

Creating Shared Value for Better Cities

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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 Challenge

- Hong Kong has a **robust** philanthropic sector
 - Over \$2.5 billion in philanthropic donations in 2015 from individuals (34%), foundations (20%), and corporations (46%)
- Yet, many social problems in Hong Kong, and around the world, **remain unsolved**



How can Hong Kong make **more progress**?

Note: Estimate of philanthropic donations including only donations over \$1 million

Source: Coutts

20160922—Philanthropy for Better Cities –FINAL

The Purpose of Philanthropy

$$\text{Creating Social Value} = \frac{\text{Social Benefit Created}}{\text{Cost of Delivering the Benefit}}$$

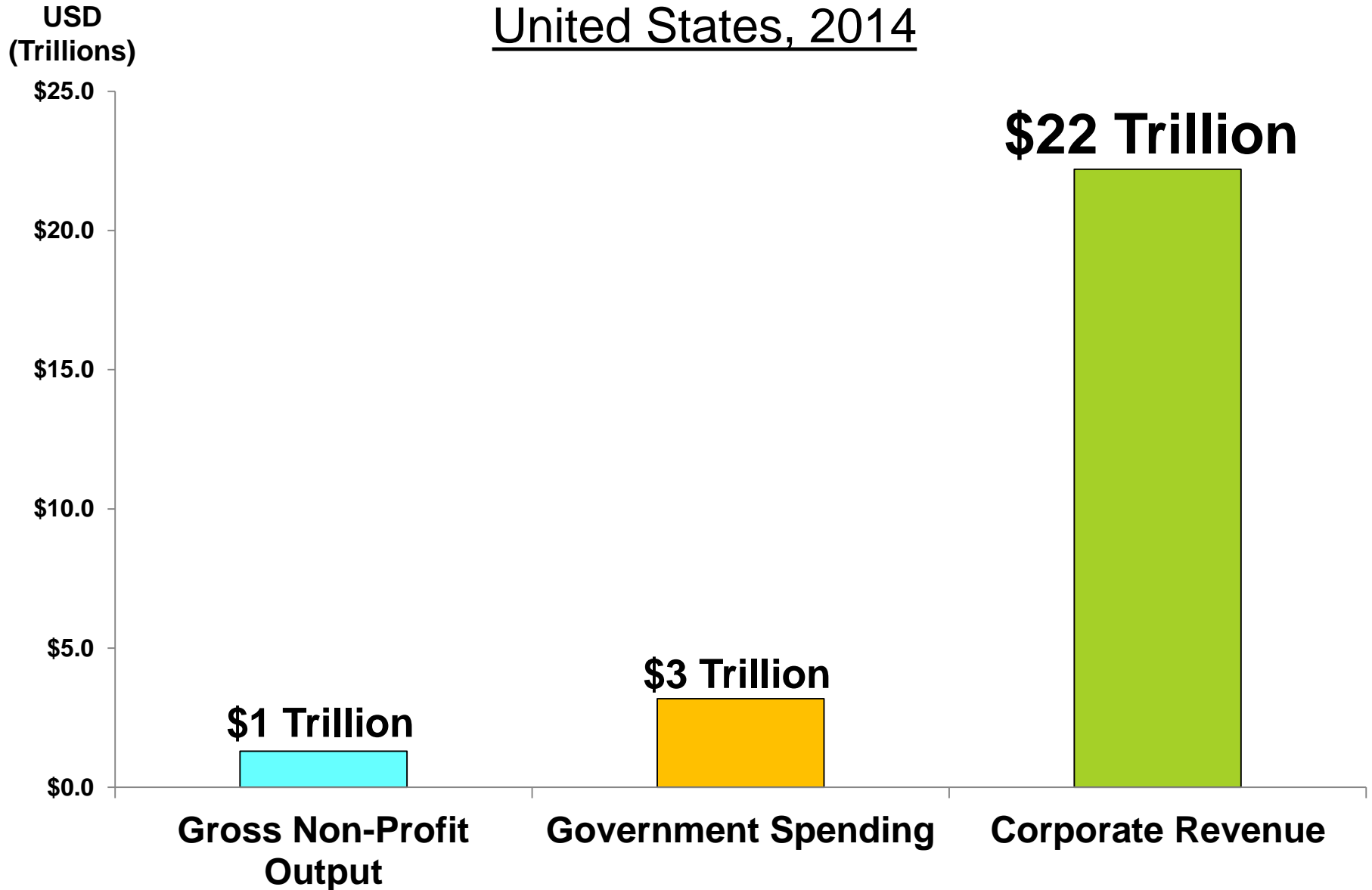
- Creating social benefit is **not** just:
 - Doing good
 - Supporting worthy causes

Strategic Philanthropy

- The goal is achieving **superior social value**
- Focusing on important unmet needs where the organization can deliver **unique results**
- Delivering an **integrated set of activities** to create value, not just giving money
 - **Selecting** the best partners and helping **improve their performance**
 - Fostering **integration and collaboration** across entities and stakeholders
 - Finding **leverage points** that drive **systems improvement**, such as common measures of success
 - **Advancing** the state of **knowledge** and **practice** in the field
- Making clear **trade-offs**, and choosing what **not** to do

Resources for Social Impact

United States, 2014



Source: FSG estimates

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The Role of Business in Society

- Societies everywhere are facing significant **social, environmental and economic development** challenges
- Government and NGOs **lack sufficient resources and capabilities** themselves to fully meet these challenges alone
- Only business can **create wealth**
- Corporate philanthropy and corporate social responsibility programs continue to grow, 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

