

# The New Competitive Advantage: Creating Shared Value

Professor Michael E. Porter  
Harvard Business School

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This presentation draws on ideas from Professor Porter's books and articles, in particular, *Competitive Strategy* (*The Free Press*, 1980); *Competitive Advantage* (*The Free Press*, 1985); "What is Strategy?" (*Harvard Business Review*, Nov/Dec 1996); *On Competition* (*Harvard Business Review*, 2008); and "Creating Shared Value" (*Harvard Business Review*, Jan 2011). 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](http://www.isc.hbs.edu), and FSG website, [www.fsg.org](http://www.fsg.org).

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# 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, technology and capabilities** to fully meet these challenges alone
- Corporate philanthropy and corporate social responsibility programs are larger 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

### Philanthropy

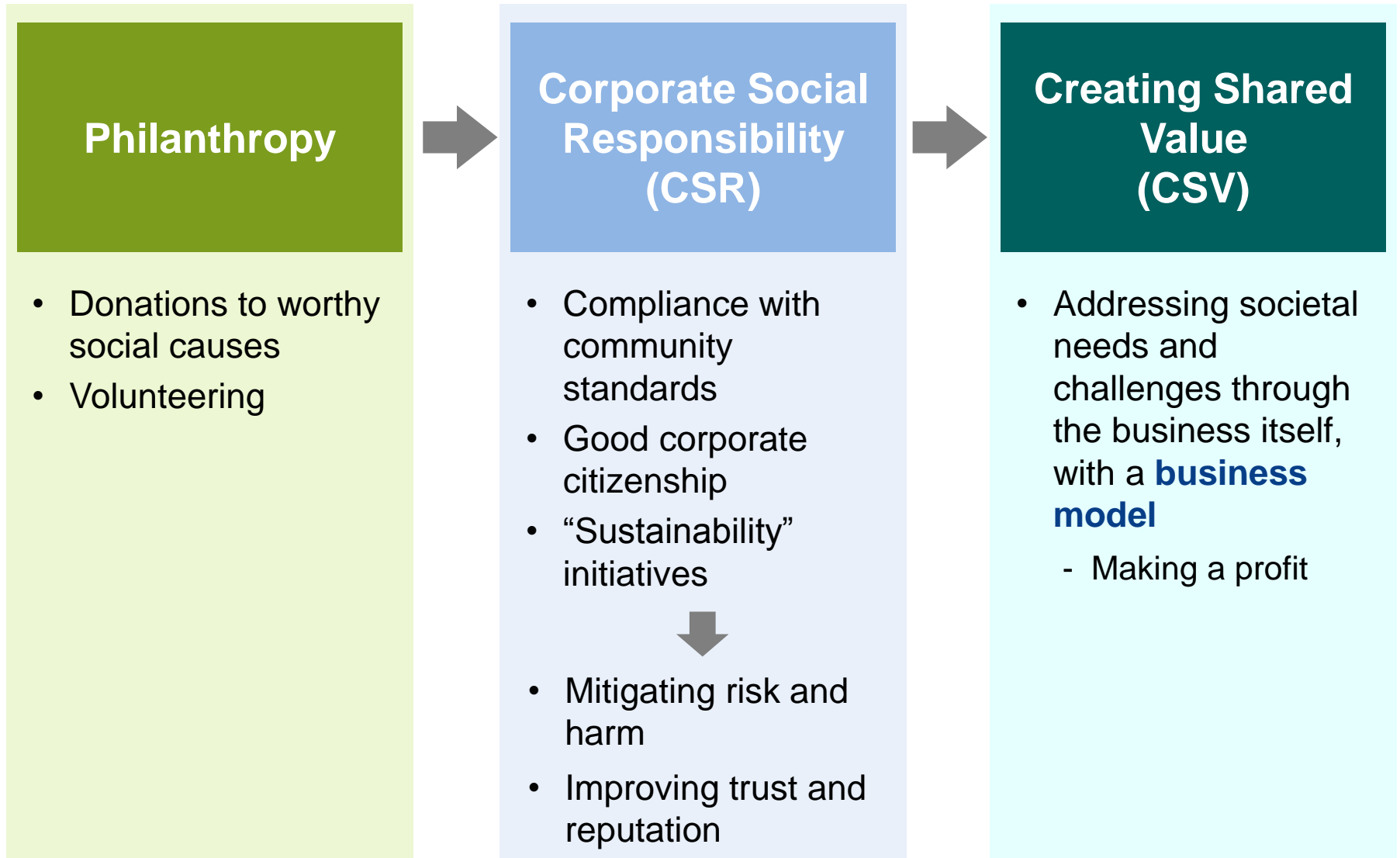
- Donations to worthy social causes
- Volunteering

