

The New Competitive Advantage: Creating Shared Value

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Nuevo León, México
October 9, 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.

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 Business in Society

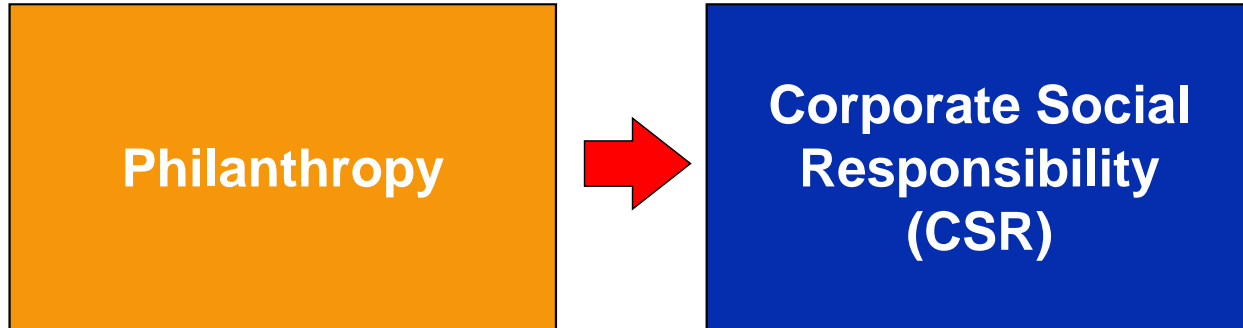
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

The Role of Business in Society

Evolving Approaches



- Donations to worthy social causes
- Volunteering

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

The Role of Business in Society

Evolving Approaches



What 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**

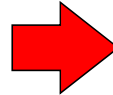
Moving to Shared Value

Fair Trade



Fair Trade

- Paying a **higher price** to farmers
- **Certification** as a fair trade company
- Higher prices for **same products**



Transforming Procurement

- Collaborate with farmers to **improve quality and yield**
- Supporting investments in **technology** and **inputs**
- Higher prices for **better quality**
- Higher yield increases **quantity** produced

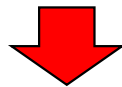
In both cases, **compliance** with laws and ethical standards and reducing harm for corporate activities are **assumed**

Moving to Shared Value in Pharma

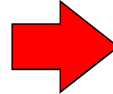
Novartis

CSR

- **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



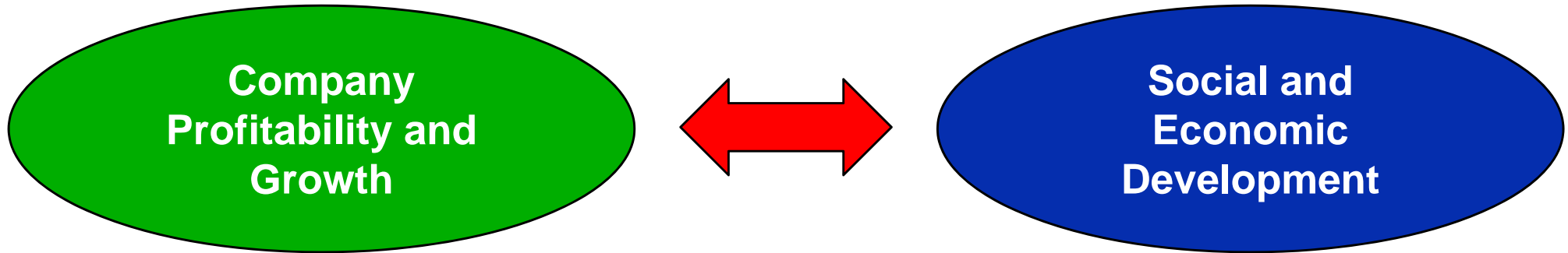
CSV

- 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**

Business and Society: Why the Disconnect?

