

Creating Shared Value: An Inflection Point in the Making

Professor Michael E. Porter
Harvard Business School
May 1st, 2018

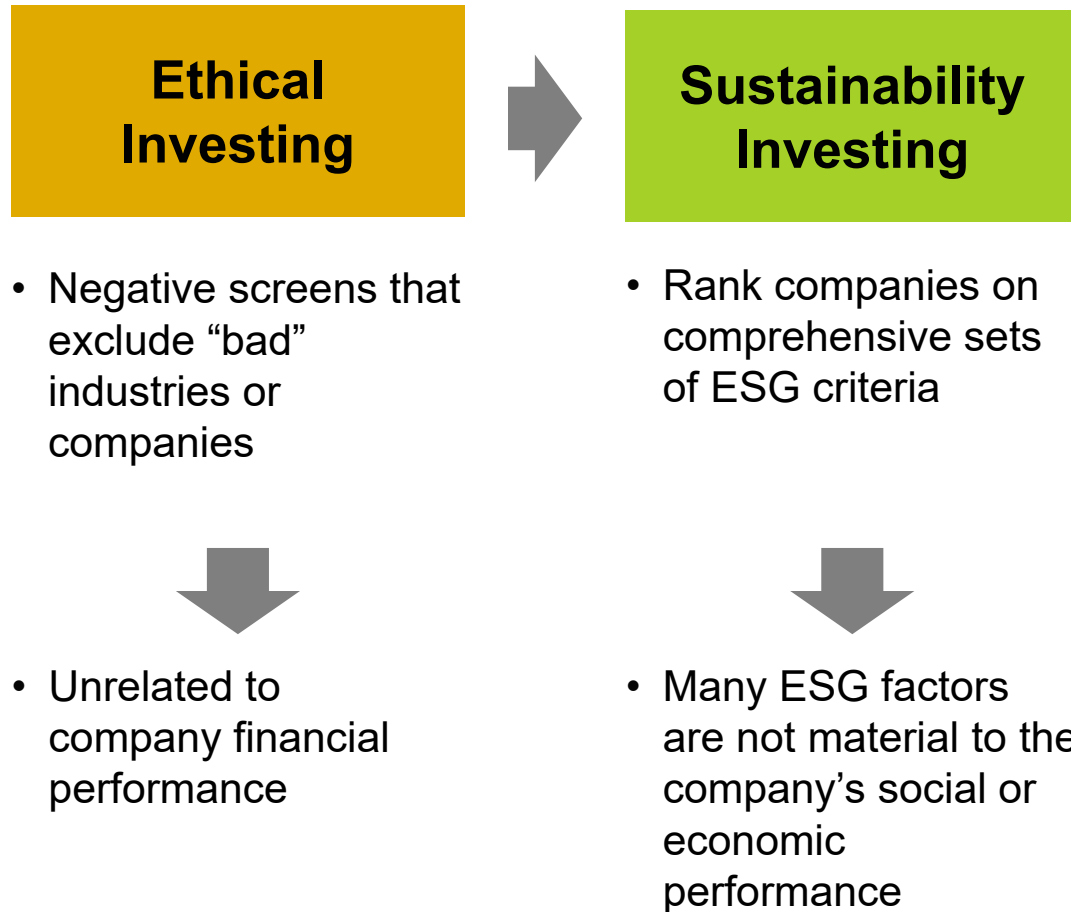
This presentation draws on ideas from Professor Porter's books and articles, in particular, *Competitive Strategy* (*The Free Press*, 1980); *Competitive Advantage* (*The Free Press*, 1985); "What is Strategy?" (*Harvard Business Review*, Nov/Dec 1996); *On Competition* (*Harvard Business Review*, 2008);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

The Role of Business in Society

Evolving Approaches



Investors and Social Impact



“Society is demanding that companies, both public and private, serve a social purpose. Without a sense of purpose, no company, either public or private, can achieve its full potential.

To prosper over time, every company must not only deliver financial performance, but also show how it makes a **positive contribution to society**”

*- Larry Fink, CEO BlackRock
Annual letter to CEOs, 2018*

“Several high-profile activists – including Cliff Robbins of Blue Harbour Group and Barry Rosenstein of Jana Partners – see environmental and social factors as profit play

Wall Street's activist investors, once known for pushing for extreme cost-cutting or just about anything that would boost the bottom line, are starting to use their money to promote a different kind of corporate action: social and environmental change

They are doing this, they say, not only as a matter of moral responsibility, but **for their original mission of generating better returns for their clients”**

- *CNBC Online*
27th April 2018

Getting Beyond CSR?

