

# **New Opportunities for Company Performance and Purpose: Creating Shared Value**

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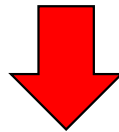
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# The Role of Business in Society

- 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
- More of the public sees business as prospering **at the expense** of the society
- 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 competitive advantage and profitability** 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)
- Acting based on strong **personal values** and **ethical standards**
- **Balancing** stakeholder interests
- The same as **sustainability**

# Moving to Shared Value

## Novartis

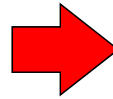


CSR

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



- Reduced revenue at the same cost



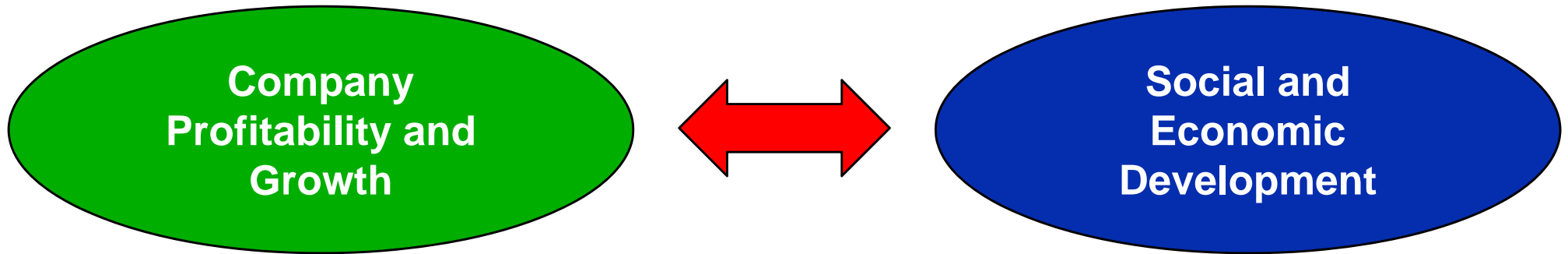
CSV

- Arogya Parivar: Implementing a new drug distribution channel for low-income populations
- New quantity, packaging, patient education, and distribution
- Improvement in local healthcare delivery infrastructure
- Learning about customer behavior and new business models