Evolving Approaches

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Corporate Social Responsibility (CSR)

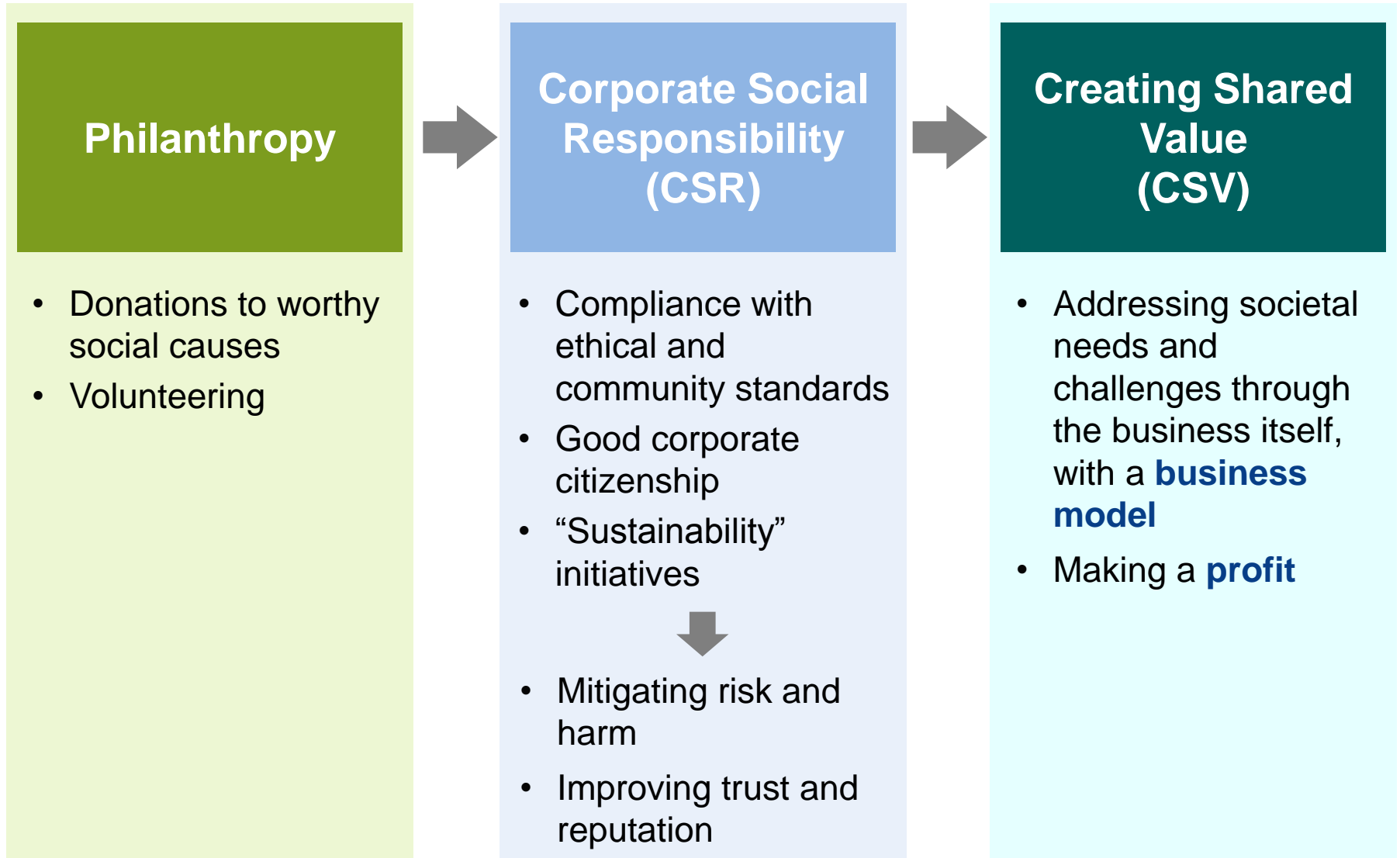
- Compliance with ethical and community standards
- Good corporate citizenship
- “Sustainability” initiatives



