

Business and Social Good: What is the Role of Investors?

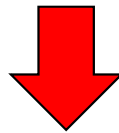
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Harvard Business School

*UBS Q-Series Conference
New York, NY
October 3, 2012*

The ideas drawn from “Creating Shared Value” (*Harvard Business Review*, Jan 2011) and “Competing by Saving Lives” (FSG, 2012). 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. For further materials, see the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu, and FSG website, www.fsg.org.

Investing for Social Good

- There is an **ever growing awareness** of major societal challenges
- Business is increasingly **recognized** as a crucial actor affecting these challenges, for better or for worse
- Investors have been seen as a **negative force** through encouraging narrow, short term profit maximization



- Investors are being challenged to **incorporate societal issues** into investment behavior
- There is a **growing appetite** for investment vehicles focusing on businesses that contribute to social issues
- The question is **how?**

The Role of Business in Society

Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

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Evolving Approaches

Philanthropy

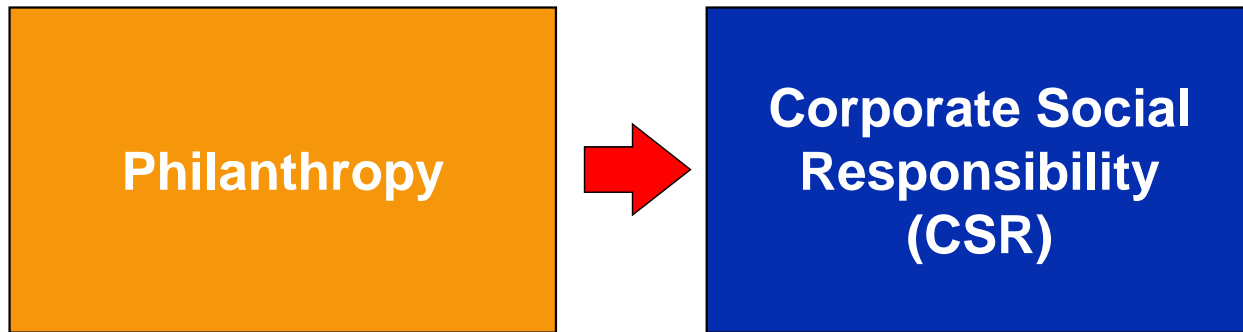
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Measurement

- Amount of giving

The Role of Business in Society

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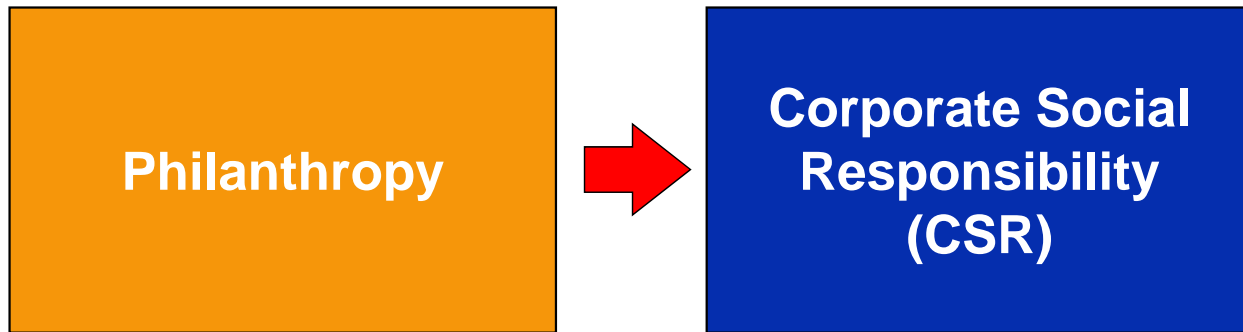
Measurement

- Amount of giving

- Compliance with community standards
- Good corporate citizenship
- “Sustainability”

