

The New Competitive Advantage: Creating Shared Value

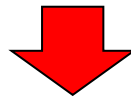
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Harvard Business School

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This presentation draws on ideas from Professor Porter's articles and books, in particular, [The Competitive Advantage of Nations](#) (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in [The Global Competitiveness Report](#) (World Economic Forum), "Clusters and the New Competitive Agenda for Companies and Governments" in [On Competition](#) (Harvard Business School Press, 2008), "[Creating Shared Value](#)" (Harvard Business Review, Jan 2011), the [Social Progress Index Report](#) (Social Progress Imperative) and ongoing related research. 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), FSG (www.fsg.org) and the Social Progress Imperative (www.socialprogressimperative.org).

The Role of Business in Society

- Only business can **create economic prosperity**
- Societies are facing significant **social and environmental** challenges
- Business is facing **growing scrutiny** as the cause or a contributor to many of these challenges
- Corporate social responsibility efforts are greater than ever, but the **legitimacy of business has fallen**
- Government and NGO's **lack sufficient resources and capabilities** to fully meet the challenges alone



We need a **new approach**

The Role of Business in Social and Environmental Issues

Evolving Approaches



Philanthropy

- Donations to worthy social causes
- Volunteering

The Role of Business in Social and Environmental Issues

Evolving Approaches



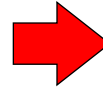
The Role of Business in Social and Environmental Issues

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
- **Environmental** impact also improved

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 and regional business environment**

- Improving **skills**, the **supplier base**, the **regulatory environment**, and **supporting institutions**
- **Strengthening the cluster** on which the company depends



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

Creating Shared Value in Products and Markets

Jain Irrigation Systems

- **Drip irrigation equipment** for small farmers in India and Africa
- Serves more than **4 million farmers** worldwide as of 2012



- Reduces **water use** by over 40%
- Enables **higher crop yields** that improve food security while raising farmers' income
- Jain is now a **\$820 million** company that is rapidly growing

