

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

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# Growing Societal Challenges

- External pressures for **corporate social responsibility** continue to grow
- Many companies are engaged in an **unprecedented range of CSR** activities

BUT

- Much CSR has **limited impact**
- 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**
- The **legitimacy of business** continues to erode

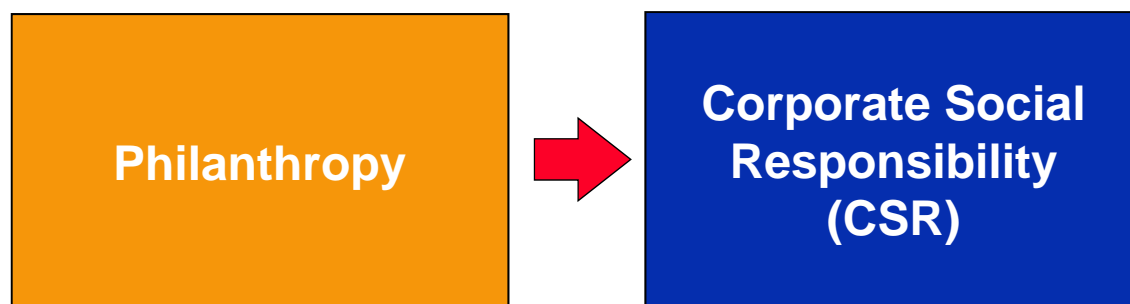
# The Role of a Company in Its Communities



## Philanthropy

- Donations to worthy social causes

# The Role of a Company in Its Communities



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- Good corporate citizenship and compliance with community standards
- Sustainability

# The Role of a Company in Its Communities



# The Concept of Shared Value

**Shared Value: Corporate policies and practices that enhance 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 involving shared value enables society to advance and companies to grow faster

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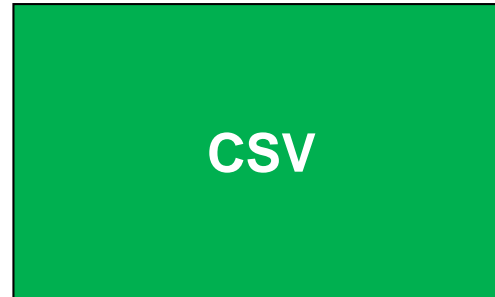
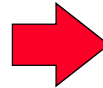
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- Concern with **societal issues** will be a defining characteristic of the post-crisis era
- Incorporating societal issues into strategy and operations is **the next major transformation** in management thinking
- Shared value represents the next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

