

New Opportunities for Company Performance and Purpose: Creating Shared Value

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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

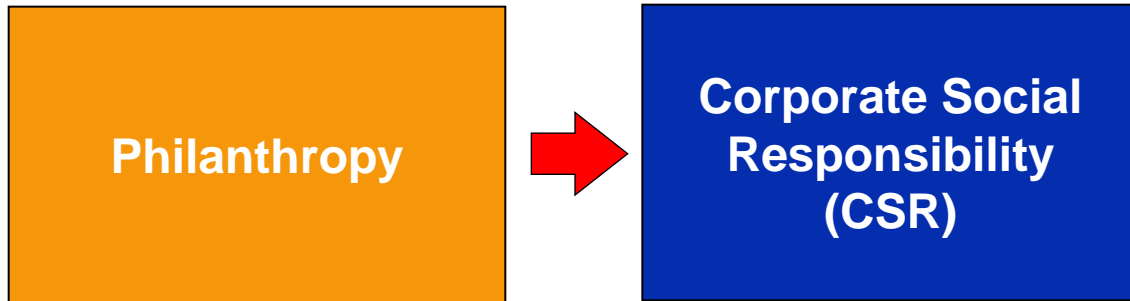
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

The Role of Business in Society

Evolving Approaches



- 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 economic value **already created** (philanthropy)
- Acting based on strong **personal values** and **ethical standards**
- **Balancing** stakeholder interests
- Avoiding **harm** or **risk**
- Protecting **reputation**

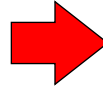
Moving to Shared Value

Fair Trade



Fair Trade

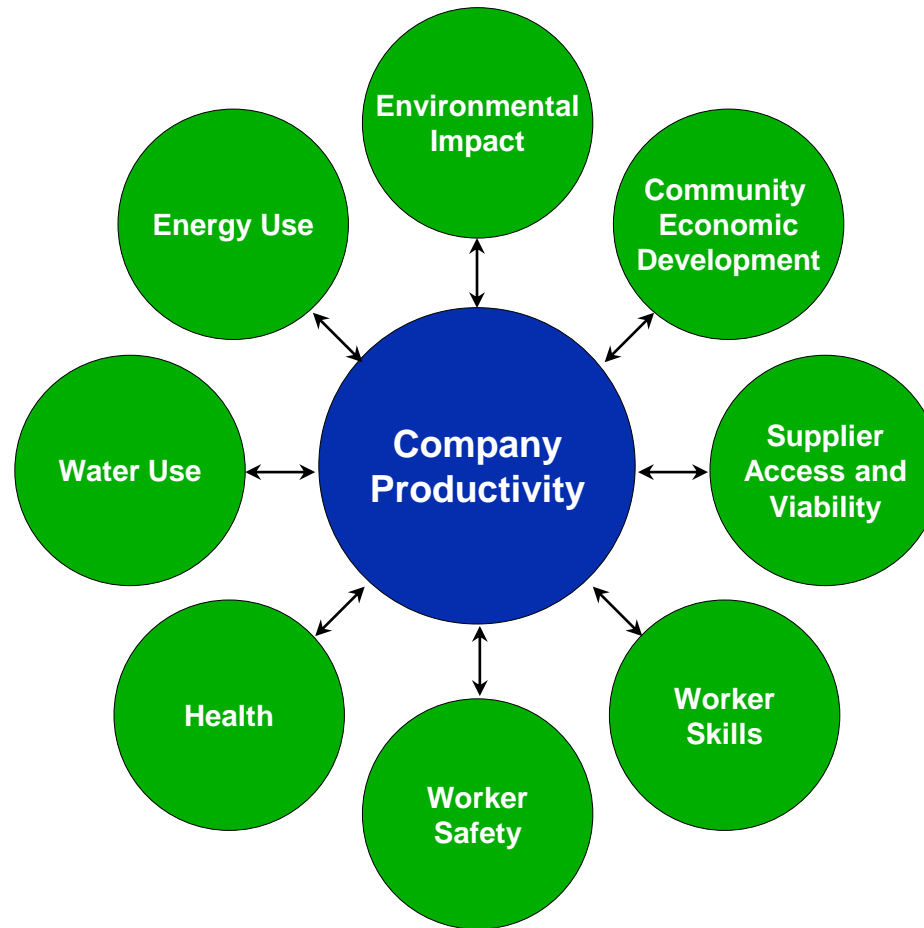
- Paying a **higher price** to farmers for the same products
- **Certification** as a fair trade company



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**

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

- Changing practices in the value chain to **address social needs** while **improving productivity**

III: Enabling **local cluster development**

- Improving the **skills, supplier base, regulatory environment,** and **supporting institutions** available in the communities in which a company operates to drive its productivity and growth while improving community prospects

