



REIMAGINING SOCIAL CHANGE

Creating Shared Value in Hong Kong: *Competitive Advantage through Social Impact*

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Mark Kramer
Harvard Business School

BOSTON

GENEVA

MUMBAI

SAN FRANCISCO

SEATTLE

WASHINGTON, DC

FSG.ORG

Business can engage with society in three ways

Corporate Philanthropy

“Giving Back”

*Business must fulfill
**community
obligations***

Corporate Responsibility

“Minimizing harm to
society and the
company”

*Business should be
responsible*

Shared Value

“Finding business
opportunities in
social problems”

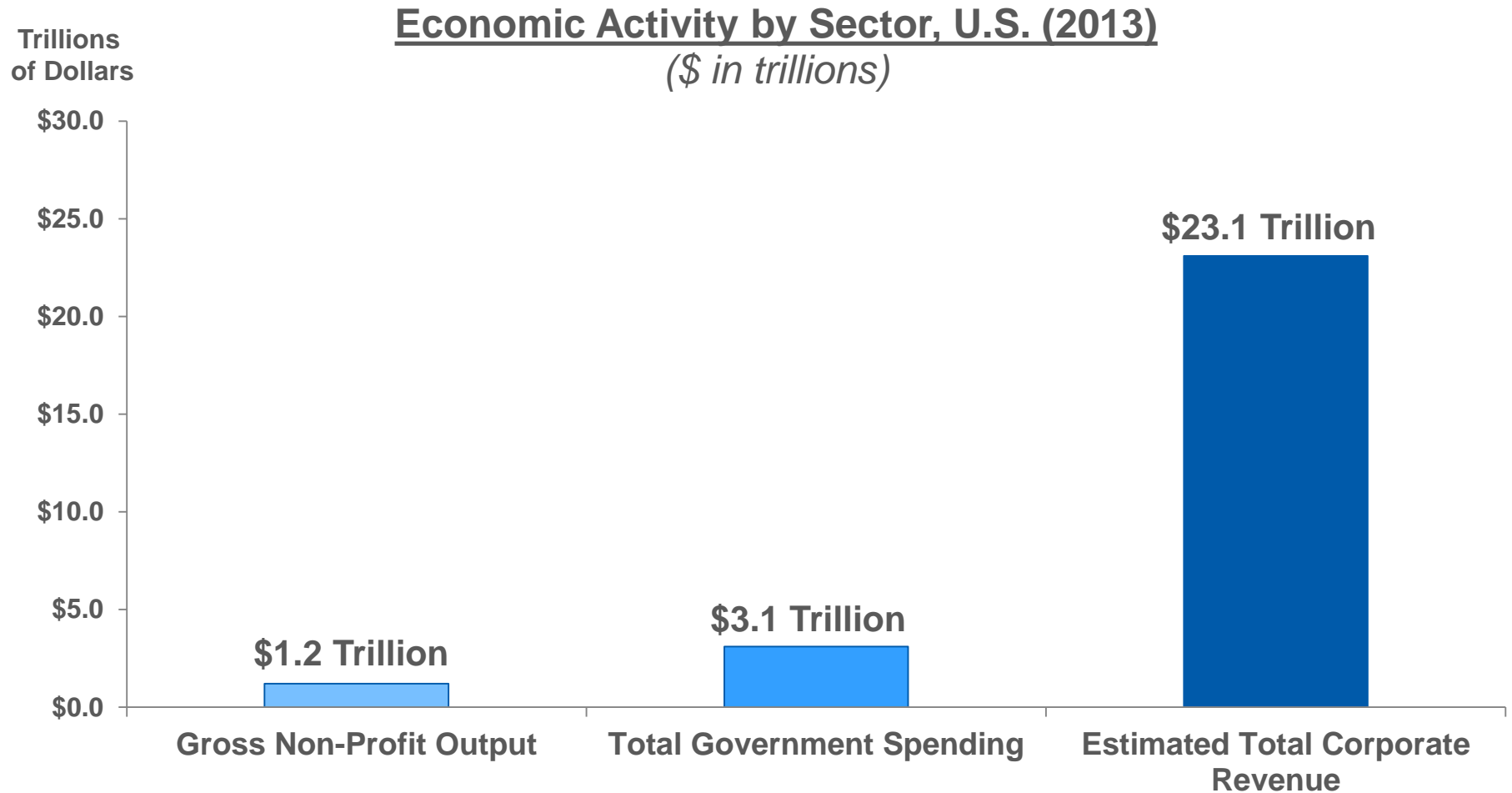
*Meeting social needs
can be a source of
**profit and
competitive
advantage***