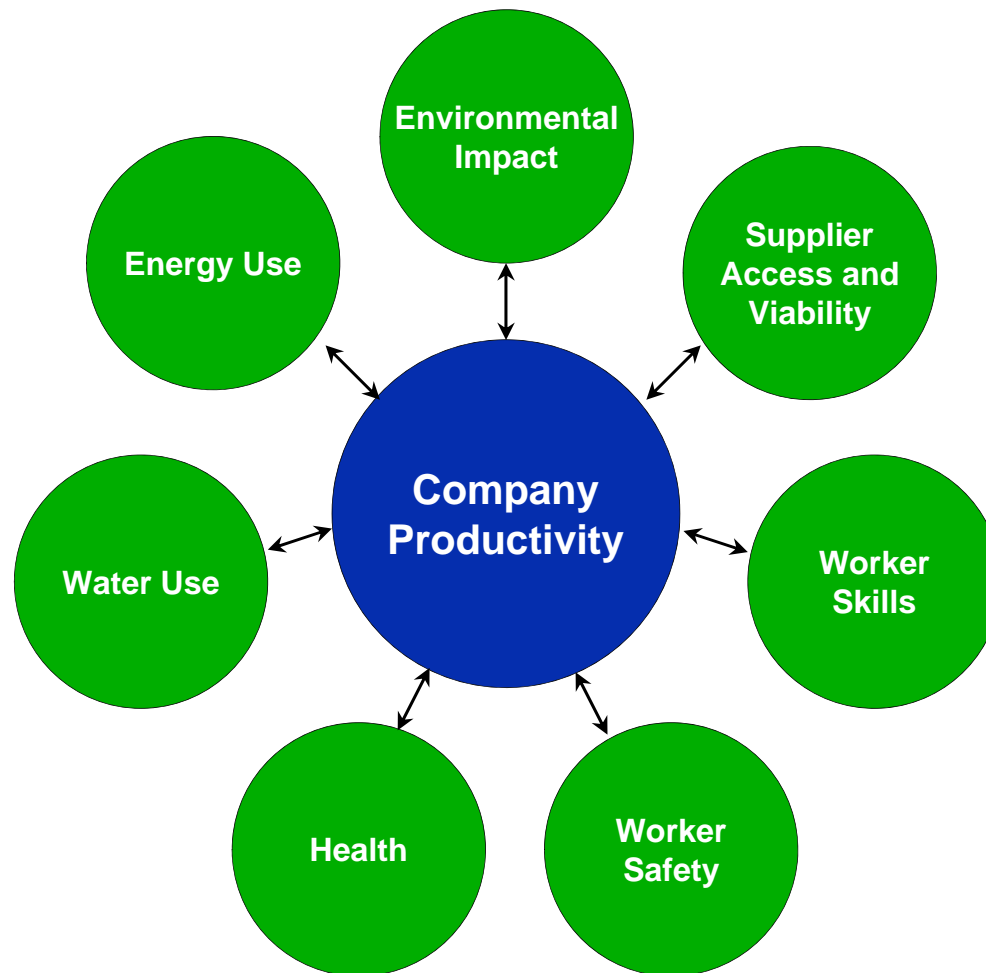


- Many companies (and investors) adopted a **narrow model** of economic value creation
 - Meeting **conventional** needs of **conventional** customers
 - Optimizing within **narrow company boundaries**
 - Profit improvement through **outsourcing** and **globalizing**
 - Driving revenue through **acquisitions** 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
- **“Externalities”** shape **internal** company productivity
- Social needs represent the **largest market opportunities**

