

The New Competitive Advantage: 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 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 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

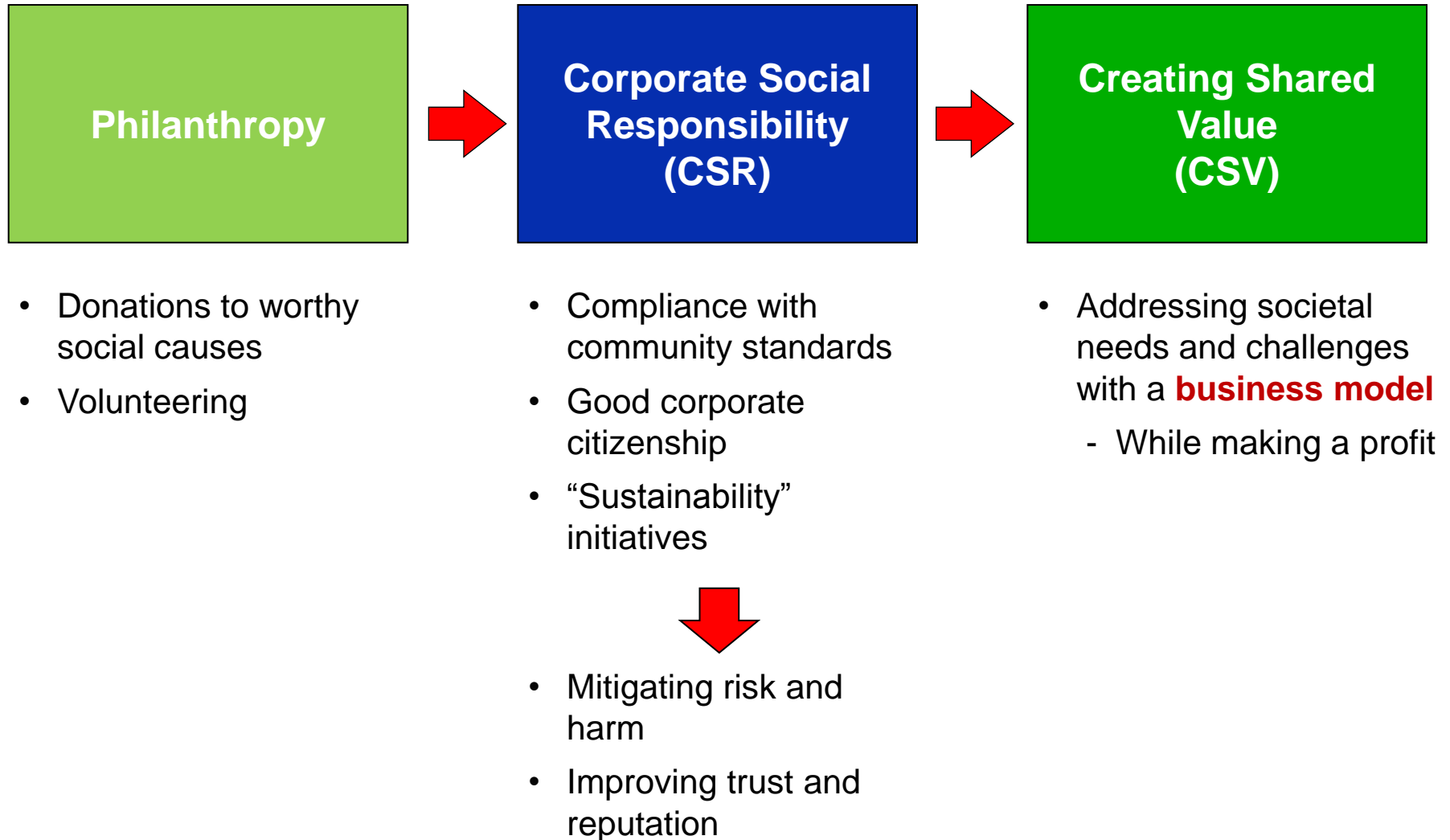
The Role of Business in Society

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Evolving Approaches



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** communities and 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**, infrastructure, the **supplier base**, the **regulatory environment**, and the **supporting institutions** that affect the business
- Strengthening the **cluster** on which the company depends
- Improving **consumer education** in social areas affected by the company



- Shared value strengthens the link between **company** success and **community** success

