

Creating Shared Value: Becoming a Movement

Professor Michael E. Porter
Harvard Business School

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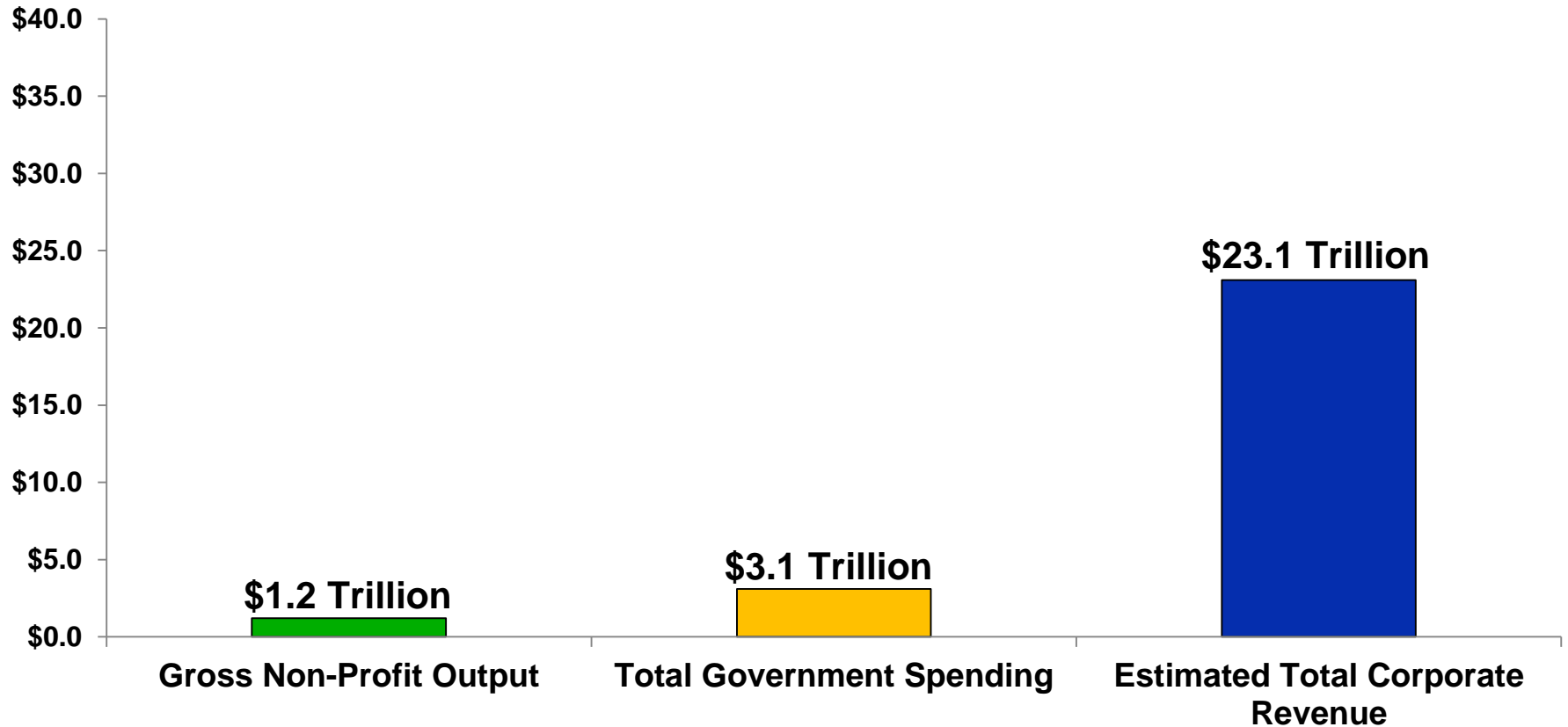
The Role of Business in Society

Evolving Approaches



The Power of Capitalism in Social Improvement

Economic Activity by Sector, U.S. (2013)
(\$ in trillions)



Note: Corporate revenue was estimated based on the 9.1% average annual net profit margin for U.S. private companies.
Source: Bureau of Economic Analysis, 2013, Sagemworks Private Company Indicator

NGOs and Shared Value

Advancing an NGO's mission through **shared value partnerships** with companies (and sometimes other stakeholders)

- PATH partnered with BD to develop and distribute technology for safe injection in low-resource settings
- CARE partnered with Unilever to develop a distribution model in rural Bangladesh that provided training and created thousands of jobs for low-income women
- TechnoServe partnered with Ethiopia's Nib International Bank and the IFC to administer working capital loans to 62 cooperatives made up of 45,000 coffee farmers

Government and Shared Value

Governments enable corporations to create shared value by providing enabling **regulations**, **resources**, **incentives** and **convening power**

- Outcome based regulations
- Enabling infrastructure
- Guaranteed markets
- Bridge financing
- Incentives and co-investment

Deepening Learning on Shared Value: **Extractives**

- This extractives sector represents a significant opportunity for impact on society given its unique characteristics:
 - **\$3.5 trillion** in annual revenues (**5%** of global GDP in 2012)
 - **Long time horizon** for operations
 - **Multiple points of interaction** with local communities
 - Often located in **remote areas** with major societal needs and poor infrastructure



- The economic value created by extractive companies can **transform the lives** of millions living in resource-rich, cash-poor countries
- Despite this potential, extractive companies have **made little progress** using current approaches (philanthropy, reputation building), with rising disputes and conflict
- **Shared value** is a new way to address the underlying **root causes** of community concerns and **unlock economic opportunities** for companies in the extractives sector

Shared Value Opportunities in Extractives

Reconceiving Products and Markets

Build local markets for intermediate products created by extractive activity (e.g., water, electricity, transport, housing)

