

The Role of Business in Society: Creating Shared Value

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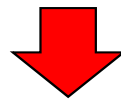
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The Role of Business in Society

- 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 alone **lack sufficient resources and capabilities** to fully meet these challenges

BUT

- More of the public perceives business as prospering **at the expense** of the society
- Despite growing corporate citizenship activities, the **legitimacy of business** has fallen



- We need a **new model**

The Role of Business in Society

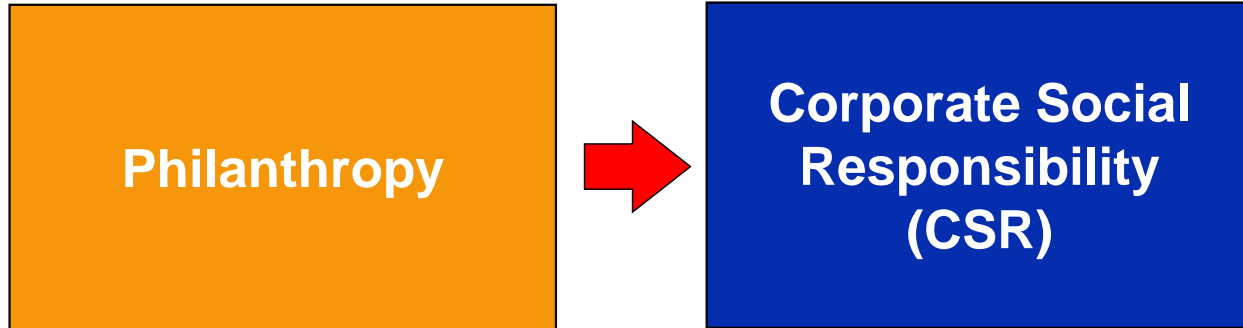
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

The Role of Business in Society

Evolving Approaches



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

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

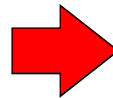
Moving to Shared Value

Fair Trade



Fair Trade

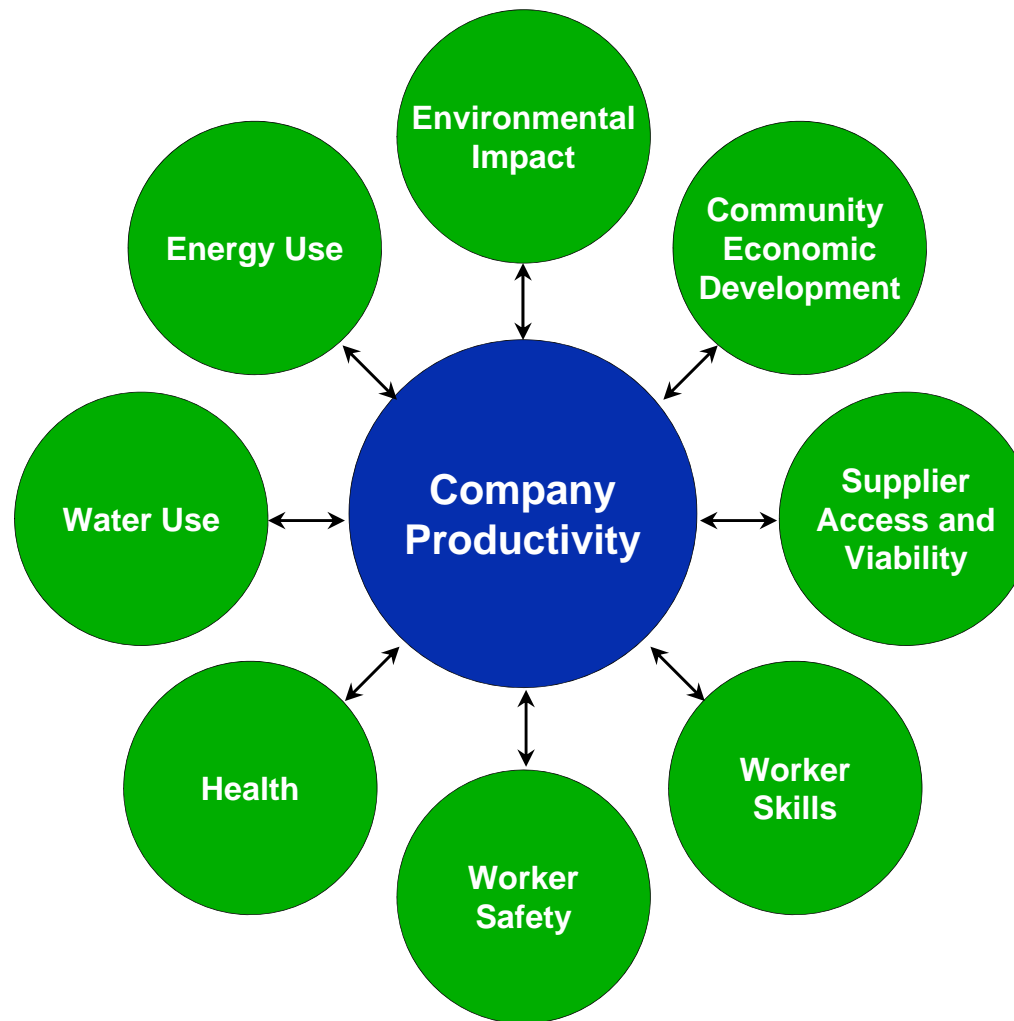
- Paying a **higher price** to farmers for the same products
- **Certification** as a fair trade company