Shared Value in Products

Dow Chemical

- Dow recognized that a series of global social issues represented its **largest market opportunities**
- Dow created the “**Breakthroughs to World Challenges**” Program
 - Each business unit was challenged to apply Dow innovation to a **range of global problems** inspired by the Millennium Development Goals

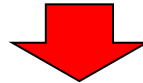


- Dow’s agriculture business unit developed **Omega-9 canola and sunflower seeds** that produce cooking oil with no trans fats and low saturated fats, requires less land to grow, and has longer **shelf life** and **usage life** for food processors. Became one of Dow’s largest selling product lines, with 2012 revenues of **\$700 million**
- Dow’s water business developed the **ECO Membrane**, which desalinates water with 40% greater salt reduction and 30% less energy. Sales are growing rapidly.

Shared Value in Products and Markets

Korea Telecom (KT) GiGA Island Project

- KT, Korea's second largest mobile carrier, created the GiGA Island Project to bring the **world's fastest internet** and **advanced technology** to Korea's less developed remote islands
- KT is installing its GiGA internet and an extensive array of smart, connected products and systems on the Islands, focusing on **solutions to improve education, culture, the economy, health care, energy, and the environment**

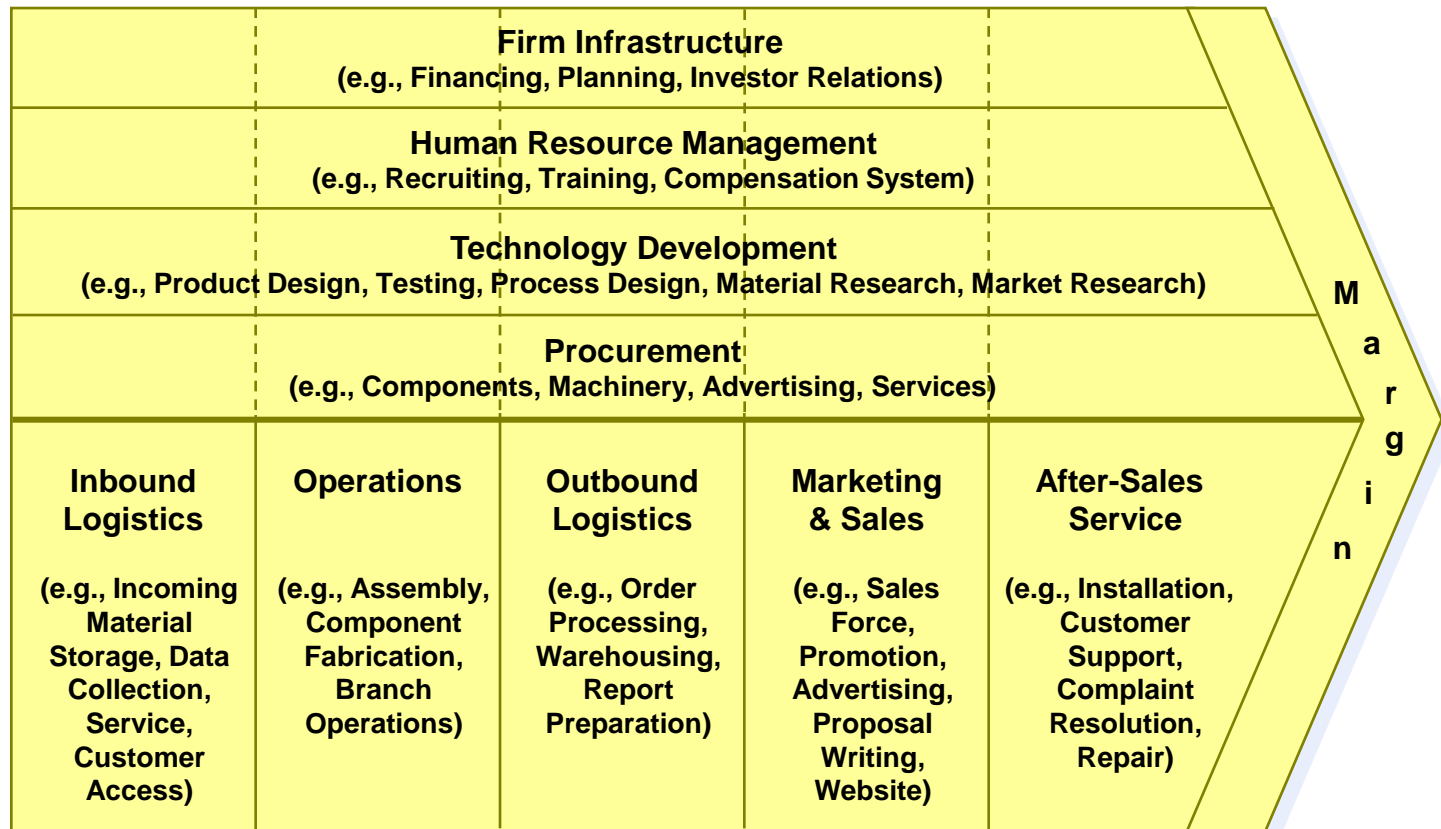


- Meeting the needs of the Islands has **stimulated innovation** in KT's integrated technology solutions that improve quality of life, while building **new markets**

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

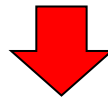


- Procurement that **enhances supplier capabilities and efficiency**
- Improving **energy, water** and **resource** efficiency across the value chain
- Minimizing **logistical intensity**
- Improving employee **health** and **safety**
- Enhancing the productivity (and through this wages) of **lower income** 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%** or more, and other improvements are following
- Environmental performance **differentiates** IHG hotels with consumers and corporate clients

Shared Value in the Value Chain

Employee Health, Johnson & Johnson

- J&J introduced a **corporate employee health program** to improve the health of employees, increase employee productivity and decrease healthcare costs for the company
- With a focus on **prevention and disease management**, the redesigned health program offers:
 - Health assessment & counseling services
 - 100% coverage of preventative screenings
 - On-site fitness centers and personal training
 - Incentives and programs to encourage employees and their families to make healthy choices, and improve health literacy



- J&J has achieved substantial health improvements – in smoking, blood pressure, cholesterol control
- Medical costs have decreased by **\$225 per participating employee per year**
- So far J&J has saved over **\$250M** in healthcare costs, or a **270% ROI** for every dollar the company has spent on the program
- **Employee productivity and retention** have improved

Shared Value in the Value Chain

CJ Corporation