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

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

- **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

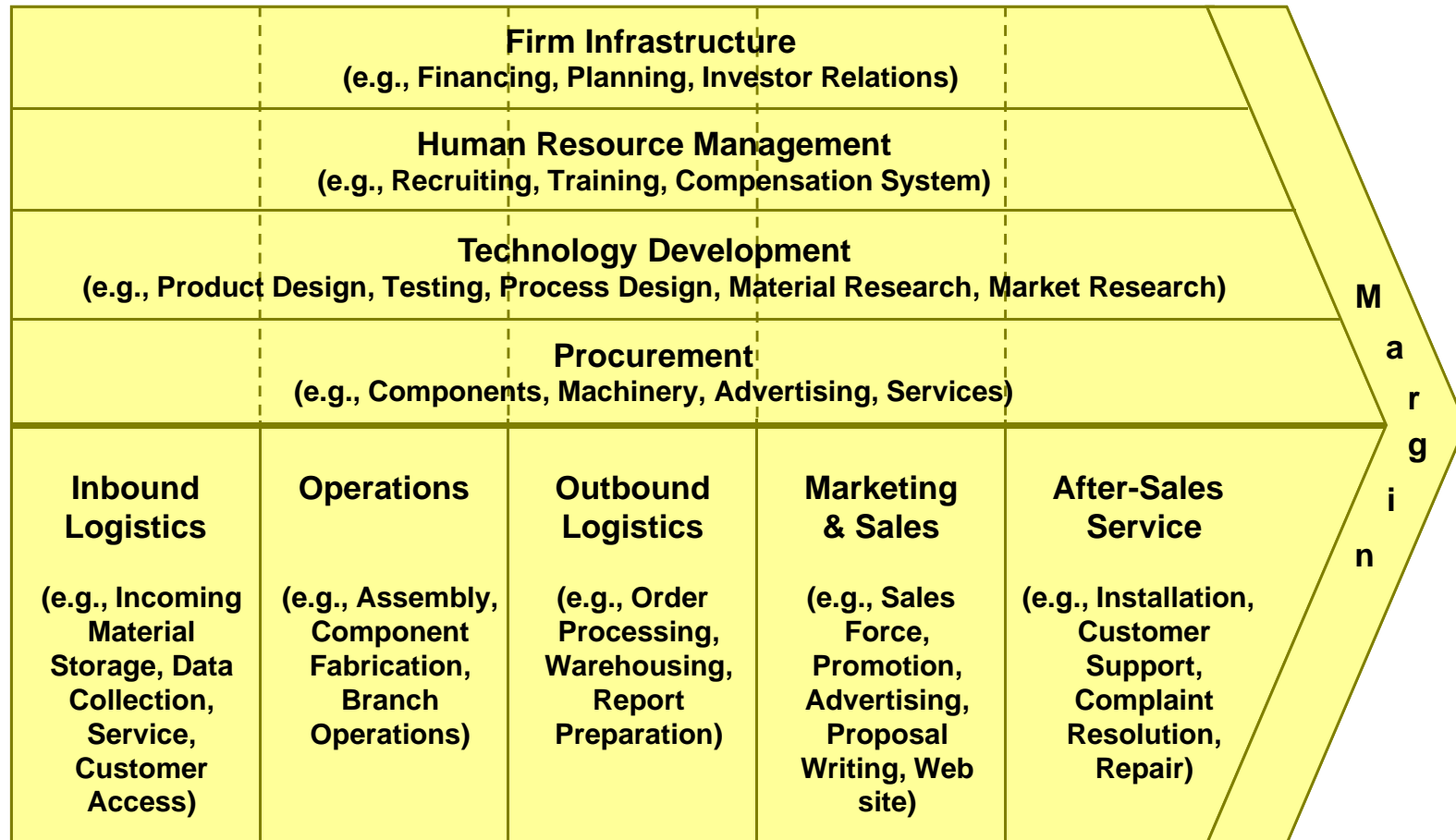
Discovering Opportunities to Create Shared Value in Products and Markets

- 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
- Training to enhance the productivity and wages 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