### Corporate Social Responsibility (CSR)

- Compliance with community standards
  - Good corporate citizenship
  - “Sustainability” initiatives
- ↓
- Mitigating risk and harm
  - Improving trust and reputation

# The Role of Business in Society

## Evolving Approaches



# The Opportunity for Shared Value



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

# CSR versus Shared Value

## Fair Trade

### CSR

#### Fair Trade

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

### CSV

#### Transforming Procurement

- Collaborate with farmers to **improve quality and yield**
- Supporting investments in better **methods** and **inputs**
- Higher prices for **better quality**
- Higher yield increases **quantity** produced
- **Environmental** impact also improved

# Levels of Shared Value

**1**

**Reconceiving Needs,  
Products, and Customers**

**2**

**Redefining Productivity in  
the Value Chain**

**3**

**Enabling Local Cluster  
Development**



# Levels of Shared Value

## 1

### Reconceiving Needs, Products, and Customers

- Design products and services to **address societal needs**
- Open **new markets** by serving unmet needs in underserved communities

# Shared Value Through Products

## Revolution Foods, US



- Revolution Foods identified the unmet need for **healthy meals** for schools



- Creates customized menus from **locally and organically sourced, fresh food**, encouraging **student participation** in menu design
- Consolidated sourcing and production holds costs **below** the federal school lunch reimbursement rate
- **Educates students about nutrition** through classroom sessions, supporting materials, and in the lunch line



- Serves over **1 million nutritious meals weekly** in over 1,000 schools nationwide. Two-thirds of the children reached live in low-income households

# Shared Value Through Products

## Discovery Health



- Pioneered **health plans** paired with the **Vitality Wellness Program** that rewards healthy behavior through incentives such as discounted health club memberships and discounts on healthy food purchases
- Clinical studies show that Vitality members are **healthier, live longer** and have **lower healthcare costs**
- This allows Discovery to offer health coverage at **lower premiums**



- Discovery is one of the world's **fastest growing** and **most profitable** health insurance companies

# Shared Value in Products and Markets

## Regions Bank



- **Now Banking** product suite focused on unbanked and under-banked customers
  - An estimated **25% of all consumers**
- **Low cost, user-friendly** financial solutions:
  - Low cost check cashing
  - No fee, no minimum savings accounts with monthly and annual savings bonuses
  - Money transfers and expedited bill pay services
  - Pre-paid debit card
  - Embedded web-based financial education



- Customers pay **lower fees**, achieve better financial **security**, and get on a **path** to a fuller banking relationship
- Now Banking is **profitable** and **growing**, and **expands demand** for Regions' more traditional products