- CJ's food and foodservice business unit has established a joint project with government and private sector partners to enhance the **capabilities of rural farmers** in Vietnam that supply the company with red chili peppers
- The project offers **training** in farming practices and technology, and invests in improved **water infrastructure** for both residential and agricultural use



- Through the program, CJ was able to secure a **stable supply** of chili peppers, ensuring **product quality** and **safety**
- The program has **raised farmer incomes** through improved crop quality and yield and access to a steady market
- CJ is developing programs across **all four businesses**

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, based on **100% locally-grown** green tea leaves
- The company partners with farmers and other stakeholders to utilize **abandoned agricultural land**, purchasing the entire crop to **lower selling costs**
- The company provides **assistance in modern farm management practices** to 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
- Abandoned land by retiring farmers has been **restored** to production, creating jobs and attracting young people into tea farming
- Tea volume has expanded by 13% to date, providing ITO EN with **adequate volume, consistent quality**, and **reduced production costs**

Shared Value in the Local Business Environment

Hyundai-KOICA Dream Centers

- Hyundai Motor Company, in cooperation with government and NGO partners, created the **Dream Center** program to train auto repair technicians in developing countries
- The first Dream Center opened in Ghana in 2013, with additional centers planned in Indonesia, Cambodia and Vietnam



- The program is **creating jobs** and **economic growth**, as well as developing the **local skills** and **supporting industries** necessary for Hyundai to enter and grow new markets
- The first class of **80 students** will graduate in Ghana in 2015, qualified to fill jobs or open their own auto repair businesses
- The company **lowers cost** because of less need for dispatching Korean repair technicians

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, speak the dialect, and understand needs to 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** bring physicians to rural areas
- **Microfinance partners** to improve healthcare delivery infrastructure and access to working capital

Partnering for Shared Value

Old Model

NGOs

- Hold business accountable
- Seek donations

Government

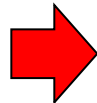
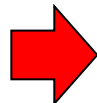
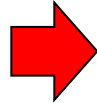
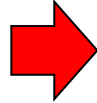
- Regulate how businesses operate
- Tax businesses to pay for social services
- Operate social programs

Foundations

- Donate to charitable causes

Competitors

- “Brand” solo CSR initiatives



New Model

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

- **Regulations** that encourage and support market solutions
- Government **purchase commitments** or incentives to jumpstart market solutions
- **Partner** on shared value solutions to delivering social services
- Invest in **infrastructure** to enable shared value approaches (e.g. roads)