Improving the Business Environment in the Company's Major Locations

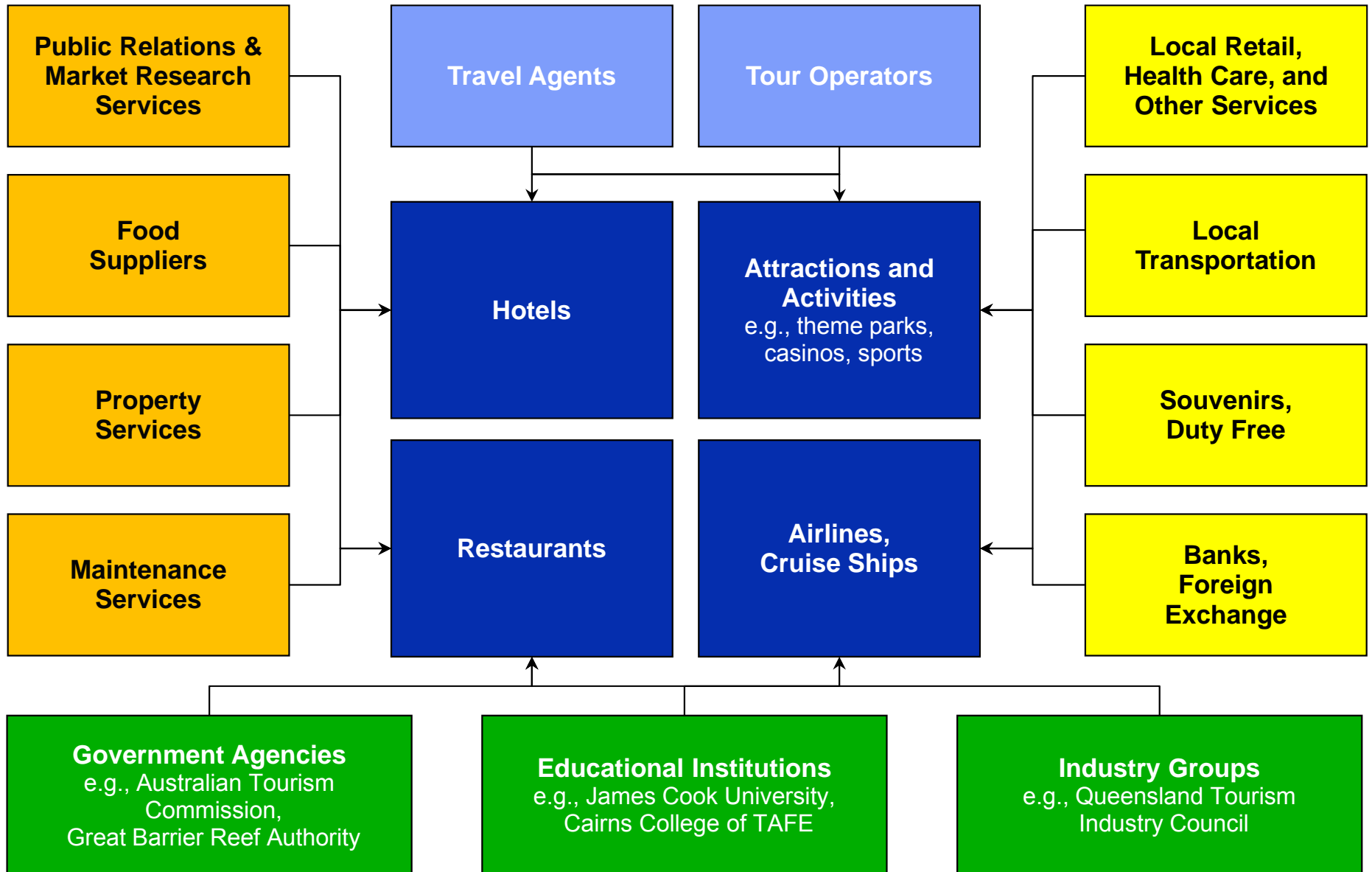
- A strong local cluster improves **company productivity and growth**
 - Local suppliers and service providers
 - Supporting institutions and infrastructure
 - Related businesses
- Companies, working collaboratively, can catalyze major improvements in the **cluster** and the **local business environment**