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Measurement

- Standardized ESG indicators
 - E.g., GRI

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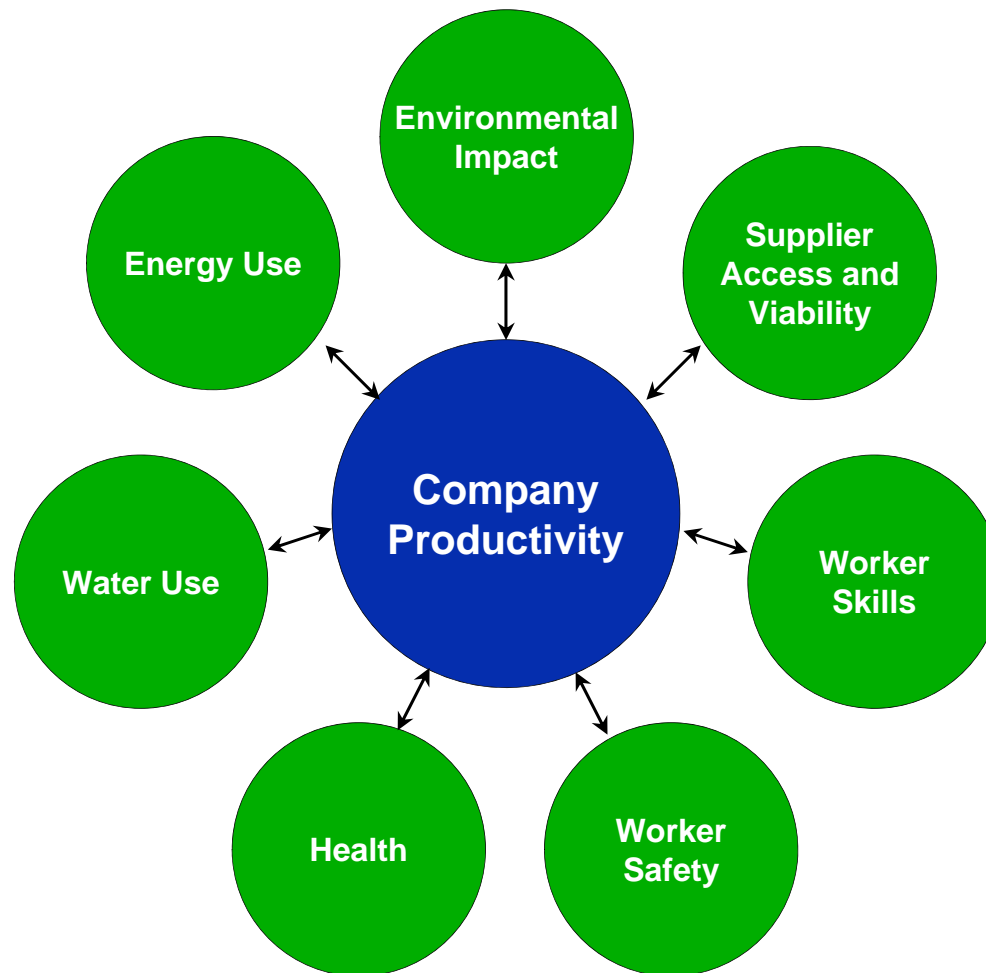


- Donations to worthy social causes
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- Compliance with community standards
- Good corporate citizenship
- “Sustainability”

- Integrating societal improvement into **economic value creation** itself
 - Driving social improvement with a business model

Societal Needs and Economic Value Creation

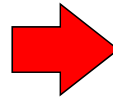


- **Social** deficits create **economic** cost
- **“Externalities”** shape **internal** company productivity
- Social needs represent the **largest market opportunities**

Moving to Shared Value

Novartis

CSR



CSV

- **Donate drugs** to lower-income populations
- **Same products**, but free or at a discounted price
- Reach patients through **existing** health systems



- **Lower revenue** at the same cost

- Implementing a new drug **business model** for low-income populations (Arogya Parivar)
- New quantity, packaging, patient education, and distribution
- Improvement in local healthcare delivery infrastructure
- Learning about non-traditional customer behavior and new business models



