

Defining Corporate Purpose: Creating Shared Value

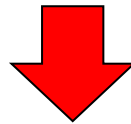
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The ideas drawn from “Creating Shared Value” (*Harvard Business Review*, Jan 2011) and “Competing by Saving Lives” (FSG, 2012). No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, 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 wealth** and **prosperity**
- Business is facing **growing scrutiny** as the cause or a contributor to many of today's societal challenges
- Corporate social responsibility efforts are greater than ever, but the **legitimacy of business has fallen**
- Government and NGO's alone **lack sufficient resources and capabilities** to fully meet social challenges



We need a **new approach**

The Role of Business in Society

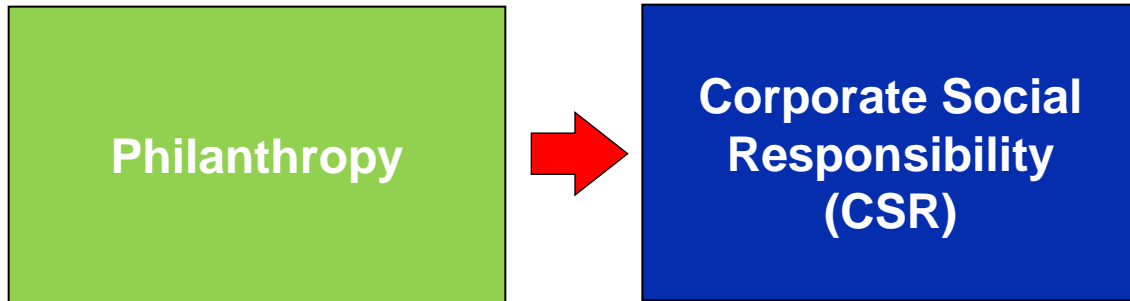
Evolving Approaches

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”



- Mitigate risk and harm

The Role of Business in Society

Evolving Approaches



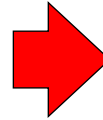
CSR versus Shared Value

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

Social Needs and Economic Value Creation



- **Social** deficits and **environmental** impact create **economic** costs for companies
- **Community** weaknesses affect company productivity
- Social needs represent the **largest market opportunities**

Levels of Shared Value

I. Reconceiving **needs**, **products**, and **customers**

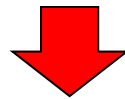
- Meeting **societal needs** through products
- Serving **unserved** or **underserved customers**

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

- Utilizing resources, energy, suppliers, logistics, and employees **differently**

III. Improving the **local business environment**

- Improving **workforce skills**, the **supplier base**, the **regulatory environment**, and **supporting institutions** in the communities and regions in which a company operates
- **Strengthening the cluster** in which the company operates while improving company productivity



- Strengthening the link between **company** success and **community** success

Creating Shared Value in Products and Markets

Becton Dickinson Health Worker Safety

- There is pressing need to protect health workers from **needle stick injuries** that spread HIV and other infections
- BD redesigned syringes to **prevent** accidental sticks



- Substantial **reduction in health worker injuries**
- **\$2 billion** in revenues in 2012, representing 25% of the company's revenues
- Largest source of **company growth** over the past two decades