- Mitigating risk and harm
- Improving trust and reputation

The Role of Business in Society

Evolving Approaches

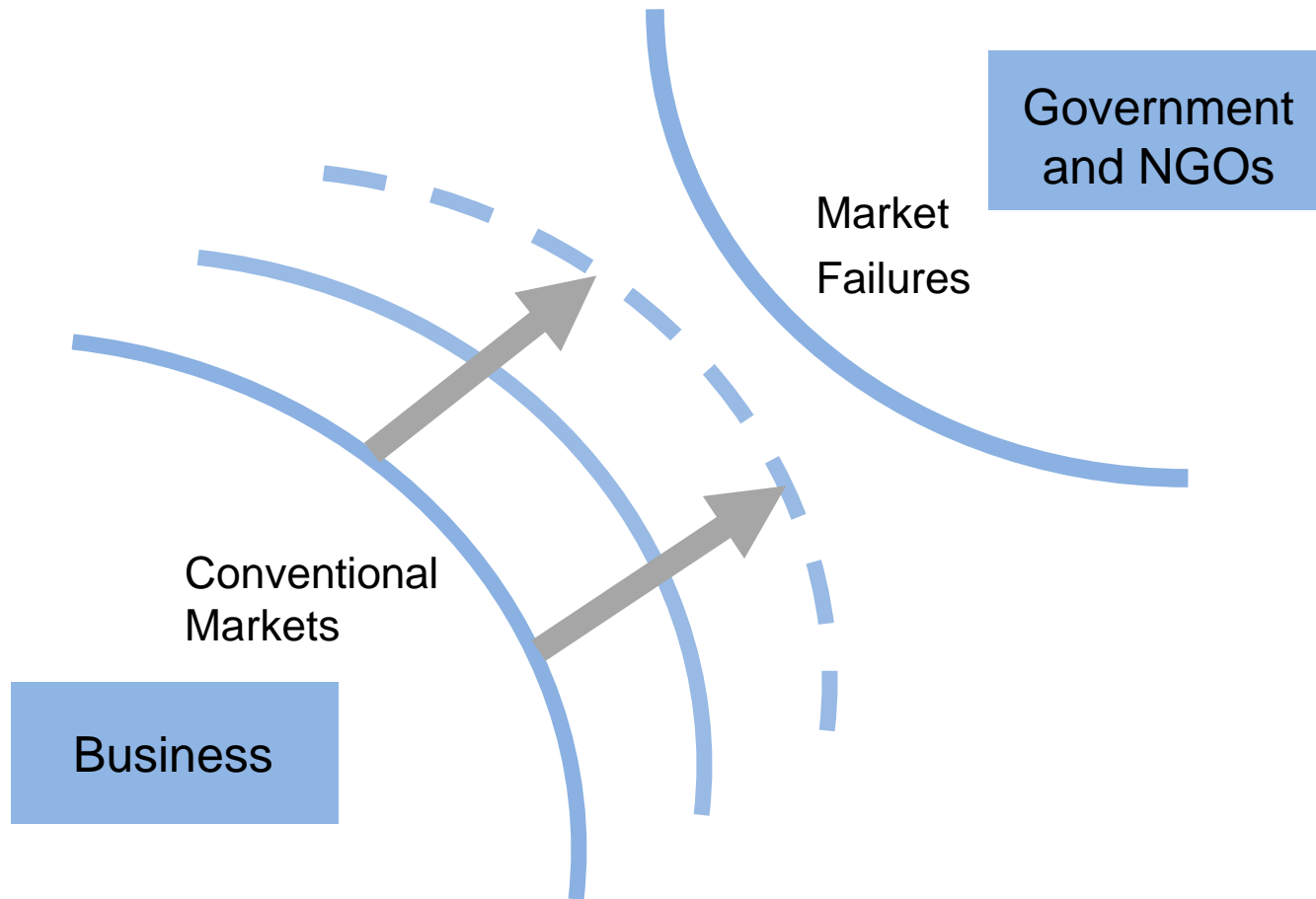


The Opportunity for Shared Value



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

Shifting the Frontier Between Markets and Market Failures



Levels of Shared Value

1

**Reconceiving Needs,
Products, and Customers**

2

**Redefining Productivity in
the Value Chain**

3

**Improving the Local
Business Environment**

Shared Value in Products and Markets

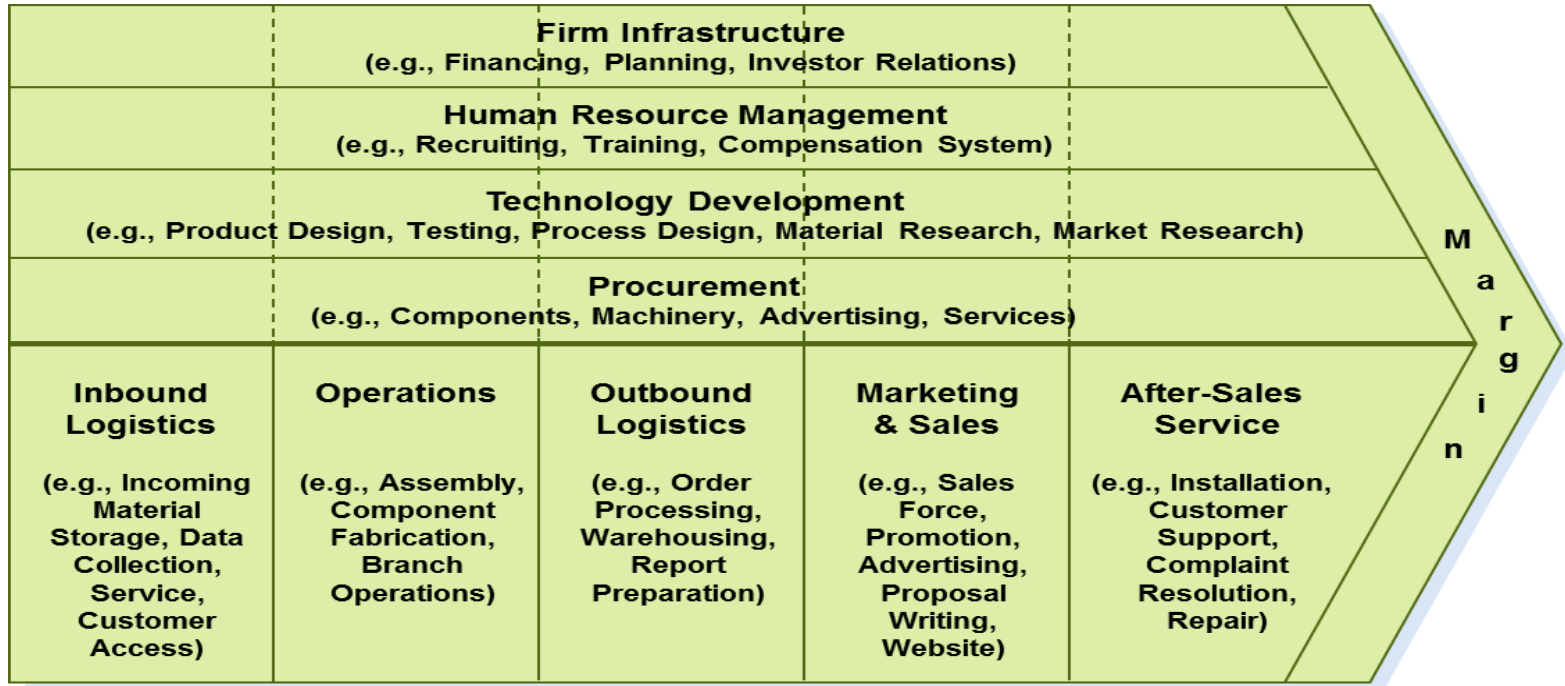
National Australia Bank (NAB)