Environmental Performance

- Circular Economy
- Green Capitalism
- Net Positive

Better Capitalism

- Inclusive Capitalism
- Conscious Capitalism
- Capitalism 2.0

Bridge to Shared Value

- Triple Bottom Line
- Social Entrepreneurship
- B-Corporation

Moving to True Shared Value

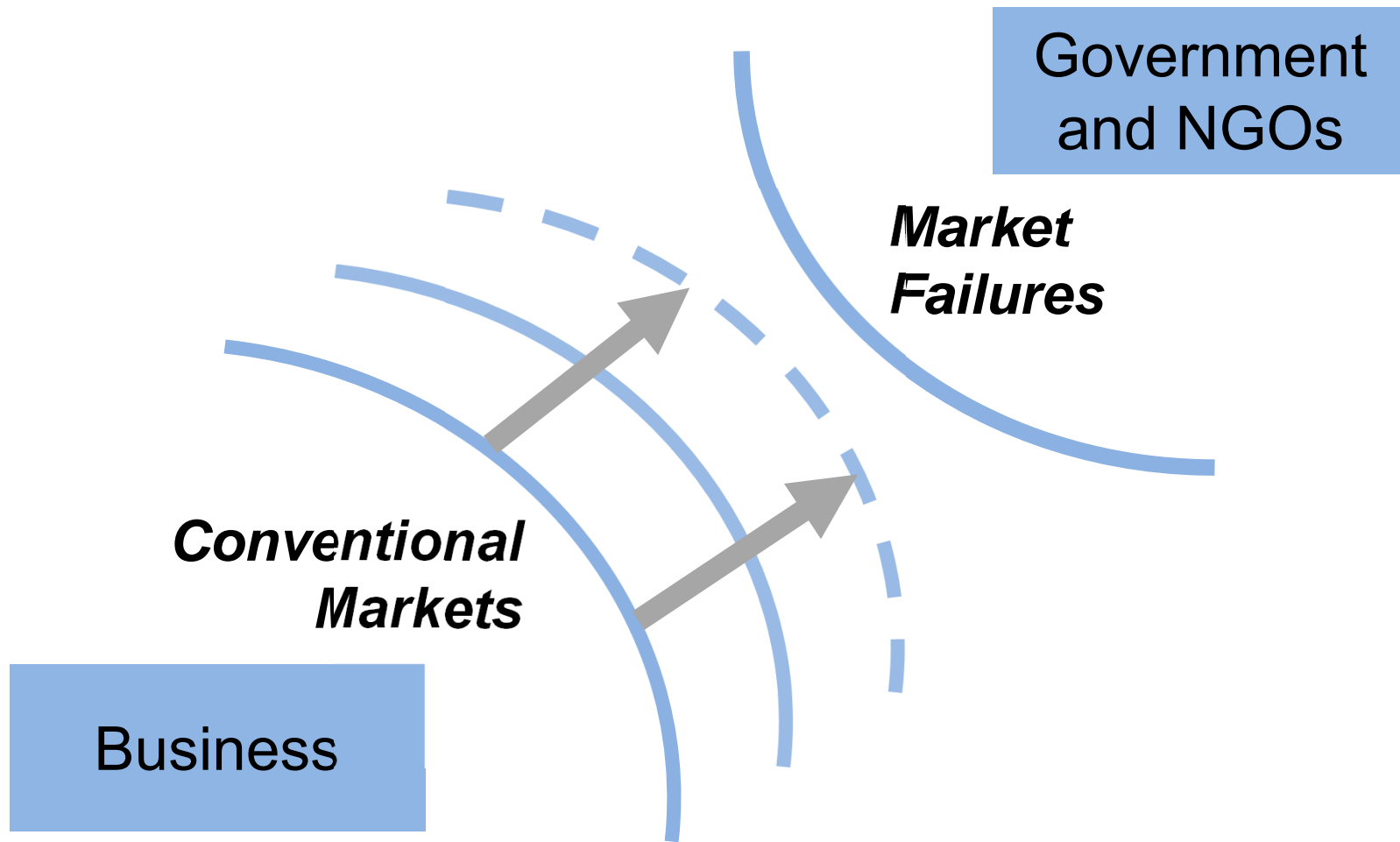


The Opportunity for Shared Value



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

Shifting the Frontier Between Markets and Market Failures