Creating Shared Value in Products and Markets

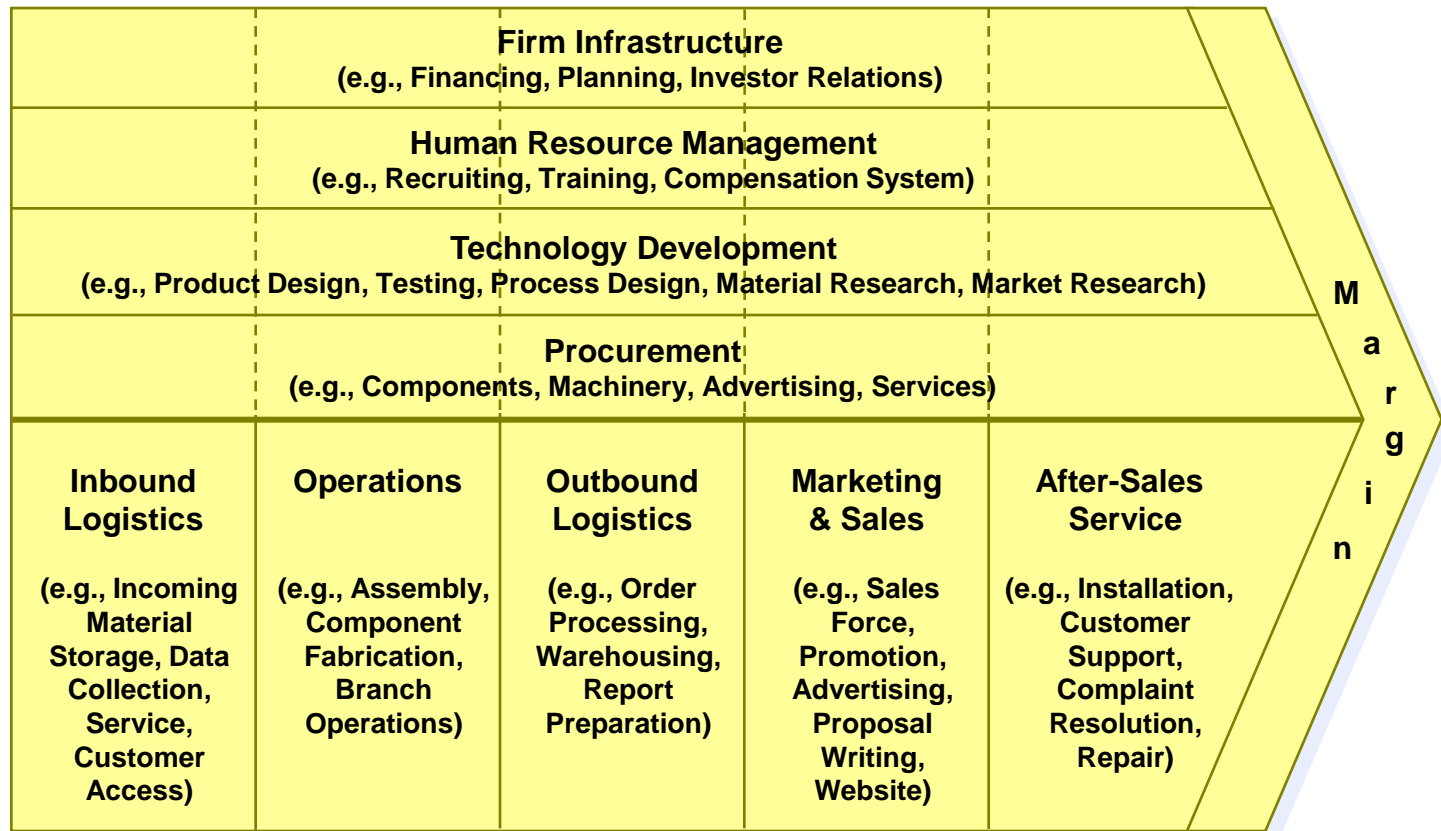
Becton Dickinson Health Worker Safety

- 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** business in 2012, representing 25% of the company's revenues
- Largest source of **company growth** over the past two decades

Shared Value in the Value Chain

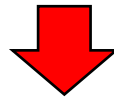


- Procurement that enhances **supplier capabilities** and **efficiency**
- Improving **energy, water** and **resource** efficiency across the value chain
- Minimizing **logistical intensity**
- Improving employee **health** and **safety**
- Enhancing the productivity and wages of **lower income** employees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

Shared Value in the Value Chain

Fibria, Brazil

- Fibria, the world's leading manufacturer of chemical pulp, utilizes planted eucalyptus trees and integration of native habitat to dramatically **reduce the land required** in cultivation
- The company also encourages **small-scale producers** near its mills to plant eucalyptus in conjunction with other crops, assisting them with technical training and inputs



- Fibria achieves far greater land and water efficiency versus traditional plantation methods
- Small scale producers currently contribute 27% of the **raw materials** utilized in Fibria mills, improving efficiency while **4000 households** have significantly increased their income

Shared Value 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



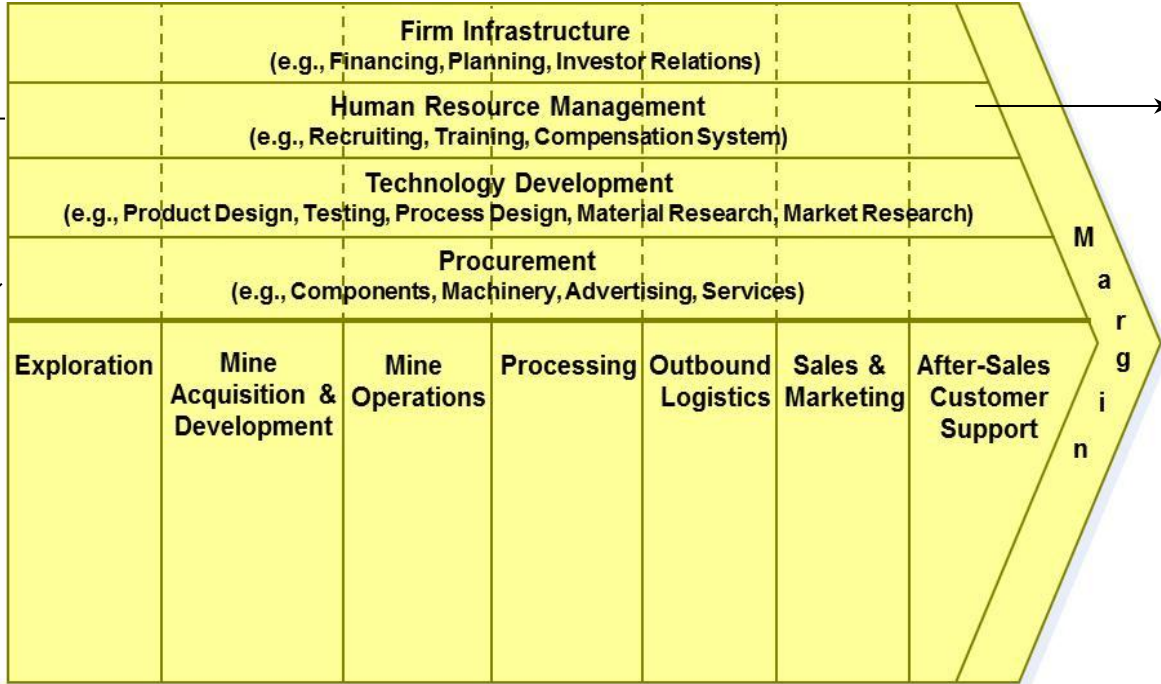
- IHG hotels have achieved energy savings of **up to 25%** to date
- **Differentiates** IHG hotels with consumers and corporate clients

