

Strategy and Society: From CSR to Creating Shared Value

Professor Michael E. Porter
Harvard Business School
Four Seasons, Boston

November 10, 2009

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); "Strategy and the Internet" (*Harvard Business Review*, March 2001) and *On Competition* (*Harvard Business Review*, 2008). 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. Additional information may be found at the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu. Version: Nov 9, 7pm

Corporate Social Responsibility

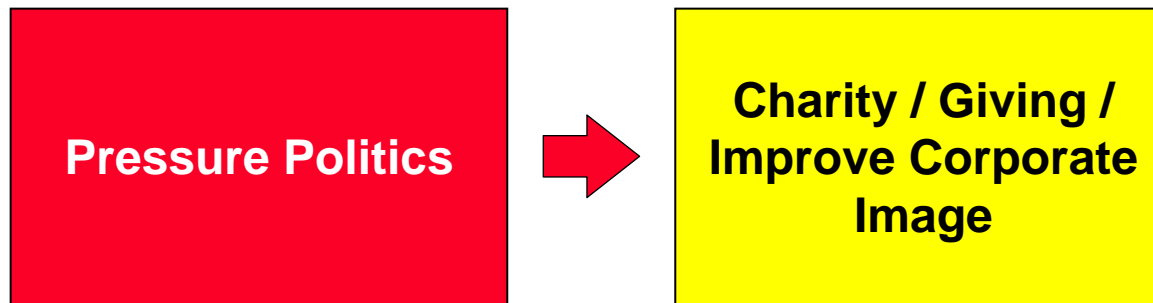
A Growing Agenda

- **External pressures** for CSR continue to grow
- Numerous organizations **monitor**, **rank**, and **report** social performance
- The **legal**, **business** and **reputation risks** are great for companies engaging in practices deemed unacceptable
- Few companies have **integrated society into strategy** in a way that reinforces competitive advantage for the business

YET

- **Concern with social issues** will be a defining characteristic of the post-crisis era

History of CSR



Prevailing Justifications for CSR

Moral Obligation

“Achieving commercial success in ways that honor ethical values”

- Inadequate guidance to balance complex competing social and economic interests
- Wide variability of personal values among managers and stakeholders

Sustainability

“Meeting the needs of the present without compromising future needs”

- Most effective on environmental issues where improvements can yield immediate economic benefits
- In other areas, intangible long term consequences provide a weak justification for short term costs

License to Operate

“Building goodwill to secure the acquiescence of governments and stakeholders”

- Licenses and approvals are necessary
- But this approach cedes control of CSR agenda to external players that do not fully understand the company’s competitive positioning, capabilities, and operations
- Encourages short term, defensive, and disjointed responses to “the squeakiest wheel” of the moment

Reputation

“Enhancing reputation and brand with customers, investors, and employees”

- Little evidence of sustained competitive advantage
- Emphasizes the visible and popular rather than the social and business impact of corporate activities



- The prevailing justifications focus on the **tension** between business and society rather than the **interdependence**
- Generic rationales for CSR provide **little specific guidance or priorities** for company actions

CSR in Practice

- Company practice on the social agenda **leaves much room for improvement**
 - Reactive
 - Unfocused
 - Rankings oriented
 - PR / Corporate image driven

- CSR and community issues are treated as **separate** from the core business agenda

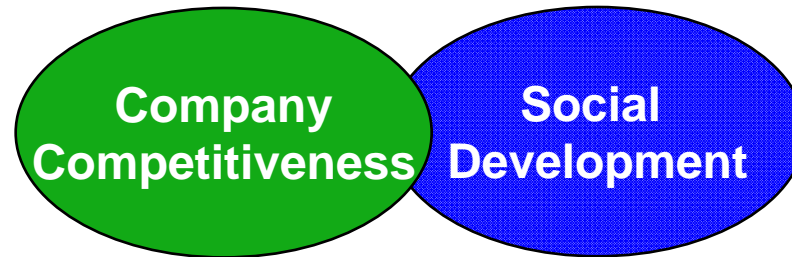


- Limited measurable **social impact** or **benefit to the business**
- With little business benefit, CSR initiatives are **hard to sustain**