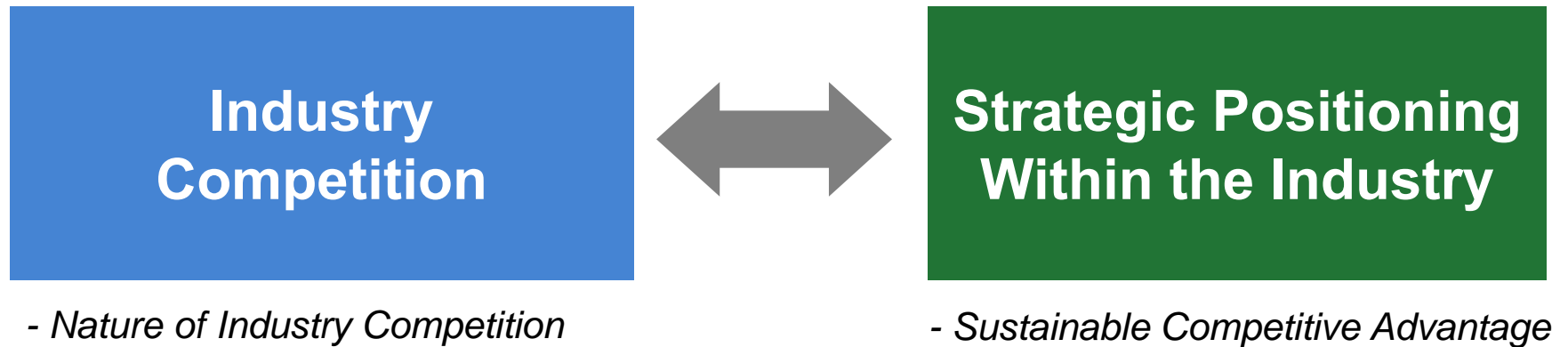
Creating Shared Value is Strategy

- Strategy is the set of **long term** choices that an organization makes to **distinguish itself** from competitors
- Create a distinctive way of competing resulting in a **competitive advantage** versus rivals



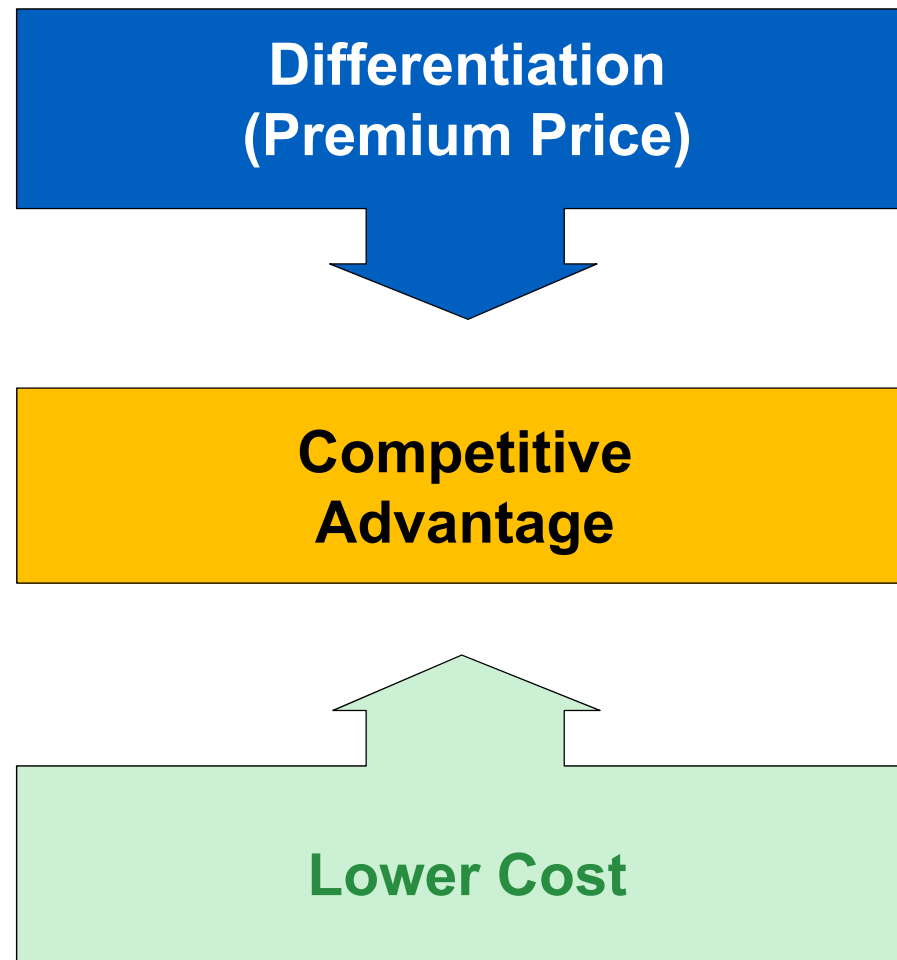
- Strategy is **not** about **doing good**, or about company and personal **values**