# Levels of Shared Value

## 1

### Reconceiving Needs, Products, and Customers

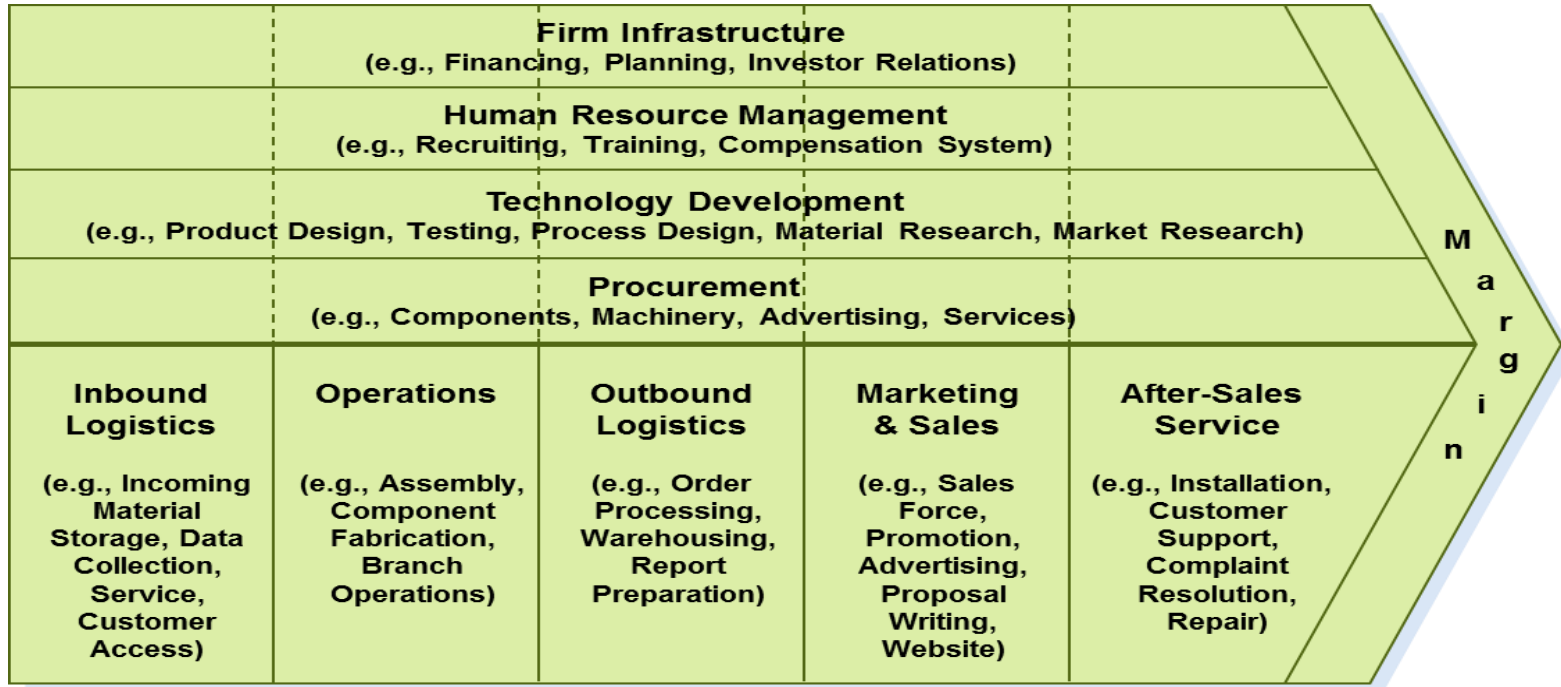
- Design products and services to **address societal needs**
- Open **new markets** by serving unmet needs in underserved communities

## 2

### Redefining Productivity in the Value Chain

- Changing practices in the company's value chain to drive productivity through **better utilizing resources, employees, and business partners**

# Shared Value in the Value Chain



- Procurement that **enhances supplier capabilities and efficiency**
- Improving **energy, water** and **resource** efficiency across activities
- Redesigning or recycling to minimize or eliminate **waste**
- Minimizing **logistical intensity**
- Improving employee **health** and **safety**
- Enhancing productivity and retention (and through this wages) of **lower income** employees
- Recruiting to reflect the **diversity of customers** and the **communities** in which a company operates
- Others...

