

# The New Competitive Advantage: Creating Shared Value

Professor Michael E. Porter  
Harvard Business School

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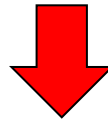
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# The Role of Business in Society

- 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

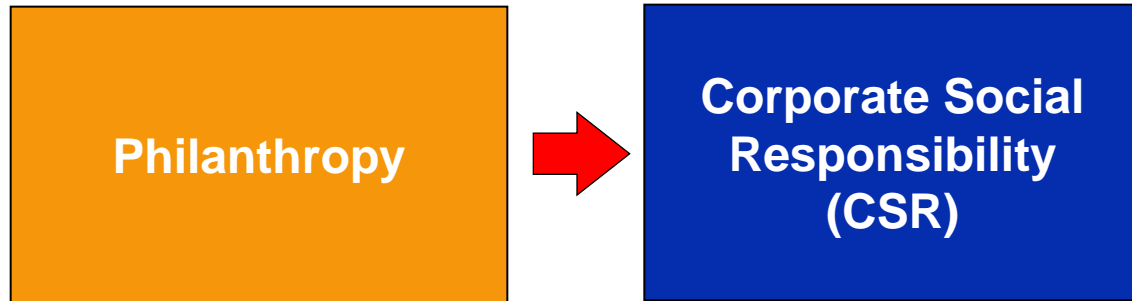
## Evolving Approaches

### Philanthropy

- Donations to worthy social causes
- Volunteering

# The Role of a Company in Its Communities

## Evolving Approaches



- Donations to worthy social causes
- Volunteering

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

# The Role of a Company in Its Communities

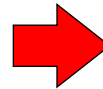
## Evolving Approaches



# 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



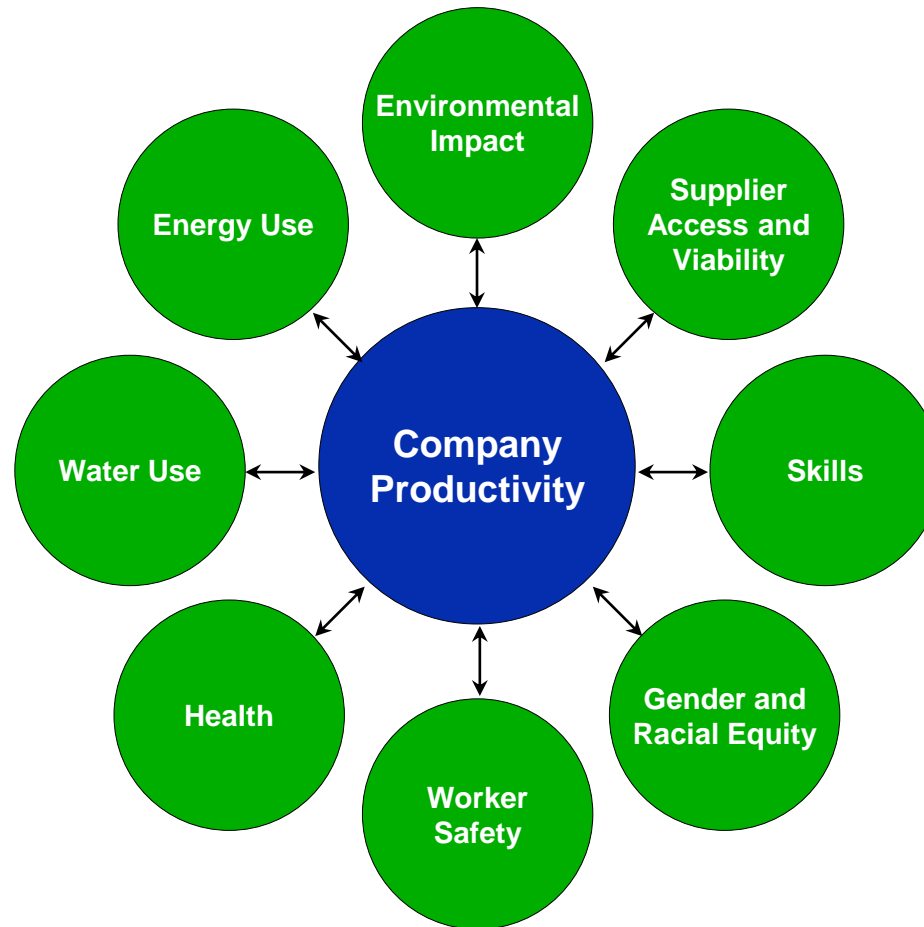
- **Reduced revenue** at the same cost

- Implementing a new drug distribution 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