Business Strategy

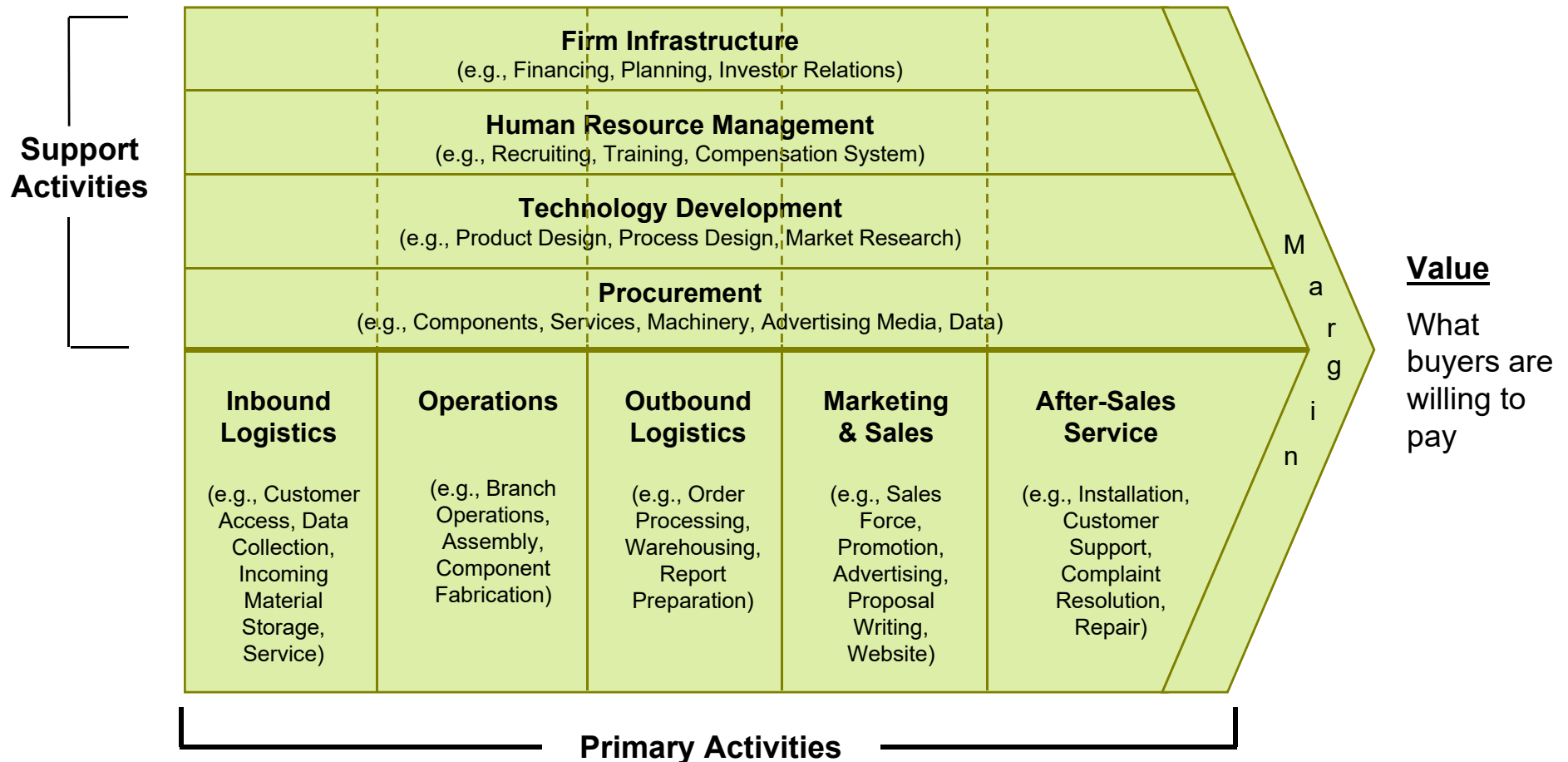


- Business units need to focus both on the **nature of competition** in the industry as well as their **own competitive position**