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

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 **needs**, **products**, and **customers**

- Meeting **societal needs** through products
- Addressing **unserved** or **underserved customers** in the industry

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

- Changing practices in the value chain to drive productivity through **better utilizing resources**, **employees**, and **business partners**

III: Enabling **local cluster development**

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

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

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

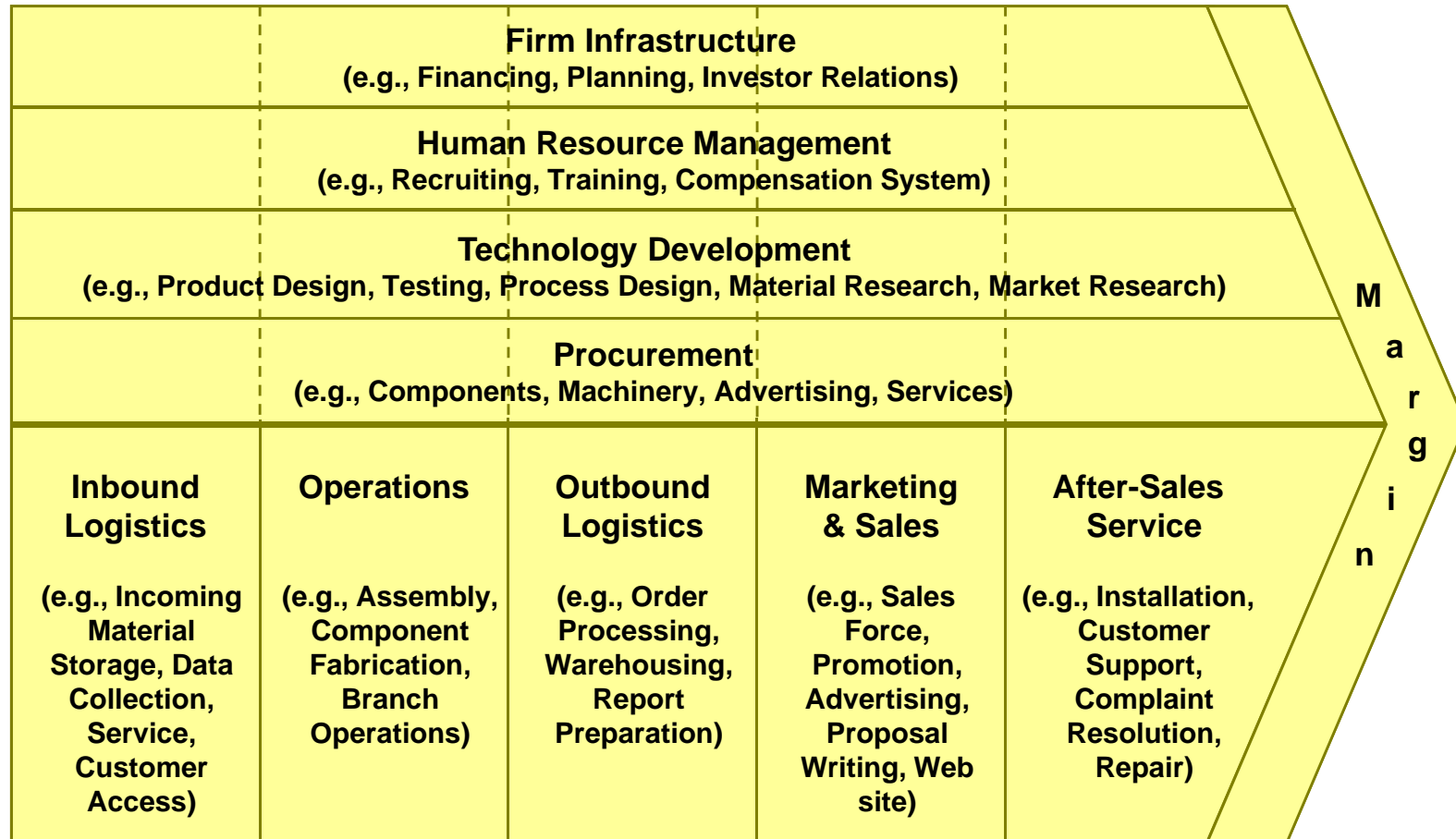
Creating Shared Value in Products and Markets