History of CSR



Integrating Company and Community

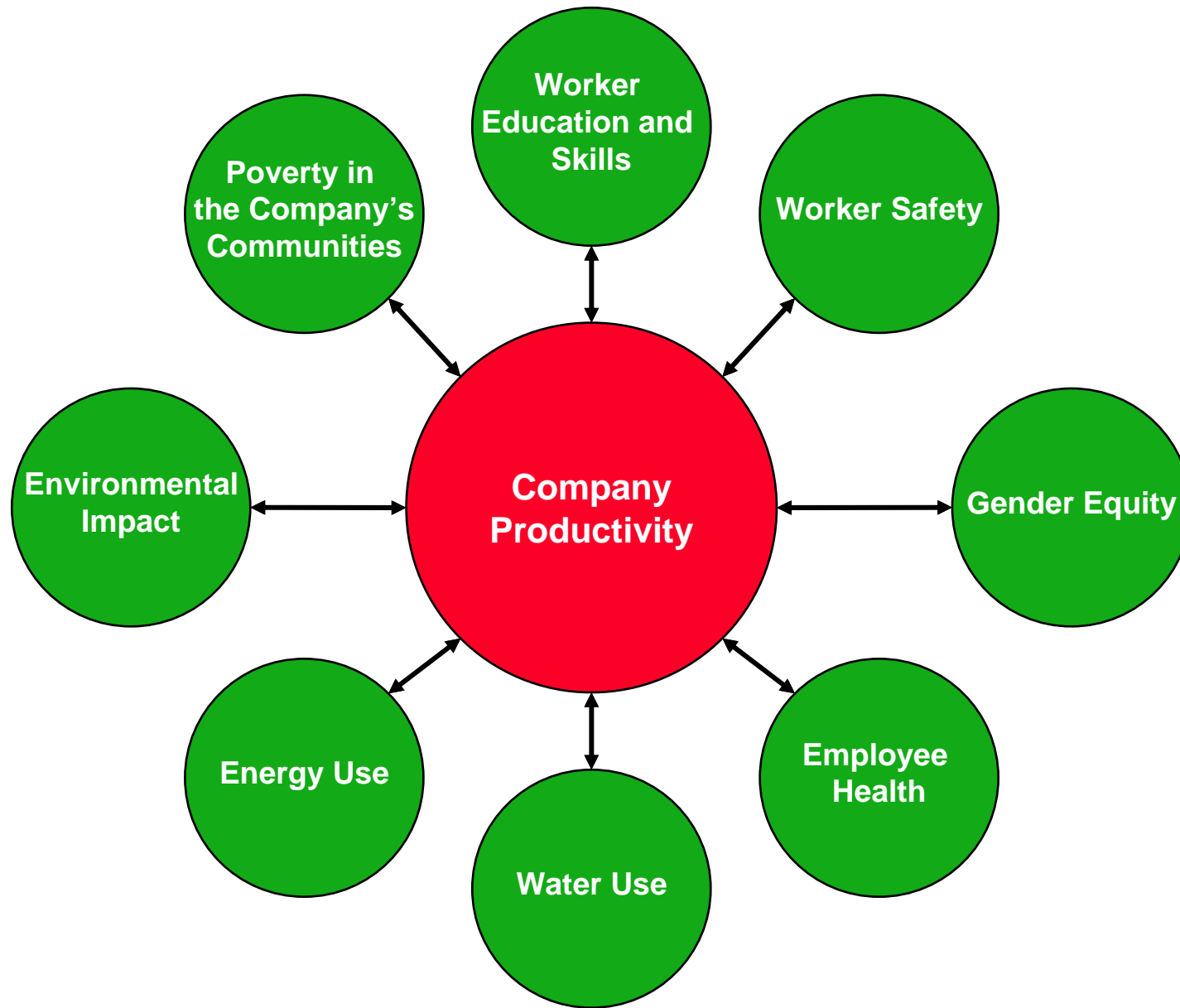


- There is an **inevitable link** between business and society
- A **healthy business** depends on a **healthy community** to create demand for its products and provide a supportive business environment
- A **healthy society** depends on **competitive companies** that can create jobs, support high wages, build wealth, buy local goods, and pay taxes



- There is a long-term **synergy** between economic and social objectives

Competitiveness and Social Issues



The Concept of Shared Value

Shared Value: Policies and practices that **enhance the competitiveness** of a company while **simultaneously advancing** economic and social conditions in the communities in which it operates