- **Higher revenue** and **profitability**

Implications for Investors

Evolving Approaches

**Maximize
Shareholder Value**

- The fiduciary duty of investors is to focus on **economic return**

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Socially Responsible Investing (SRI)

- Desire to invest in **“good”** companies



- Good social and environmental performance will improve economic performance in the long run
 - Risk reduction
 - Better reputation
 - Managing ESG impacts is a sign of capable management
- Introduces a **negative** screen into investment analysis

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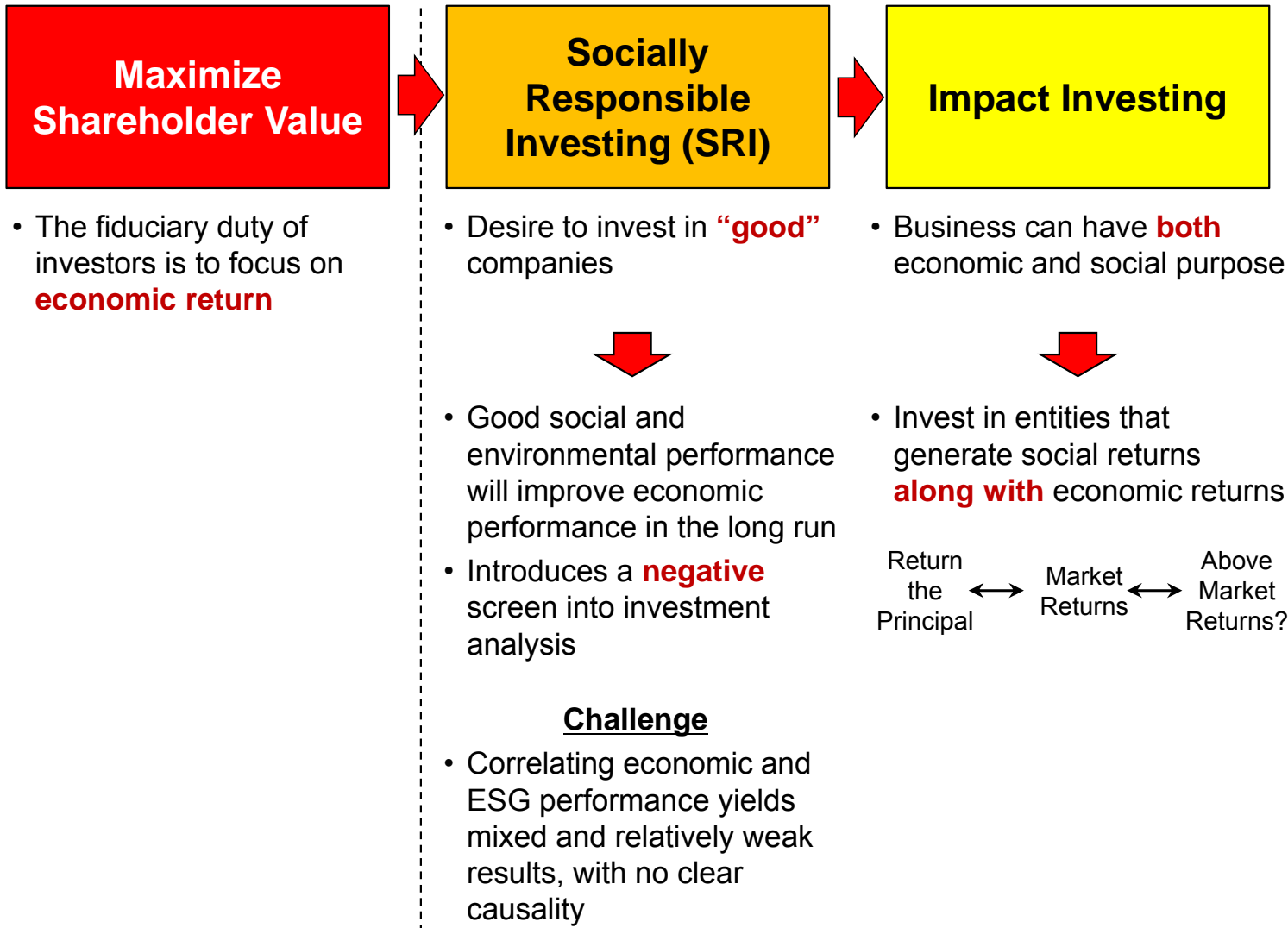
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Challenge