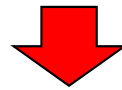


- Expanded revenue and profitable business model

# Business and Society: Why the Disconnect?

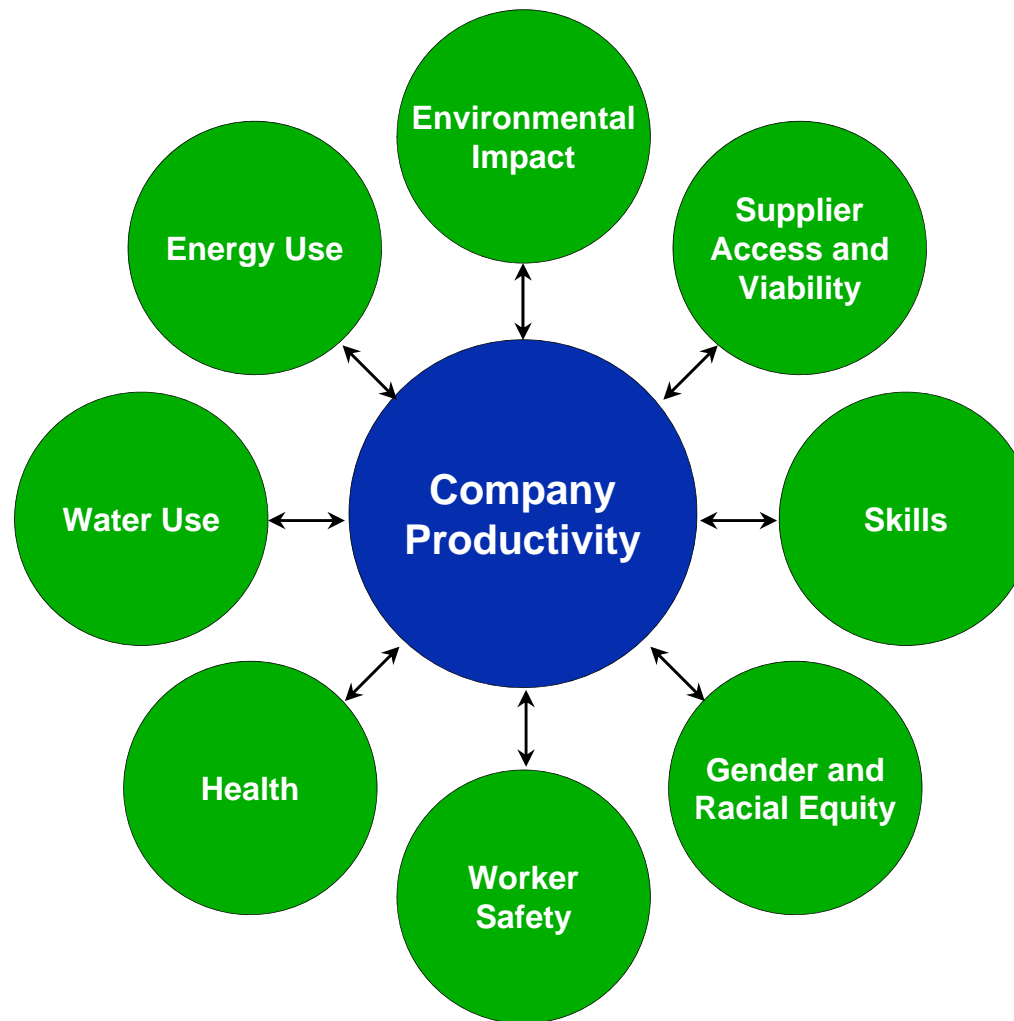


- Many companies (and investors) adopted a **narrow model** of economic value creation
  - Meeting **conventional** needs of **conventional** customers
  - Optimizing within **traditional company boundaries**
  - Profit improvement through **restructuring**, **outsourcing**, and **globalizing**
  - Driving 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**

# Levels of Shared Value

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

- Meeting **societal needs** and reaching **unserved** or **underserved customers**

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

- How the organization **better uses resources** across value chain, including employees, to improve fundamental productivity

## III: Enabling **local cluster development**

- Improving available **skills, suppliers,** and **supporting institutions** in the region



# Creating Shared Value in Products

## Intuit SnapTax

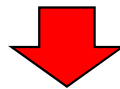
**SnapTax** provides low-income consumers with access to tax preparation services over the phone and enables rapid refunds

- **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

- **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



- Market share in China increased from **0% to 63%**, and China became Novo's third largest market with revenues of \$935 million in 2011
- Company efforts saved **140,000 life years in China** by 2010, and \$2,317 of total lifetime costs per patient

