

The New Competitive Advantage: Creating Shared Value

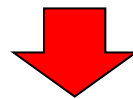
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Harvard Business School

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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**

The Role of Business in Society

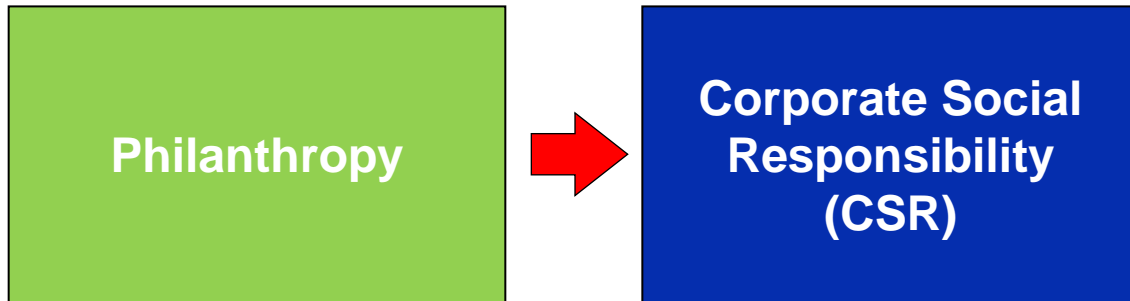
Evolving Approaches

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”



- Mitigating risk and harm
- Improving trust and reputation

The Role of Business in Society

Evolving Approaches



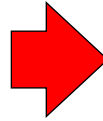
Moving to Shared Value in Pharmaceuticals

Novartis in Rural India



CSR

- **Donating drugs** to lower-income populations



CSV

- Implementing a new **drug business model for low-income populations** (Arogya Parivar)
- Understanding non-traditional customer behavior and new business models
- New quantity, packaging, patient education, and distribution
- Improvement in local healthcare delivery infrastructure

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 opportunities**

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 and better**

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 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

Shared Value in Products and Markets

Safaricom, Kenya

- Developed a **mobile-based banking service** called **M-PESA** aimed at the unbanked
 - While over 75% of Kenyans have been **unbanked**, 80% can access mobile phones
- Convenient and accessible **everyday financial services at low fees** accessed through a mobile phone including:
 - ATM cash withdrawals
 - Savings accounts that pay interest
 - Retail payments
 - Loyalty rewards
 - Corporate accounts with higher transaction limits



- With over 15 million users, M-PESA extends banking services to about **35% of the population**
- An estimated **43% of Kenya's GDP** flows through M-PESA
- M-PESA contributes **18% of Safaricom revenue** or \$US 146 million for the first half of fiscal 2014

Shared Value in Products and Markets

Discovery Health Insurance, South Africa

- Discovery is a health insurance company focused on health for its subscribers
- Health insurance clients can sign up for the **Vitality Wellness Program** which rewards healthy behavior by offering its members:
 - Health assessments using online tools
 - Health club membership conditional on going twice a week
 - Coverage of 25% of fresh vegetable purchases at major grocery stores
- Discovery recently launched the **Vitality Research Institute** in the US to discover more about wellness behaviors and advance debate on wellness and health promotion
- Employees of Discovery are also encouraged to follow a more **physically active lifestyle** (i.e. offices have a track on the roof and every Friday half the elevators are shut down so employees take the stairs)