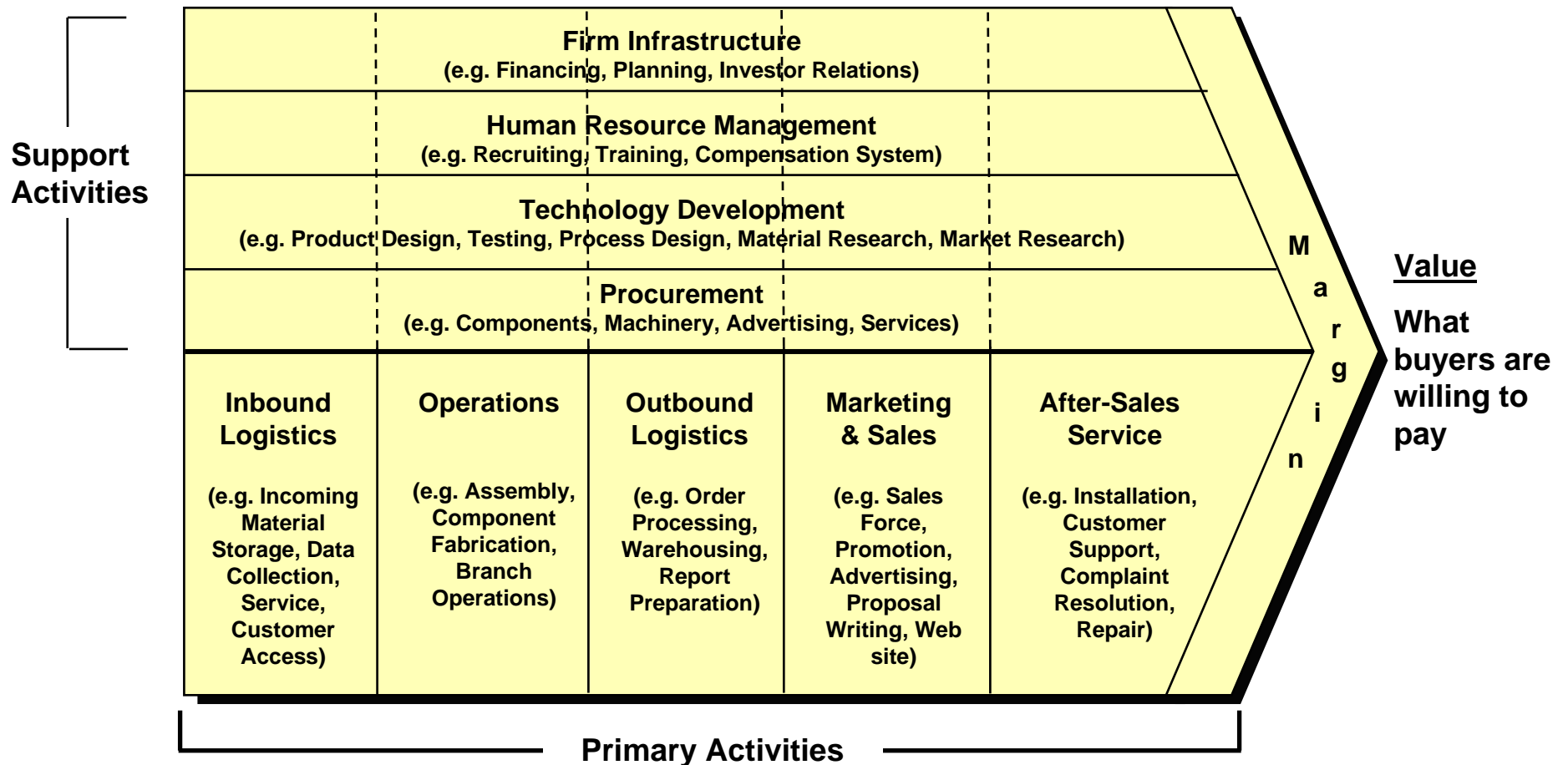
- Find the **points of convergence** between economic and social objectives, not assumed tradeoffs or the need for redistribution
 - These points of convergence are **growing**
- Achieving shared value requires **new thinking, new technologies, and new approaches to management**
- Shared value opportunities are **even greater** in developing countries
- Shared value applies equally to NGOs and governments

