Harvard Business Review

SHARED VALUE

Creating Shared Value

by Michael E. Porter and Mark R. Kramer

FROM THE JANUARY–FEBRUARY 2011 ISSUE

Executive Summary

Reprint: R1101C

The capitalist system is under siege. In recent years business has been criticized as a major cause of social, environmental, and economic problems. Companies are widely thought to be prospering at the expense of their communities. Trust in business has fallen to new lows,

leading government officials to set policies that undermine competitiveness and sap economic growth. Business is caught in a vicious circle.

A big part of the problem lies with companies themselves, which remain trapped in an outdated, narrow approach to value creation. Focused on optimizing short-term financial performance, they overlook the greatest unmet needs in the market as well as broader influences on their long-term success. Why else would companies ignore the well-being of their customers, the depletion of natural resources vital to their businesses, the viability of suppliers, and the economic distress of the communities in which they produce and sell?

It doesn't have to be this way, say Porter, of Harvard Business School, and Kramer, the managing director of the social impact advisory firm FSG. Companies could bring business and society back together if they redefined their purpose as creating "shared value"—generating economic value in a way that *also* produces value for society by addressing its challenges. A shared value approach reconnects company success with social progress.

Firms can do this in three distinct ways: by reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters at the company's locations. A number of companies known for their hard-nosed approach to business—including GE, Wal-Mart, Nestlé, Johnson & Johnson, and Unilever—have already embarked on important initiatives in these areas. Nestlé, for example, redesigned its coffee procurement processes, working intensively with small farmers in impoverished areas who were trapped in a cycle of low productivity, poor quality, and environmental degradation. Nestlé provided advice on farming practices; helped growers secure plant stock, fertilizers, and pesticides; and began directly paying them a premium for better beans. Higher yields and quality increased the growers' incomes, the environmental impact of farms shrank, and Nestlé's reliable supply of good coffee grew significantly. Shared value was created.

Shared value could reshape capitalism and its relationship to society. It could also drive the next wave of innovation and productivity growth in the global economy as it opens managers' eyes to immense human needs that must be met, large new markets to be served, and the internal costs of social deficits—as well as the competitive advantages available from addressing them. But our understanding of shared value is still in its genesis. Attaining it will require managers to develop new skills and knowledge and governments to learn how to regulate in ways that enable shared value, rather than work against it.

Michael E. Porter is a University Professor based at Harvard Business School.

Mark R. Kramer cofounded FSG, a global social impact consulting firm, with Harvard University's Michael E. Porter, and is its managing director. He is also a senior fellow at Harvard's Kennedy School of Government. Kramer and Porter are co-authors of the HBR article "Creating Shared Value."

This article is about SHARED VALUE

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Hayk Antonyan   4 months ago

Very great thanks to professor Michael E. Porter for this very high-value perspective and proposal.

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