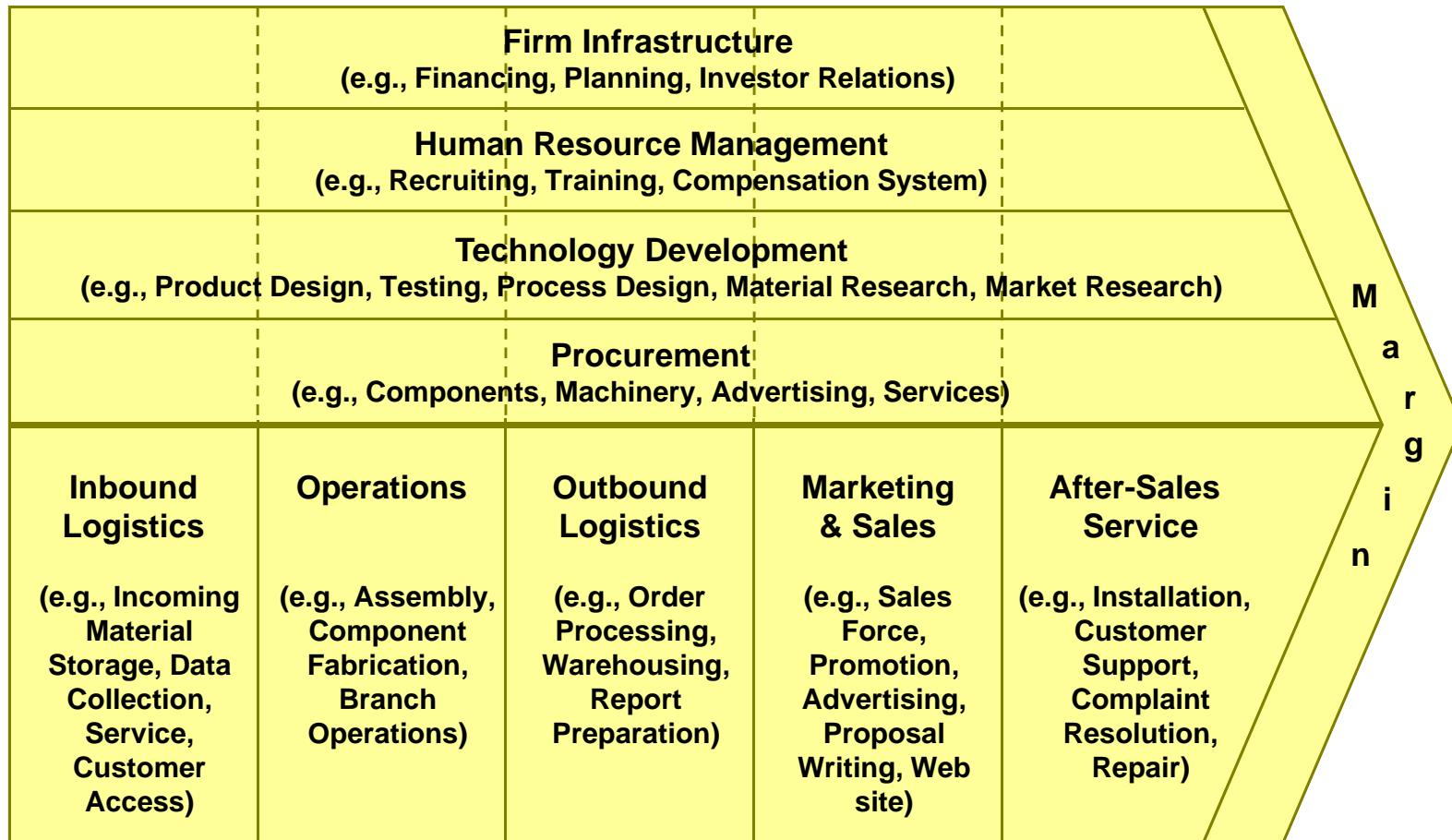
# Discovering Product and Market Opportunities to Create Shared Value

- Redefine the business around **unsolved customer problems or concerns**, not traditional product definitions
- Think in terms of **improving lives**, not just meeting customer 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)



- Opens up **new opportunities** for customer segmentation and marketing

# Redefining Productivity in the Value Chain



- Shared value purchasing
- Energy use
- Resource use
- Location of facilities / supply chain
- Logistical efficiency
- Productivity of lower income employees

# Value Chain Transformation

## Unilever

*Project Shakti in India provides microcredit and training to empower underprivileged women to become direct-to-home distributors of Unilever products in Indian villages of less than 2,000 people*

- Reconfiguring the value chain
  - Reconceiving distribution
- Partnering with stakeholders
  - Microcredit
  - Training