- **NAB** launched a bank-wide program to serve the unbanked and reduce financial hardship
 - **Eliminated all fees and penalties** to overextended customers
- Introduced **NAB Care**, a new approach to providing financial advice and loan repayment options for struggling customers
 - Train loan officers to **recognize and manage financial hardship**
 - **Reward staff** for proactively managing **customers' financial health**
- Launched loan products targeted at Australia's 3 million unbanked, low income population, with **lower interest rates** than payday lenders



- Created one million **profitable new clients**
- 47% of client hardship cases were **resolved within 6 months**
- 20% reduction in **defaults**

Shared Value in the Value Chain



- Procurement that **enhances supplier capabilities and efficiency**
- Improving **energy, water** and **resource** efficiency across activities
- Redesigning or recycling to minimize or eliminate **waste**
- Minimizing **logistical intensity**
- Improving employee **health** and **safety**
- Enhancing productivity and retention through wages and benefits for **lower income** employees
- Recruiting to reflect the **diversity of customers** and the **communities** in which a company operates
- Others...

Shared Value in the Value Chain

The GAP

- The Gap's **P.A.C.E. program** provides 65+ hours of **training** in life skills, education, and technical skills for women in its supply chain
- P.A.C.E. is delivered in **partnership** with the International Center for Research on Women as well as NGOs Swasti and CARE



- Factories report **increased productivity** and **higher retention rates**
- P.A.C.E has reached more than **40,000 women in 12 countries**, and plans to reach 1 million by 2020
- P.A.C.E trainees in Cambodia, for example, have **66% higher retention** and are **promoted 3x faster** than other workers in the same factory



Levels of Shared Value

1

Reconceiving Needs, Products, and Customers

- Products and services that meet **societal needs**
- Providing products to **unserved** or **underserved** customers and communities

2

Redefining Productivity in the Value Chain

- Accessing and utilizing resources, energy, suppliers, logistics, and employees **differently and more productively**

3

Improving the Local Business Environment

- E.g., improving **skills**, local **suppliers**, **supporting institutions** and **cluster sophistication** in the areas where the company operates

Improving the Business Environment: Japanese Tea Cluster

ITO EN

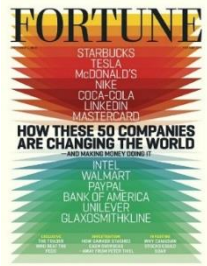


- **ITO EN** is the world's leading producer and marketer of loose leaf and bottled green tea
- Partners with Japanese farmers and other stakeholders to utilize **abandoned agricultural land**
- Provides **assistance in modern farm management practices** to growers to meet ITO EN standards, and **purchases farmers' entire crop** to encourage investment and **lower selling costs**
- **Motivates and trains young people** for careers in 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
- **Supply** has expanded, **quality** is higher, and **unit costs** are lower

Fortune Change the World List 2016



50 Companies That Do Well By Doing Good

1. GlaxoSmithKline
2. IDE Technologies
3. General Electric
4. Gilead Sciences
5. Nestlé
6. Nike
7. MasterCard
8. United Technologies
9. Novozymes
10. First Solar
11. Coca-Cola
12. Intel
13. Munich Re
14. Fibria Celulose
15. Walmart
16. Bank of America
17. Crystal Group
18. Ito En
19. PayPal Holdings
20. Skandia
21. Siemens
22. National Australia Bank
23. Olam International
24. Schneider Electric
25. McDonald's
26. Salesforce.com
27. Unilever
28. CVS Health
29. Accenture
30. Didi Chuxing
31. Johnson & Johnson
32. Banco de Crédito
33. Compass Group
34. mPedigree
35. LinkedIn
36. Smart Communications
37. Becton Dickinson
38. PepsiCo
39. Panasonic
40. Gap
41. Tribanco
42. DSM
43. Heineken
44. BTPN
45. Starbucks
46. Cipla
47. IBM
48. Godrej Group
49. Grupo Bimbo
50. Tesla Motors

NGOs and Shared Value

- **Partner** with NGOs to implement shared value solutions
- Combine **complementary strengths** to implement shared value
- Shift from grants to **fees for services**
- Provide **financing**



- NGOs **leverage the private sector** to dramatically increase scale and impact

The Role of Government in Shared Value

- Regulate in ways that **enable and motivate shared value** solutions
 - Outcomes-based standards
- Tax policies that support **market solutions**
- Create essential supporting **infrastructure** (e.g. port improvements, water access, roads, training programs)
- Provide business **incentives, co-financing,** or guaranteed **early markets**
- Convene stakeholders to **catalyze shared value** approaches