Achieving Superior Profitability **Within** the Industry



Competitive Advantage and the Value Chain

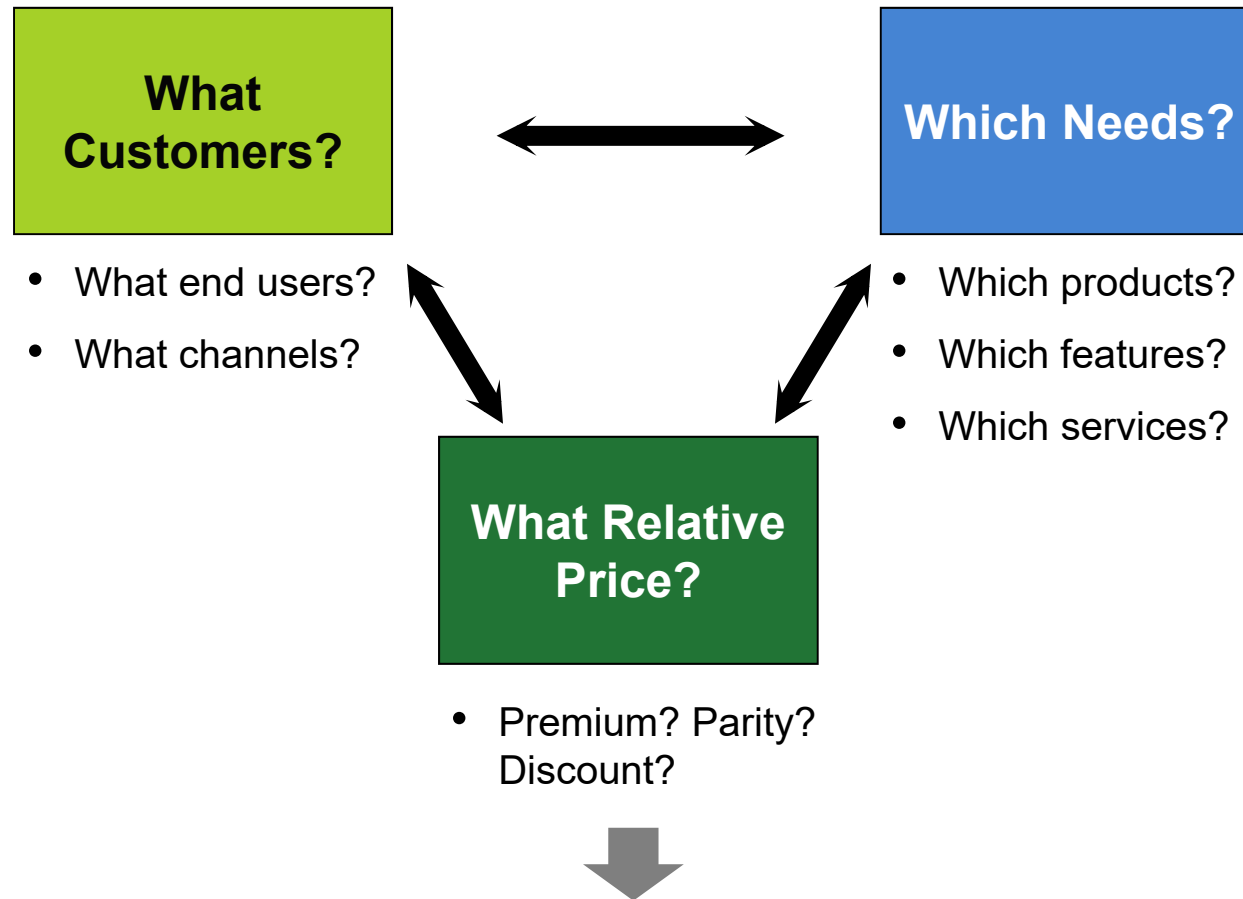


- The value chain is the set of **activities** involved in delivering value to customers
- **Strategy** is reflected in the **choices** about how activities are configured and linked together

What is a Successful Strategy?

- A **unique value proposition** versus competitors

Defining the Value Proposition



- Finding a unique value proposition often involves identifying **new needs**, new ways of **segmenting**, or **innovation** in the product/service approach
- A novel value proposition often **expands the market**

What is a Successful Strategy?

- A **unique value proposition** versus competitors
- A **distinctive value chain**, involving clear choices about how the company will **operate differently** to deliver on its value proposition
- Making clear **tradeoffs**, and choosing what **not** to do
- Integrating choices across the parts of the value chain so that the functions **fit together** and **reinforce each other**
- **Continuity** of strategic direction, with continuous improvement in realizing the unique value proposition



- The essence of strategy is making **choices**

Strategic Positioning

IKEA, Sweden

Value Proposition

- Customers with smaller living spaces, who are **style** and **design conscious**, but have a limited budget
- A wide line of **stylish, functional** and **good quality** furniture and accessories
- **Limited** ancillary services
- **Very low** price points

Distinctive Value Chain

- Wide range of styles which are **all displayed** in huge warehouse stores with **large on-site inventories**
- **Modular**, ready-to-assemble, easy to ship furniture designs
- **In-house** design of all products
- IKEA designer names attached to related products to inform **coordinated** purchases
- **Self-selection** by the customer, with minimal in-store service
- **Extensive customer information** in the form of catalogs, mobile app, website, explanatory ticketing, do-it-yourself videos, online planning tools, and assembly instructions
- **Self-delivery** by most customers
- Suburban and urban locations **with large parking lots**
- **Long** hours of operation
- **On-site**, low-cost restaurants
- **Child care** provided in the store

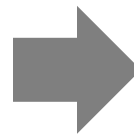
Shifting the Nature of Industry Competition

Zero Sum Competition

- Compete **head to head** on price, with similar products to the same customers
- One company's **gain** requires another company's **loss**



- Competition **dissipates profitability** and often undermines industry structure



Positive Sum Competition

- Compete on **strategy**
- **More than one** company can be successful



- Competition **expands** the customers served, allows needs to be **better** met, and **increases overall value**