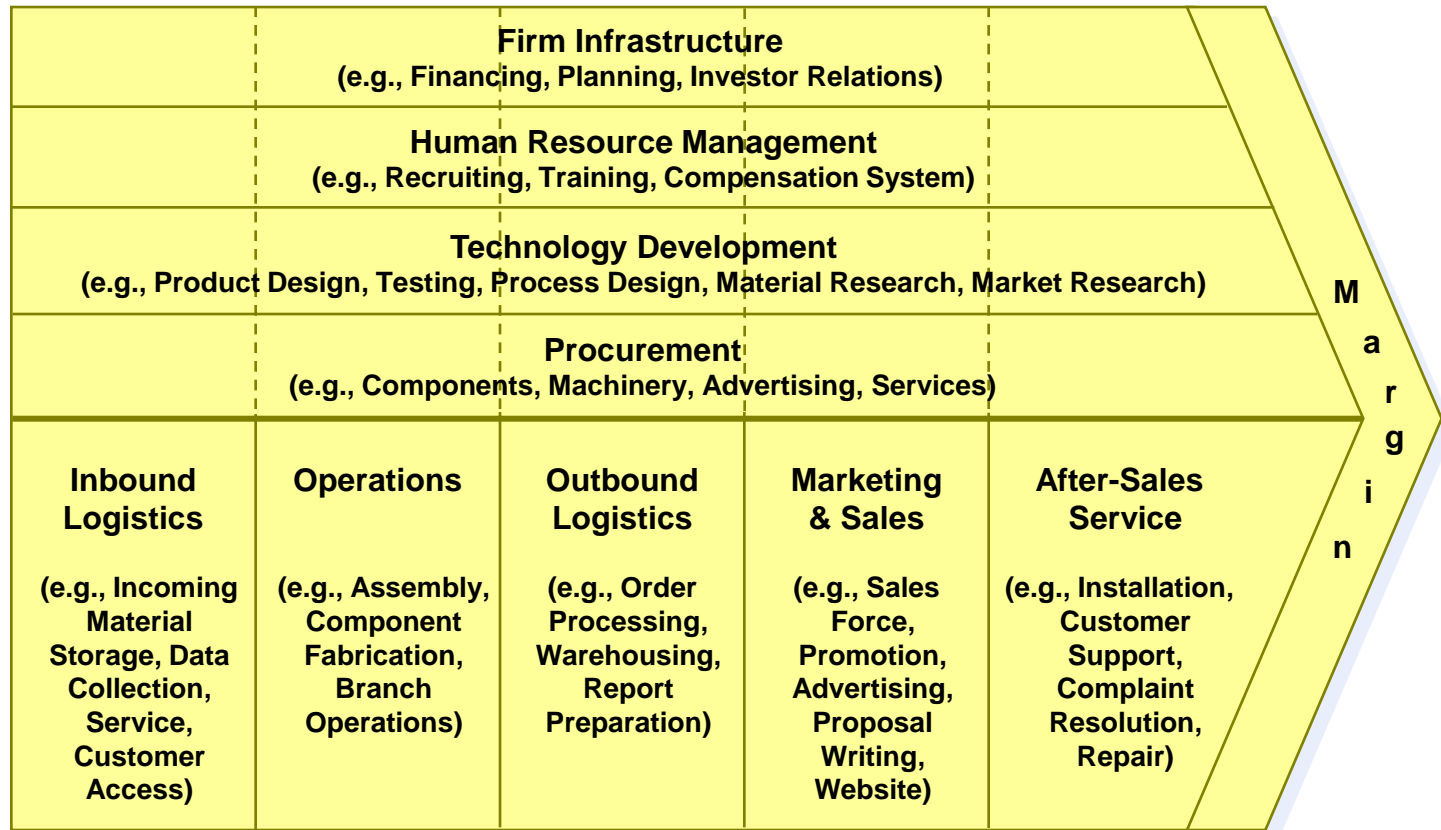


- Vitality is now the largest wellness program of its kind, with **5.5 million members** globally
- Clinical studies show that Vitality members are **healthier**, **live longer** and have **lower healthcare costs**
- Discovery is one of the world's **fastest growing** and most **profitable** insurance companies

Discovering the Shared Value in Products

- Rethink the business around **unsolved customer and societal problems or needs**, 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 through this wages) of **lower income** employees
- Recruiting to reflect 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

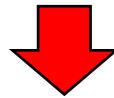


- IHG hotels have achieved energy savings of **up to 25%** to date, and other improvements are following
- Environmental performance also **differentiates** IHG hotels with consumers and corporate clients

Shared Value in the 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** and sustainability in wood fiber 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 material volume** utilized in Fibria mills, improving efficiency
- Over **4000 households** have significantly increased employment and incomes

