

Creating Shared Value: The Path Forward

Professor Michael E. Porter
Harvard Business School

*FSG Shared Value Leadership Summit
Boston, MA
May 31, 2012*

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); *On Competition* (*Harvard Business Review*, 2008); and "Creating Shared Value" (*Harvard Business Review*, Jan/Feb 2011). 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.

Creating Shared Value Has Gained Substantial Momentum



“Creating Shared Value,”
by Michael E. Porter and Mark Kramer,
Harvard Business Review,
Jan-Feb 2011

The “Creating Shared Value” Article

- Winner of 2011 McKinsey Award
- Top selling *Harvard Business Review* article since date of publication and in recent years

Wider Interest in Creating Shared Value

- Creating shared value video was *Harvard Business Review*'s most watched video of 2011
- More than 240 citations on Google Scholar
- More than 400 media mentions by leading media outlets and publications
- Major events dedicated to creating shared value in many countries

Creating Shared Value as a Key Trend

- **Forbes:** “One of three ‘megatrends’ for 2012”
- **Economist:** “One of ten key trends in 2012”

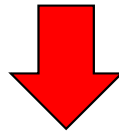
Agenda

- **Creating Shared Value: The Core Idea**

- How Shared Value is Changing Business

The Role of Business in Society

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



- There is an ever **growing awareness** of major societal challenges
- Government and NGO's **lack sufficient resources and capabilities** to fully meet these challenges
- Companies are increasingly perceived to be prospering **at the expense of the broader community**, and a **cause** of social, environmental, and economic problems
- Despite growing corporate citizenship activities, the **legitimacy of business** has fallen

The Role of a Company in Its Communities

Evolving Approaches



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 sells and operates

- **Shared Value IS:**

- Creating **economic value** by creating **societal value**
- Using **capitalism** to address social problems
- Solutions to social problems that are **scalable** and **self-sustaining**

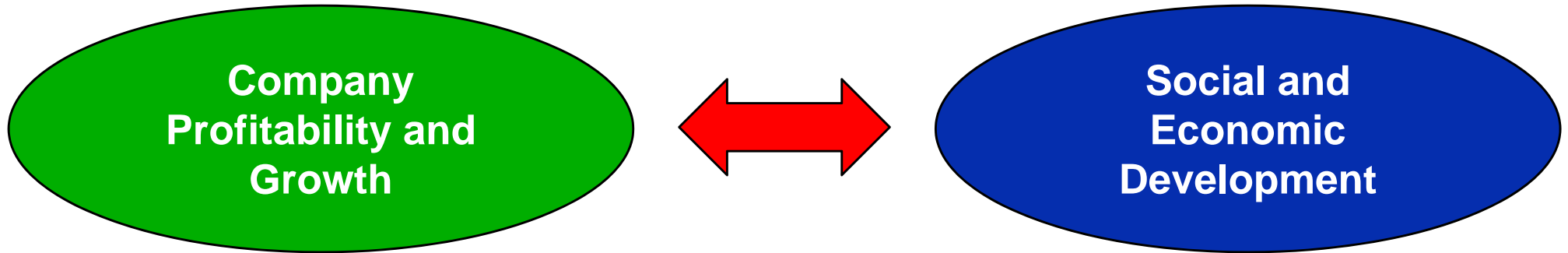
- **Shared Value is NOT:**

- Sharing the value **already created** (philanthropy)
- Personal **values**
- **Balancing** stakeholder interests
- The same as **sustainability**



- All profit is **not equal**. Profit involving shared value enables society to advance and companies to grow faster
- Incorporating societal issues into strategy and operations is **the next major transformation** in management thinking
- Shared value thinking represents the next evolution of **capitalism itself**

Business and Society: Why the Disconnect?