Shared Value and Strategy

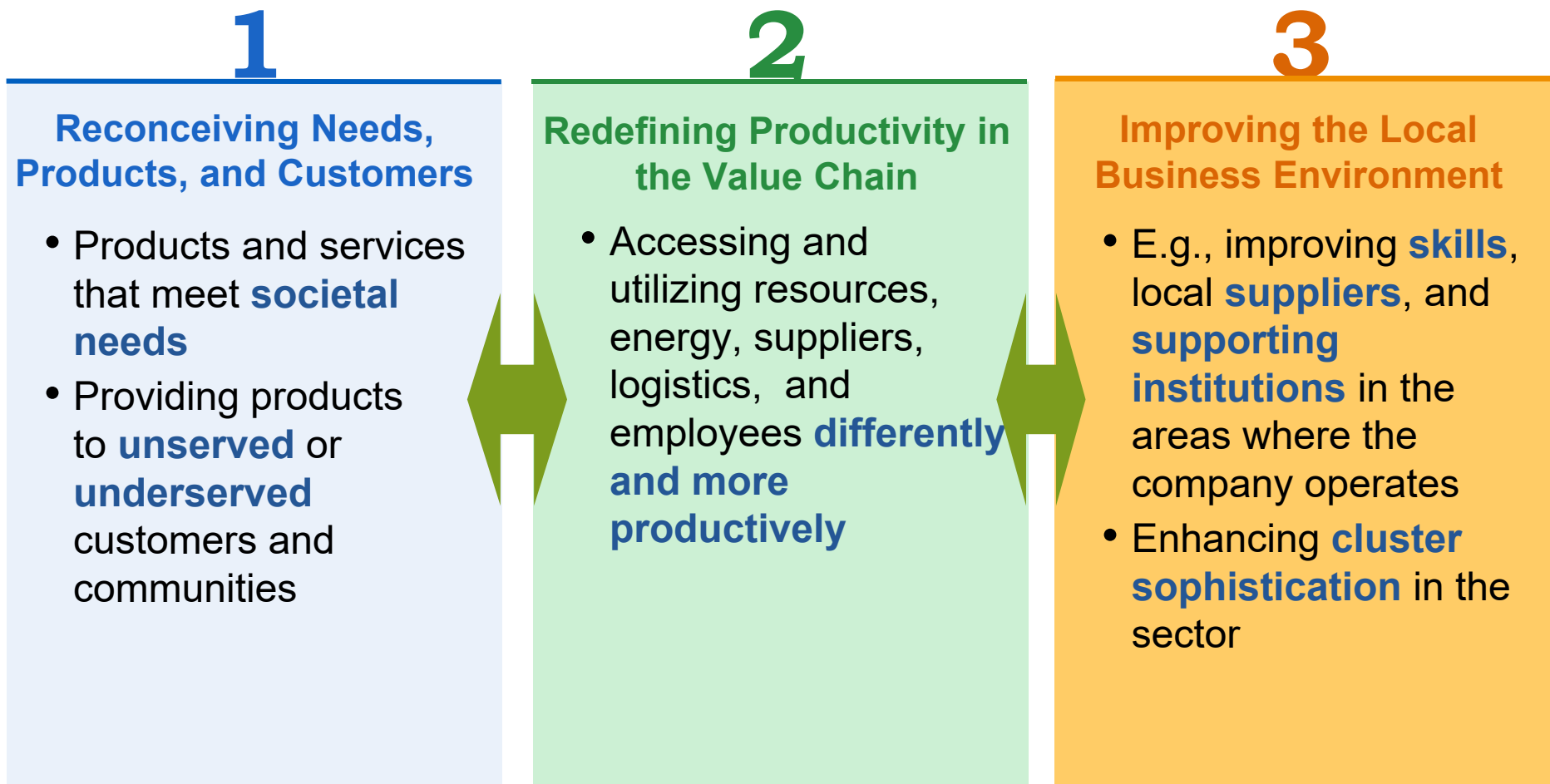
- New **needs**, new **customer segments**, new **value propositions**, and new opportunities for **strategic positioning**
- New ways of **purchasing, producing, delivering**, and interacting with **employees** and **communities**



- Shared value strategies are often **more sustainable** than conventional cost, feature, and quality advantages