- Redefine the business around **unsolved customer problems or concerns**, not traditional product definitions
- Identify customer groups that have been **poorly served** or **overlooked** by the industry's products
- Think in terms of **improving lives**, not just meeting customer needs
- 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, marketing, innovation, and growth
- Businesses have the potential to be more effective than governments and NGOs in **creating** and **marketing** solutions to community problems

Redefining Productivity in the Value Chain



- Shared value **purchasing**
- **Energy** and **resource** efficiency
- Minimizing **logistical content**
- Strengthening **local distribution** channels
- Improving employee **health and safety**
- Enhancing the productivity of **lower income** employees and improving their wages

Improving the Business Environment in the Company's Major Locations

- Companies, working individually and collaboratively, can catalyze major improvements in the **local business environment**
- Building a **strong local cluster** improves company productivity and growth
 - E.g., Supporting institutions and infrastructure
 - Related businesses



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

Strengthening the Local Business Environment

Roles of Business

Improving skills

- Create or expand an **apprentice program**
- Create or expand a **training program**
- Partner with a **community college, technical school, or university**

Upgrading supporting industries

- Identify and increase sourcing from capable **local suppliers**
- **Mentor local suppliers** to upgrade their capabilities

Supporting innovation and entrepreneurship

- Participate in **research collaboratives** in company's field
- **Invest in or incubate promising startups** related to company's business

