

New Opportunities for Company Performance and Purpose: Creating Shared Value

Professor Michael E. Porter
Harvard Business School

*Shared Value Executive Education for
Becton Dickinson & Company
Hamilton Park Conference Center
March 12, 2013*

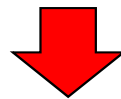
The ideas drawn from “Creating Shared Value” (*Harvard Business Review*, Jan 2011) and “Competing by Saving Lives” (FSG, 2012). No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without 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 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

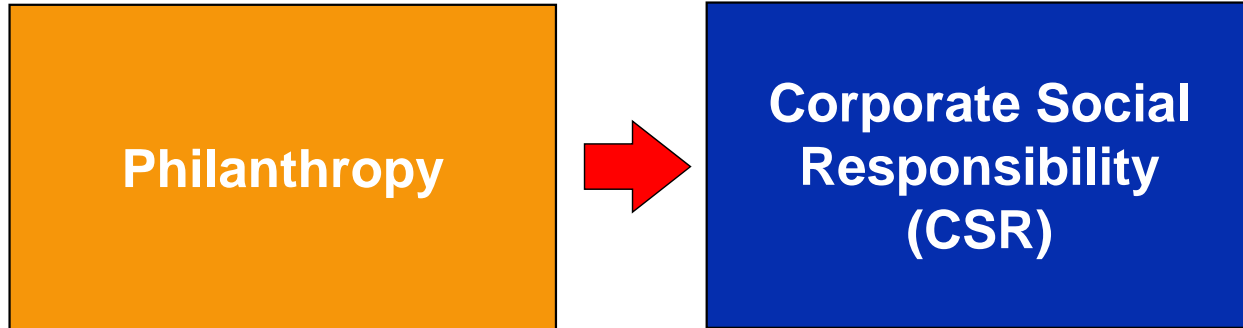
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

The Role of Business in Society

Evolving Approaches



- Donations to worthy social causes
- Volunteering

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

The Role of Business in Society

Evolving Approaches



- Donations to worthy social causes
- Volunteering

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

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

What Shared Value is NOT

- Sharing the value **already created** (philanthropy)
- Acting based on strong **personal values** and **ethical standards**
- **Balancing** stakeholder interests
- Avoiding **harm** and protecting **reputation**

Moving to Shared Value in Pharmaceuticals

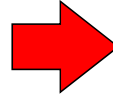
Novartis

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



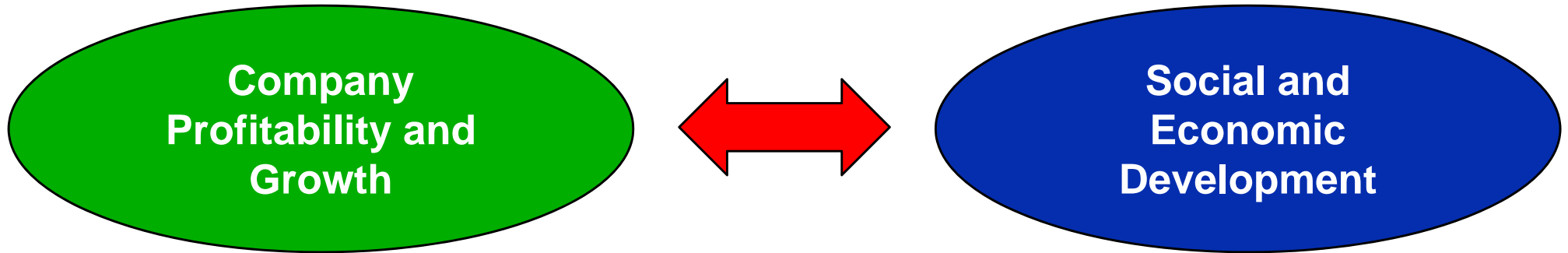
CSV

- 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

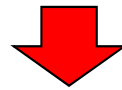


- **Higher revenue** and **profitability**

Business and Society: Why the Disconnect?

