

The Role of Business in Society: Creating Shared Value

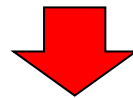
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Harvard Business School

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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 economic prosperity**, through meeting needs at a profit
- Societies everywhere are facing significant **social, environmental and economic development** challenges
- Government and NGO's **lack sufficient resources and capabilities** to fully meet these challenges alone
- Corporate social responsibility efforts are greater than ever, but the **legitimacy of business has fallen**



We need a **new approach**

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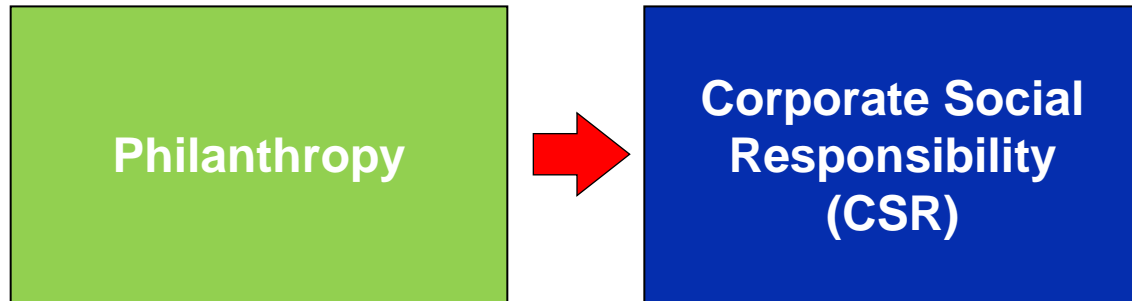
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

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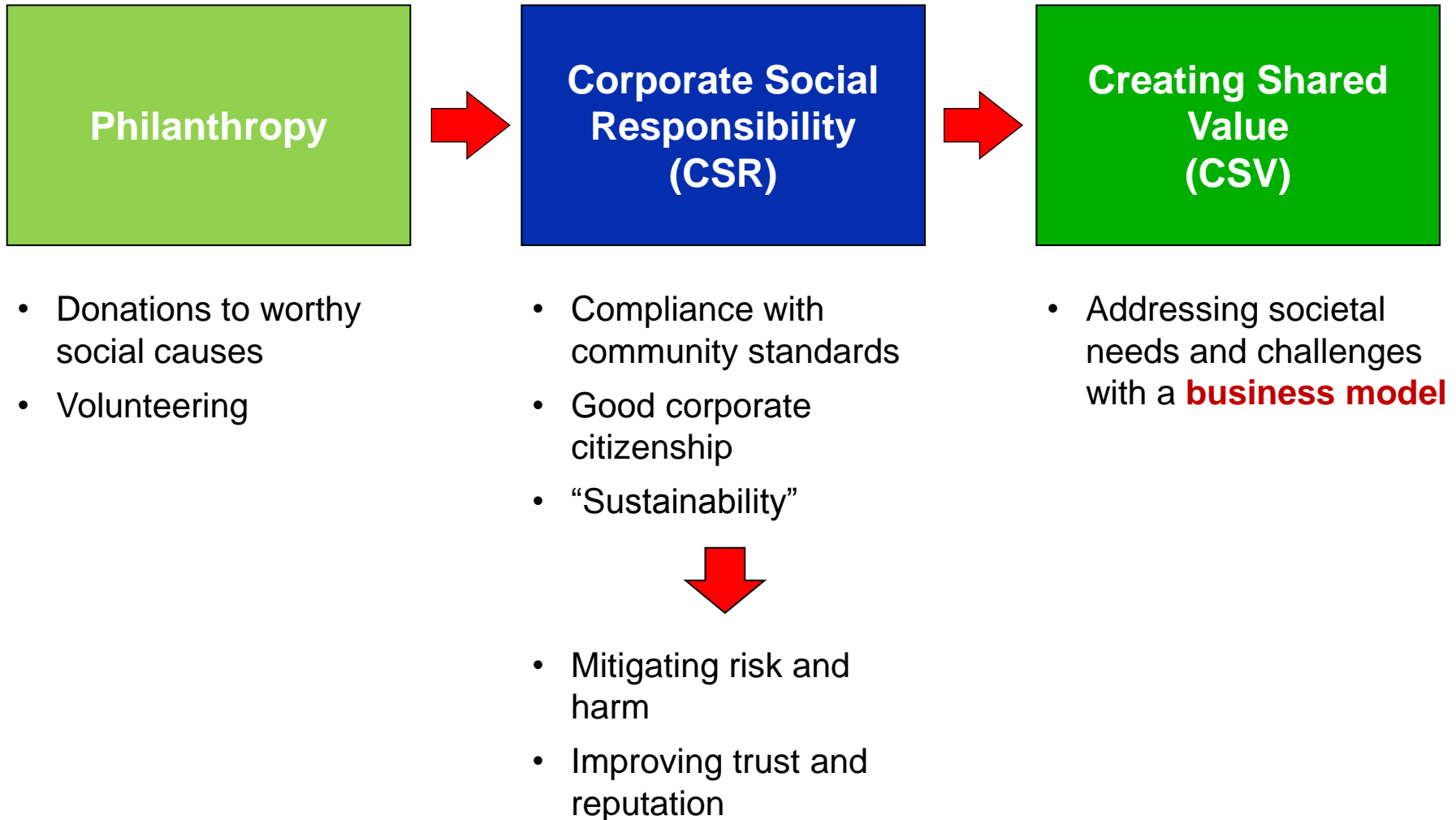
- Compliance with community standards
- Good corporate citizenship
- “Sustainability”