Setting the Agenda

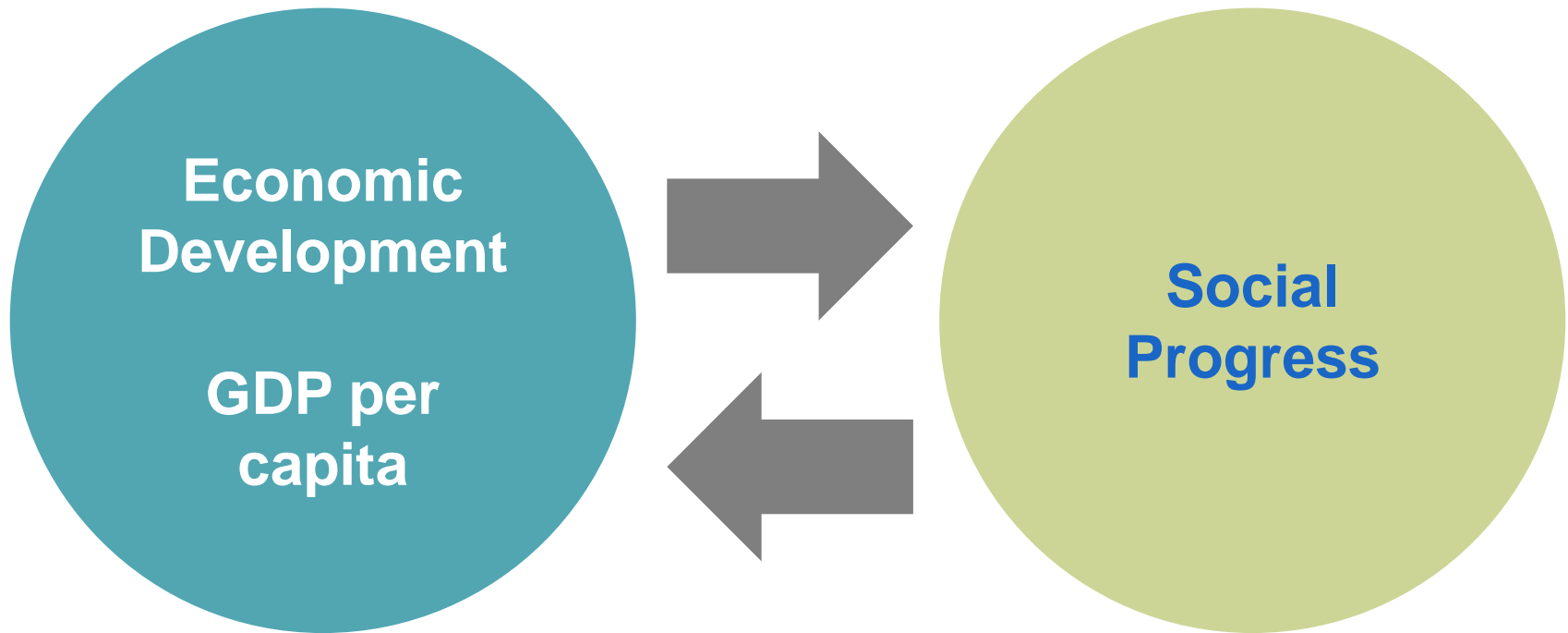
The Need for Measurement

- Maximizing social value requires setting **clear priorities** for the social issues to target
- **Rigorous measurement** of social performance has been rare, and is often fragmented issue by issue
- There has been no consistent and standardized **framework for benchmarking** social performance across initiatives and regions
- Social impact priorities have often been based on **politics** and **personal preferences**, rather than **true needs**



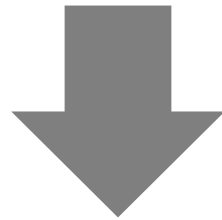
- The **Social Progress Index (SPI)**, introduced in 2013, is the first **rigorous** measurement tool to holistically measure **social outcomes**

How Do We Measure Development?



What is Social Progress?

Social progress is the capacity of a society to meet the **basic human needs** of its citizens, establish the **building blocks** that allow citizens and communities to enhance and sustain the quality of their lives, and create the conditions for **all individuals to reach their full potential**



A holistic framework is needed

Social Progress Index Framework, 2016

Social Progress Index

Basic Human Needs

Nutrition and Basic Medical Care

- Undernourishment
- Depth of food deficit
- Maternal mortality rate
- Child mortality rate
- Deaths from infectious diseases

Water and Sanitation

- Access to piped water
- Rural access to improved water source
- Access to improved sanitation facilities

Shelter

- Availability of affordable housing
- Access to electricity
- Quality of electricity supply
- Household air pollution attributable deaths

Personal Safety

- Homicide rate
- Level of violent crime
- Perceived criminality
- Political terror
- Traffic deaths

Foundations of Wellbeing

Access to Basic Knowledge

- Adult literacy rate
- Primary school enrollment
- Lower secondary school enrollment
- Upper secondary school enrollment
- Gender parity in secondary enrollment

Access to Information and Communications

- Mobile telephone subscriptions
- Internet users
- Press Freedom Index

Health and Wellness

- Life expectancy at 60
- Premature deaths from non-communicable diseases
- Obesity rate
- Suicide rate

Environmental Quality

- Outdoor air pollution attributable deaths
- Wastewater treatment
- Greenhouse gas emissions
- Biodiversity and habitat

Opportunity

Personal Rights

- Political rights
- Freedom of speech
- Freedom of assembly/association
- Freedom of movement
- Private property rights

Personal Freedom and Choice

- Freedom over life choices
- Freedom of religion
- Early marriage
- Satisfied demand for contraception
- Corruption

