Creating Shared Value: Becoming a Movement

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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

Creating Shared Value (CSV)

- Addressing societal needs and challenges with a business model
  - At a profit
The Power of Capitalism in Social Improvement


- Gross Non-Profit Output: $1.2 Trillion
- Total Government Spending: $3.1 Trillion
- Estimated Total Corporate Revenue: $23.1 Trillion

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, Sageworks 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

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<thead>
<tr>
<th>Traditional Positioning</th>
<th>New Positioning</th>
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<tbody>
<tr>
<td>Nestlé</td>
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<td>• Food and Beverage Company</td>
<td>• Nutrition, Health and Wellness Company</td>
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<td>• Computers and technology</td>
<td>• “Smarter Planet”</td>
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<td>• Textbook Publishing</td>
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<td>Discovery Health Insurance</td>
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<td>• Health Insurance</td>
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- 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

**Economic Purists**
- Nonfinancial factors are irrelevant to security analysis
- Taking social factors into account is inconsistent with fiduciary responsibility by necessarily resulting in suboptimal financial returns

**Ethical Investing**
- Negative screens that exclude “bad” industries or companies
- Unrelated to company financial performance

**Sustainability Investing**
- Rank companies on comprehensive list of ESG criteria
- Many factors are not material to social or economic performance

**Impact Investing**
- Invest in profit making businesses with a core social purpose
- Mostly private equity
- Limited number of “pure play” companies

**Shared Value Investing**
- Identifying companies that are improving economic value through addressing social problems and opportunities
- All companies can create shared value
- Focuses only on factors that are material to economic performance
- A natural extension of traditional investment analysis
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