- Correlating economic and ESG performance yields mixed and relatively weak results, with no clear causality

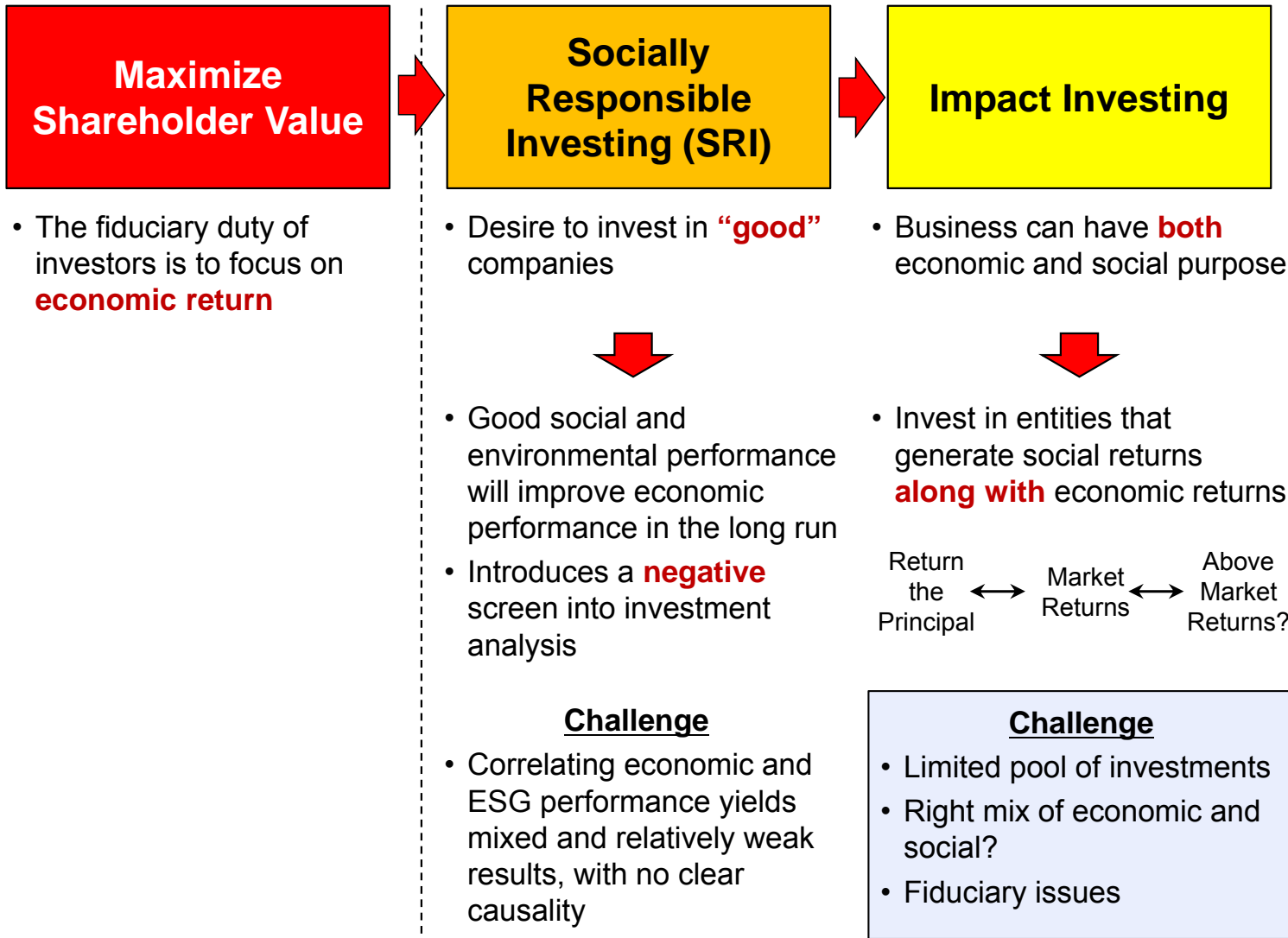