### Shared Value

#### Shakti entrepreneurs

- Earnings for women
- Business skills training

#### Community

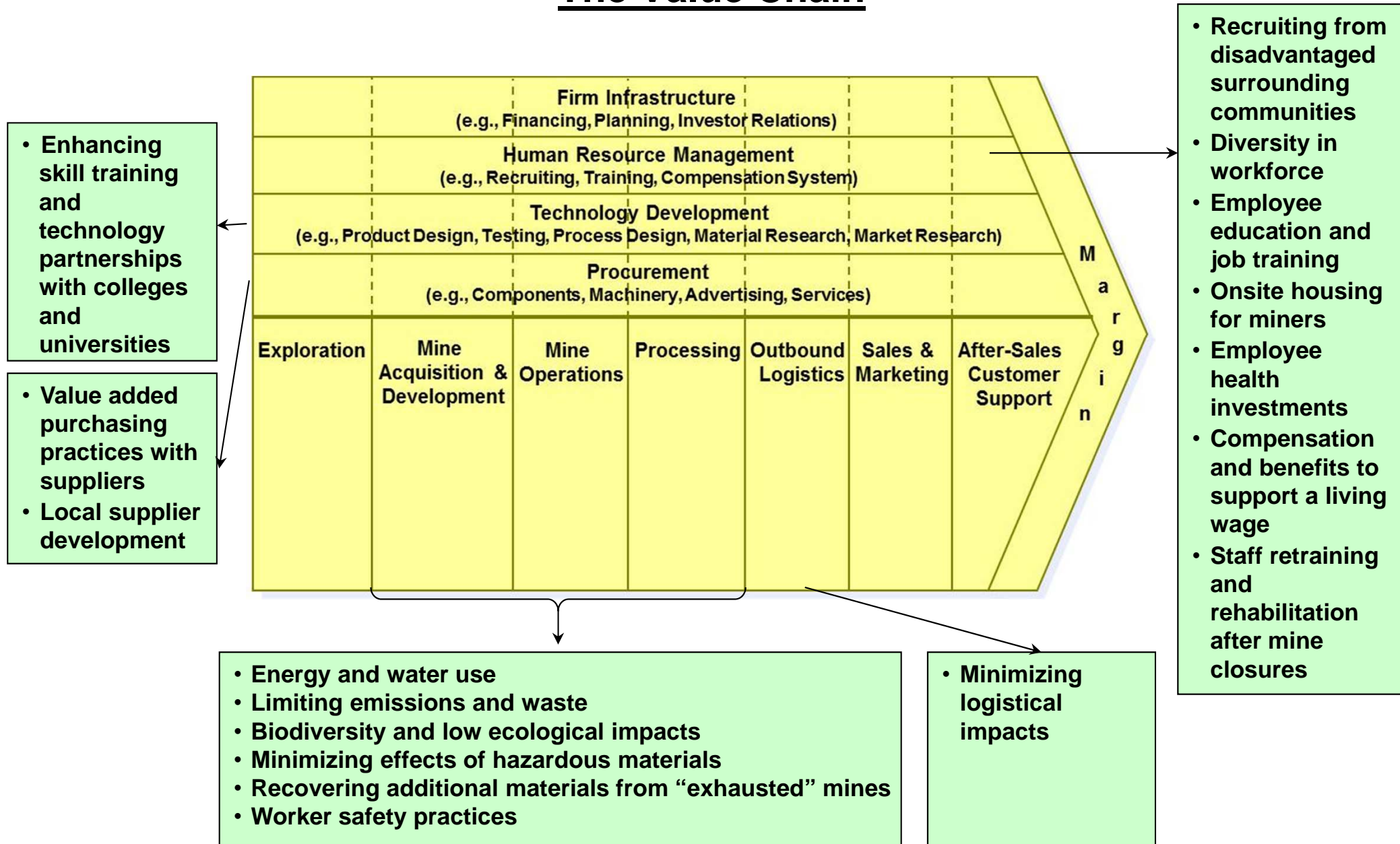
- Needed hygiene products
- Economic development