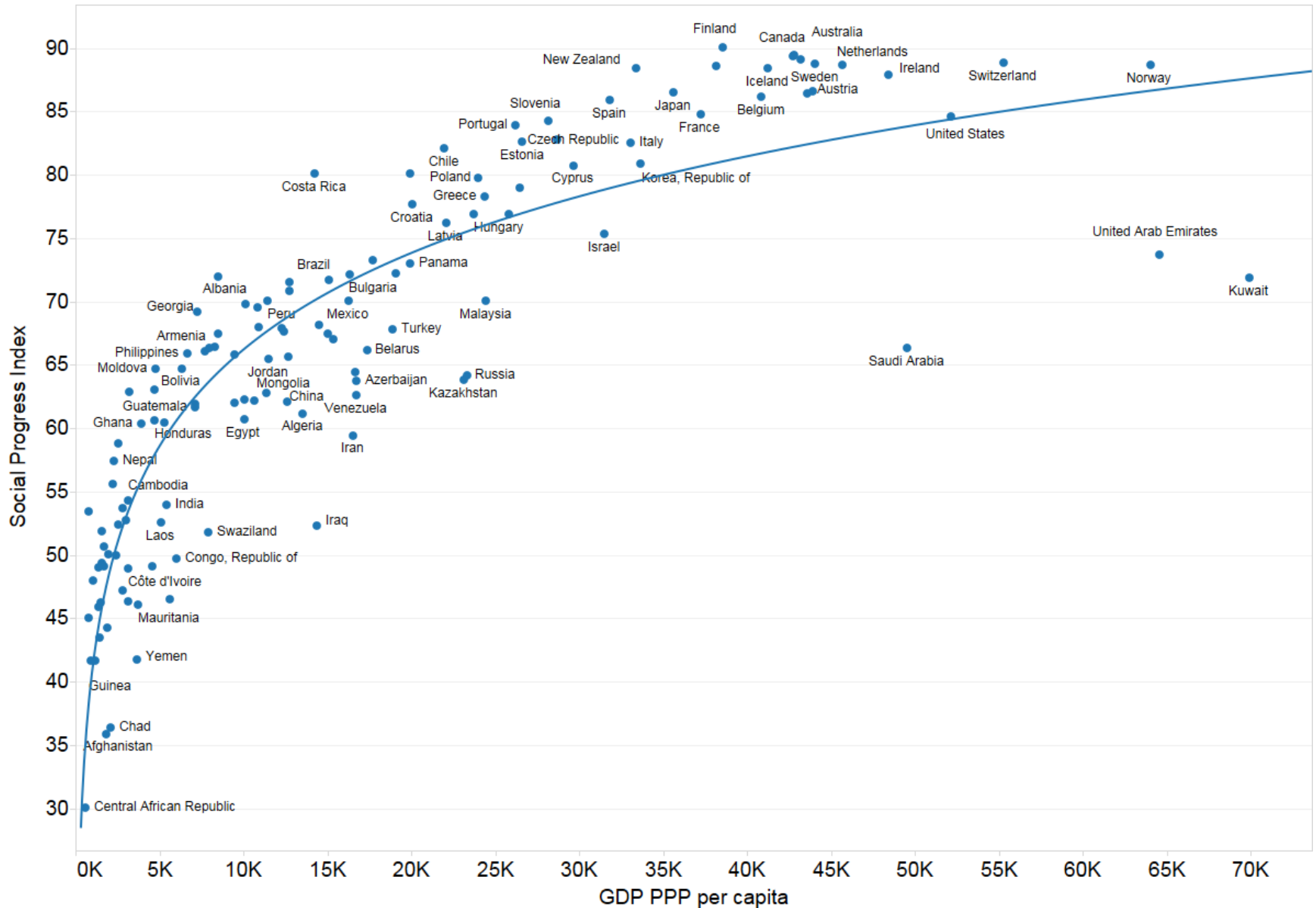
Tolerance and Inclusion

- Tolerance for immigrants
- Tolerance for homosexuals
- Discrimination and violence against minorities
- Religious tolerance
- Community safety net