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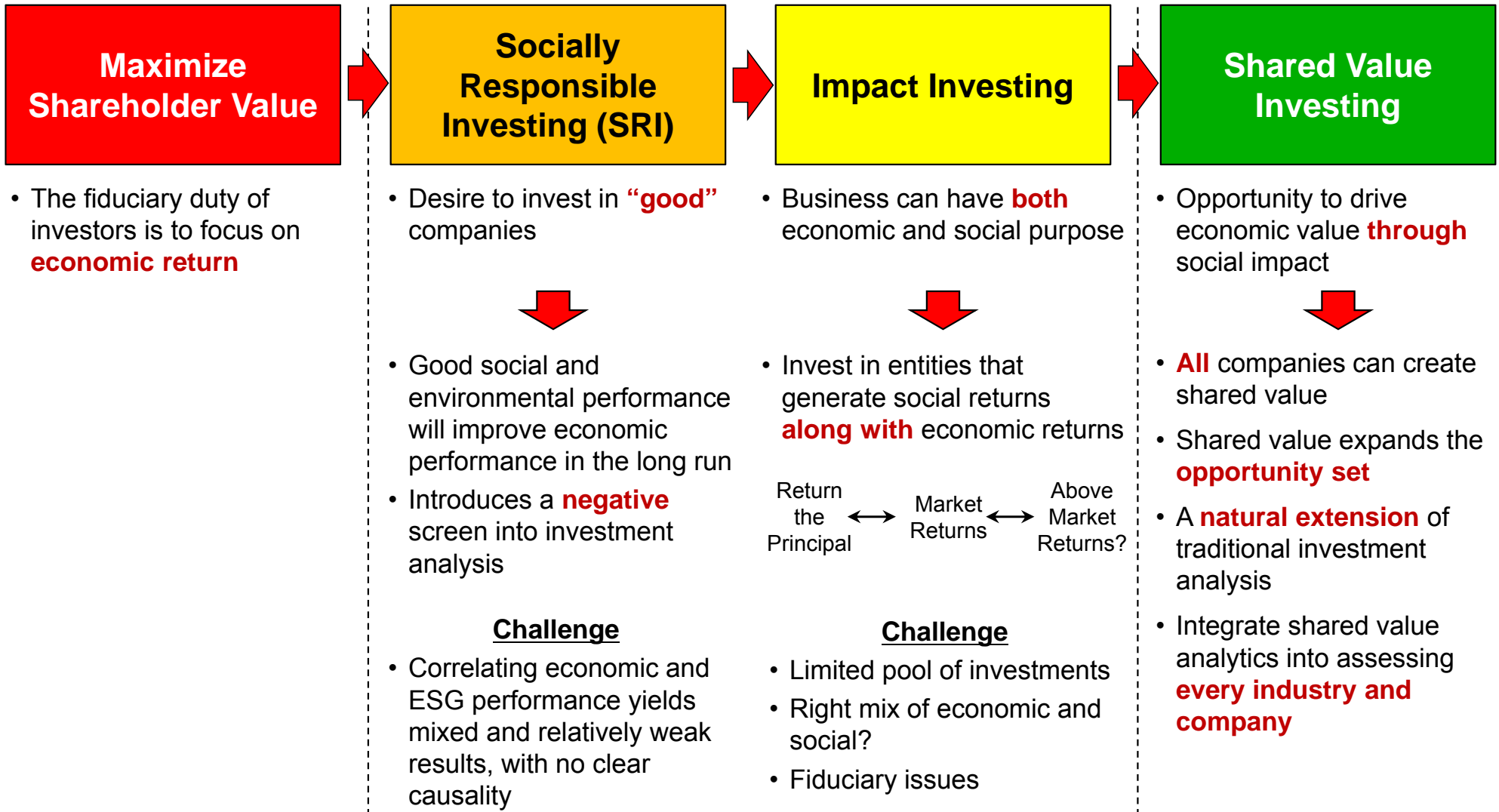
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Levels of Shared Value