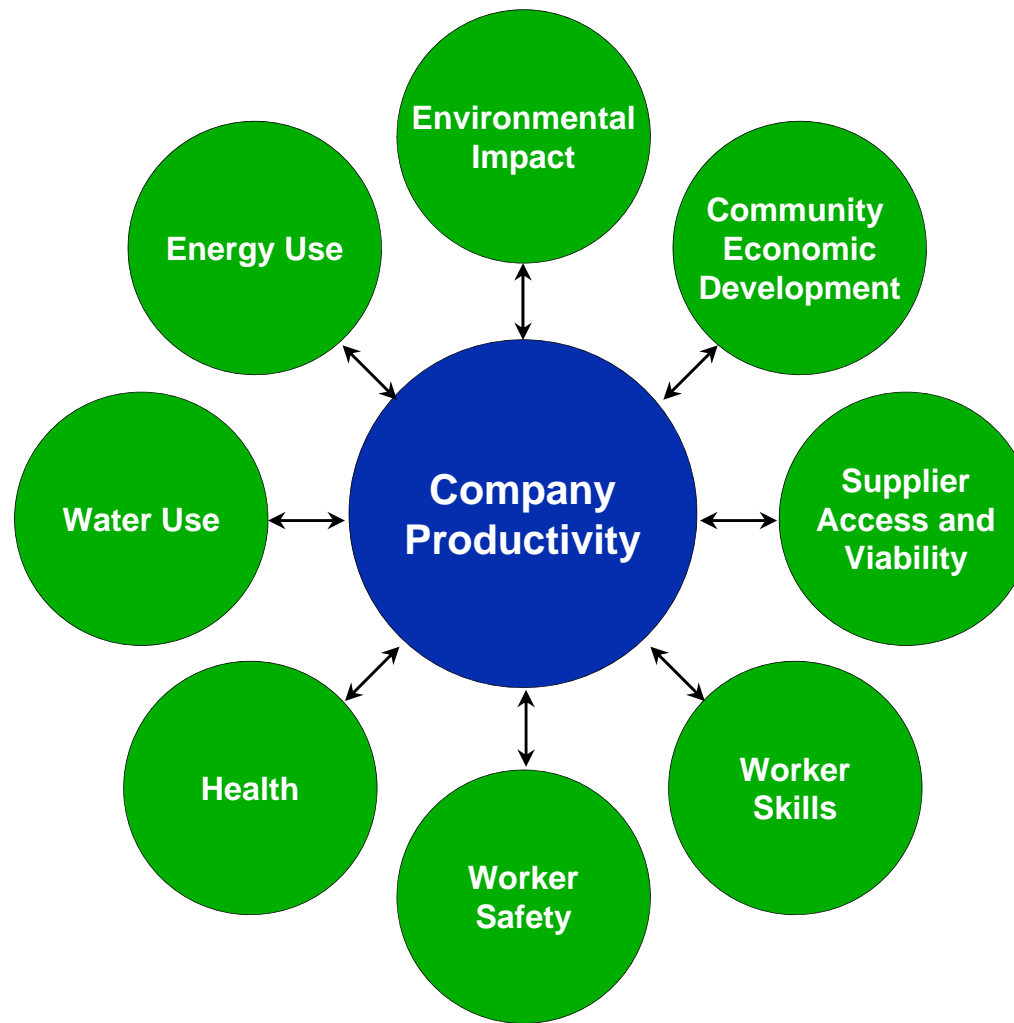


- Many companies (and investors) adopted a **narrow model** of economic value creation
 - Meeting **conventional** needs of **conventional** customers
 - Optimizing within **narrow company boundaries**
 - Profit improvement through **outsourcing** and **globalizing**
 - Driving revenue through **acquisitions**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

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

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**, **supplier base**, and **supporting institutions** in the communities in which a company operates to boost productivity, innovation, and growth

I. 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

Becton Dickinson Health Worker Safety

Becton Dickinson pioneered the global effort to **protect health workers from needle stick injuries**, which could spread HIV/AIDS, hepatitis B and C