Foundations of Strategic Positioning

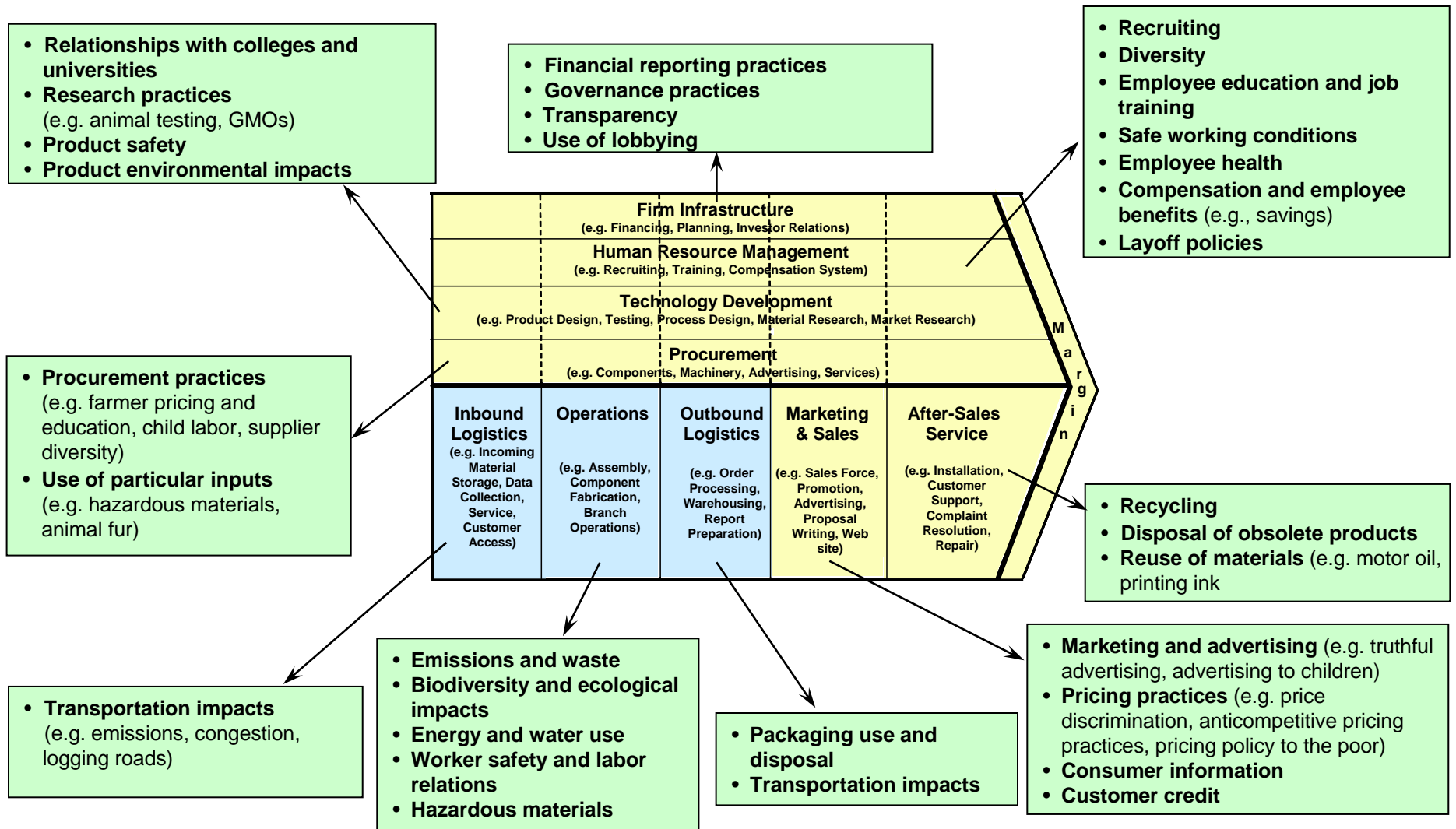


Competitive Advantage and the Value Chain

- Competing in any business involves performing a set of discrete **activities**, in which **competitive advantage resides**