- Mitigating risk and harm
- Improving trust and reputation

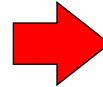
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Evolving Approaches



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

The Opportunity for Shared Value



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

Levels of Shared Value

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

- Meeting **societal needs** through products and services
- 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 the **supporting institutions** that affect the business
- Strengthening the **cluster** on which the company depends



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

Shared Value in Products

Dow Chemical

- Dow recognized that global social issues represent its **largest market opportunities**
- Created the “**Breakthroughs to World Challenges**” Program
 - Each business unit was challenged to apply Dow’s tradition of “solutionism” through innovation to a **range of global problems** inspired by the Millennium Development Goals



- One of Dow’s business units 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, raising farmer and farmland productivity
- The oils have longer **shelf life** and **usage life** for food processors

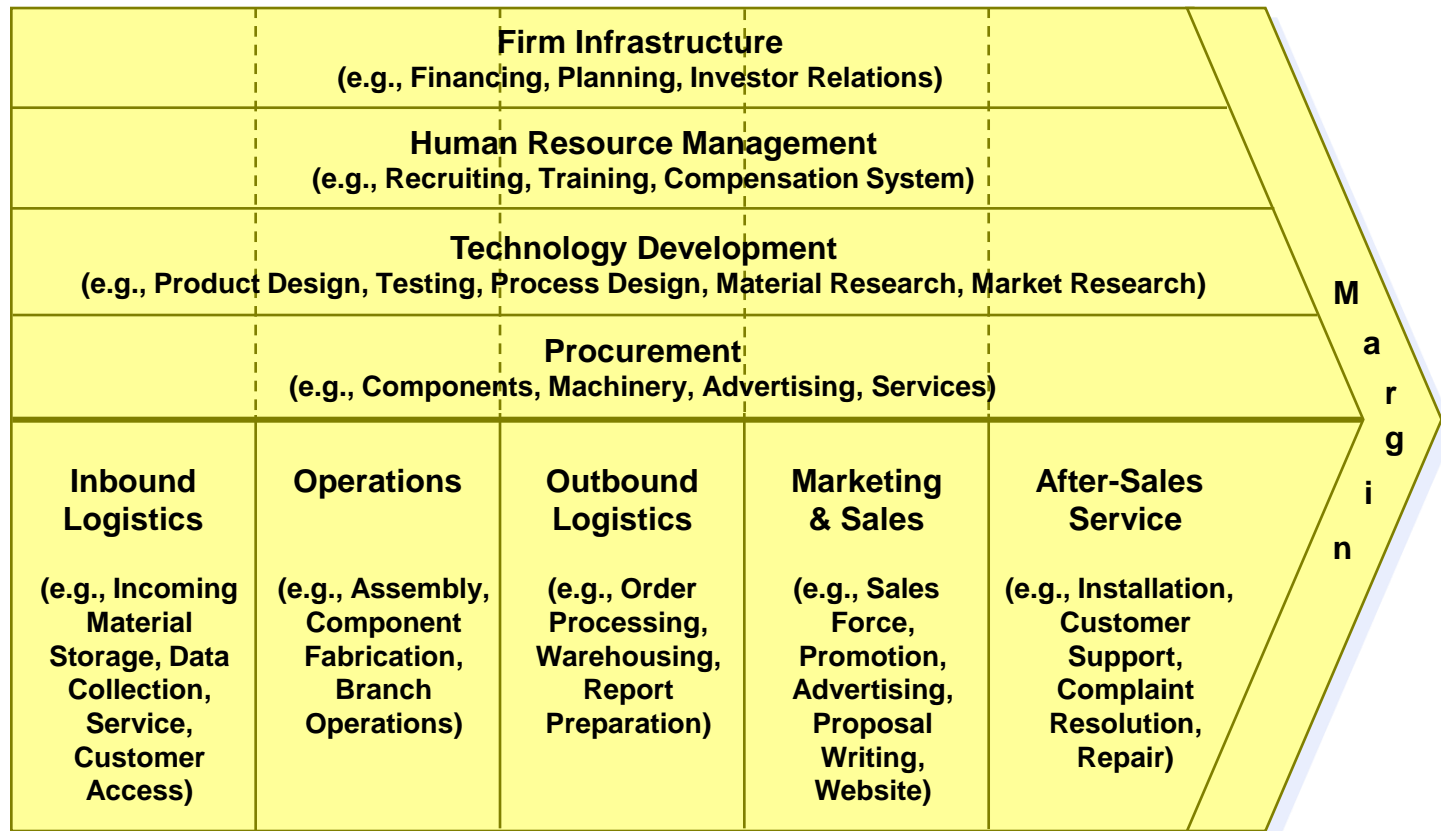


- Has become one of Dow’s largest selling product lines, with 2012 total revenues of approximately **\$700 million**

Unlocking Shared Value in Products and Markets

- Rethink 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
- 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)

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

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
- Over 1,900 IHG hotels are using the Green Engage **tools** to enhance environmental and economic performance



- IHG hotels have achieved energy savings of **up to 25%** to date, and other improvements are following
- Environmental performance also **differentiates** IHG hotels with consumers and corporate clients