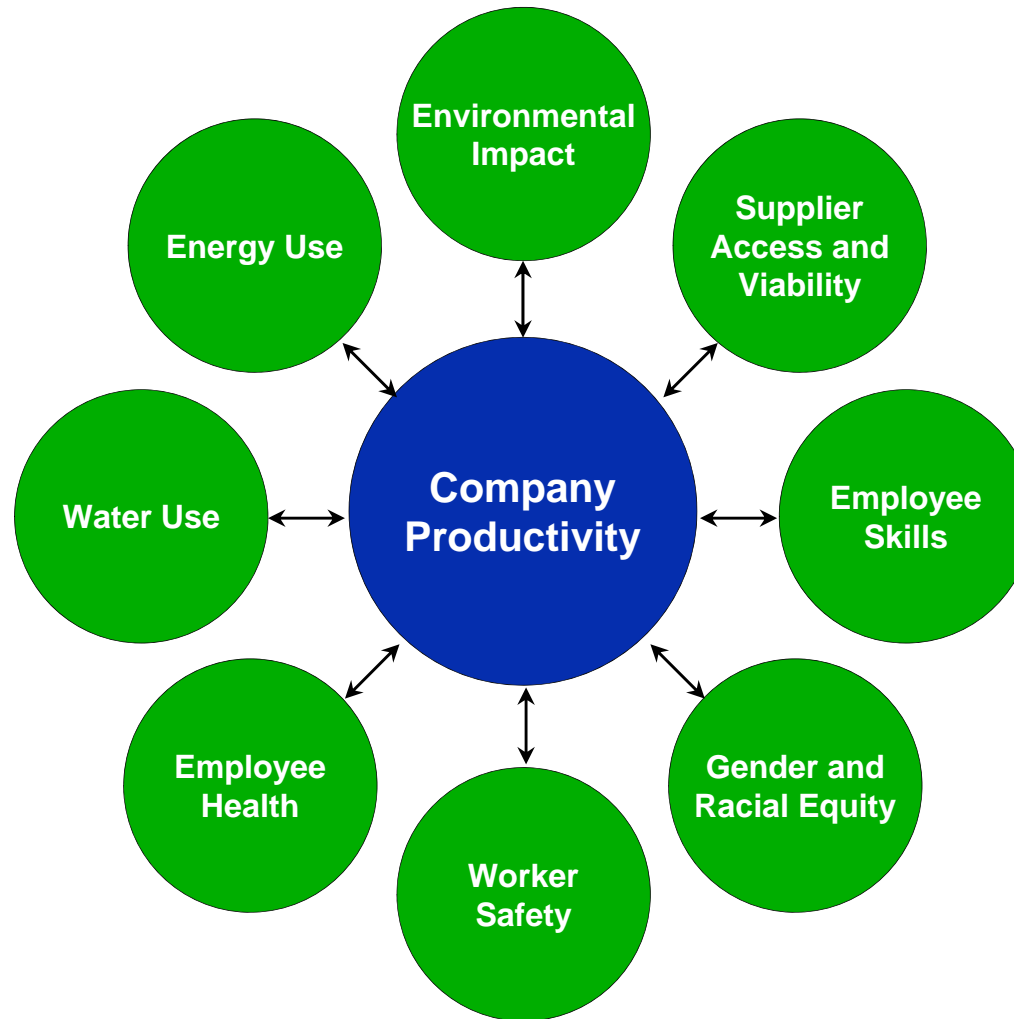


- Many companies (and investors) adopted a **narrow model** of economic value creation
 - Meeting **conventional** needs of **conventional** customers
 - Optimizing within **traditional company boundaries**
 - Profit improvement through **downsizing, outsourcing, relocating**, and **globalizing**
 - Driving revenue through **acquisitions** instead of new business creation
 - Societal issues are treated as **outside the scope of the business**



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

Societal Needs and Economic Value Creation



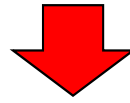
- **Social** deficits create **economic** cost
- **External** conditions shape **internal** company productivity
- Social needs represent the **largest market opportunities**
- There is a growing **congruence** between economic value creation and societal objectives

Levels of Shared Value

- Reconceiving **products, needs, and customers**
 - Meeting **societal needs** and reaching **unserved** or **underserved customers**
- **Redefining productivity** in the value chain
 - How the organization **better uses resources** in value chain to improve fundamental productivity
- Enabling **local cluster development**
 - Improving available **skills, suppliers, and supporting institutions** in the region