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 harm workers while spreading HIV/AIDS, hepatitis B and C

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



- Achieved substantial **reduction in health worker injuries**
- Largest source of **company growth** over past 30 years
- Annual revenues of **\$2 billion**, representing 25% of total company revenues, at higher margins

Creating Shared Value in Products and Markets

Regions Bank

- Regions product suite, called **Regions Now Banking**, is designed to meet the needs of unbanked and under-banked customers in Regions' service area
 - These represent an estimated **25% of consumers**
- Now Banking is a line of **user-friendly banking solutions** targeted at unbanked and under-banked customers:
 - Lower cost check cashing
 - Regions Now card, a pre-paid debit card
 - Money transfers and expedited bill pay services
 - Includes web-based financial education

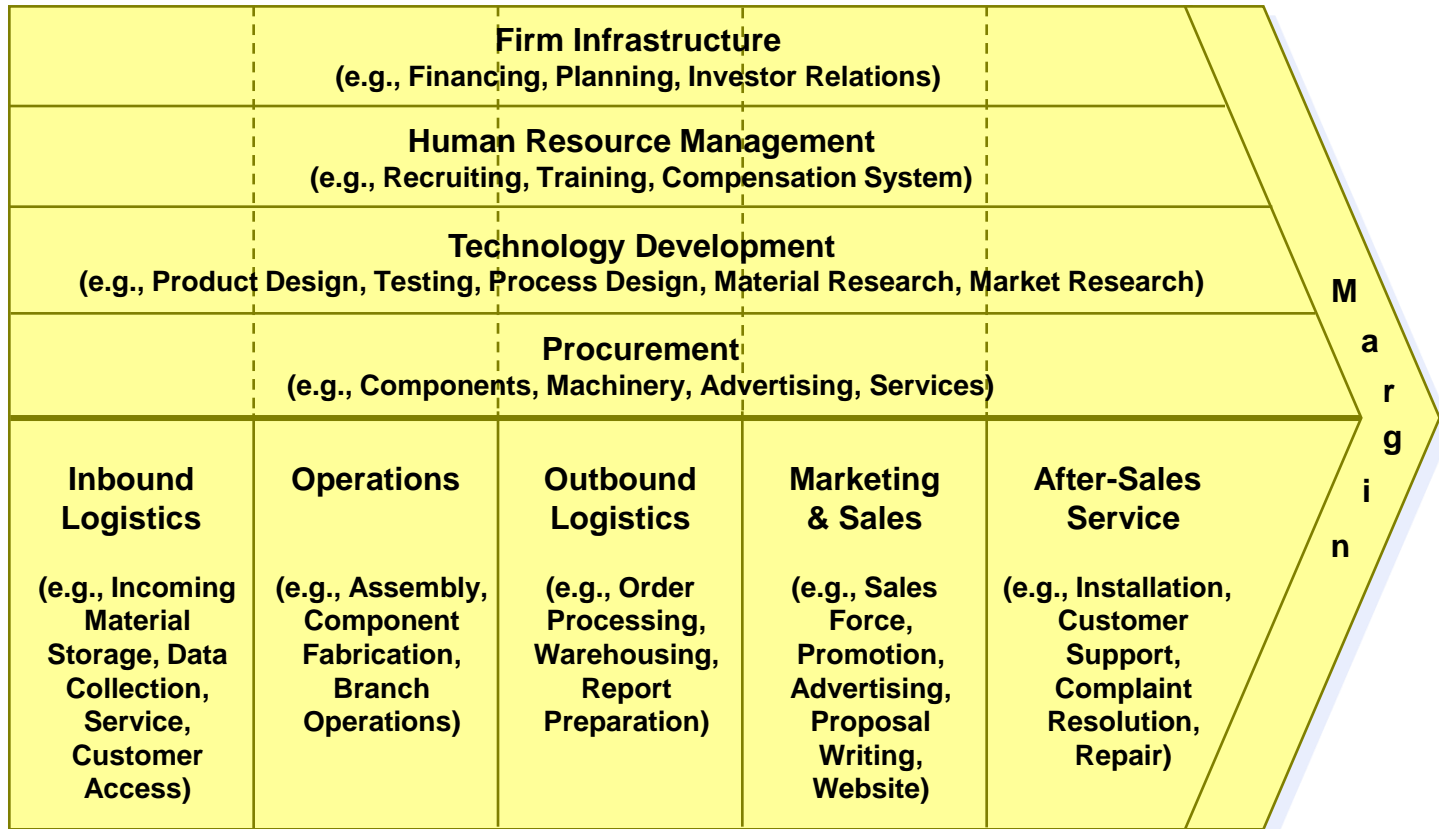


- Now Banking provides customers with **security**, **reasonable fees**, and a **path** to a fuller banking relationship
- Now services are **profitable** and **expand demand** for the Bank's more traditional banking products and services