# Shared Value in the Value Chain

## Fibria, Brazil



- World's leading manufacturer of chemical pulp utilizes planted eucalyptus trees and integration with native habitat to **dramatically reduce the land required** and improve **sustainability** of wood fiber cultivation
  - Encourages **small-scale producers** near its mills to plant eucalyptus **in conjunction with other crops**, providing technical training and inputs
- A large, solid grey arrow pointing downwards, indicating a flow or result from the preceding points.
- Far greater **land and water efficiency** compared to traditional plantation methods. **35% of planted areas** preserved as native forest
  - Small scale producers currently contribute **27% of raw material volume** used in Fibria mills
  - Over **4,000 households** have significantly increased employment and incomes

# Levels of Shared Value

## 1

### Reconceiving Needs, Products, and Customers

- Design products and services to **address societal needs**
- Open **new markets** by serving unmet needs in underserved communities

## 2

### Redefining Productivity in the Value Chain

- Changing practices in the company's value chain to drive productivity through **better utilizing resources, employees, and business partners**

## 3

### Enabling Local Cluster Development

- Improving the **available skills, supplier base, and supporting institutions** in the communities where a company operates to boost productivity, innovation, and growth



# Shared Value in the Local Business Environment

## Cisco Networking Academy



- Cisco established the **Networking Academy** in 1997 to train network operators
  - The company has trained **5.5 million** young people from **165 countries** in ICT skills
- A large, solid grey arrow pointing downwards, centered between the two lists of bullet points.
- 70% of graduates got a **new job**, or a **better job** at their existing employer
  - The Networking Academy has alleviated a **key workforce constraint** for the company and for Cisco customers
  - The program strengthens Cisco's **relationships** with suppliers, customers and government

# The 100,000 Opportunities Initiative

- Engage at least 100,000 “Opportunity Youth” age 16-24 who face **systemic barriers to jobs and education** by 2018
- Hire, retain and advance** these youth while simultaneously meeting partner companies’ **talent acquisition and retention needs**

## Corporate Coalition

Disseminate effective practices around OY recruitment, retention and advancement

## Demonstration Cities

Build connections between employers and local workforce systems

## Recruiting Events

Connect employers with OY talent and disseminate the message about youth potential