# 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

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

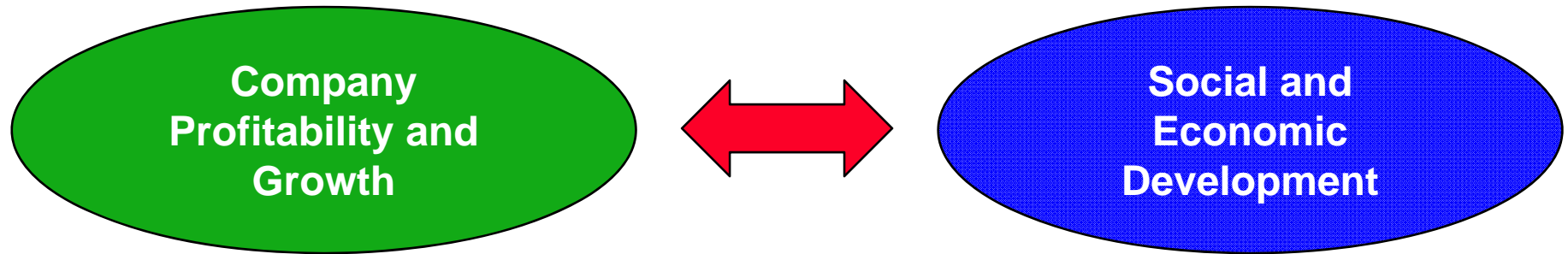
Example: Fair trade purchasing

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**



# Business and Society: Why the Disconnect?

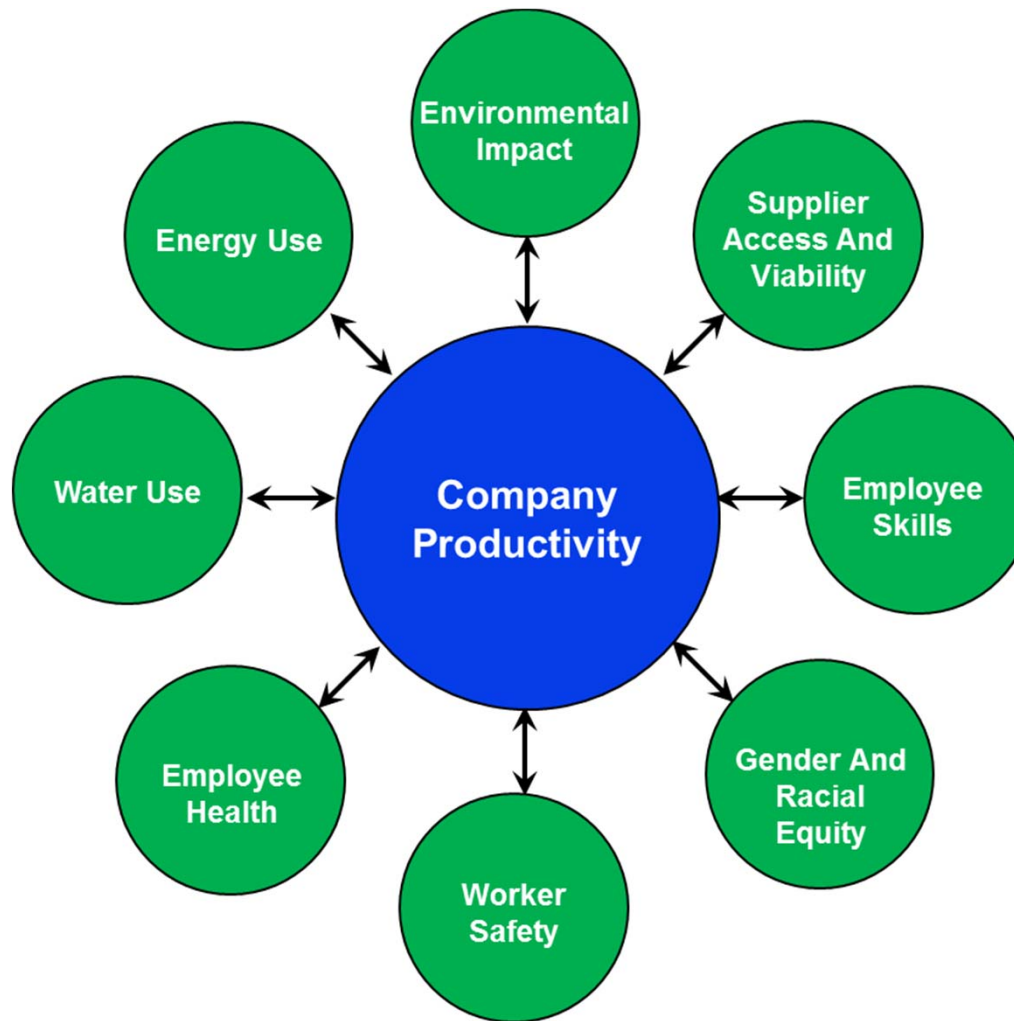


- Companies adopted a **narrow model** of economic value creation
  - Meeting **conventional** needs of **conventional** customers
  - Driving revenue through **acquisitions** instead of new business creation
  - Profit improvement through **downsizing, outsourcing, relocating**, and **globalizing**
  - Focus on **capital structure** instead of real value creation
  - Societal issues treated as **outside** the scope of business



- Huge **societal needs** go unmet
- **Growth** and **innovation** suffer

# Societal Needs and Economic Value Creation



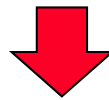
- **Social** deficits create **economic** cost
- **External** conditions shape **internal** company productivity
- Social needs represent the **largest market opportunities**
- There is a growing **congruence** between economic value creation and societal objectives

# Levels of Shared Value

- Reconceiving customer **needs, products, and markets**
- Redefining **productivity** in the value chain
- 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 **creating** and **marketing** solutions to community problems



- New needs and new markets open up 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