Identifying Opportunities for Shared Value in the Value Chain

Mining

- Enhancing skill training partnerships with local colleges and universities

- Qualifying local suppliers
- Value added purchasing practices with suppliers



- Recruiting from disadvantaged surrounding communities
- Employee education and job training
- Enabling nearby family housing
- Employee health initiatives

- Energy and water use
- Limiting emissions and waste
- 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: Upgrading Channels

Arca Continental

- Arca Continental is the **second largest bottling company** in Latin America, and **one of the largest Coca-Cola bottlers** in the world
- Arca Continental established a program to train and invest in the **micro-entrepreneur retailers** who sell more than 60% of the Company's products, including **management, sales and marketing** and **merchandising**
- Invests in **low energy use coolers** and **fixture improvements**

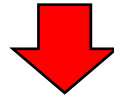


- Participating retailers register **sales increases of 25%** or more, with improved customer satisfaction, leading to similar **increases in the sales of Arca's products**
- Arca Continental **recovers its investment** in 6 months or less
- Beginning in **Mexico**, the program is being extended to **Argentina** and **Ecuador**

Skill and Supplier Development

Rio Tinto, Canada

Rio Tinto's Diavik Diamond mine has helped create a variety of **community based training partnerships** with communities, contractors, governments and educational institutions in remote Northern Canada



- **Education:** Promotes careers in diamond mining. Offers apprenticeships that employ and train students
- **Worker training:** Partners with communities, colleges and government to train workers in mining related activities
- **Supplier development:** Sources local inputs and capacity building for local providers of goods and services



- Rio Tinto hires **62% of its employees locally**
- The company sources **71% of goods and services locally**

Integrating Strategy Across Levels

Novartis in Rural India

Reconceiving Products and Markets

- Portfolio of the **appropriate and affordable medicines** drawn from the company's patented, generics, and over-the-counter (OTC) businesses
- Packaging of OTC medicines to reflect consumers' limited spending power

Redefining Productivity in Value Chain

- Localized sales teams that know the culture and speak the dialect, understand needs and reduce mistrust
- A dense **network of local distributors** to reduce stock-outs


Enabling Local Cluster Development

- **Community health education** programs to address lack of health-seeking behavior
- **Frequent health camps** for physicians in rural areas
- **Microfinance partners** to improve healthcare delivery infrastructure and access to working capital

New Stakeholder Roles and Relationships

- The focus on social impact **unites the goals** of companies, NGOs, and government
- Shared value fosters **new relationships** between companies, philanthropists, NGOs, and government in addressing social issues

Traditional Roles

- | | <u>Traditional Roles</u> | | <u>New Roles</u> |
|------------------------|--|---|--|
| Philanthropists | <ul style="list-style-type: none">• Donate to charitable causes | | <ul style="list-style-type: none">• Partner with companies and NGOs to catalyze shared value initiatives |
| NGOs | <ul style="list-style-type: none">• Receive grants to deliver social services |  | <ul style="list-style-type: none">• Partner in implementing new shared value business models |
| Governments | <ul style="list-style-type: none">• Tax and regulate business; operate social programs | | <ul style="list-style-type: none">• Make platform investments and support shared value strategies; regulate to encourage shared value solutions |
| Companies | <ul style="list-style-type: none">• Donate to charitable causes or ESG programs | | <ul style="list-style-type: none">• Partner with NGOs and government to initiate and scale shared value strategies• Partner with other companies to leverage impact in shared value |