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)

Redefining Productivity in the Value Chain



- Purchasing that **enhances supplier capabilities** and **efficiency**
- **Energy** and **resource** efficiency
- Minimizing **logistical intensity**
- Improving employee **health** and **safety**
- Enhancing the productivity and wages of **lower income** employees
- Strengthening **local distribution** channels
- Recruiting that represents the **diversity of customers** and the **communities** where a company operates

Shared Value in the Value Chain

Intercontinental Hotels Group

- IHG introduced the **GreenEngage program** in 2009 to address its environmental footprint
- **Energy** represents the **second highest cost** in a hotel, with water and waste also significant
- The program identified a **wide array of options** for improvement and tools for each franchise to assess return
- More than 1,900 IHG hotels are using the Green Engage **online tool** to continue to improve performance



- IHG hotels have achieved **energy savings of up to 25%**
- The effort has **improved engagement** with consumers and corporate clients

Improving the Business Environment in the Company's Major Locations

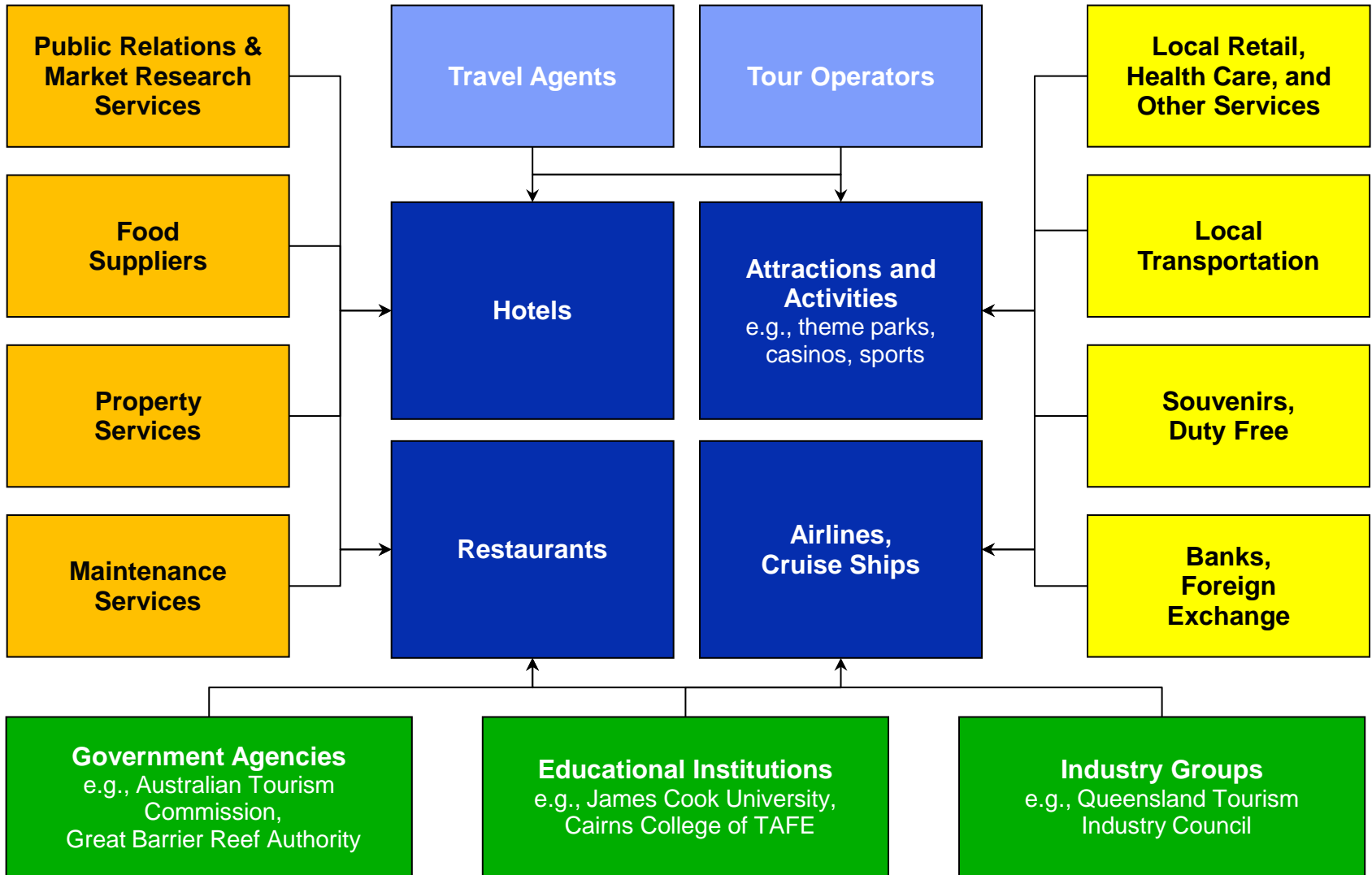
- Companies, working individually and collaboratively, can catalyze major improvements in the **local business environment** in the regions in which they have major operations
 - Includes institutions important to the field, including NGOs
 - E.g., supporting institutions, infrastructure, and regulating framework
- Building a **strong local cluster** improves company productivity and growth while raising regional competitiveness