#### Unilever

- Expanded customer reach
- Brand communication

# Identifying Opportunities for Shared Value in Mining

## The Value Chain



# Cluster and Business Environment Development in the Company's Major Locations

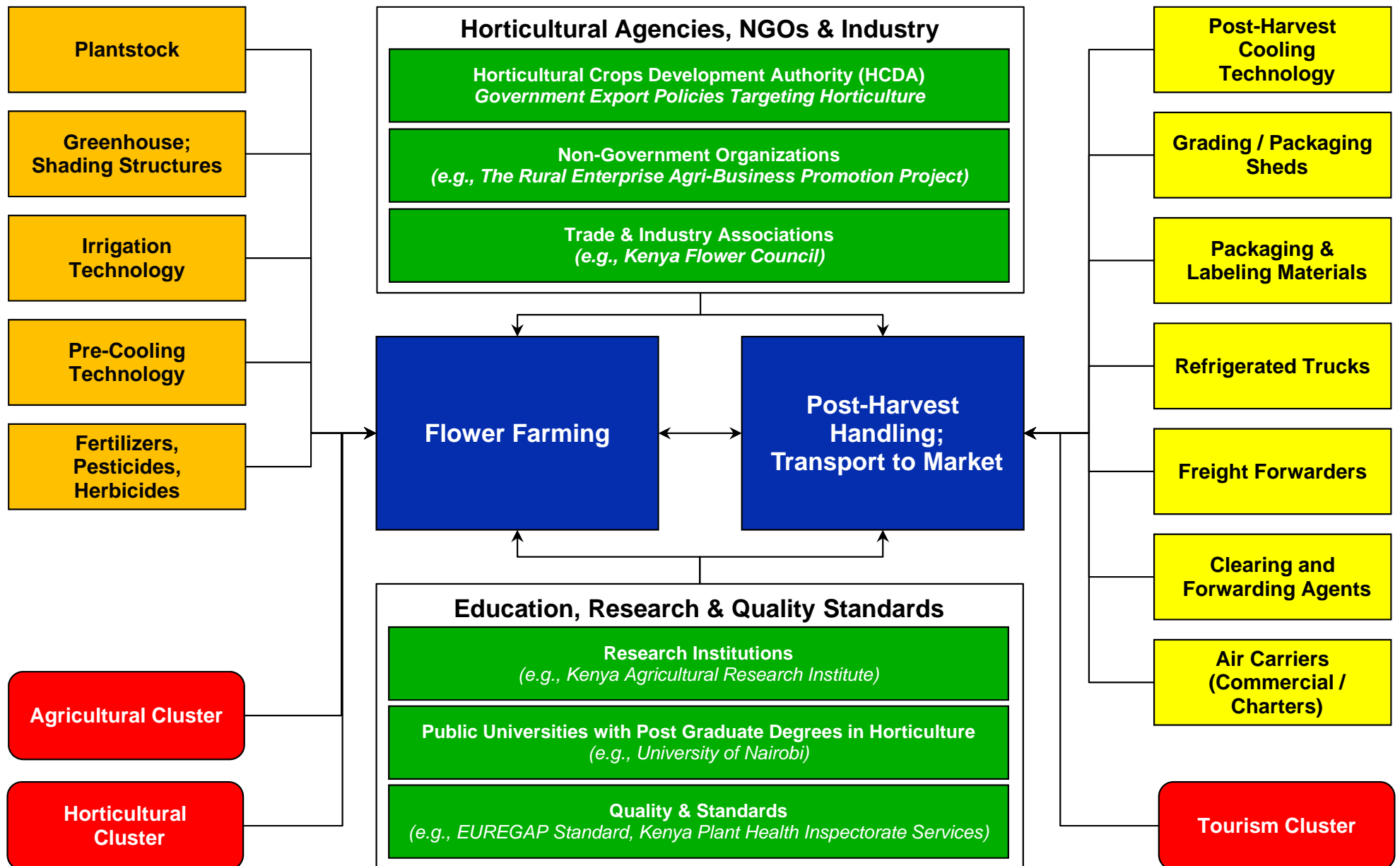
- A strong local cluster improves **company productivity and growth**
  - Local suppliers
  - Supporting institutions and infrastructure
  - Related businesses
- Companies, working collaboratively, can catalyze major improvements in the cluster and the **local business environment**



- Local cluster development **strengthens the link** between a company's success and community success

# State of Cluster Development

## Kenya's Cut Flower Cluster





# Local Cluster Development

## Anglo-American

- Anglo American has established Anglo Zimele, a South African enterprise investment fund, for **mining-related small and medium-sized businesses** in South Africa
- As of 2010, the fund had invested in **509 businesses**, which collectively employed 9,514 people with annual revenues of \$215 million