## 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

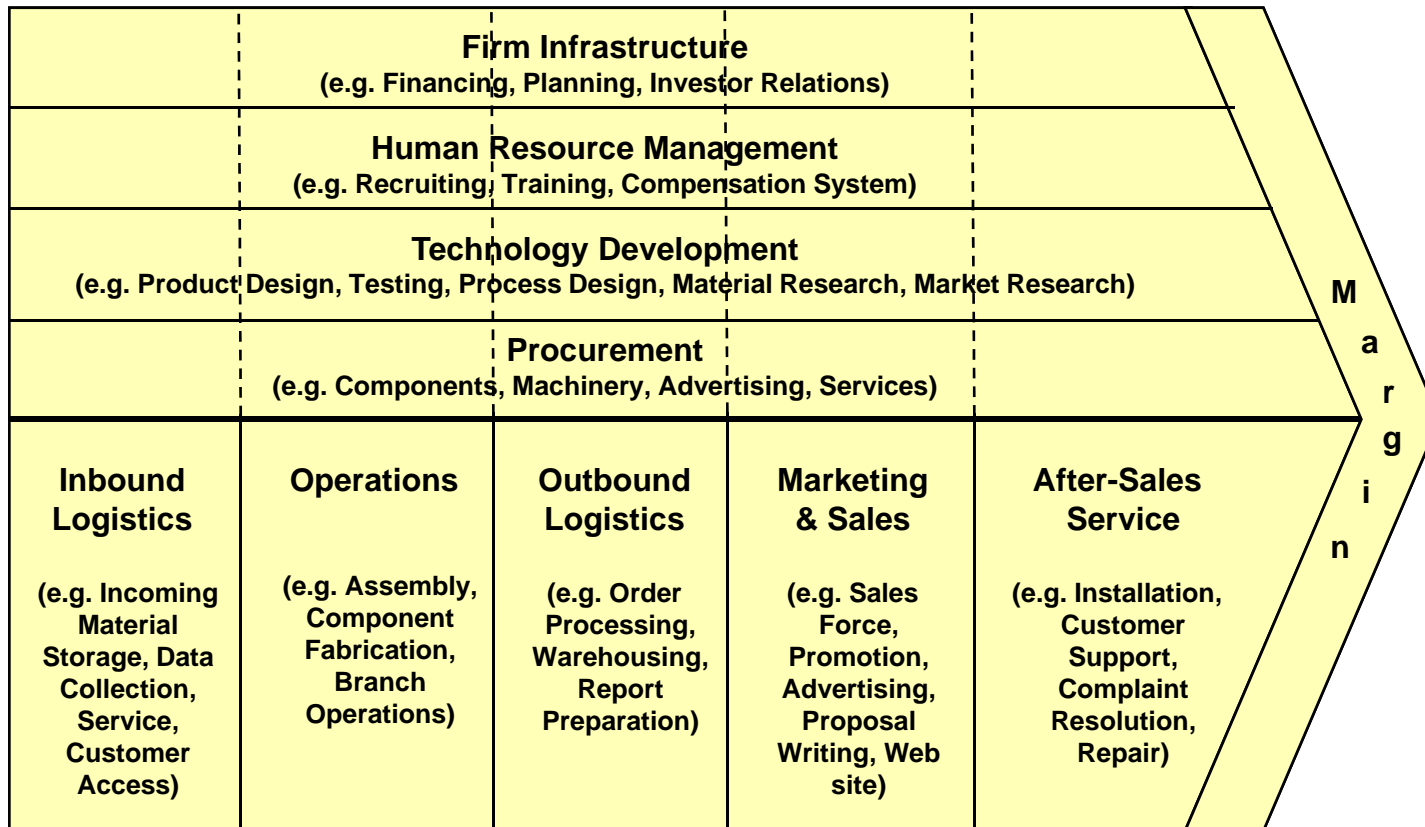
“**Diabetes bus**” program to raise patient awareness and provide on-site advice, NovoCare telephone hotline allows patients to reach specialists with questions. NovoCare Club provides ongoing updates to members.