Adding a Social Dimension to Strategy

- Shared value opens up new **needs**, new **markets**, and new **value chain configurations**
- This creates new opportunities for **strategic positioning** and new **competitive advantages**



- Companies can incorporate a **social dimension** in their value proposition
- Shared value can **reinforce** and even **anchor** a company's strategy
- The social dimensions 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 opportunities** for economic value creation
- Shared value thinking will drive the next wave of **innovation, productivity growth, 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**

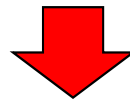
Agenda

- Creating Shared Value: The Core Idea

- **How Shared Value is Changing Business**

1. A New Opportunity Set

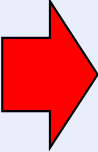
- Shared value creates new **markets**, new opportunities for **growth**, and new ways to **improve productivity**
- Opportunities for **disruptive innovations** will proliferate



- Capturing these opportunities will require **new thinking** about market segmentation, customer segmentation, supply chain management, human resource management, and other management disciplines

2. Transforming Strategic Positioning

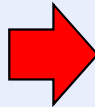
- Companies are **redefining strategic positioning** around a shared value mindset

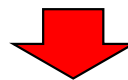
	<u>Traditional Positioning</u>		<u>New Positioning</u>
Nestlé	• Food		• Nutrition
Nike	• Shoes		• Health and Wellness
IBM	• Computing / Technology		• Smarter Planet / Smarter Cities
Zip Car	• Car Rental		• Rethinking Urban Mobility

- Aligning strategic positioning with shared value opens up **fundamentally new ways of thinking** about the business
- This **broader sense of purpose** motivates and attracts employees, business partners, shareholders, and the public

3. Shifting Stakeholder Roles and Relationships

- Shared value thinking is driving **new relationships** between **companies, philanthropists, NGOs,** and **government** in addressing social issues

	<u>Traditional Roles</u>		<u>New Roles</u>
Companies	<ul style="list-style-type: none"> • Donate to charitable causes 		<ul style="list-style-type: none"> • Initiate and scale shared value strategies
Philanthropists	<ul style="list-style-type: none"> • Donate to charitable causes 		<ul style="list-style-type: none"> • Partner with companies and NGOs to catalyze shared value initiatives
NGOs	<ul style="list-style-type: none"> • Receive grants to provide social services 		<ul style="list-style-type: none"> • Enable implementation of new shared value business models
Governments	<ul style="list-style-type: none"> • Regulate business practices; operate social programs 		<ul style="list-style-type: none"> • Partner with companies and NGOs to make platform investments and support shared value strategies

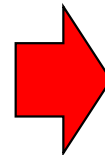
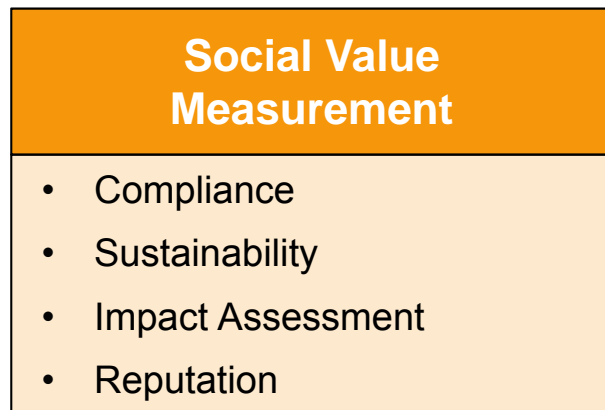
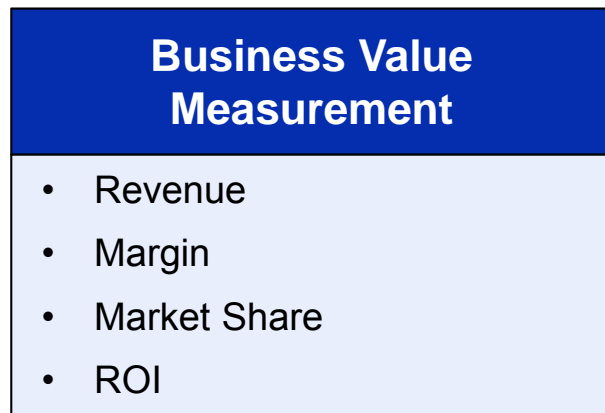