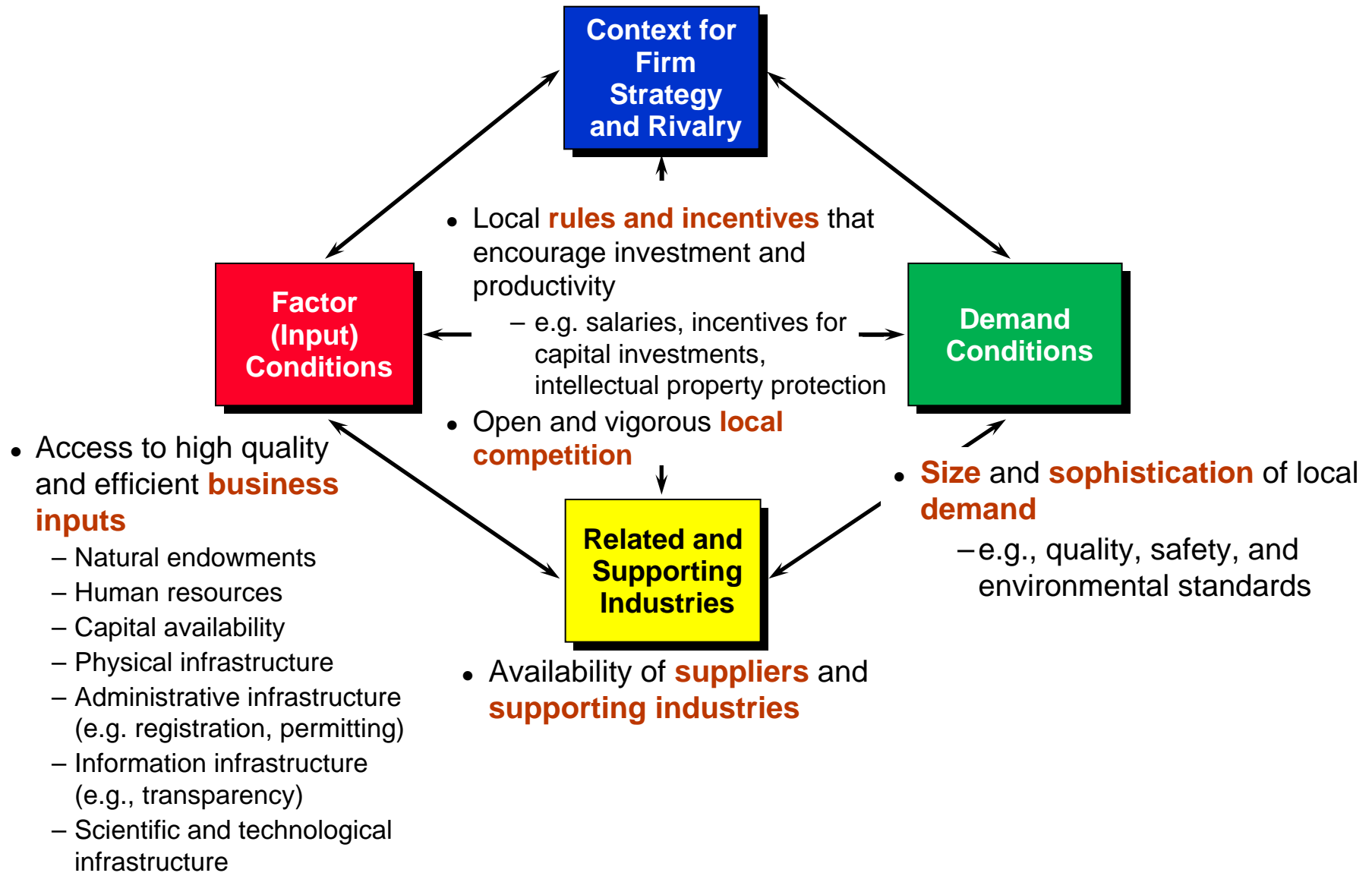


The Value Chain and Shared Value



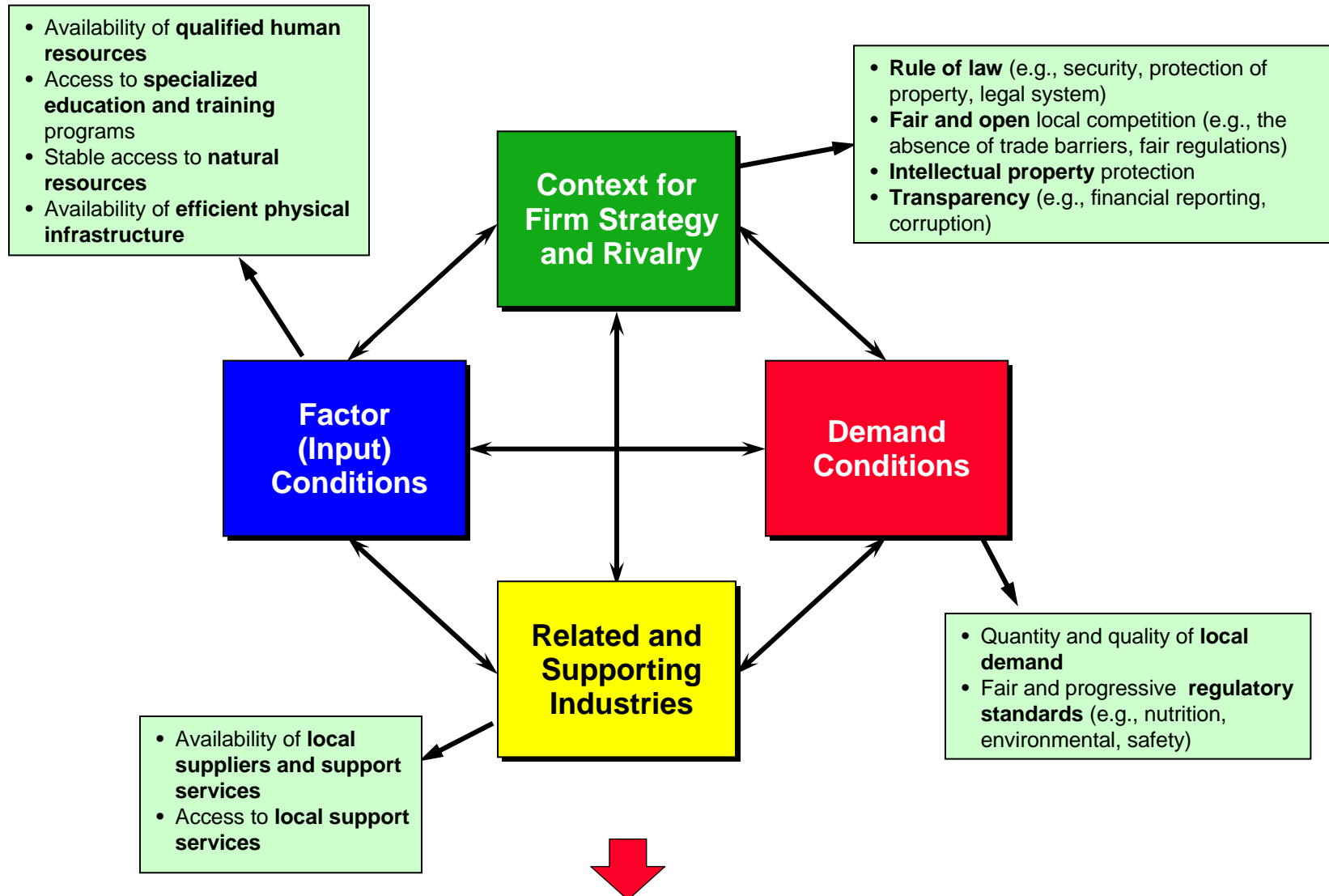
- Many activities in the value chain **touch social** issues in the communities where a company operates. These social impacts can be **positive** or **negative**.