- Redesigned syringes to prevent accidental sharps injuries
- Invested ~\$1 billion in product design and manufacturing capacity

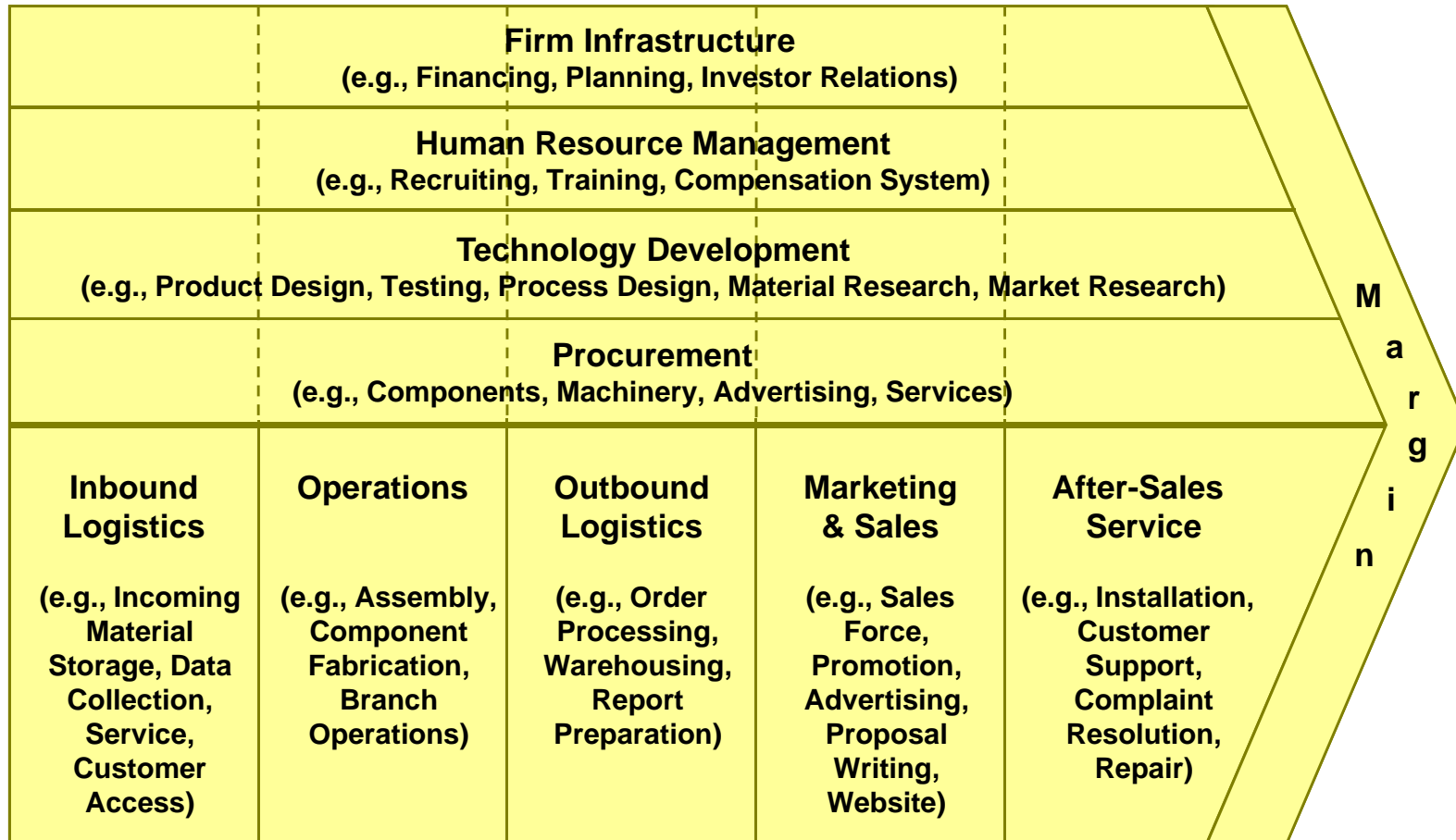


- Achieved substantial **reduction in injuries** to health workers
- Largest source of **BD growth** over past 30 years
- Annual revenues of **~\$2 billion**, representing 25% of total company revenues