Shared Value in 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 **165 countries** in ICT skills
- 70% of graduates have attained a **new job**, or a **better job** at their existing employer

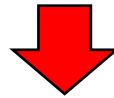


- The Networking Academy has alleviated a **key workforce constraint** for not only the company but for Cisco customers, increasing industry growth
- The program strengthens Cisco's **relationships** with suppliers, customers and government

Shared Value in the Local Business Environment

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**

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 for **lower income** consumers and **emerging markets**
- **Tailored product offerings** to meet local market conditions

Redefining Productivity in Value Chain

- New, local supply chains and manufacturing approaches to reduce product costs
- **Locally-adapted sales and distribution** models to reduce cost, access new markets, and better meet patient needs

Enabling Local Cluster Development

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

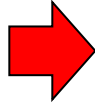


- Leading firms are beginning to design **multi-level approaches** to shared value that are mutually reinforcing

Partnering for Shared Value

NGOs

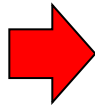
- Hold business accountable
- Seek donations



- Partner with business to **implement** and **scale** shared value solutions

Government

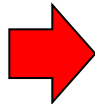
- Regulate how businesses operate
- Operate social programs
- Tax businesses



- Regulate to **encourage** market solutions
- **Partner** to deliver shared value solutions to delivering social services
- **Jumpstart market solutions** through purchase commitments or subsidies
- Invest in **infrastructure** to enable shared value approaches (e.g. roads, skills)

Foundations

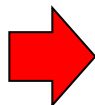
- Donate to charitable causes



- Invest **with** companies, NGOs and government to enable shared value solutions