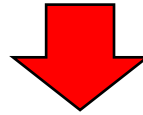
Improving the Local and Regional Business Environment

- Companies, working individually and collaboratively, can catalyze major improvements in the efficiency and productivity of the **local business environment** in the regions where they have major operations
 - E.g., skills availability, supplier availability, supporting institutions, infrastructure, and the regulatory framework
- Company efforts to build a **strong local cluster** in their field improves company productivity while raising **regional competitiveness**
 - This **strengthens the link** between a company's success and community success

Shared Value in the Local Business Environment

Cisco Networking Academy

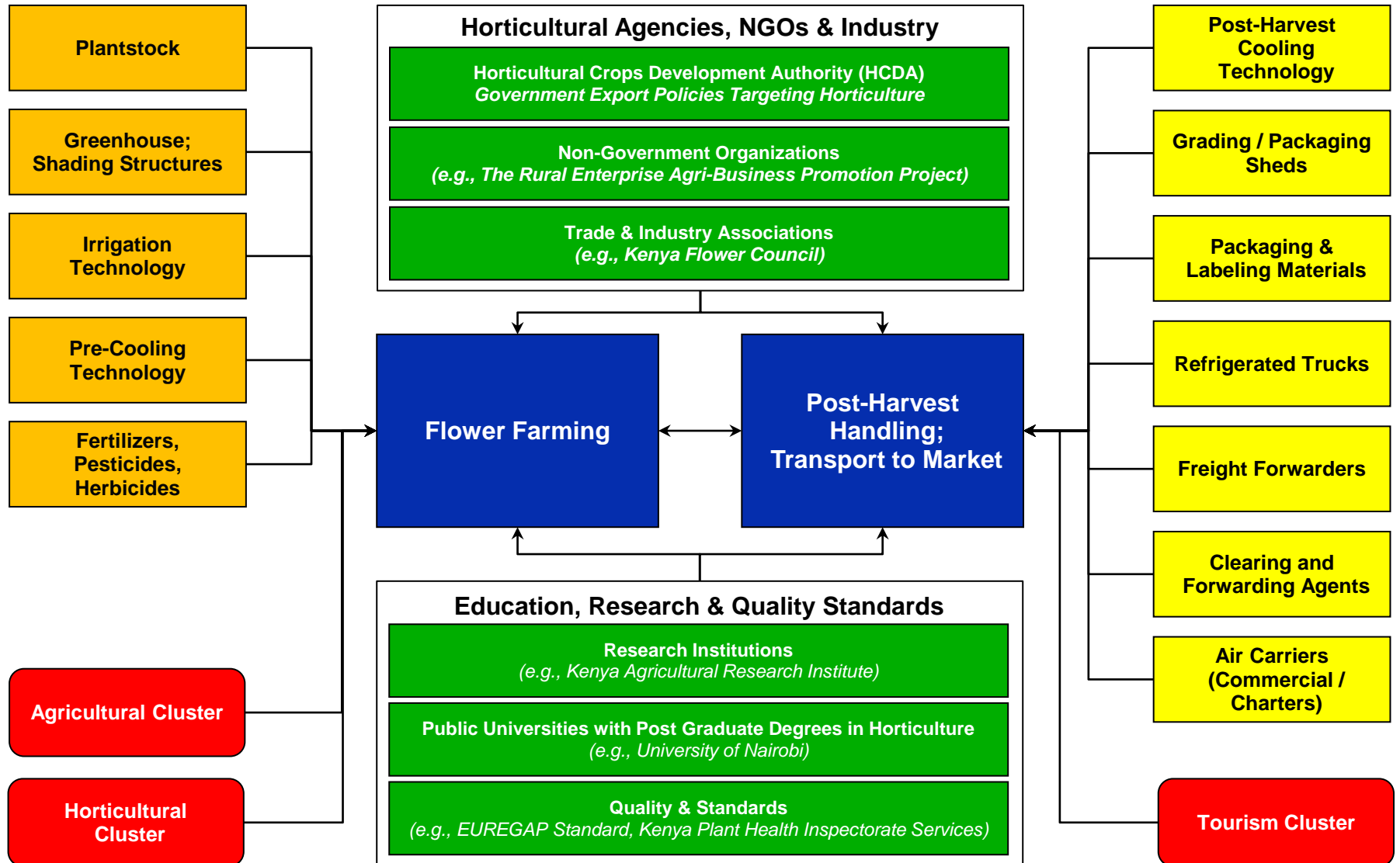
- Cisco established the **Networking Academy** to train network operators
- The company has trained **4 million** young people from **165 countries** in ICT skills