Unlocking 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)

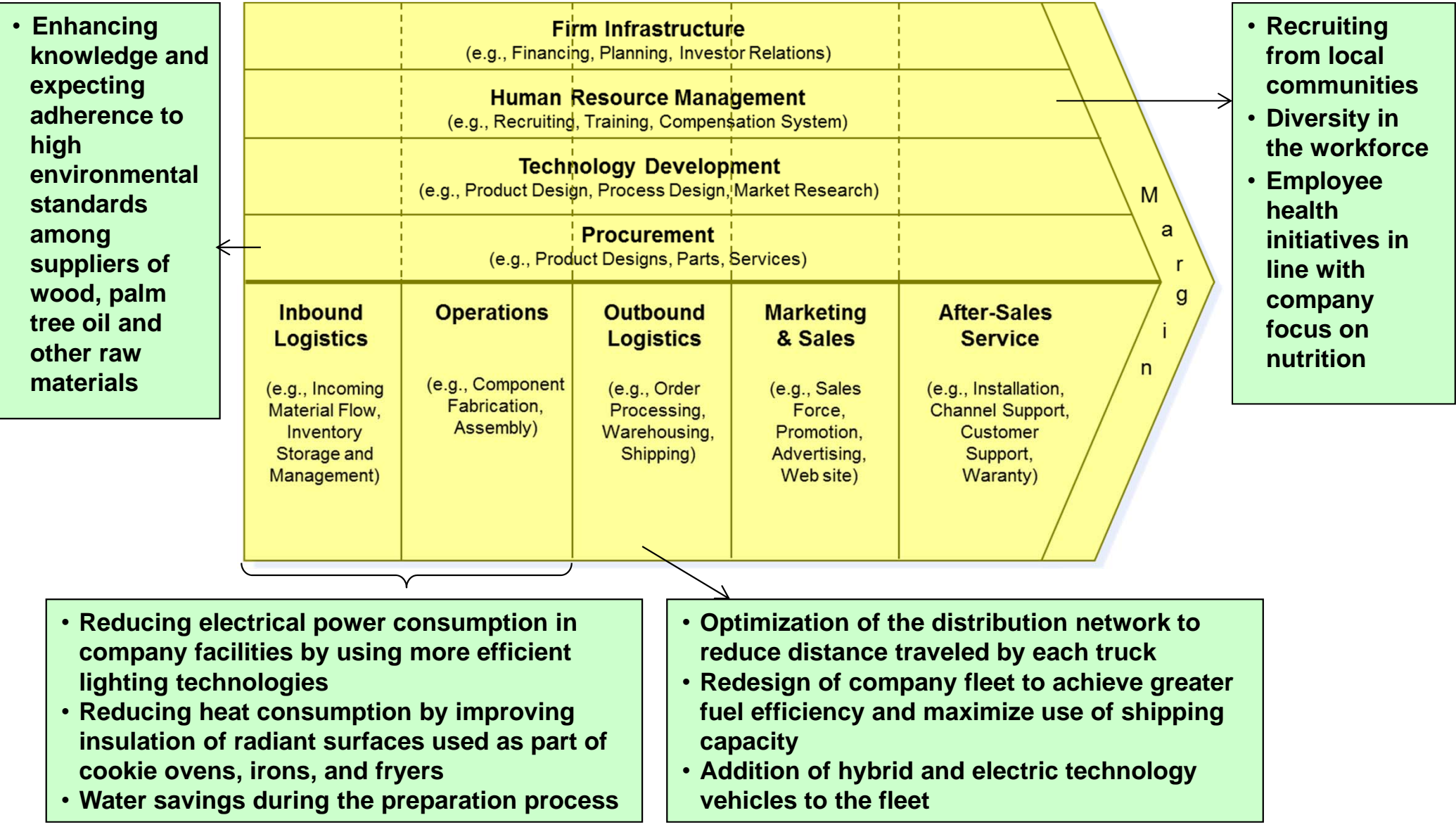
II. Redefining Productivity in the Value Chain