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



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

# Redefining Productivity in the Value Chain



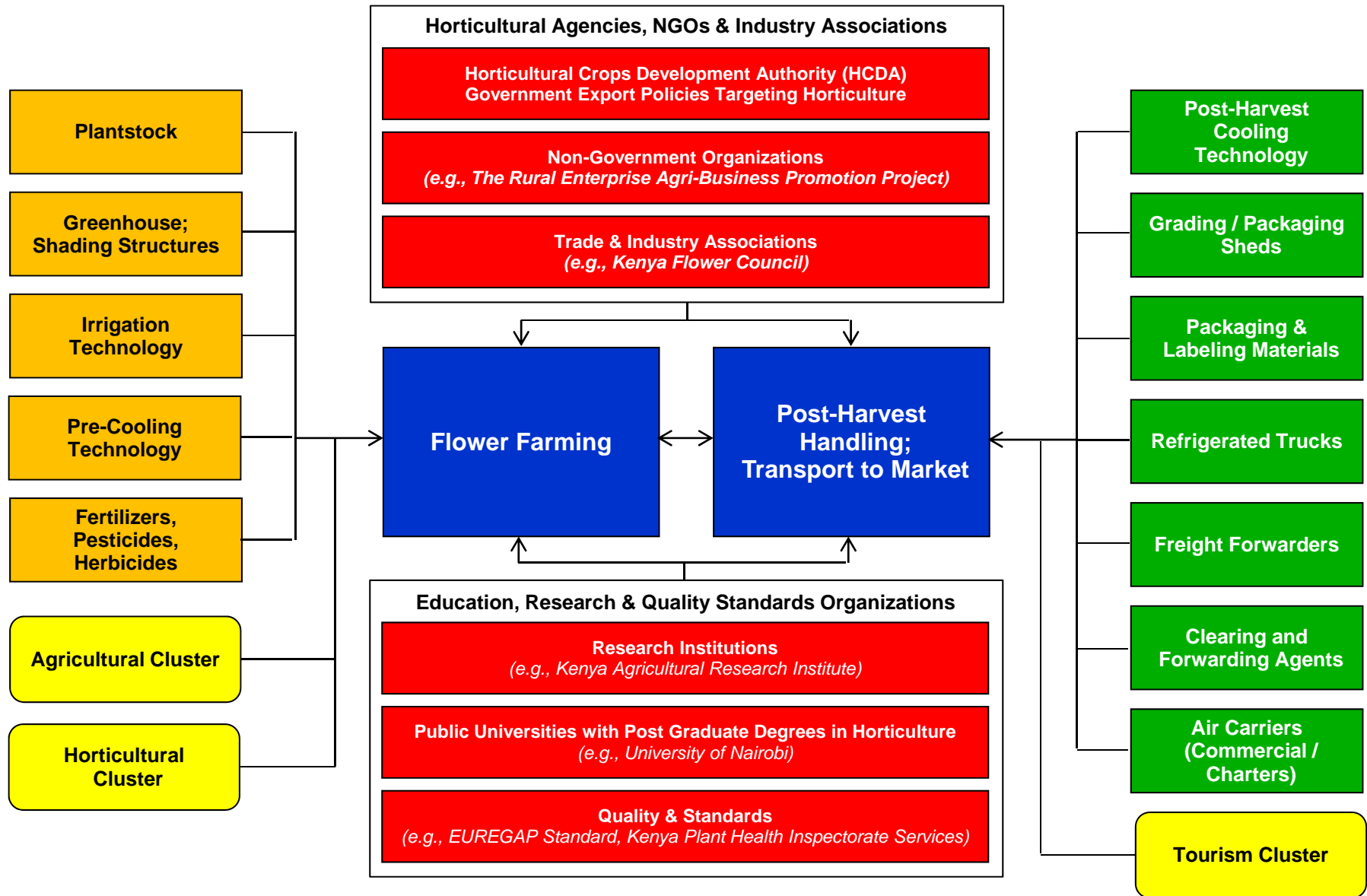
- Purchasing
- Resource use
- Energy use
- Logistical efficiency
- Employee productivity
- Location of facilities and the supply chain