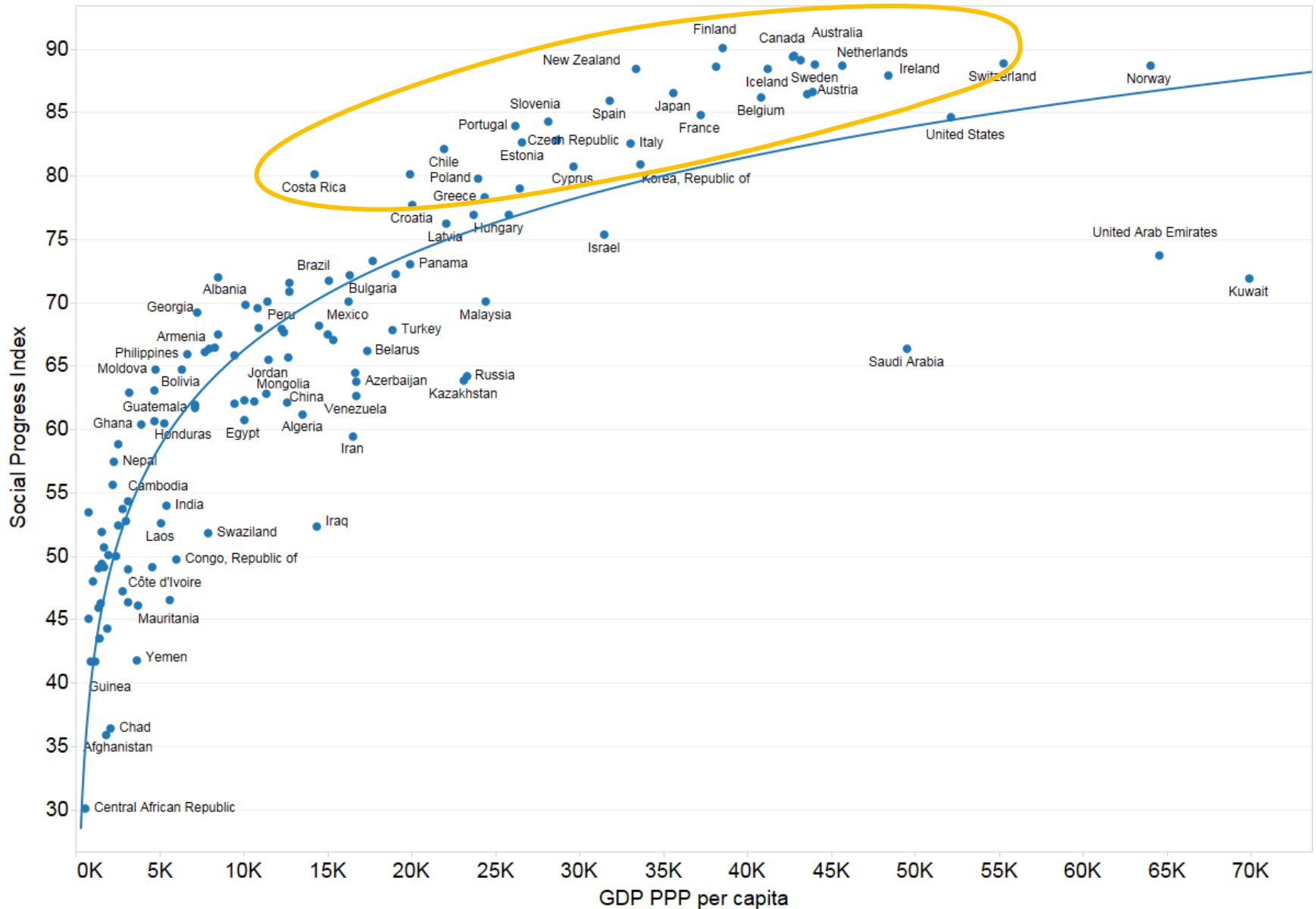
Access to Advanced Education

- Years of tertiary schooling
- Women's average years in school
- Inequality in the attainment of education
- Globally ranked universities
- Percentage of tertiary students enrolled in globally ranked universities

Social Progress Increases with GDP per Capita but This Is Not the Whole Story



Social Progress Increases with GDP per Capita but This Is Not the Whole Story



Social Performance Versus Economic Peers

Score/Value Rank
Social Progress Index (2016) 89.49 2/133
GDP PPP per capita (2014) \$42,778 15/133