Creating Shared Value in Products and Markets

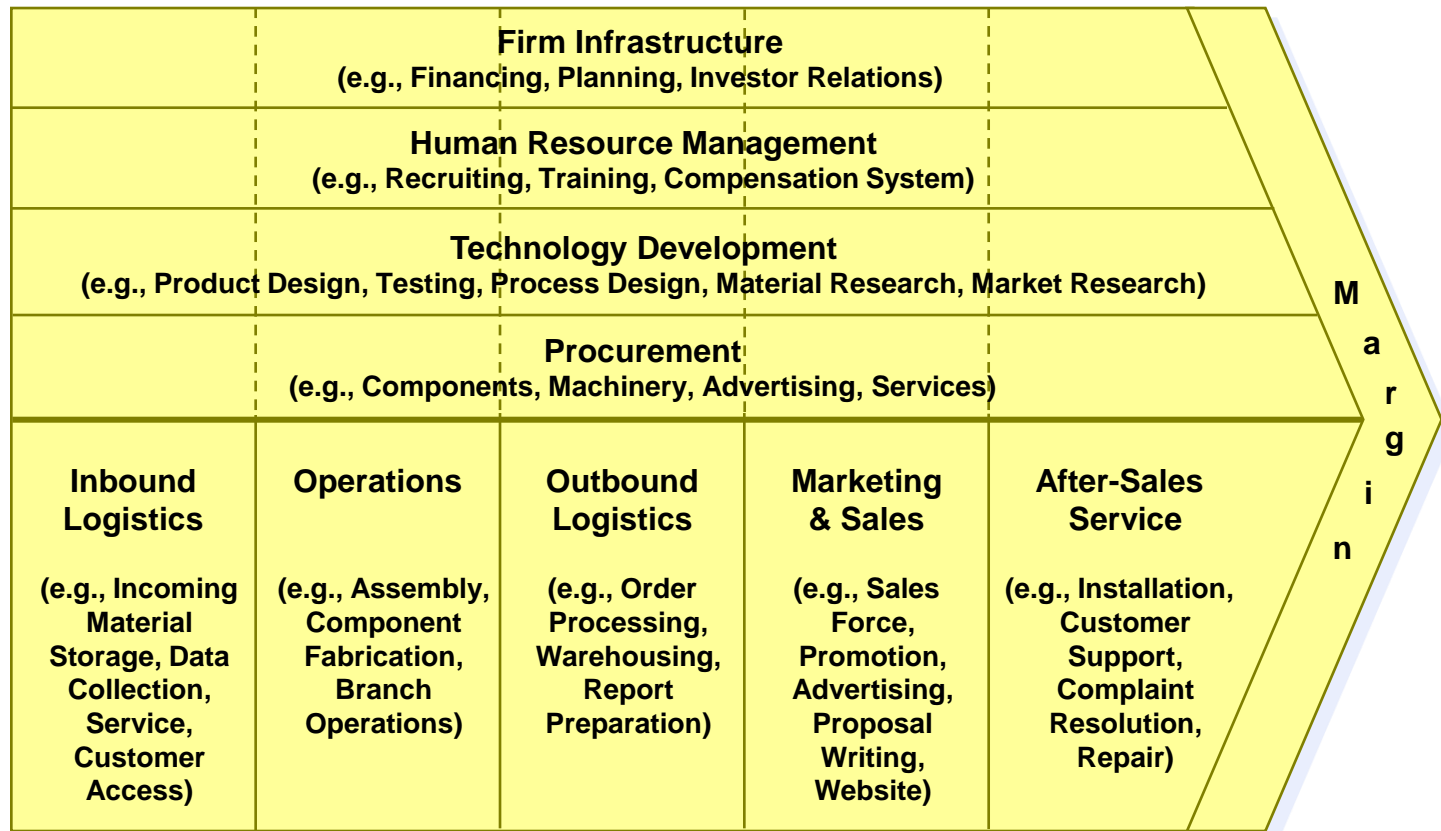
Regions Bank

- Introduced the **Regions Now Banking** product suite designed to meet the needs of unbanked and under-banked customers
 - An estimated **25% of all consumers**
- Low cost, user-friendly solutions including:
 - Low cost check cashing
 - Money transfers and expedited bill pay services
 - The Regions Now card, a pre-paid debit card
 - Embedded web-based financial education



- Customers pay **lower fees**, with better personal and financial **security**, and get on a **path** to a fuller banking relationship
- Now Banking services are **profitable** and **growing**, while **expanding demand** for Regions' more traditional banking products and services

Shared Value in the Value Chain



- Procurement that enhances **supplier capabilities** and **efficiency**
- Improving **energy, water** and **resource** efficiency across the value chain
- Minimizing **logistical intensity**
- Improving employee **health** and **safety**
- Enhancing the productivity and wages of **lower income** employees
- Recruiting that represents the **diversity of customers** and the **communities** where a company operates
- Others

Redefining Productivity in the Value Chain

Intercontinental Hotels Group

- **Energy** represents the **second highest cost** in a hotel, with water use and waste also significant
- IHG introduced the **GreenEngage program** in 2009 to address its environmental footprint as an efficiency improvement opportunity
 - The program led to a **wide array of options** for improvement, and tools for franchisees to assess the ROI in each area
- More than 1,900 IHG hotels are using the Green Engage **tools** to enhance environmental and economic performance. IHG is tracking results

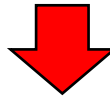


- IHG hotels have achieved energy savings of **up to 25%** to date
- **Differentiates** IHG hotels with consumers and corporate clients

Improving the Local Business Environment

Cisco Networking Academy

- Cisco established the **Networking Academy** to train network operators
- The company has trained **4 million** young people from all backgrounds in **165 countries** in ICT skills
- 70% of graduates have attained a **new job**, or a **better job** at their existing employer



- The program strengthens Cisco's **relationships** with suppliers, customers and government
- The Networking Academy has alleviated a **key workforce constraint** for not only the company but for Cisco customers, increasing industry growth