The Framework For Creating Shared Value

Levels of Shared Value



Shared Value Through Products

Discovery Health

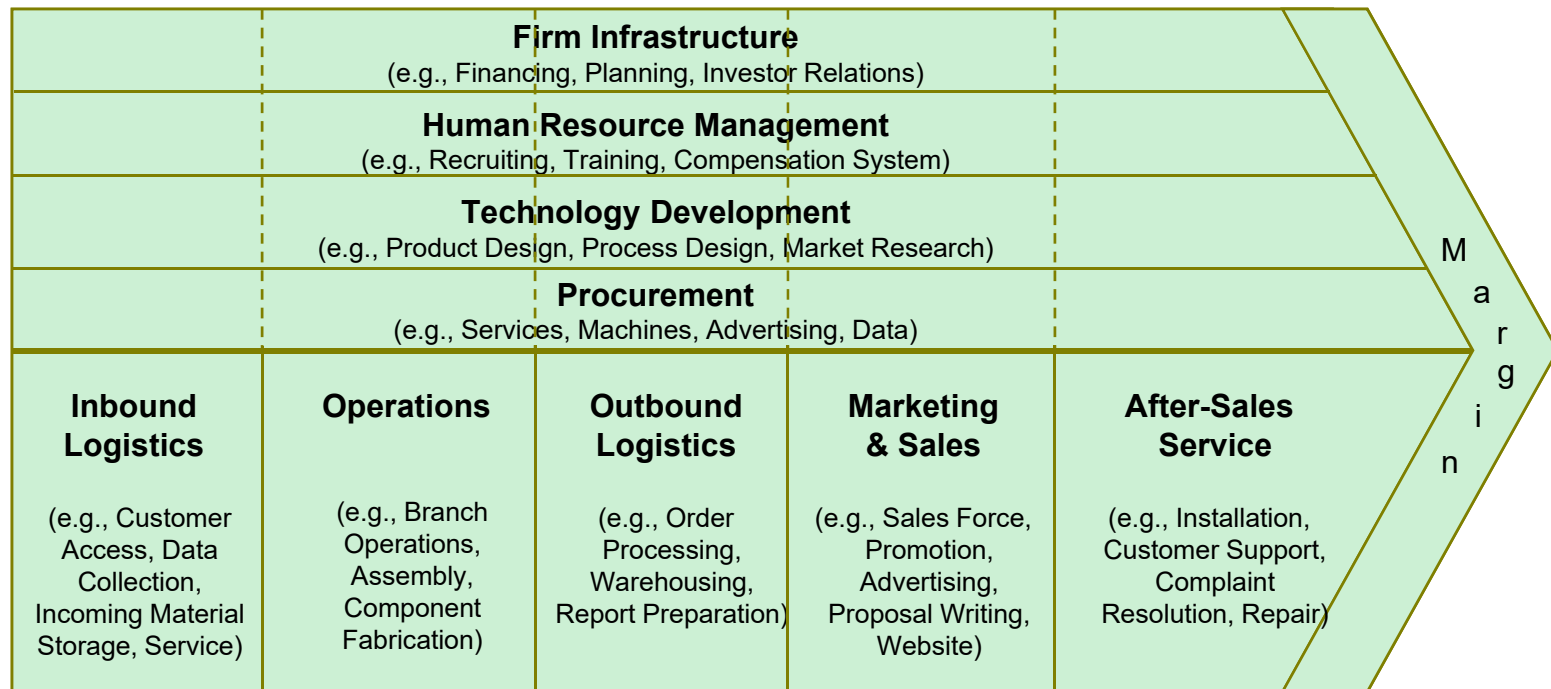


- Discovery pioneered the concept of a **health plan** paired with a wellness incentive program, called **Vitality**
- Combining health coverage with Vitality membership allowed Discovery to achieve **better health results** and offer health coverage at **lower premiums**



- Discovery is one of the world's **fastest growing** and **most profitable** health insurance companies
- It has spread the concept to **other kinds** of insurance and financial services

Shared Value in the Value Chain



- Procurement that **enhances supplier capabilities and efficiency**
- **Resource efficiency** across the value chain
- Redesigning the value chain to eliminate **waste reduces cost**
- Minimizing **logistical intensity** and **emissions**
- Improving **employee health and safety**
- Recruiting that reflects the **diversity of customers** and **served communities**
- Retention and skill development through **career paths** and **living wages**

The Shared Value Journey

Walmart



1

Reconceiving Needs, Products, and Customers

- Organic, fresh, **healthy foods**
- Locate smaller **neighborhood stores** in food deserts
- **Low cost financial services** for underbanked families
- Low cost **in-store health clinics** for low income and uninsured families
- Low cost **generic drugs**