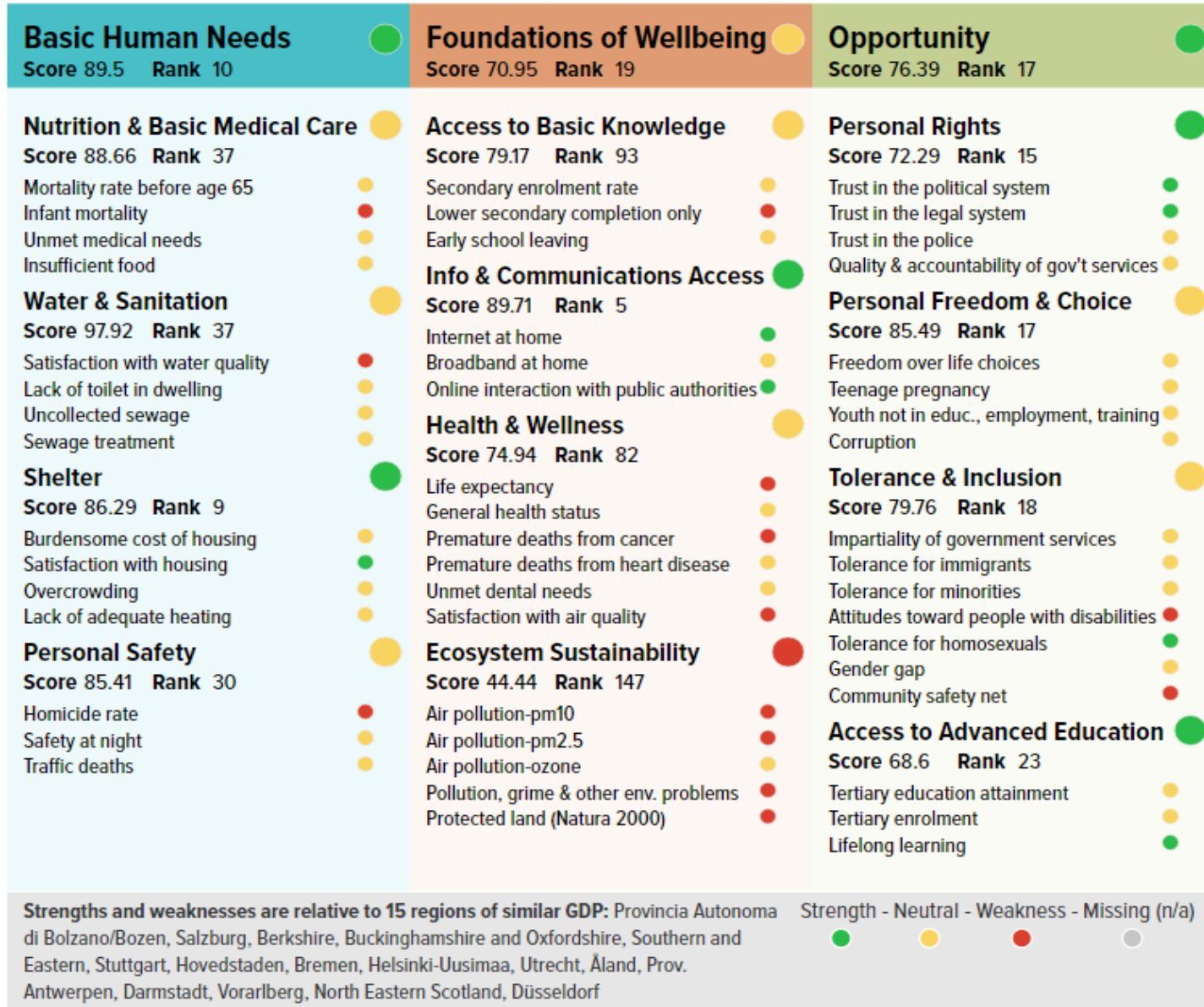
	Score/Value	Rank		Score/Value	Rank		Score/Value	Rank		
Basic Human Needs	95.14	11		Foundations of Wellbeing	83.76	20		Opportunity	89.58	1
Nutrition and Basic Medical Care	99.16	26		Access to Basic Knowledge	99.74	2		Personal Rights	97.73	2
Undernourishment (% of pop.)	5.00	1		Adult literacy rate (% of pop. aged 15+)	n/a	n/a		Political rights (1=full rights; 7=no rights)	1.00	1
Depth of food deficit (calories/undernourished person)	8.00	1		Primary school enrollment (% of children)	99.48	8		Freedom of speech (0=low; 2=high)	2.00	1
Maternal mortality rate (deaths/100,000 live births)	7.00	21		Lower secondary school enrollment (% of children)	100.28	1		Freedom of assembly/association (0=low; 2=high)	2.00	1
Child mortality rate (deaths/1,000 live births)	4.90	29		Upper secondary school enrollment (% of children)	119.30	1		Freedom of movement (0=low; 4=high)	4.00	1
Deaths from infectious diseases (deaths/100,000)	22.64	23		Gender parity in secondary enrollment (girls/boys)	1.00	6		Private property rights (0=none; 100=full)	90.00	3
Water and Sanitation	99.43	20		Access to Information and Communications	85.67	25		Personal Freedom and Choice	89.30	6
Access to piped water (% of pop.)	n/a	n/a		Mobile telephone subscriptions (subscriptions/100 people)	81.04	102		Freedom over life choices (% satisfied)	93.15	6
Rural access to improved water source (% of pop.)	99.00	37		Internet users (% of pop.)	87.12	11		Freedom of religion (1=low; 4=high)	4.00	1
Access to improved sanitation facilities (% of pop.)	99.82	13		Press Freedom Index (0=most free; 100=least free)	10.99	8		Early marriage	0.03	32
Shelter	89.20	12		Health and Wellness	73.11	13		Satisfied demand for contraception (% of women)	87.50	7
Availability of affordable housing (% satisfied)	54.22	44		Life expectancy at 60 (years)	24.92	8		Corruption (0=high; 100=low)	83.00	8
Access to electricity (% of pop.)	100.00	1		Premature deaths from non-communicable diseases (probability of dying)	10.67	11		Tolerance and Inclusion	83.88	5
Quality of electricity supply (1=low; 7=high)	6.53	10		Obesity rate (% of pop.)	21.20	94		Tolerance for immigrants (0=low; 100=high)	85.86	2
Household air pollution attributable deaths (deaths/100,000)	0.00	1		Suicide rate (deaths/100,000)	10.46	78		Tolerance for homosexuals (0=low; 100=high)	84.81	3
Personal Safety	92.79	12		Environmental Quality	76.53	32		Discrimination and violence against minorities (0=low; 10=high)	3.90	14
Homicide rate (deaths/100,000)	1.44	35		Outdoor air pollution attributable deaths (deaths/100,000)	15.57	19		Religious tolerance (1=low; 4=high)	4.00	1
Level of violent crime (1=low; 5=high)	1.00	1		Wastewater treatment (% of wastewater)	69.81	24		Community safety net (0=low; 100=high)	93.87	9
Perceived criminality (1=low; 5=high)	2.00	2		Biodiversity and habitat (0=no protection; 100=high protection)	74.50	90		Access to Advanced Education	87.42	1
Political terror (1=low; 5=high)	1.00	1		Greenhouse gas emissions (CO2 equivalents per GDP)	494.63	77		Years of tertiary schooling	1.64	5
Traffic deaths (deaths/100,000)	6.00	18					Women's average years in school	15.65	2	
							Inequality in attainment of education (0=low; 1=high)	0.04	22	
							Number of globally ranked universities	27.00	9	
							Percent tertiary students enrolled in globally ranked universities	46.69	4	

● Underperforming ○ Less than one point under neutral ● Neutral ○ Less than one point over neutral ● Overperforming

Strengths and weaknesses are relative to 15 countries of similar GDP per capita: Australia, Denmark, Germany, Belgium, Sweden, Iceland, Austria, Finland, Netherlands, Ireland, France, United Kingdom, Saudi Arabia, Japan, Italy

Amsterdam

SPI 78.76 ● SPI Rank 12/272 GDP PPP (2011) €36600 GDP Rank 18/272



How Can Hong Kong Create More Social Value?

- Continue to **refine strategic focus** in philanthropy
- Better leverage **cross-stakeholder philanthropic collaboration**
- Engage business in **creating shared value**
- Create a **Social Progress Index** for Hong Kong to provide transparency, measure progress, and support strategic choices