Redefining Productivity in Value Chains

Improve local workforce capabilities

Develop local suppliers

Improve the health of employees

Improve utilization of water, energy and other resources in operations

Increase local emergency response capabilities

Creating Enabling Local Environment

Develop the local cluster supporting the extractives sector

Invest in shared local infrastructure and logistics networks

Partner with other local clusters and government in building community infrastructure

Play an active role in broad-based regional economic and community development

Leading Extractives Companies Are Investing in Shared Value



Anglo American's eMalahleni water treatment plant in South Africa **treats waste water from its mines to drinking water standard**, meeting 20% of daily water needs in the water-starved community while **offsetting 60% of the costs** of operations



BHP Billiton invested \$50M in northern Chile to create a **cluster of world-class mining suppliers**. The 36 suppliers involved employ 5,000 people, and BHP Billiton has achieved \$121M in NPV of cost savings



Rio Tinto's Diavik Diamond Mine in Northern Canada worked with communities, contractors, local governments and education institutions to develop a **local workforce and supplier base** – Rio Tinto now hires 62% of employees and sources 71% of goods and services locally, saving transportation costs in a remote area

From Initiatives to Enterprise Level Shared Value Programs



Nestlé **aligned corporate vision with a social purpose** and set **enterprise-wide shared value goals** to guide business planning



Dow introduced the **Breakthroughs to World Challenges Initiative** to challenge all business units to pursue shared value



Novartis established a social business group with seed capital and a **cross-functional** team to incubate key shared value initiatives like Arogya Parivar in India



Becton Dickinson implemented a shared value **leadership education** program at headquarters level *and* in major markets (e.g., Brazil) to deepen BD's ability to implement shared value globally



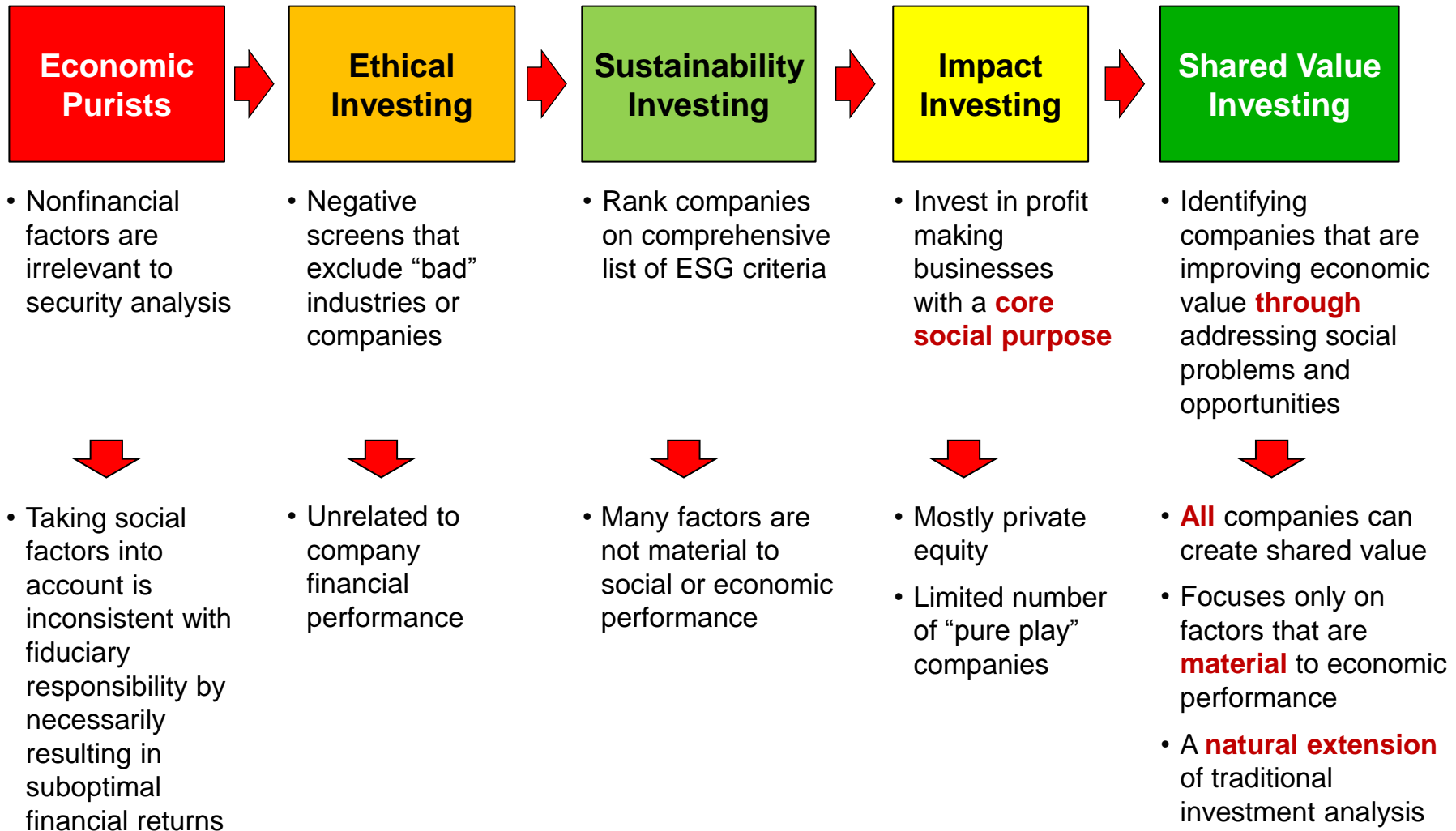
Intel tied a portion of **incentive compensation** to performance on social and environmental priorities

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

Investors and Society



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