- 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

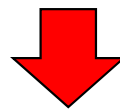
Redefining Productivity in the Value Chain

Grupo Bimbo, Leading Mexican Baking Company



III. Improving the Business Environment in the Company's Major Locations

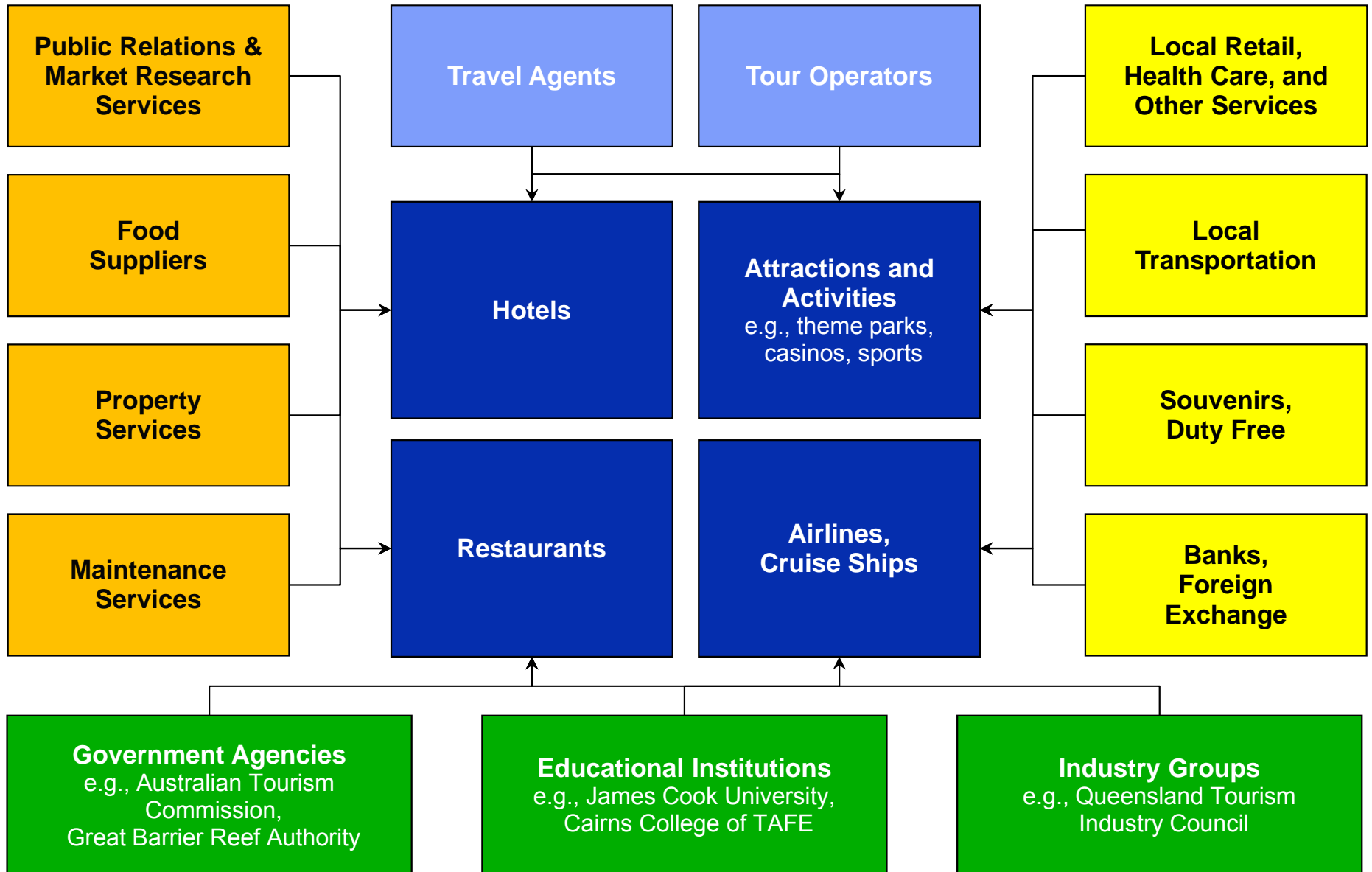
- Companies, working individually and collaboratively, can catalyze major improvements in the **local business environment** in the regions in which they have major operations
- Building a **strong local cluster** improves company productivity and growth
 - E.g., Supporting institutions and infrastructure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



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

What is a Cluster?