- **NGOs** that do not harness shared value will face a **decline in traditional funding flows**
- **Governments** that fail to leverage shared value will achieve **slower progress in addressing societal needs**

4. Measuring Shared Value By Linking Social and Business Outcomes

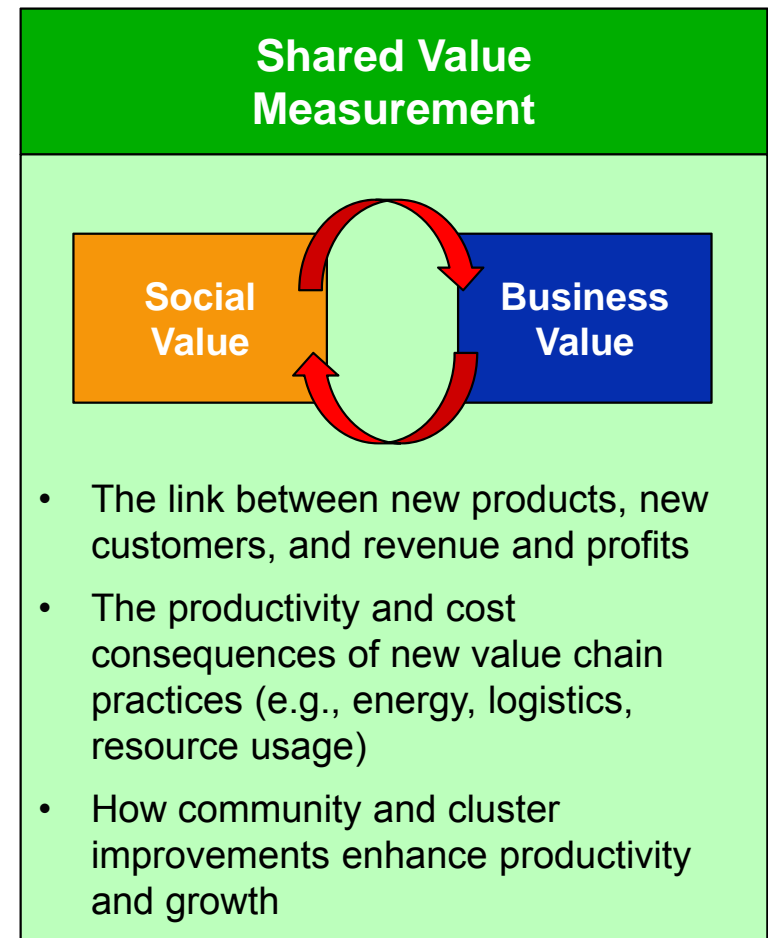
Traditional Measurement Approach

- Companies measure business performance and social value creation **separately**



Emerging Measurement Approach

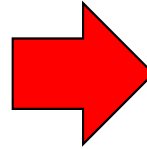
- Companies measure the **linkages** between social value creation and business value



5. Incorporating Shared Value in Investing

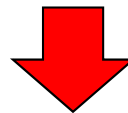
Traditional Investor Perspective

- **Skepticism** about committing corporate resources to social and community impact
- Such activities seen as **unrelated** to core business activities
- Selected investors are focusing on **sustainability**, but with a primary focus on **harm reduction** and **risk mitigation**



Emerging Investor Perspective

- A **new dialog** on shared value opportunities
 - e.g., UBS Sustainable Innovation Conference
- Shared value opens up a **new** and **far broader opportunity set** for companies
- Companies that create shared value will gain **competitive advantages** and **superior performance**



- Shared value thinking is a new part of **investment analysis**
- **Investor interest** will motivate companies to drive shared value creation at scale
- Better measurement of shared value will be a **key enabler** in shifting investor perceptions