- 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

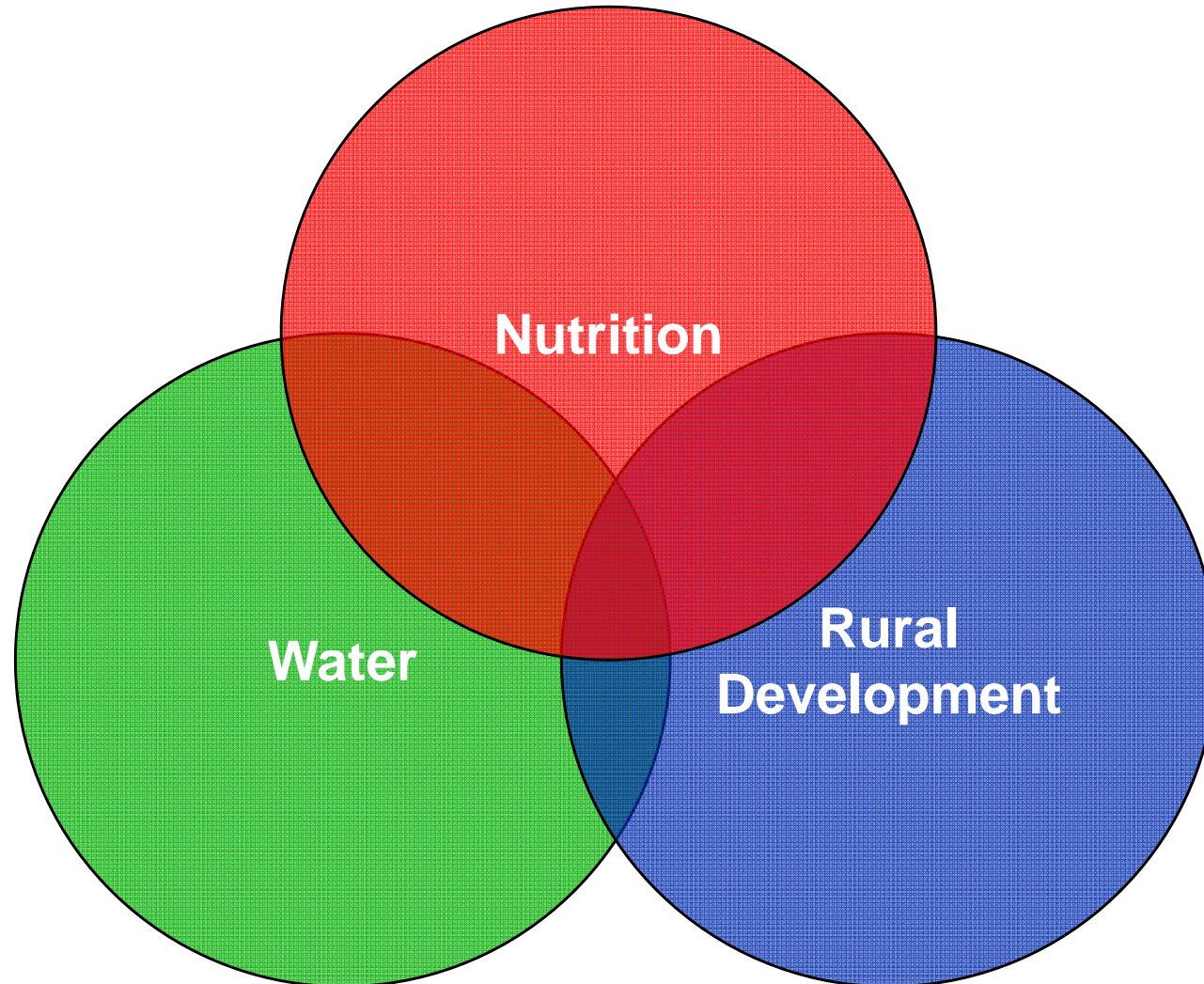
- Anglo-American has created reliable, high-quality **local suppliers**
- Local suppliers reduce costs and can improve **service levels** and **product tailoring**

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

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

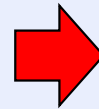
- **Intel** measured the impact of its technology on student performance in its **Education Transformation Strategy**
- The company achieved **market leadership** in the growing global market for mobile computing for K-12 education

New Stakeholder Roles and Relationships

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

Traditional Roles

- Philanthropists** • Donate to charitable causes
- NGOs** • Receive grants to provide social services
- Governments** • Tax business and regulate business practices; operate social programs
- Companies** • Donate to charitable causes or operate ESG programs



New Roles

- Partner with companies and NGOs to catalyze shared value initiatives
- Enable implementation of new shared value business models
- Partner with companies and NGOs to make platform investments and support shared value strategies
- Partner with NGOs and government to initiate and scale shared value strategies

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 should incorporate a **social dimension** in their value proposition
- Adding social dimensions makes strategy more **sustainable vs. competitors** than conventional cost and quality advantages

Shared Value and Strategy

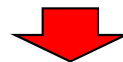
Whole Foods Markets

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

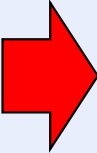
Distinctive Activities

- 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	• Food		• Nutrition
Nike	• Shoes		• Health and Wellness
Thermo Fisher	• Leader in Serving Science		• 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

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 than conventional management thinking
- Shared value thinking will drive the next wave of **innovation, productivity, and economic growth**
- Shared value will give rise to a 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**