- 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

What is a Cluster?

Kenya's Cut Flower Cluster



Shared Value Through Cluster Development

ITO EN, Japanese Tea Cluster

- ITO EN is the world's leading producer and marketer of loose leaf and bottled green tea. The company sources **100% locally-grown** green tea leaves
- ITO EN partners with farmers, government and other stakeholders to establish small and large scale plantations using **abandoned agricultural land**
- The company purchases entire crops produced through this program, **lowering sales costs**
- The company provides **assistance in modern farm management practices** and **technology**, working with growers to **raise tea quality** to meet ITO EN standards
- The program **motivates and trains young people** to take over tea growing when older farmers retire



- Farmer **incomes have risen** due to increased quality and efficiency
- Land abandoned by retiring farmers has been **restored** to production, creating jobs and assuring cluster sustainability by attracting young people
- Tea volume has expanded by 13% to date, providing ITO EN with **adequate volume, consistent quality**, and **reduced production costs**

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**
- Modifying **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 bring down product costs
- **Locally-adapted sales and distribution** models to reduce cost, access new customers, 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

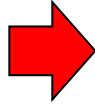


- Leading firms are beginning to design **multi-level approaches** to shared value that are mutually reinforcing

Partnering for Shared Value

NGOs

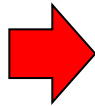
- Hold business accountable
- Seek donations



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

Government

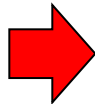
- Regulate how businesses operate
- Tax businesses to pay for social services
- Operate social programs