Competitiveness and the Business Environment



Creating Shared Value

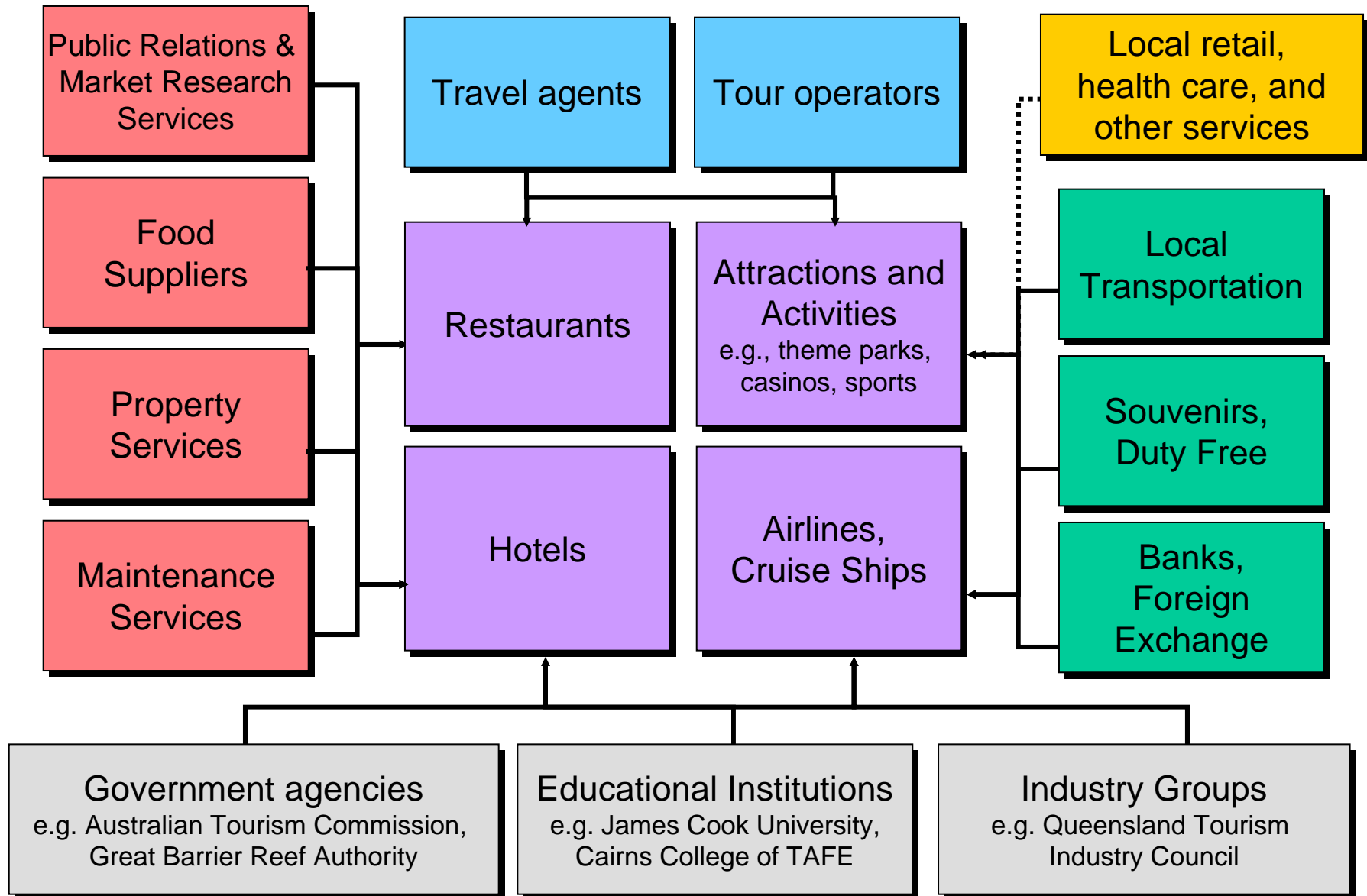
Weaknesses in External Context



- Every company operates in a competitive context that is inevitably affected by **social and community conditions**