New Roles

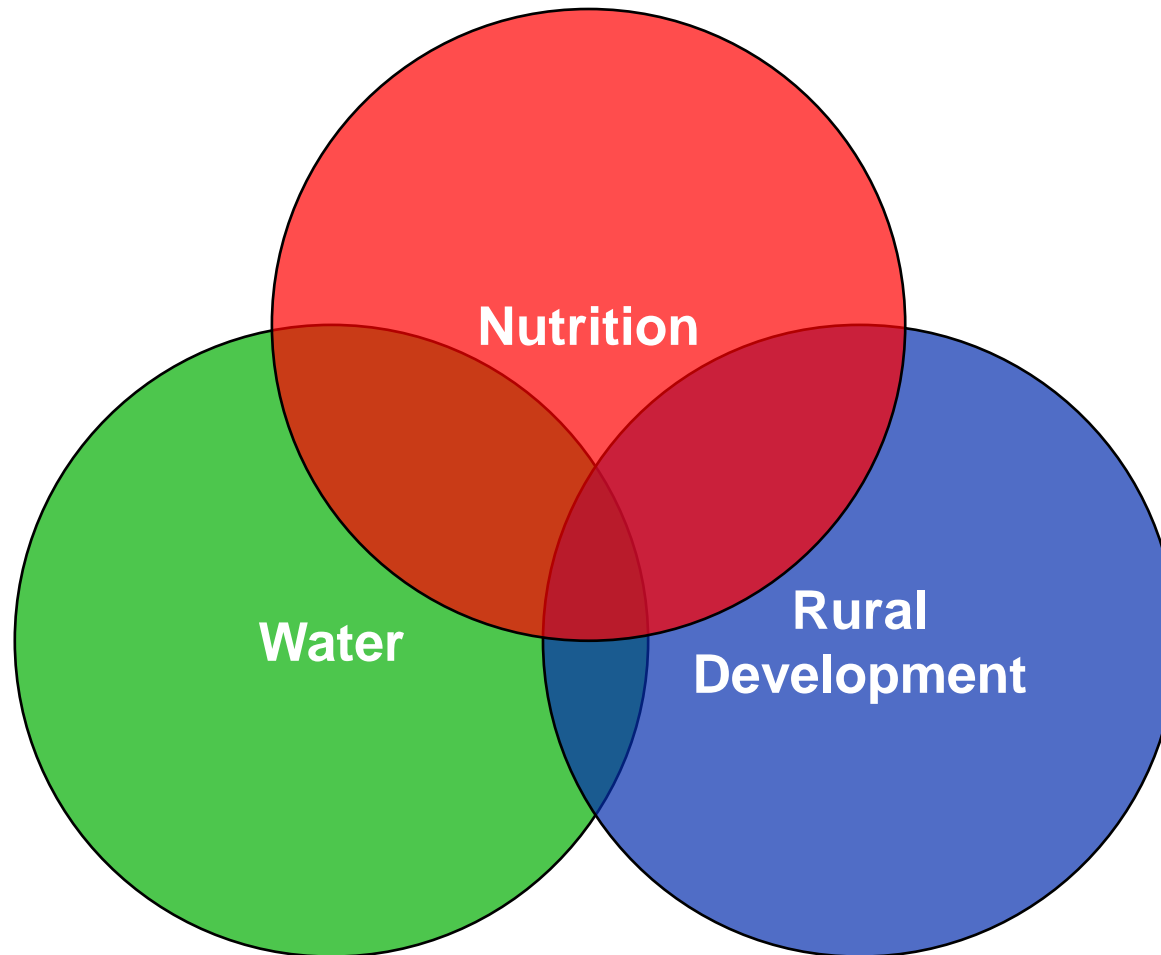
Connecting the Dots Within the Company



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

Creating Shared Value: Deciding Where to Concentrate

Nestlé

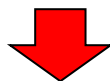


- Opportunities to create shared value are **inevitably tied closely** to a company's particular businesses

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

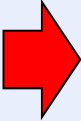
Distinctive Activities

- 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

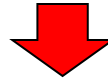
	<u>Traditional Positioning</u>		<u>New Positioning</u>
Nestlé	<ul style="list-style-type: none">• Food and Beverage Company		<ul style="list-style-type: none">• Nutrition, Health and Wellness Company
Thermo Fisher Scientific	<ul style="list-style-type: none">• Scientific and Laboratory Instruments Company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

- 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 economic value while creating **shared value for society**
- 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 strategy and economic value creation and 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