## Funders

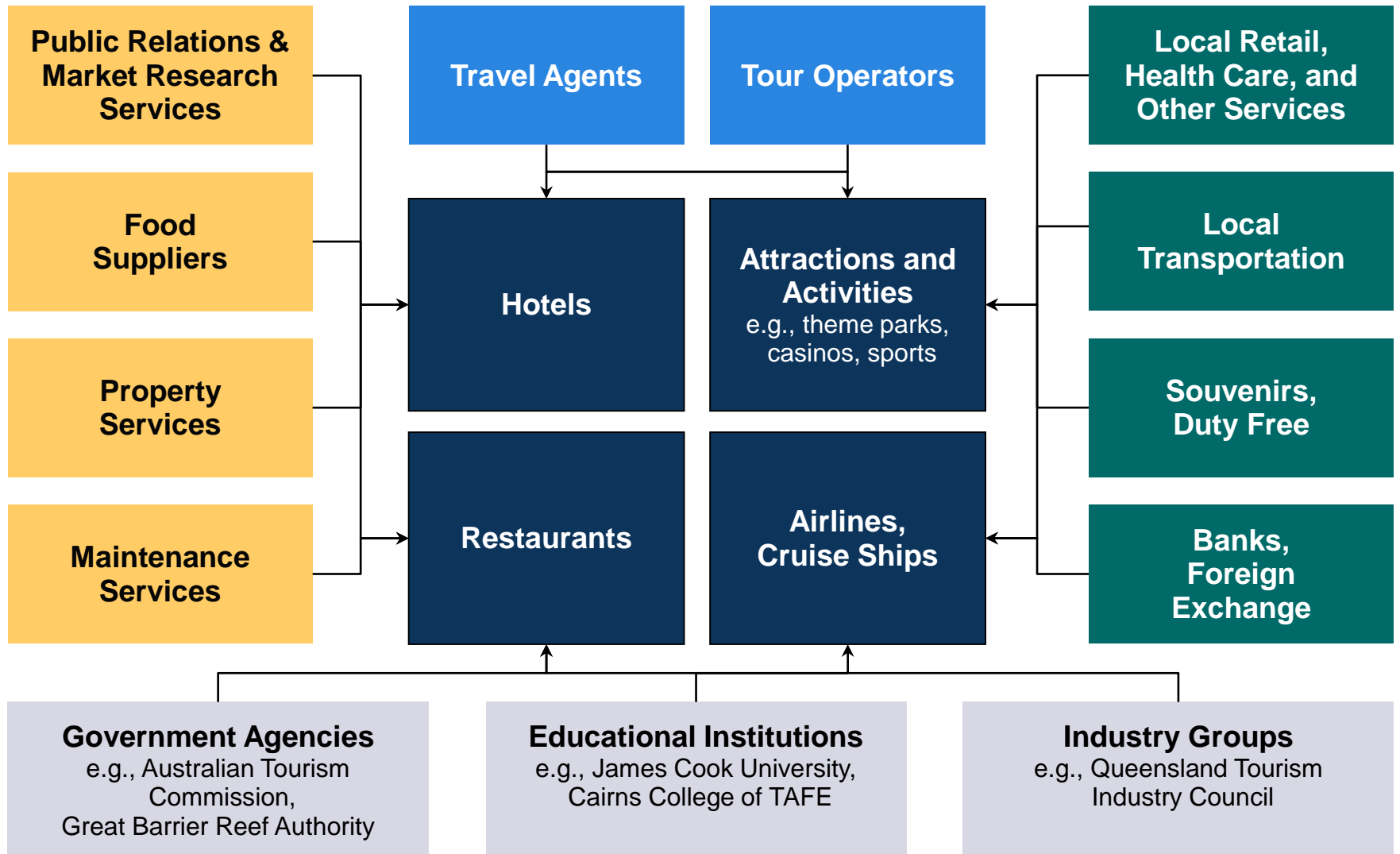
## Operators

## Companies



# Building the Cluster

## Tourism in Cairns, Australia



# Shared Value Through Cluster Development

## ITO EN, Japanese Tea Cluster



- ITO EN is the **world's leading producer** of loose leaf and bottled green tea, with tea **100% locally-grown**
- Partners with farmers and other stakeholders to utilize **abandoned agricultural land**, purchasing the entire crop to **lower selling costs**
- Provides **assistance in modern farm management practices** to growers to **raise quality** to meet ITO EN standards
- **Motivates and trains young people** to take over tea growing when older farmers retire



- Farmer **incomes have risen** due to increased quality and efficiency
- Abandoned land by retiring farmers has been **restored** to production