*Past efforts have emphasized the friction
between business and society instead of the synergy*

Societal and corporate success are inextricably linked

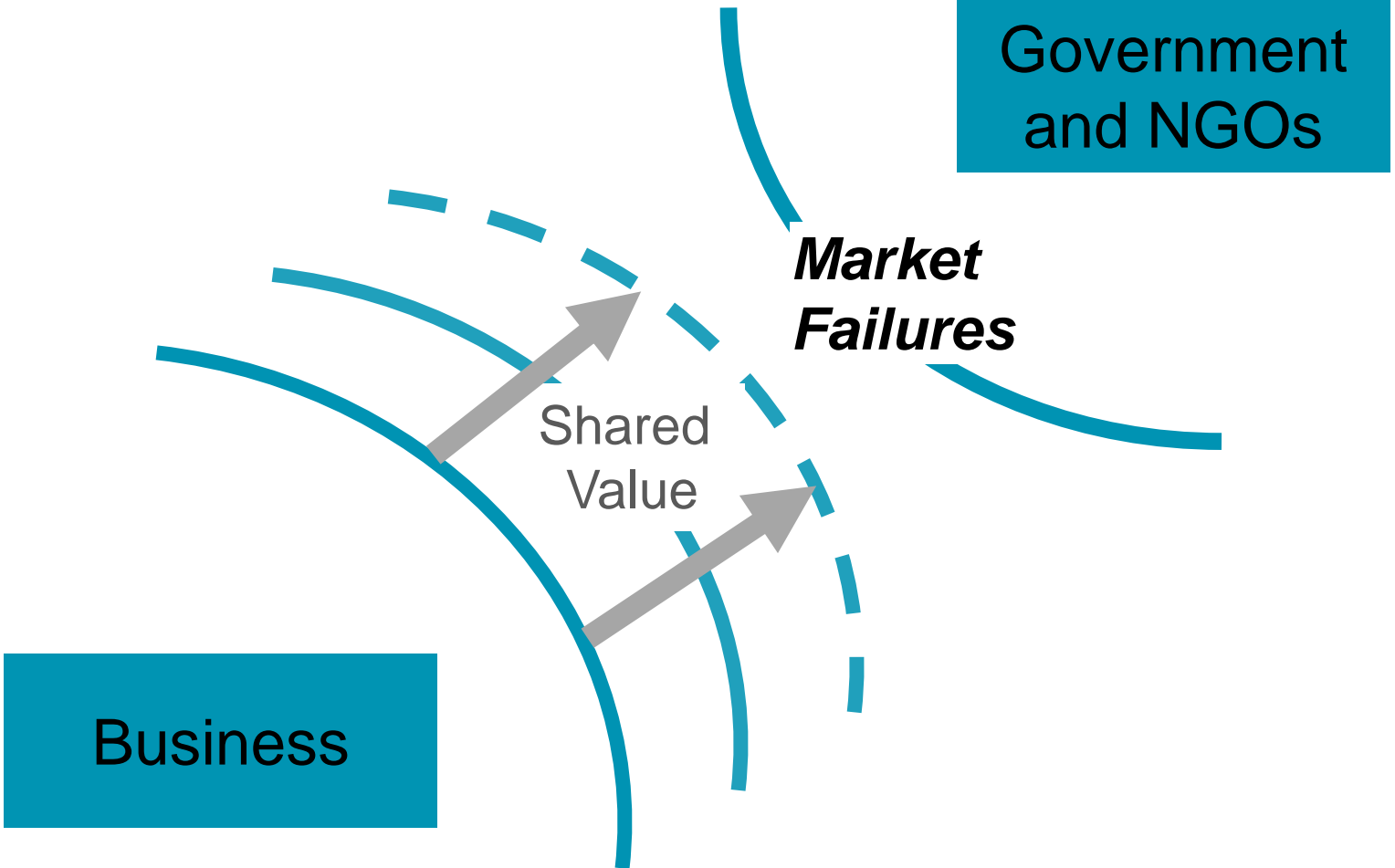
- **The long-term competitiveness of companies depends on social conditions**
 - An educated and skilled workforce
 - Safe working conditions
 - Sustainable use of natural resources
 - A flourishing local economy
 - Affordable housing
- **Business has an essential role to play in solving social problems**
 - Only companies can create **prosperity** that funds government and civil society
 - **Companies can create solutions** to many social problems in ways that governments and NGOs cannot
 - Companies have the **incentive to take risk**
 - Competitions fuels **innovation, efficiency, and adoption**
 - For-profit models are **scalable and sustainable**