2

Redefining Productivity in Value Chain

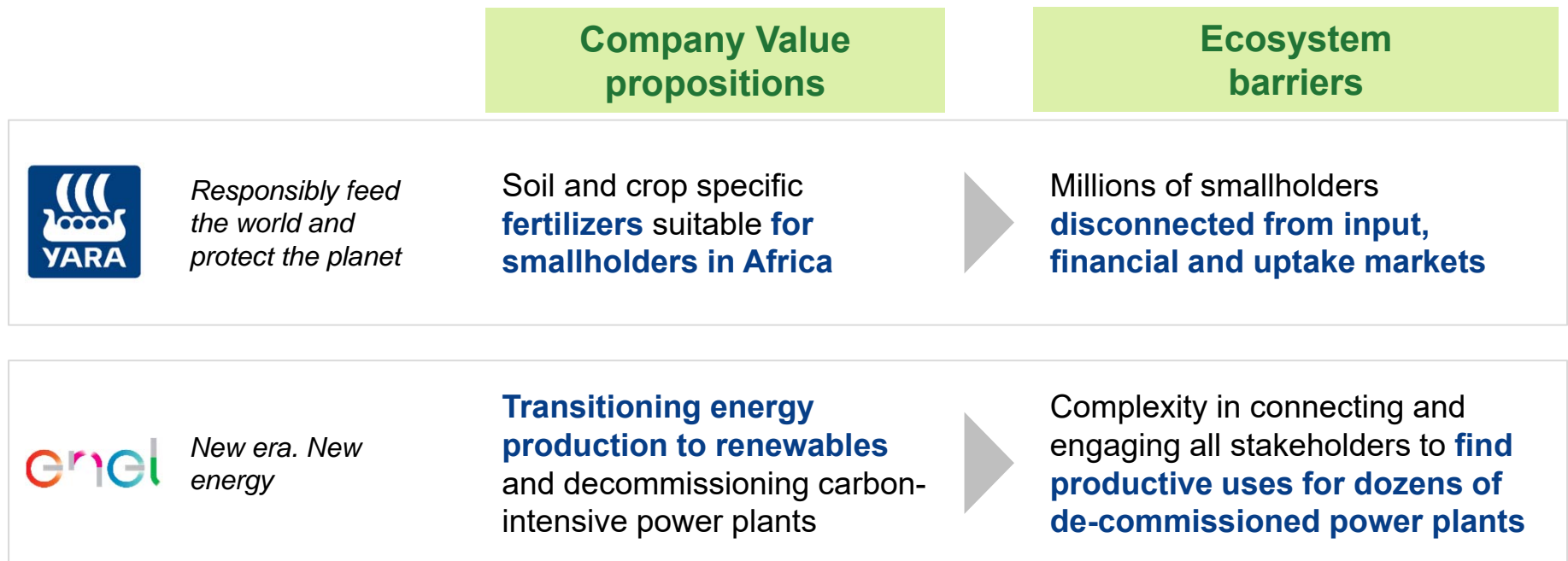
- **Local sourcing**
- Comprehensive programs to reduce **energy usage**, **water usage**, **packaging**, and **waste** across the value chain
- Path to higher **wages** and **benefits** for low income associates
- **Training** and **career pathways** for associates
- Extensive **health** and **wellness program** for employees

3

Improving the Local Business Environment

- Introduced **Sustainable Value Networks** to collaborate with suppliers to improve **sustainability** of supply chains
- Lead collaboration in the retail sector on **workforce development**

Building a better business ecosystem



The State of the Shared Value Movement

- Growing **SVI** participation and membership
- Expanding **business school** curriculum
- Global Shared Value **conferences** and **workshops**
- Rising **scholarly citations** and **TED views**
- Shared Value **country** initiatives
- Shared Value **prizes** around the world



Change the World List 2017

50 Companies That Do Well By Doing Good

- | | | |
|--------------------------|-------------------------------|------------------------|
| 1. JPMorgan Chase | 11. Levi Strauss | 31. Airbnb |
| 2. DSM | 12. SAS | 32. Ikea |
| 3. Apple | 13. Bendigo & Adelaide Bank | 33. MTR |
| 4. Novartis | 14. Nestlé | 34. Grohe |
| 5. Leap Frog Investments | 15. Tencent | 35. IBM |
| 6. Ant Financial | 16. Vodafone | 36. Salesforce.com |
| 7. Walmart | 17. Go-Jek | 37. 23andMe |
| 8. Toyota Motor | 18. Cemex | 38. CJ Group |
| 9. Johnson & Johnson | 19. Centene | 39. Allstate |
| 10. Yara | 20. Enel | 40. Woolworth Holdings |
| | 21. Unilever | 41. American Express |
| | 22. CH2M | 42. Amcor |
| | 23. bKash | 43. Marriott |
| | 24. Accenture | 44. Chobani |
| | 25. Microsoft | 45. Grupo Nutresa |
| | 26. Vanguard | 46. JetBlue |
| | 27. Mobike | 47. Sodexo |
| | 28. Volvo Car Group | 48. Dell Technologies |
| | 29. Insurance Australia Group | 49. Palo Alto Networks |
| | 30. Tata Consultancy Services | 50. Land O'Lakes |

**We are just
beginning**

The Purpose of Business

- The purpose of 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, productivity, and scalability
 - Shared value opens up **major strategic opportunities** to create competitive advantage, while driving the next wave of **innovation, productivity, and economic growth** in economies
- 
- Building company strategy around shared value gives **greater purpose** to the corporation and to **capitalism itself**