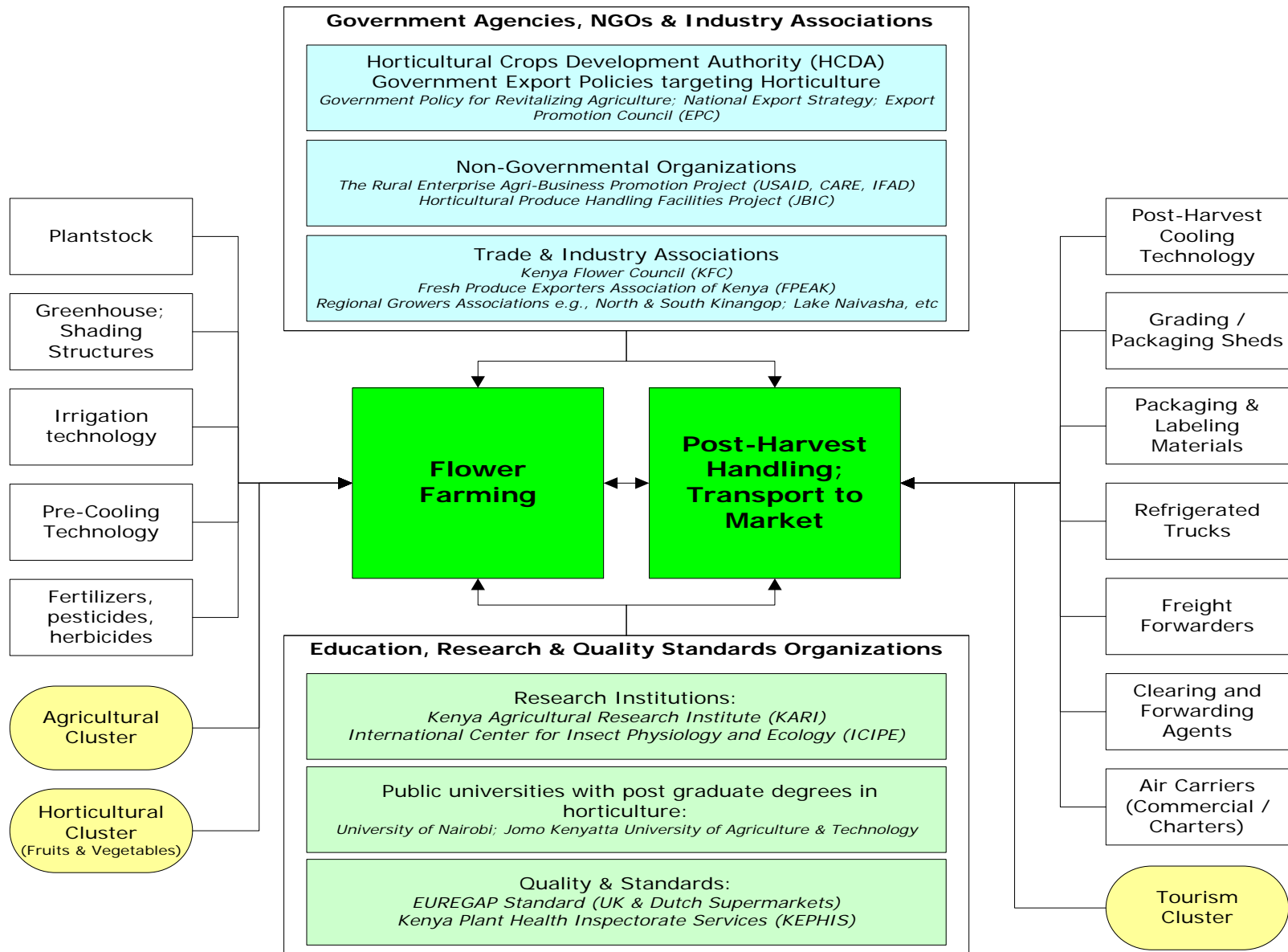
Clusters and Competitiveness

Tourism Cluster in Cairns, Australia



Cluster in Developing Countries

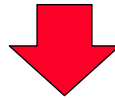
Kenya's Cut Flower Cluster



Creating Shared Value

Principles

- Businesses **cannot solve** all of society's problems, nor bear the cost of doing so
- Businesses must approach the social agenda **proactively** and **strategically**
- Business must address society and social issues where they can **add the most value**



- Select the **social issues** that are **most tightly linked** to a company's business
- **Reconfigure the value chain** to create shared value while reinforcing the company's strategy
- Improve the **economic** and **social context** that affects productivity and makes the business more sustainable
- Build **functioning clusters** to create self-sustaining economic development

Creating Shared Value

ChoicePoint

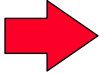
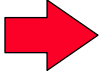
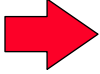
- ChoicePoint's (Reid Elsevir) core business is providing **personal identification, screening, and credit verification**
 - e.g., employment background screening, credit verification, DNA identification, drug testing
- The company's CSR shared value initiatives focus on providing services and advice to **social organizations**:
 - e.g., background checks of volunteers working with children
 - Identity verification for disaster victims
 - Assisting NGOs to find missing children and prevent identity theft



- ChoicePoint's CSR is **aligned with its founding principle**: creating a safer and more secure society through responsible use of information
- ChoicePoint leverages its **skills, data, technological knowledge, and staff** to maximize social impact
- CSR activities are not just charity but **improve the company's capabilities** around identity issues