### Economic value

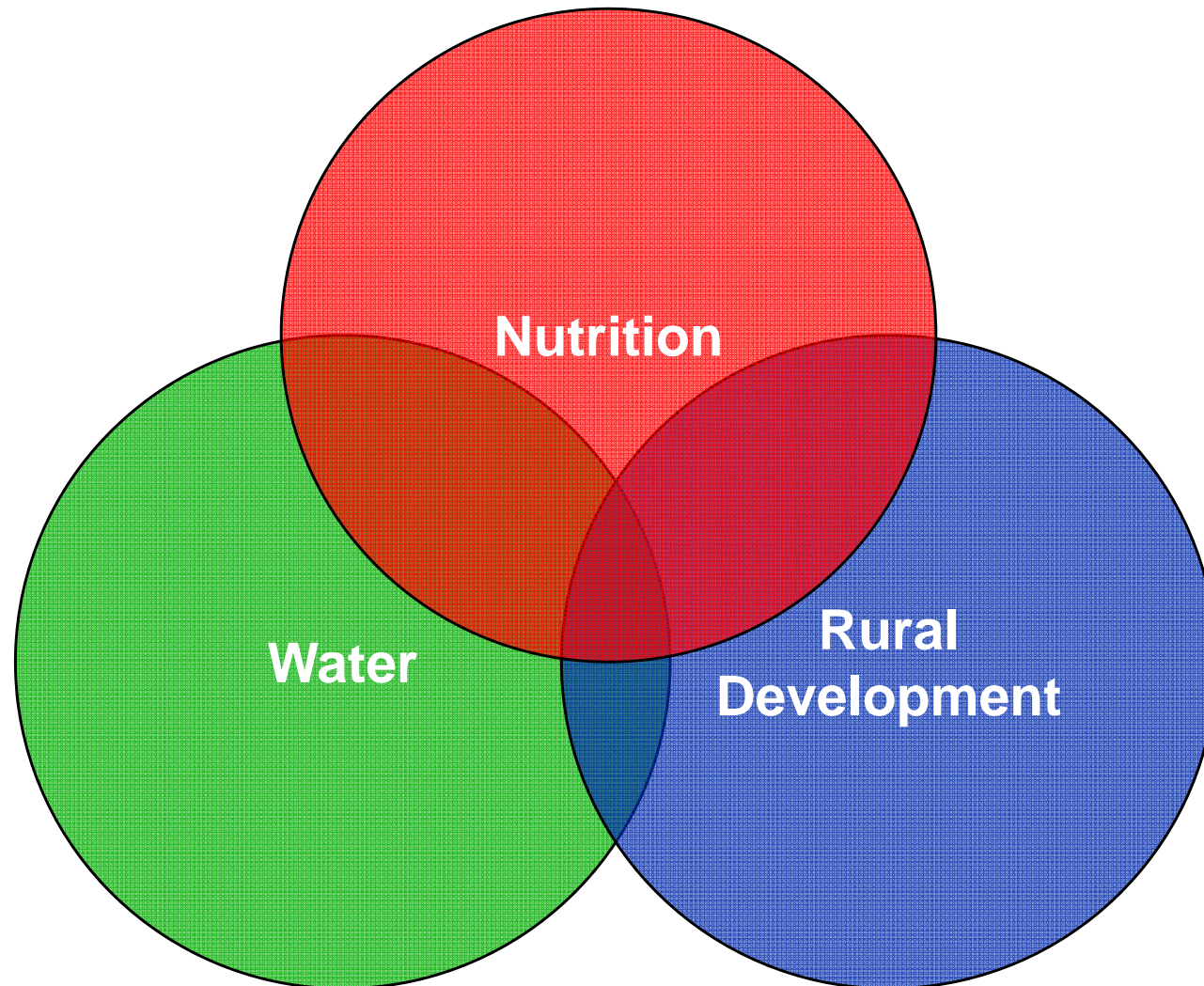
- Anglo-American has created reliable, high-quality **local suppliers**
- Local suppliers reduce transaction costs and improve **service levels** and **quality**

### Community value

- **10,000 new jobs** created
- Significant increase in **income** for SME employees and owners
- **Spillover effects** of these new businesses on their communities

# Creating Shared Value: Deciding Where to Concentrate

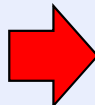
## Nestlé



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

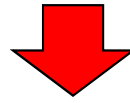
# New Stakeholder Roles and Relationships

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

# Adding a Social Dimension to Strategy

- Shared value opens up new **needs**, new **markets**, new **value chain configurations**, and new **ways of thinking** about the business
- 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
- Adding social dimensions makes strategy 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

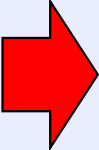
### Distinctive Activities

- 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 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**

# Transforming Strategic Positioning

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

- A **broader sense of purpose** motivates and attracts employees, consumers, business partners, shareholders, and the public

# 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**
- Shared value will reignite a whole new generation of **management** thinking
- 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**