- 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

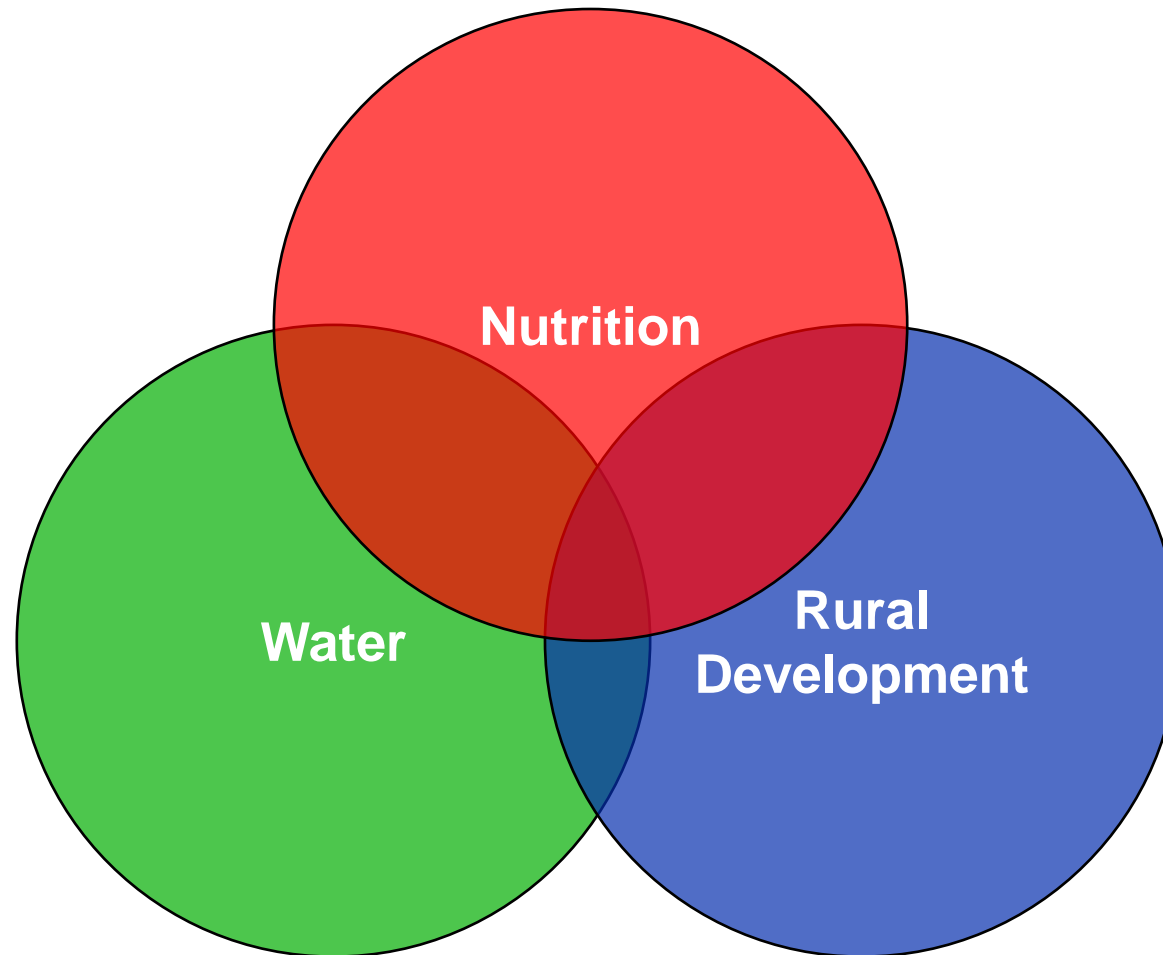
- Through improved retailer operations, Coca-Cola Brazil has **increased sales of its products**
- The program also **increased Coca-Cola's market penetration** among the emerging lower-middle income segment

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

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 teams, stadiums, and vendors
- Value-added local procurement
- Energy efficiency and waste reduction

III: Enabling **local cluster development**

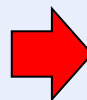
- Spur economic development in the **areas surrounding stadiums and other team facilities**
- Create a **local supplier base** for concessions, souvenirs, services, etc.
- **Anchor** complementary entertainment and real estate projects in the area

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, 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**