensuring product quality and fidelity of the suppliers
- Farmers are trained by CRES in butterfly production and quality issues
- Customers receive 10% more pupae automatically as compensation for possible non-emergence
- CRES and breeders are partners in wealth creation and social development



Photo source: <http://www.butterflyfarm.co.cr>



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# Adding a Social Dimension to Strategy

## Pantaleón Sugar Mill

### Value Proposition

- Multiple initiatives to create economic and social value
- Pantaleón continues a trend of expansion in its operations, supporting its vision of profitable growth, an unwavering commitment to all its stakeholders
- Profitable company
- Leader in the region
- Income workers above the market

### Distinctive Activities

- The organization works closely with local authorities to achieve the development and improvement of living standards of its neighbors in the community
- Housing projects, medical clinics and dental preventive and curative health and comprehensive educational systems for permanent staff and their families
- For migrant workers, resources have been invested in housing, feeding programs, continuing education, medical and dental services, transportation services, cooperatives, recreation and motivation



Photos source: <http://www.pantaleon.com>