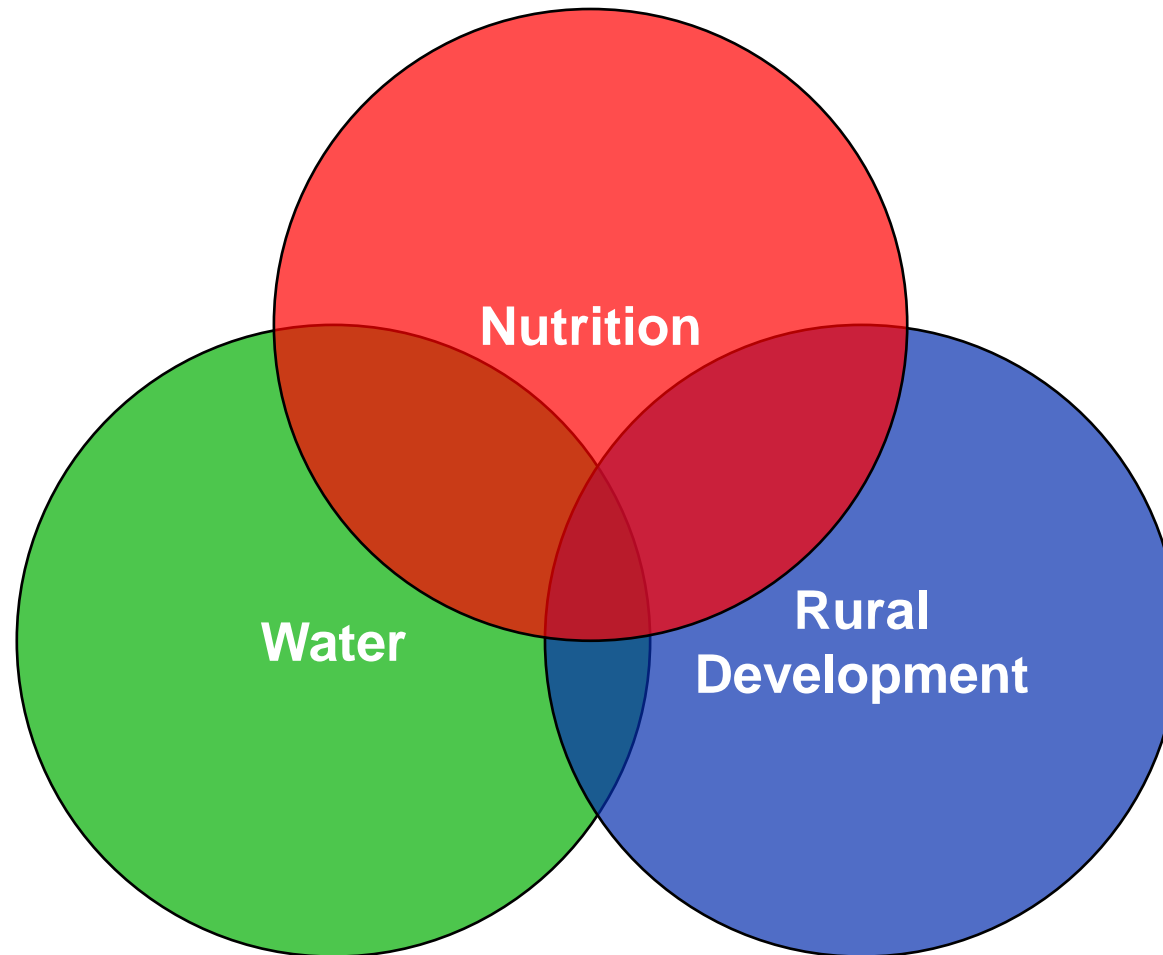
Connecting the Dots



- **Platform investments** to enable shared value approaches:
 - Educate
 - Invest in enabling assets
 - Incubate
 - Accelerate
- **Engaging stakeholders** to collaborate on societal problems
- Address societal needs and challenges with a **business model**

Creating Shared Value: Deciding Where to Concentrate

Nestlé



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

Putting Shared Value Into Practice

Dow Chemical

- Dow has a legacy of **innovation to solve problems** (“solutionism”)
- It recognized that global social issues represent **huge market opportunities**
- Created the “**Breakthroughs to World Challenges**” Program
 - Each business unit is challenged to apply “solutionism” to a **range of global problems** inspired by the MDGs



Example

- Dow developed **Omega-9 canola and sunflower seeds** that produce cooking oil with no trans fats and low saturated fats
- The technology yields **twice the oil per hectare** for farmers than soybeans
- The oils have **longer** shelf life and usage life for food processors



- One of Dow’s biggest selling product lines with total revenues of approximately **\$700 million**

Shared Value and Company Strategy

Whole Foods Markets

Value Proposition

- Natural, fresh, organic, and freshly prepared foods and health items with excellent service at premium prices
- Cater to specialized nutritional requirements (gluten allergies, vegan, etc.)
- Serve educated customers who are passionate about food and a healthy lifestyle

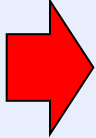
Distinctive Activities

- 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 and Beverage Company		<ul style="list-style-type: none">• Nutrition Company
Nike	<ul style="list-style-type: none">• Footwear and Apparel Company		<ul style="list-style-type: none">• Health and Fitness Company
Thermo Fisher	<ul style="list-style-type: none">• Scientific and Laboratory Instruments Company		<ul style="list-style-type: none">• Making the World Healthier, Cleaner, and Safer

- A **clear social purpose** opens up new opportunities for growth and profitability, while motivating and attracting consumers, business partners, employees, shareholders, and the public

Redefining Corporate Purpose

Danone

- In the late 1990's, Danone realized that it had drifted away from its origins as a manufacturer of **healthy foods**



- **Sold off** its beer, meat and cheese units
- Refocused the company on **dairy** and **water**
- Acquired **medical nutrition** and **baby foods** businesses
- Created **Innovation Committees** in business units to provide “healthy food for as many people as possible”

Vision

The ‘dual economic and social’ project, creating economic value by creating social value

Mission

Bringing health through food to as many people as possible by refocusing on four complementary business lines and expanding into fast-growing new regions

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**