- **Expanded revenue** and a **profitable** business model

# 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 the value chain, including employees, to improve fundamental productivity

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

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



# 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

## 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 toxicological profile
- Carries lowest human hazard label

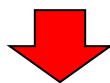


- Applied in **lower quantities** than conventional insecticides
- **Low impact** on **beneficial insects**
- **Double-digit revenue growth** since launch in 2010

# Creating Shared Value in Products and Markets

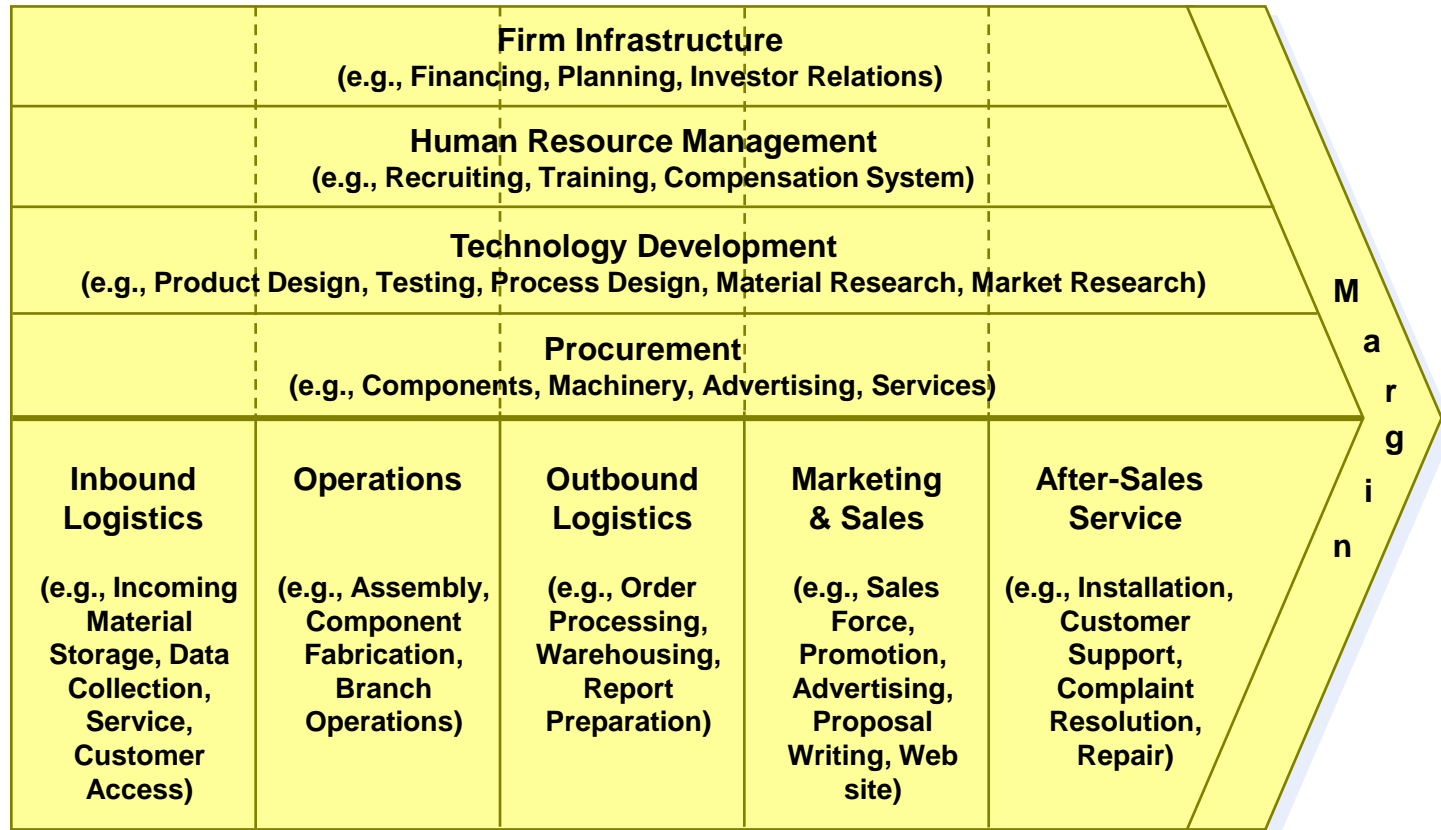