I: Reconceiving **products, needs,** and **customers**

- Meeting **societal needs** through products, and reaching **unserved** or **underserved customers** with these products

II: **Redefining productivity** in the value chain

- **Using resources better** across the value chain to improve fundamental productivity

III: Enabling **local cluster development**

- Improving **available skills, suppliers,** and **supporting institutions** in the communities in which a company operates to increase productivity, innovation, and growth

Creating Shared Value in Products and Markets

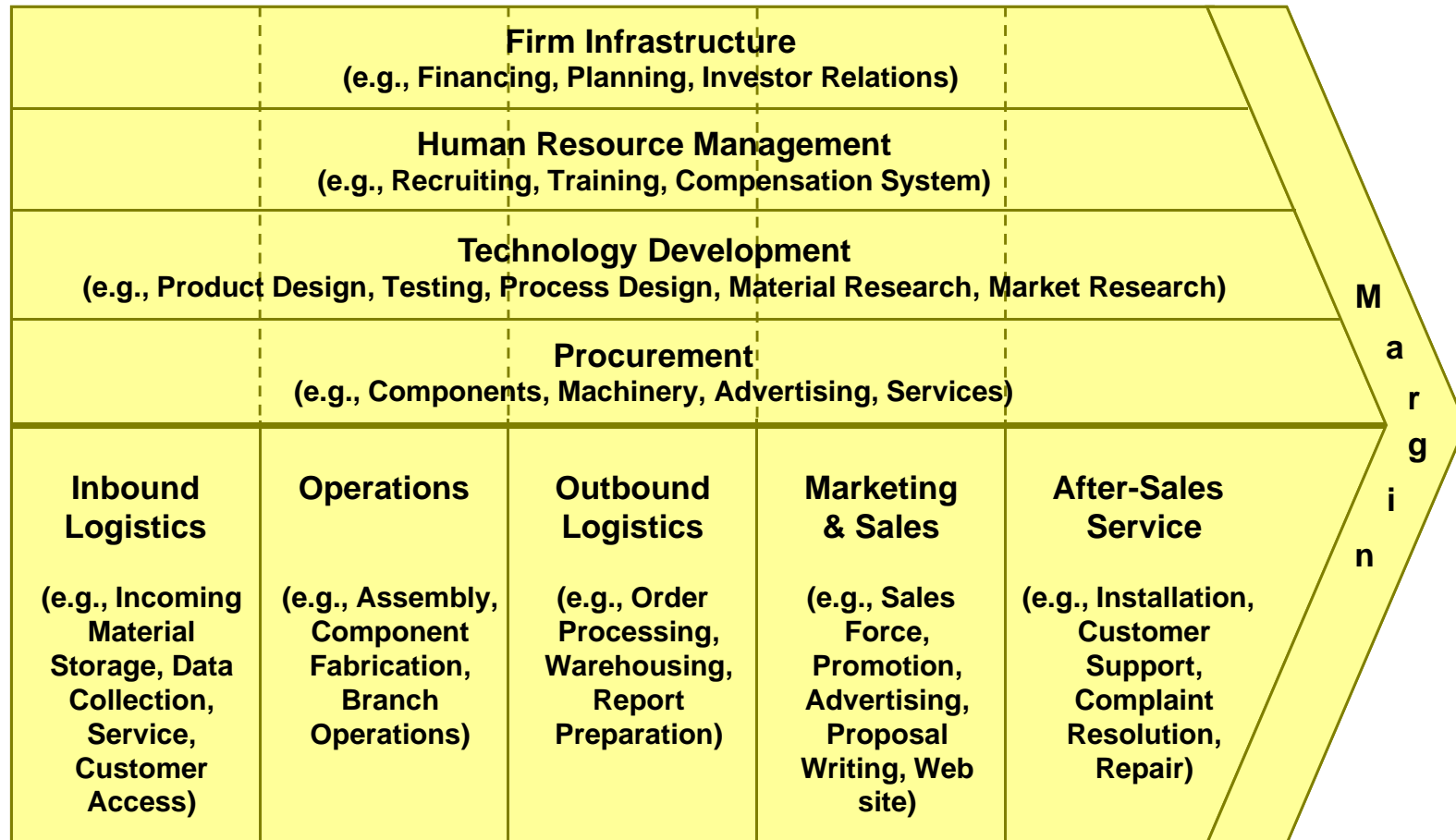
Novo Nordisk in China

- **Product design** that reflects Chinese patient demographics and culture
- **Diabetes training programs for physicians** in partnership with government, NGOs, and opinion leaders to promote the latest thinking on diabetes prevention, screening, treatment, and patient communication
 - The program has **trained 55,000 physicians** to date, each treating approximately 230 patients
- New types of **diabetes education programs for patients** focusing on prevention, lifestyle changes, and effective use of insulin products



- Novo's market share in China increased from **0% to 63%**, and China became the company's third largest market with revenues of \$935 million in 2011

Redefining Productivity in the Value Chain



- Shared value purchasing
- Energy use
- Resource use
- Location of facilities / supply chain
- Logistical efficiency
- Training to enhance the productivity and wage opportunities of employees, especially lower income employees

Identifying Opportunities for Shared Value in the Value Chain

Mining



- Enhancing skill training and technology partnerships with local colleges and universities

- Value added purchasing practices with suppliers
- Local supplier development

- Recruiting from disadvantaged surrounding communities
- Diversity in the workforce
- Employee education and job training
- Onsite housing
- Employee health initiatives
- Compensation and benefit models to support a living wage
- Staff retraining and rehabilitation after mine closures

- Energy and water use
- Limiting emissions and waste
- Low ecological and biodiversity impacts
- Minimizing use and effects of hazardous materials
- Recovering additional materials from “exhausted” mines
- Worker safety practices

- Minimizing logistical and handling impacts