Competitors

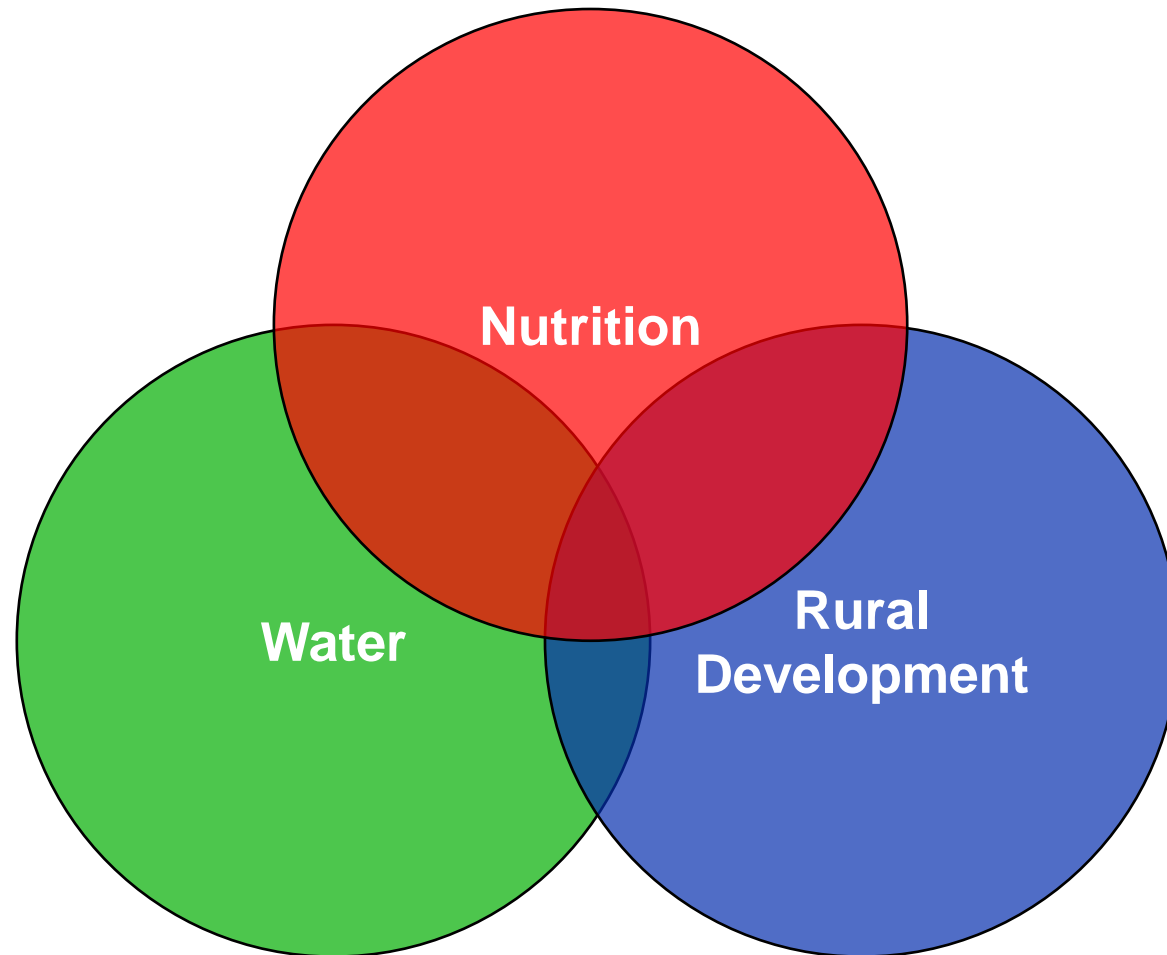
- “Brand” solo social initiatives



- **Partner** on business environment improvements

Creating Shared Value: Where is the Opportunity?

Nestlé



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

Shared Value Opportunities in Banking: Regions Financial

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

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

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

- Local **procurement**
- **Hiring** and **training**
- **Energy** and resource efficiency

III: Improving the local and regional business environment

- **Financial literacy** education
- Leveraging **facility locations as anchors**
- **Skill development** programs in partnership with universities, technical schools or community colleges to improve the pipeline of prospective employees in shortage areas
- Leadership in **regional competitiveness improvement**

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

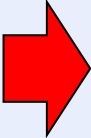
Distinctive Activities

- 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

- The 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