## Novo Nordisk in China

- **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

# Redefining Productivity in the Value Chain



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

# Enabling Cluster Development in a Company's Major Locations

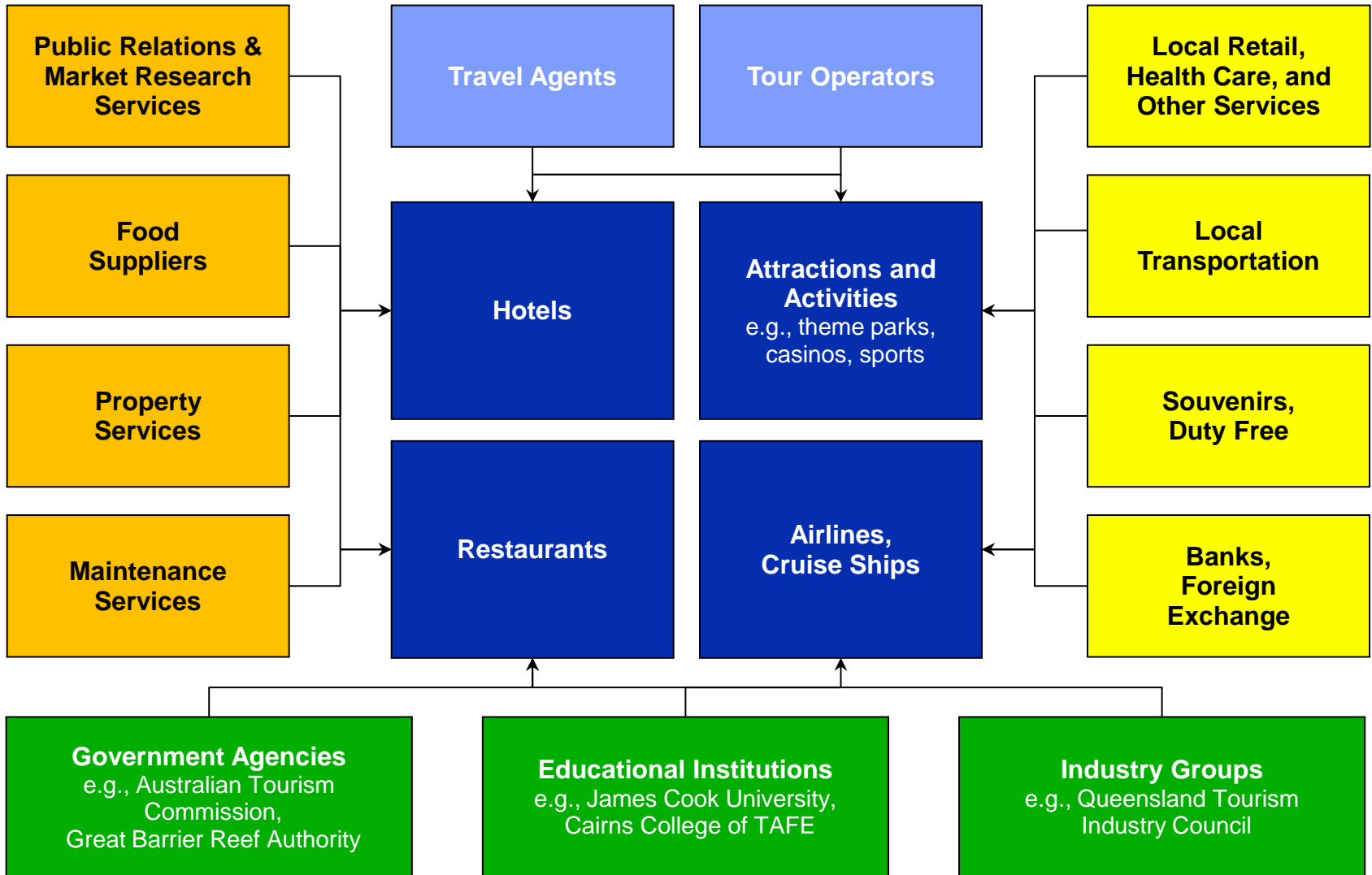
- A strong local cluster improves **company productivity and growth**
  - Local suppliers
  - Supporting institutions and infrastructure
  - Related businesses
- Companies, working collaboratively, can catalyze major improvements in the cluster and the **local business environment**



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

# What is a Cluster?

## Tourism Cluster in Cairns, Australia



# 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 costs and can improve **service levels** and **product tailoring**