Tourism Cluster in Cairns, Australia



Local Cluster Development

Coca-Cola Brazil

- Coca Cola Brazil has established **Coca-Cola Coletivo**, a program designed to **increase the employability** of low income youth in Brazilian Favelas
- Through partnerships with local NGOs, the Brazil initiative trains local youth for eight weeks in **retailing, business development, and entrepreneurship**
- Coca-Cola Coletivo **pairs youth with a local retailer** to get their first job experience, which, in turn, enables retailers to improve their operations with trainee assistance

Economic value

- Through improved retailer operations, Coca-Cola Brazil has **increased sales of its products**
- The program also **increased Coca-Cola's market penetration** among the emerging lower-middle income segment

Community value

- Coca-Cola Coletivo graduates gain employment that **raises household income** by 50% on average
- The program operates **160 Coletivos** in Brazil, training **65,000** youth per year

Leveraging Shared Value Across Levels

Pharmaceuticals and Medical Devices

Reconceiving Products and Markets

- R&D for drugs, vaccines, and devices that **fill unmet health needs**
- Modification of **existing products** to reduce complexity and cost
- **Tailored product offerings** to meet local market conditions

Redefining Productivity in Value Chains

- **Efficient, local supply chains** and **manufacturing** to reduce production costs
- **Locally-adapted sales and distribution** to reduce cost, access new markets, and better meet patient needs

Enabling Local Cluster Development

- **Behavior-change campaigns** to create more sophisticated consumer demand for health care
- **Strengthening of health systems** to enable the delivery of needed products and services
- **Advocacy and capacity building** to strengthen the policy and the regulatory environment

Leveraging Shared Value Across Levels

Efforts in the Pharmaceuticals Industry are Mutually Reinforcing

Redefining Productivity in Value Chains

- Improve reliability
- Reduce costs
- Leverage local expertise



Reconceived Products and Markets

- Meet underserved patient needs
- Improve affordability
- Tailor to local conditions

Strong Local Health Clusters

- Enable delivery of products and services to new populations
- Improve the ability to pay
- Promote health-seeking behavior



- Leading firms are beginning to design **multi-level approaches** to harness this **multiplier effect**