Collaborating on regional business environment improvement

- Participate in a **regional competitiveness initiative** in your region

Bolstering regional cluster development

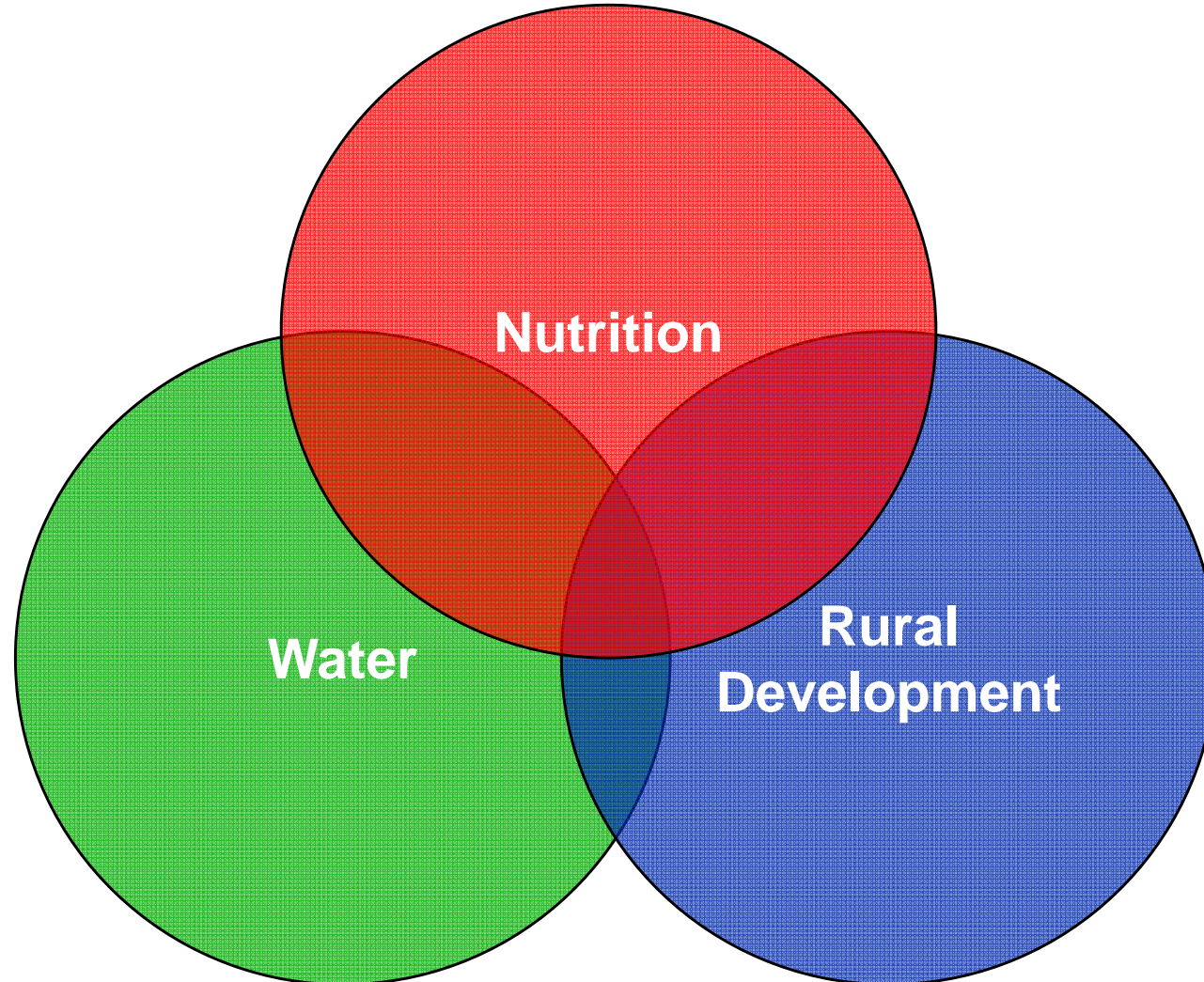
- Participate in a **cluster competitiveness initiative** in your field

Locating in the U.S.

- **Move activities back to the U.S.** that can be productive here

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 in Professional Sports

I: Reconceiving customer **needs**, **products**, and **markets**

- Catalyzing wider participation in the sport
- Fitness, health, wellness, and personal development

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

- Recruiting and workforce development
 - By the teams, stadiums, and vendors
- Value-added local procurement
- Energy efficiency and waste reduction

III: Enabling **local cluster development**

- Spur economic development in the **areas surrounding stadiums and other team facilities**
- Create a **local supplier base** for concessions, souvenirs, services, etc.
- **Anchor** other entertainment and real estate developments

Creating Shared Value in Banking

I: Reconceiving customer **needs**, **products**, and **markets**

- Serve **unbanked** and **under-banked** consumers
- **SME** lending and business services
- **Real estate** lending with community multiplier effects
- Financing **affordable housing**
- **Financial instruments** that advance environmental and social progress (e.g., loans repaid with energy savings)

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

- Local / value-added **procurement**
- **Hiring** and **training**
- **Energy** and resource efficiency

III: Enabling **local cluster development**

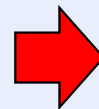
- **Financial literacy** education
- Leveraging **facility locations as anchors**
- **Skills development** programs for employees and prospective employees with universities and community colleges
- Leadership in **regional competitiveness improvement**

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

Shared Value and Strategy

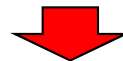
Whole Foods Markets

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

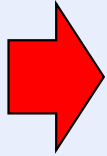
Distinctive Activities

- 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

The Purpose of Business

- Our purpose in business is to **create shared value for society**, not economic value for its own sake
- Businesses **acting as businesses**, not as charitable givers, are arguably the most powerful force for addressing many of the pressing issues facing our society
- Shared value will give rise to **far broader opportunities** for economic value creation
- Shared value thinking will drive the next wave of **innovation, productivity, and economic growth**
- A transformation of business practice around shared value will give **purpose** to the corporation and represents our best chance to **legitimize business again**