# 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



# Local Cluster Development Cut Flowers in Kenya



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

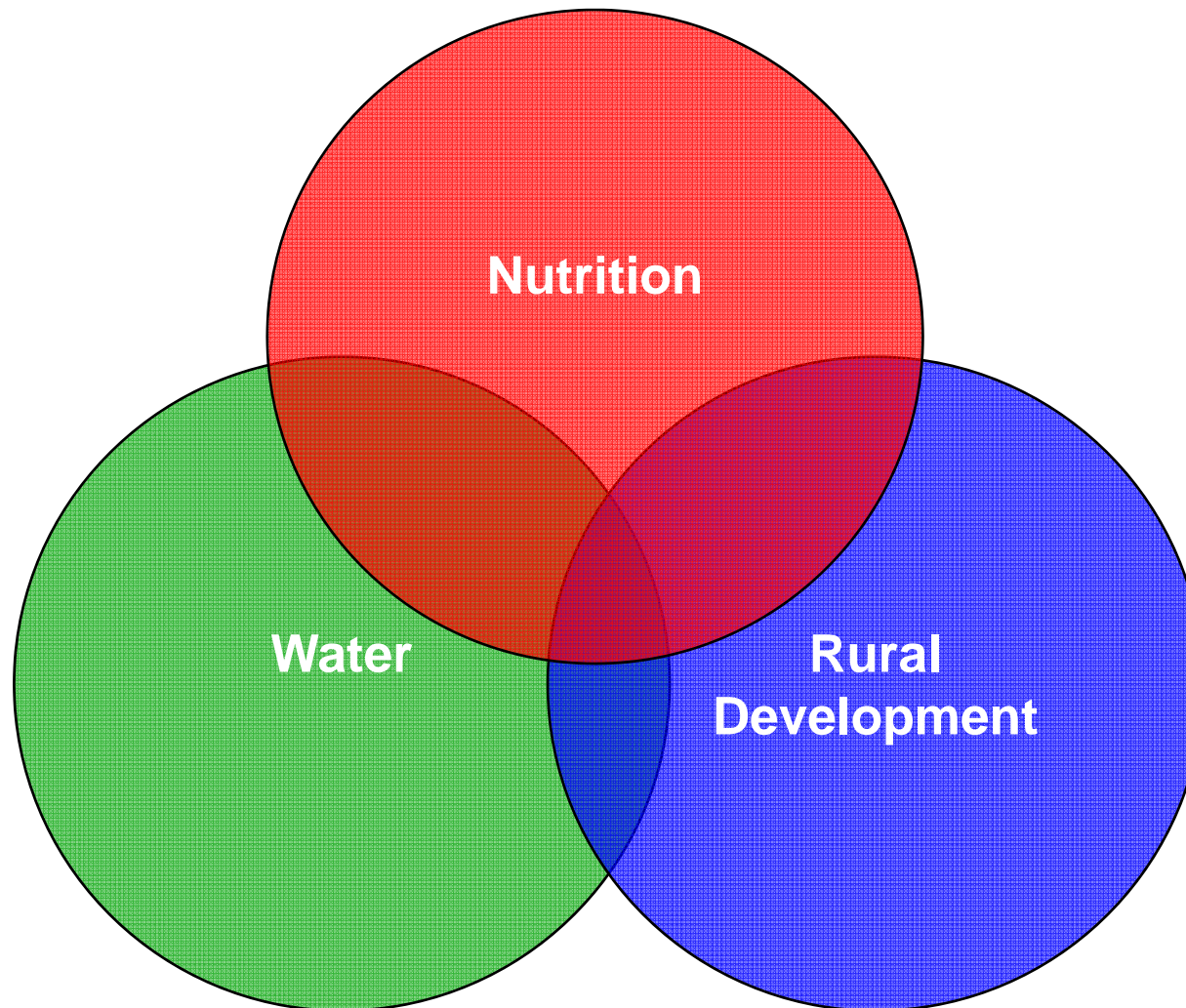
- Implementing shared value in **sourcing** premium coffees from farmers in Costa Rica, Guatemala, Colombia, and Ghana
- Upgrading the cluster
  - Supporting local **cluster development** in coffee growing regions, including establishment of cluster institutions
  - **Partnering** with stakeholders

### Shared Value

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

# Creating Shared Value: Deciding Where to Concentrate

## Nestlé



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

# What Creates a Successful Strategy?

- A **unique value proposition** compared to other organizations
- A **distinctive value chain** tailored to the value proposition
- Making clear tradeoffs, and choosing what **not to do**
- Choices across the value chain that **fit together and reinforce each other**
- **Strategic continuity**, with continual improvement in realizing the strategy

# 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 positioning**



- 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**

# How Capital Markets Undermine Value Creation

- Search for **short-term “surprises”** in earnings or revenue
- Use of industry-wide **metrics** that are misaligned with true economic value and drive **strategic convergence**
- Encourage companies to **emulate** currently “successful” peers
- Strong pressure to **grow faster** than the industry
- Bias in favor of “**doing deals**” (M&A)
- A **narrow view** of economic value creation that overlooks **shared value**

# 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**