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

Foundations

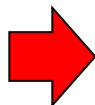
- Donate to charitable causes



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

Competitors

- “Brand” solo CSR initiatives



- **Partner** on business environment improvements

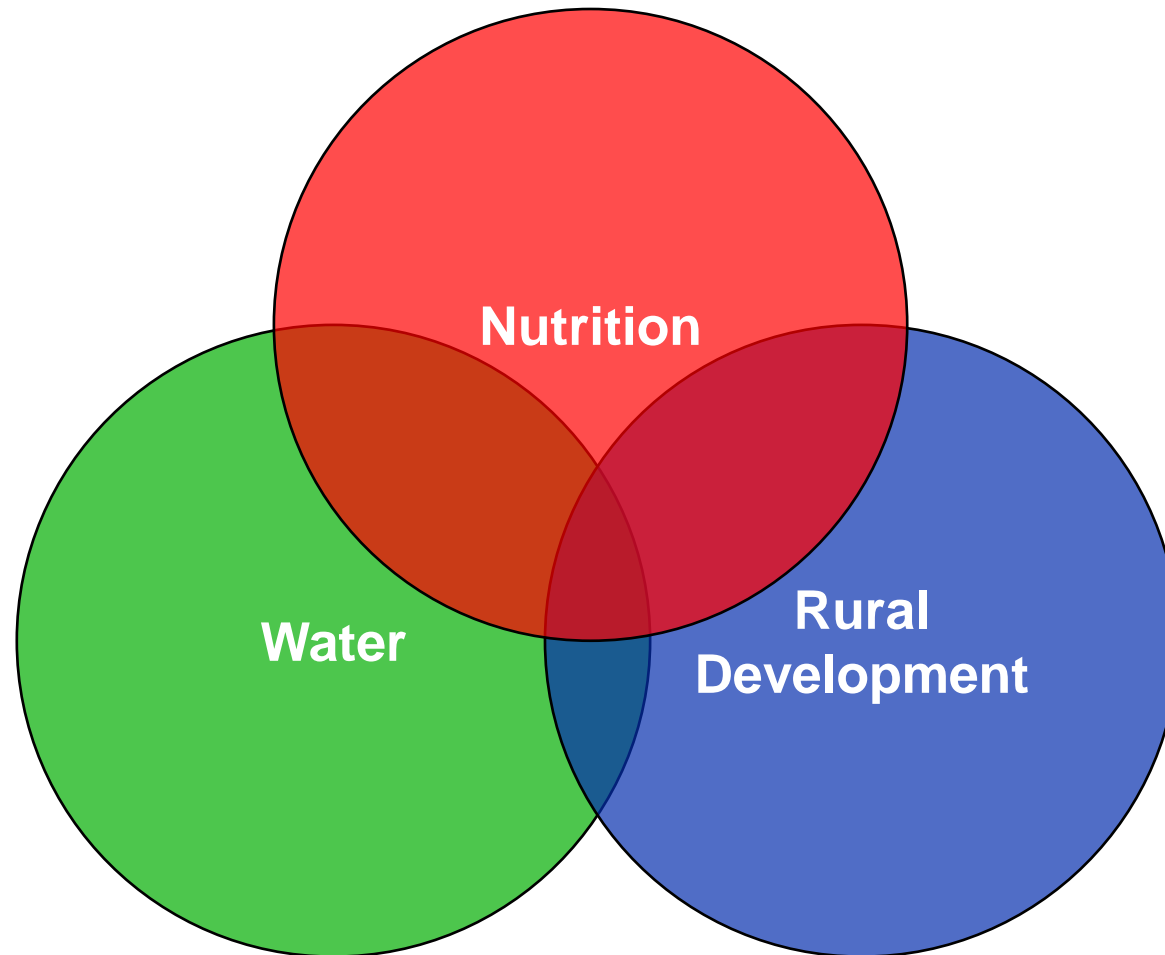
Connecting the Company's Social Roles



- **Foundational investments** to create the potential for shared value:
 - Education
 - Basic research
 - Investments in enabling assets and infrastructure
- **Engaging stakeholders** to collaborate on shared value solutions
- Address societal needs and challenges with a **business model**

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 **needs, products, and markets**

- Serve **unbanked** and **under-banked** consumers
- **Financial literacy** education embedded in products
- **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**

- Leveraging **facility locations as community anchors**
- **Skill development** programs in partnership with universities, technical schools or community colleges to improve the pipeline of prospective employees in shortage areas
- Specialized business banking groups to support **regional clusters**
- 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

Traditional Positioning

New Positioning

Nestlé

- Food and Beverage Company

- Nutrition, Health and Wellness Company

**Thermo
Fisher
Scientific**

- Scientific and Laboratory Instruments Company

- Making the World Healthier, Cleaner, and Safer

Nike

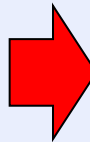
- Footwear and Apparel Company

- Health and Fitness Company

**Discovery
Health
Insurance**

- Health Insurance Company

- “Making People Healthier and Enhancing Their Lives”

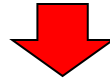


- Defining the **clear social purpose** underlying a company’s products and activities opens **new opportunities** for growth and profitability, while **motivating and attracting** consumers, business partners, employees, shareholders, and the public

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

Redefining Corporate Purpose

CVS Caremark

- Drugstore retailer CVS has defined itself as a pharmacy innovation company with the goal of **“helping people on their path to better health”**
- The company expanded its role, using its pharmacists and nurse practitioners to work more closely with patients, clients and health care providers to **improve health outcomes** while controlling costs and positioning the company for continued growth



- In order to become more consistent with its mission, CVS became first pharmacy to **stop selling all tobacco products**, forgoing **\$2 billion** in annual revenue, while launching a national smoking cessation program

Vision

We strive to improve the quality of human life

Mission

Helping people on their path to better health

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