# Integrating Across the Levels

## Novartis in Rural India

1

### Reconceiving Needs, Products, and Customers

- 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

2

### Redefining Productivity in Value Chain

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

3

### Enabling Local Cluster Development

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

# Shared Value and Strategy

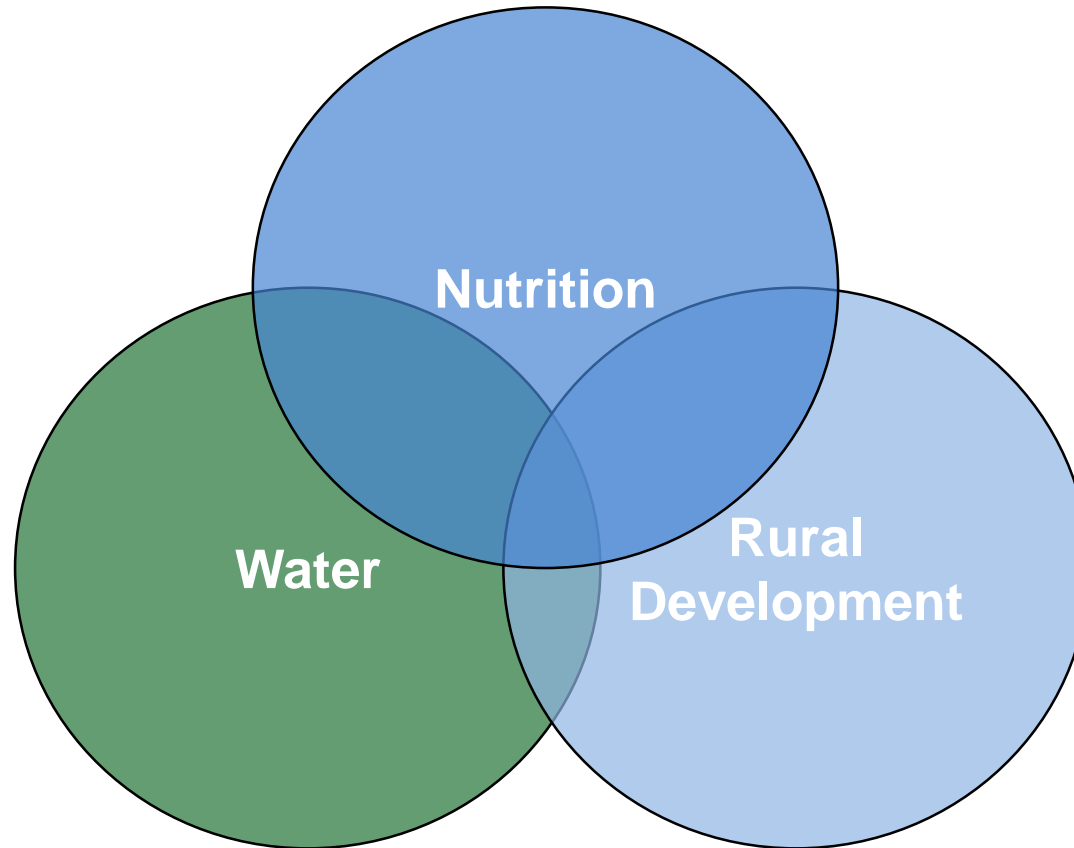
- Shared value reveals new **customer needs**, new available **markets**, new **value chain choices**, and new ways to address **external constraints**
- Shared value opens up **new ways of defining** the business



- Shared value creates new **value propositions** and new opportunities for **strategic positioning**
- Shared value strategies often **more sustainable** than conventional cost, feature, and quality advantages

# Creating Shared Value: Where is the Opportunity?

Nestlé



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

# 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
- Targets customers who seek a healthy lifestyle and are passionate about food
- Caters to customers with specialized nutritional requirements (e.g. gluten allergies, vegan, etc.) and who value community and social impacts (e.g. supporting local farmers and businesses, animal welfare)

### Distinctive Activities

- Well-lit, inviting supermarket store formats with appealing displays and extensive prepared foods section. Produce section as “theater”
- Café-style seating areas with Wi-Fi for meals and gathering
- High touch in-store customer service via knowledgeable, flexible, and highly motivated personnel
- Extensive nutrition information and education
- Each store carries local produce and has the authority to contract with the local farmers. Company provides low-interest loans if needed
- Own seafood procurement and processing facilities to control quality, ensure sustainable supply, and manage cost from the boat to the counter
- Heavy emphasis on improving environmental performance across the value chain
- HR policies focus on attractive ways, incentives and benefits for front line employees



- Whole Foods has been the most **economically successful** food retailer in North America



# Redefining Corporate Purpose

## CVS Health

- In 2011, CVS redefined its business around **improving patient health**, not just a convenience store with a pharmacy and health products
- The role of pharmacists and nurse practitioners was expanded to work more closely with patients and health care providers to **improve health outcomes**
- CVS operates a large network of **in-store clinics** as a convenient alternative to traditional doctor's offices
  - Partnerships with hospitals, physicians, and employers
- The first pharmacy to **stop selling all tobacco products** in 2014, forgoing **\$2 billion** in annual revenue, while launching a comprehensive smoking cessation program across all sites

### New Vision

*We strive to improve the quality of human life*

### New Mission

*Helping people on their path to better health*

# Reshaping the Corporate Portfolio

## Danone

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



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

### New Vision

*The 'dual economic and social' project, creating economic value by creating social value*

### New 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 in a way that **also creates shared value for society**
- Businesses **acting as businesses**, not as charitable givers, are arguably the most powerful force for addressing many of society's pressing issues
  - Innovation and scalability
- Shared value opens up **major strategic opportunities** to create competitive advantage, while driving the next wave of **innovation**, **productivity**, and **economic growth**
- Realigning companies around shared value gives **greater purpose** to the corporation and to **capitalism itself**