Mutual Reinforcement Across Levels

Becton Dickinson Health Worker Safety

Reconceiving Products and Markets

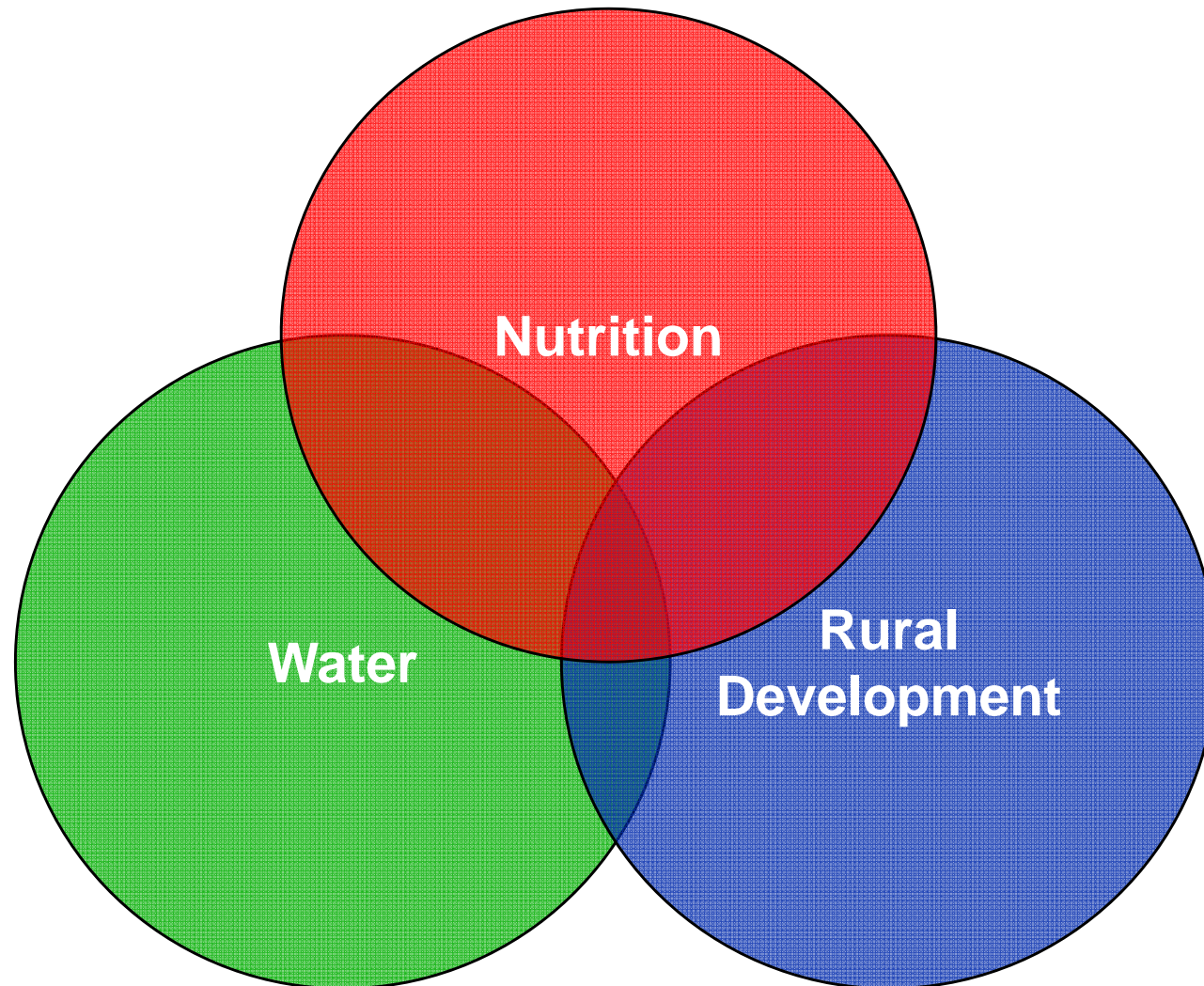
- Redesigned syringes to prevent accidental sharps injuries
- Invested ~\$1 billion in product design and manufacturing capacity

Enabling Local Cluster Development

- Engaged with leading experts and advocates
- Funded training of health workers in hospitals and clinics
- Developed a surveillance system to monitor accidents of needle pricks in the U.S.
- Advocated to policy changes to require safe devices

Creating Shared Value: Deciding Where to Concentrate

Nestlé



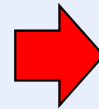
- Opportunities to create shared value are **inevitably tied closely** to a company's particular businesses

New Stakeholder Roles and Relationships

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

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

Measuring Shared Value

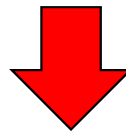
- Measure the **direct link** between social impact and economic impact
 - Line of sight
- Measures **unique** to the type of shared value being created
- **Intentional** and **focused**

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

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

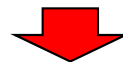
Whole Foods Markets

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

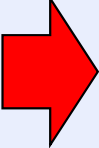
Distinctive Activities

- 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	<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
Becton Dickinson	<ul style="list-style-type: none">• Medical Device Company		<ul style="list-style-type: none">• ?

- A **broader sense of purpose** not only opens up **new opportunities** for growth and profitability, but also **motivates** and **attracts** employees, customers, 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**