Shared Value and Strategy

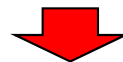
Whole Foods Markets

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

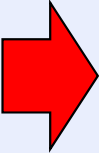
Distinctive Activities

- 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 if needed
- Nutrition 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, sustainability and price from the boat to the counter
- Heavy emphasis on environmental sustainability in all activities
- Emphasis on supporting community development



- Whole Foods is the most **economically successful** food retailer in North America
- Successful strategies in the future will embody a significant **shared value dimension**

Purpose Based Strategic Positioning

	<u>Traditional Positioning</u>		<u>New Positioning</u>
Nestlé	<ul style="list-style-type: none">• Food		<ul style="list-style-type: none">• Nutrition
Nike	<ul style="list-style-type: none">• Shoes		<ul style="list-style-type: none">• Health and Wellness
Thermo Fisher	<ul style="list-style-type: none">• Leader in Serving Science		<ul style="list-style-type: none">• Making the World Healthier, Cleaner, and Safer

- A **broader sense of purpose** not only opens up **new opportunities** for growth and profitability, but also **motivates** and **attracts** employees, consumers, business partners, shareholders, and the public

Measuring Shared Value

- Measure the **direct link** between social impact and economic impact
 - Line of sight
- Measures **unique** to the type of shared value being created
- **Intentional** and **focused**

Shared Value Measurement in Action

- **Intel** measured the impact of its technology on student performance in its **Education Transformation Strategy**
- The company achieved **market leadership** in the growing global market for mobile computing for K-12 education

The Purpose of Investing

- The fundamental purpose of investing is to **allocate capital** to companies who can earn an **attractive return**
- The **highest societal value** of investors comes from **selecting** companies that will use capital well, **monitoring** their fundamental success and **intervening** to improve performance



- Shared value can **multiply** the **societal impact** of the capital invested by business
- If the investment behavior of investors increases the flow of capital to companies that **create shared value**, the societal purpose of investors is greatly amplified