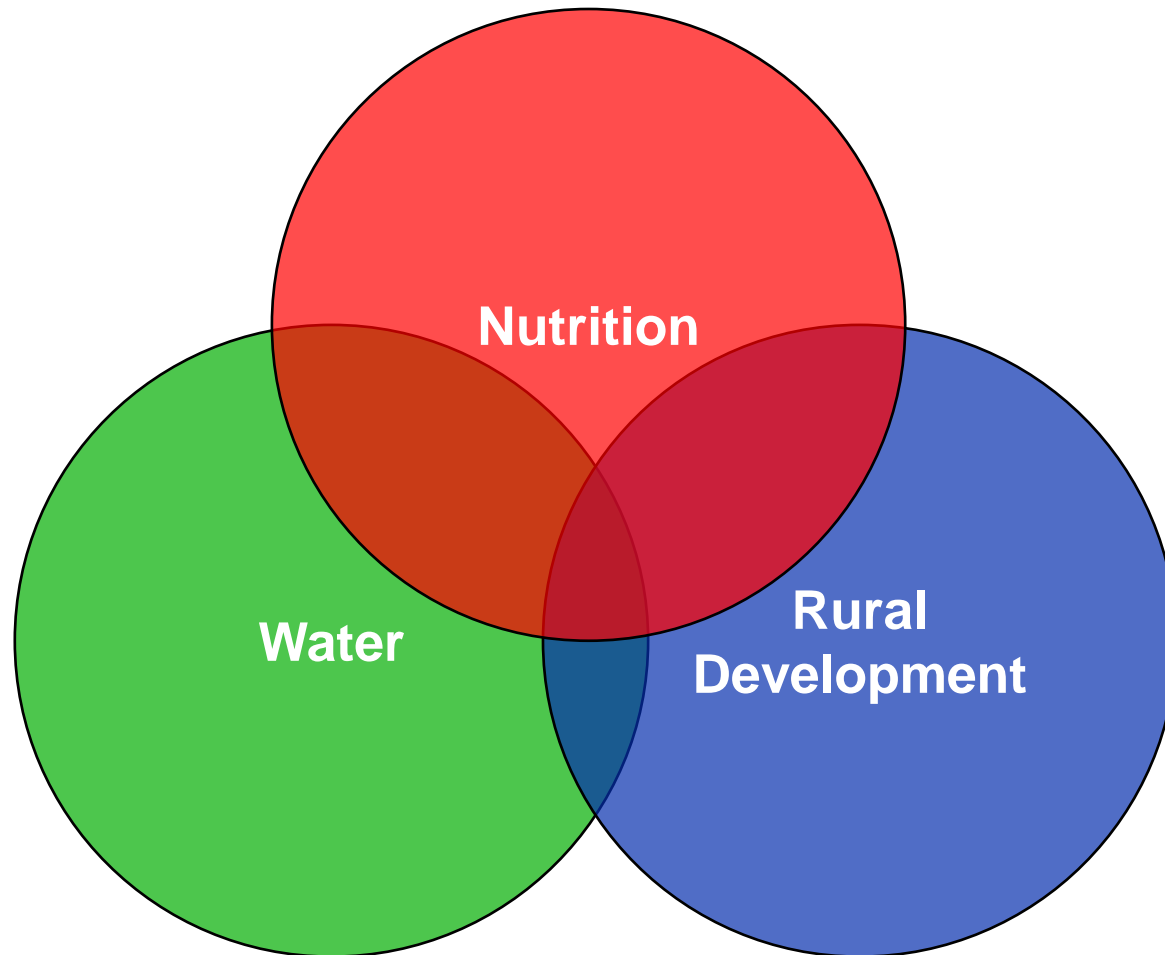
### Community value

- **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

# 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
  - Workforce development and recruiting
    - Teams and vendors
  - Value-added local procurement
- 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 developments

# Creating Shared Value

## Implications for Government and Civil Society

- Government and NGOs often assume that social programs must come by **taxing**, **regulating**, and **restraining business**
- Government and NGOs will be most effective if they **enable shared value** by business

### Implications for NGOs

- NGOs bring unique **domain expertise**, **execution** capacity, and **trust** by communities

#### A New Type of NGO

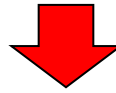
- **TechnoServe** Promotes the development of agricultural clusters in more than 30 countries
- **Root Capital** Provides financing to more than 400,000 farmers and businesses
- **Gates Foundation** Forms partnerships with global corporations to foster agricultural clusters

### Implications for Governments

- Governments can make **platform investments or co-investments** in public assets and infrastructure to enable shared value by business
- Governments should regulate in a way that **reinforces and rewards shared value** in business, rather than working against it
  - Focus on **outcomes**
  - Enabling private sector **innovation**

# 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

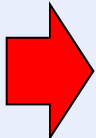
### Distinctive Activities

- 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 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**