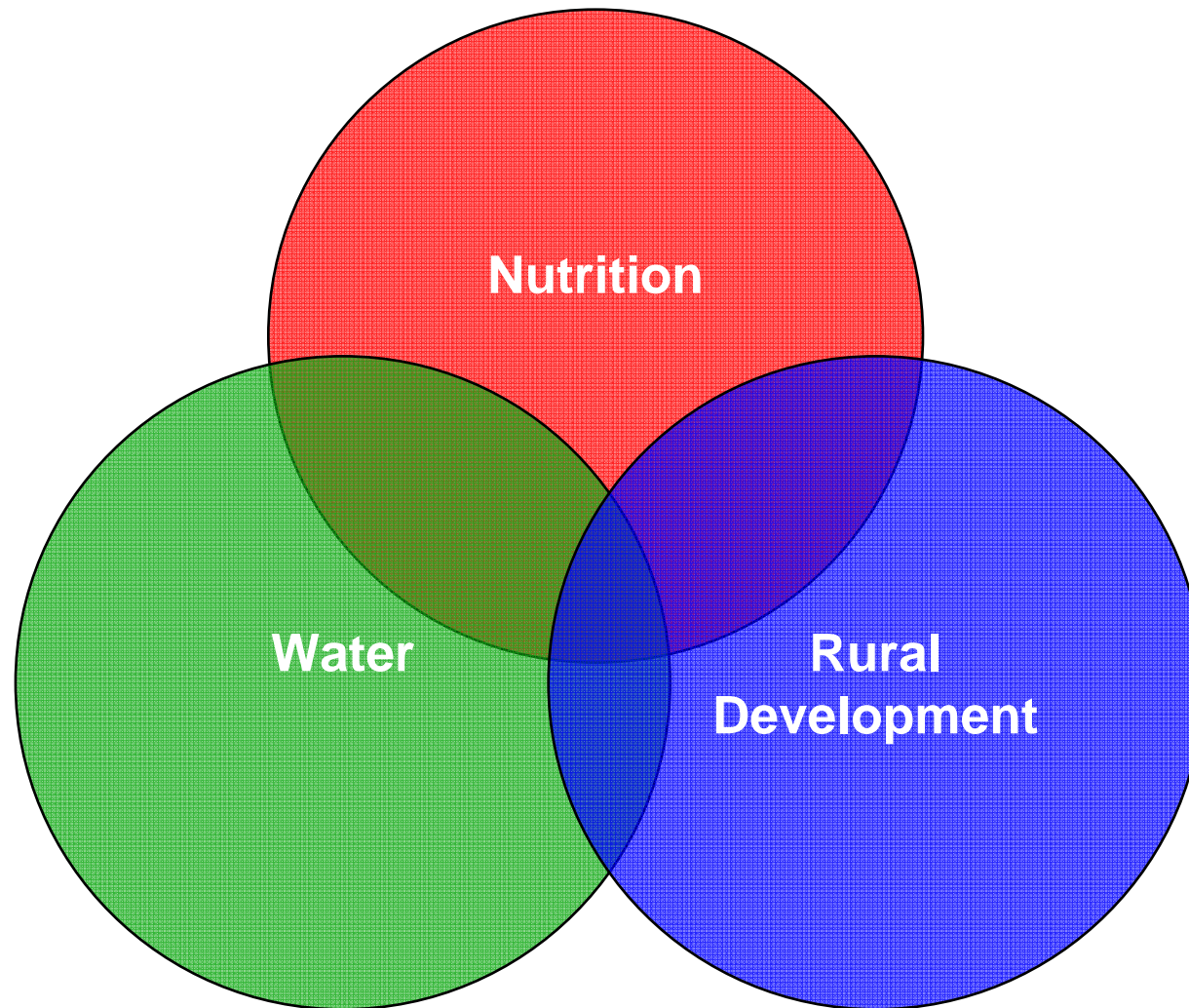
Creating Shared Value

Case Studies

- Toyota  Energy efficient vehicles
- General Electric  Ecoimagination
- Swiss Re  Enabling the market for investments in renewable energy and climate change

Creating Shared Value

Nestlé



Implementing Shared Value

- Treat as a **core** business function
- **Partnership** model
- **Collaboration** with cluster institutions
- **Explicit** goals and reporting

Five Tests of an Excellent Strategy

- A **unique value proposition**
- A **different**, tailored value chain
- Clear tradeoffs, and choosing what **not to do**
- Activities in the value chain that **fit together and reinforce each other**
- **Strategic continuity** with continual improvement in realizing the strategy

Creating a Social Dimension of Strategy

- Customers value **social performance**, not just economic performance
- Companies can have the greatest social impact in areas **tightly connected to their business**
 - Social performance and economic performance are connected
- Social improvements create **shared value** for the business



- Companies should incorporate a **social dimension to their value proposition**
- Shared value should **reinforce** the company's unique strategic positioning
- This social dimension may be **more sustainable** than conventional cost and quality advantages

Creating Shared Value

Nespresso

- Reconfiguring the value chain
 - Reconceiving procurement
- Upgrading the cluster
 - Supporting cluster development including cluster institutions
- Partnering with stakeholders

Shared Value

Farmers

- Better yields
- Better prices
- Better processing

Community

- Environmental sustainability
- Economic development

Nespresso

- Better quality
- Stable supply
- Reinforces strategy

The Moral Purpose of Business

- The most important thing a corporation can do for society is to contribute to a **prosperous economy**
 - Business has **no need to be defensive** about its role
- However, corporations depend on a **healthy society** to sustain competitiveness
- Companies have the tools, capabilities, and resources to have a major **impact on social issues**
- Each company should identify the **particular set of societal problems** that it is best equipped to help resolve, and from which will arise the greatest **long term synergy** with its business
- Addressing these issues using the principles of **shared value** will lead to self-sustaining solutions
- Businesses are invaluable **strategic partners** for NGO's, government and other institutions to achieve society's most cherished aims