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

- **Partner** on business environment improvements

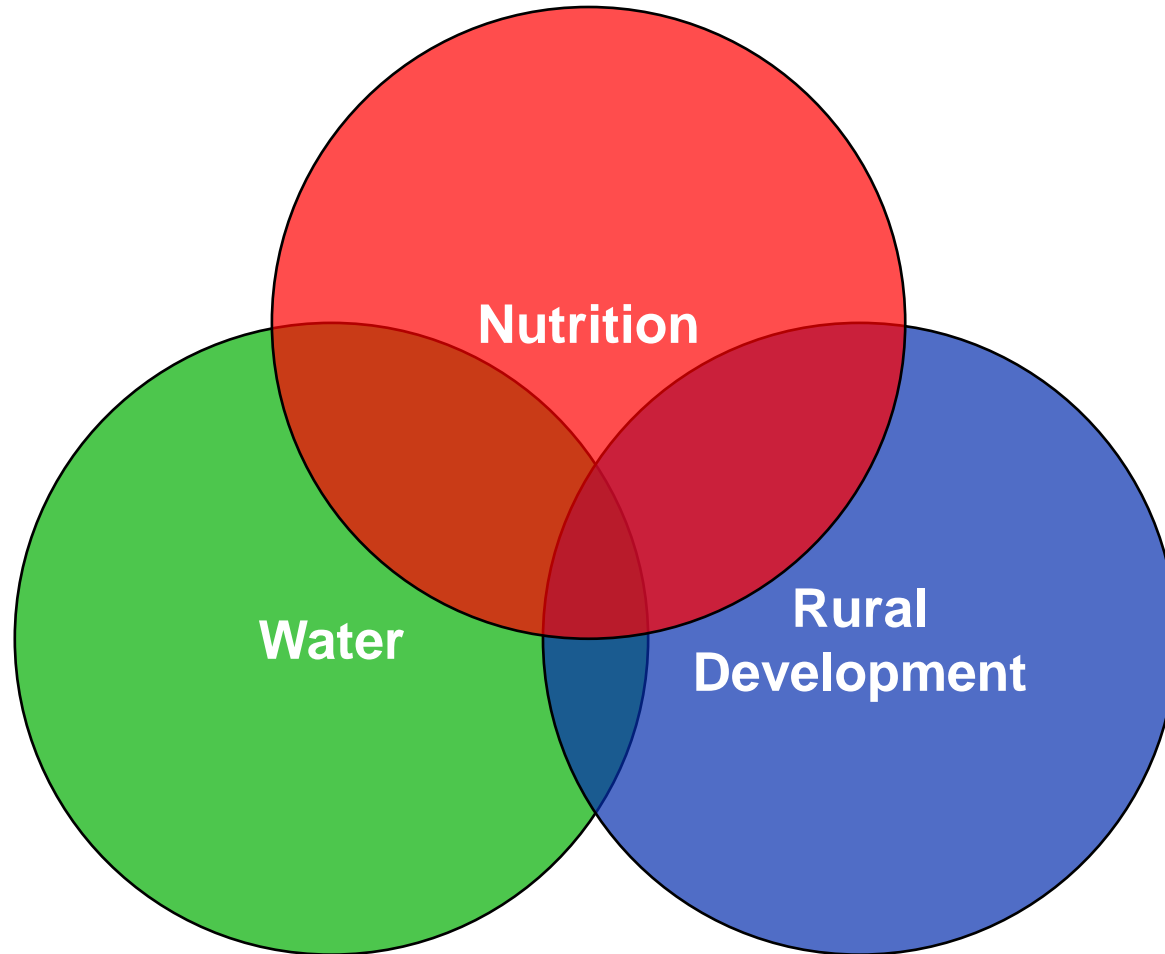
Connecting a Company's Social Roles



- **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 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**

From Product to 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
IBM	<ul style="list-style-type: none">• Computers and technology		<ul style="list-style-type: none">• “Smarter Planet”
Pearson	<ul style="list-style-type: none">• Textbook Publishing		<ul style="list-style-type: none">• Improving Educational Outcomes
Discovery Health Insurance	<ul style="list-style-type: none">• Health Insurance		<ul style="list-style-type: none">• “Making People Healthier and Enhancing Their Lives”

- Defining the 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

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**
- Realigning business practice around shared value gives **greater purpose** to the corporation and to **capitalism itself**