The resources of capitalism vastly exceed other sources of social innovation



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

Shifting the market failure frontier



What is Shared Value?

- **Shared Value IS:**
 - Strategies that simultaneously create value for the business and for society

- **Shared Value is NOT:**
 - Sharing the value **already created**
 - Personal **values**
 - **Balancing** stakeholder interests

Shared value operates at three levels

1

Reconceiving Needs, Products, and Customers

- Meeting societal needs through products
- Addressing underserved customers

2

Redefining Productivity in the Value Chain

- Driving productivity through better utilizing resource, employees, and business partners

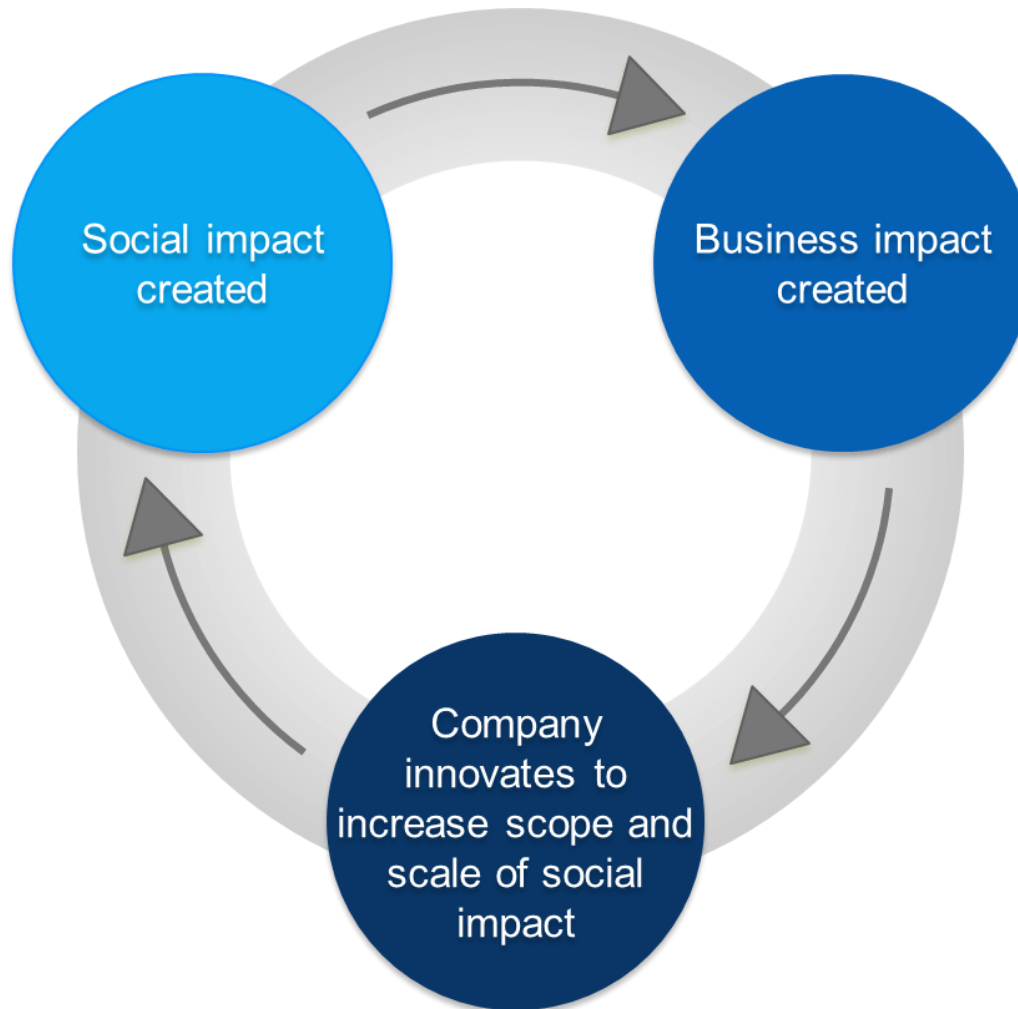
3

Enabling Local Cluster Development

- Improving skills, supplier base, and supporting institutions in the communities where a company operates

These levels are overlapping and mutually reinforcing

Shared value creates a virtuous cycle

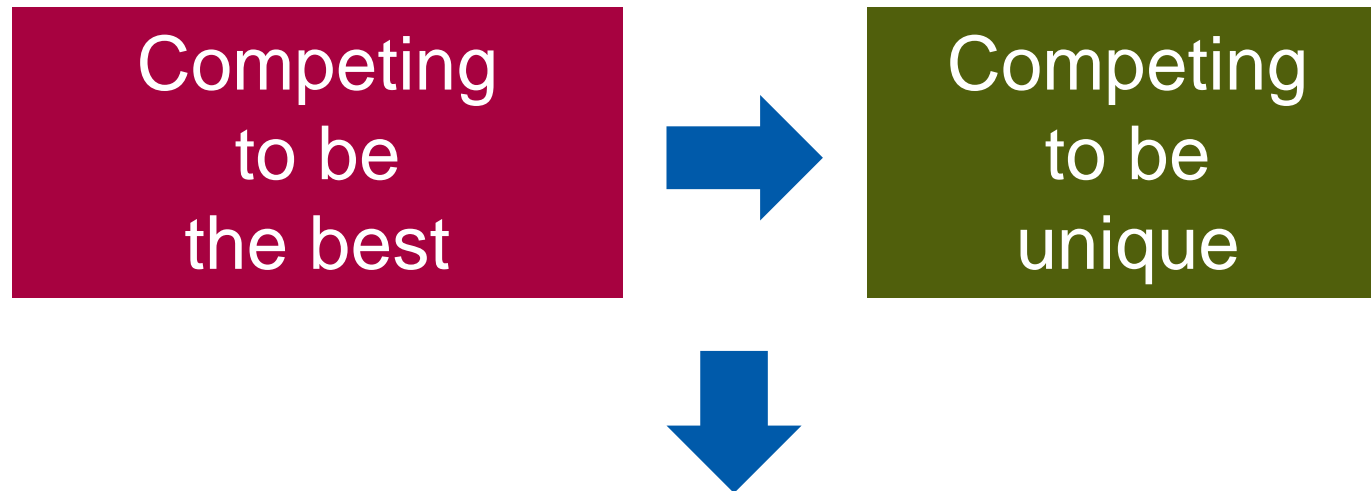


Shared value is a competitive strategy

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

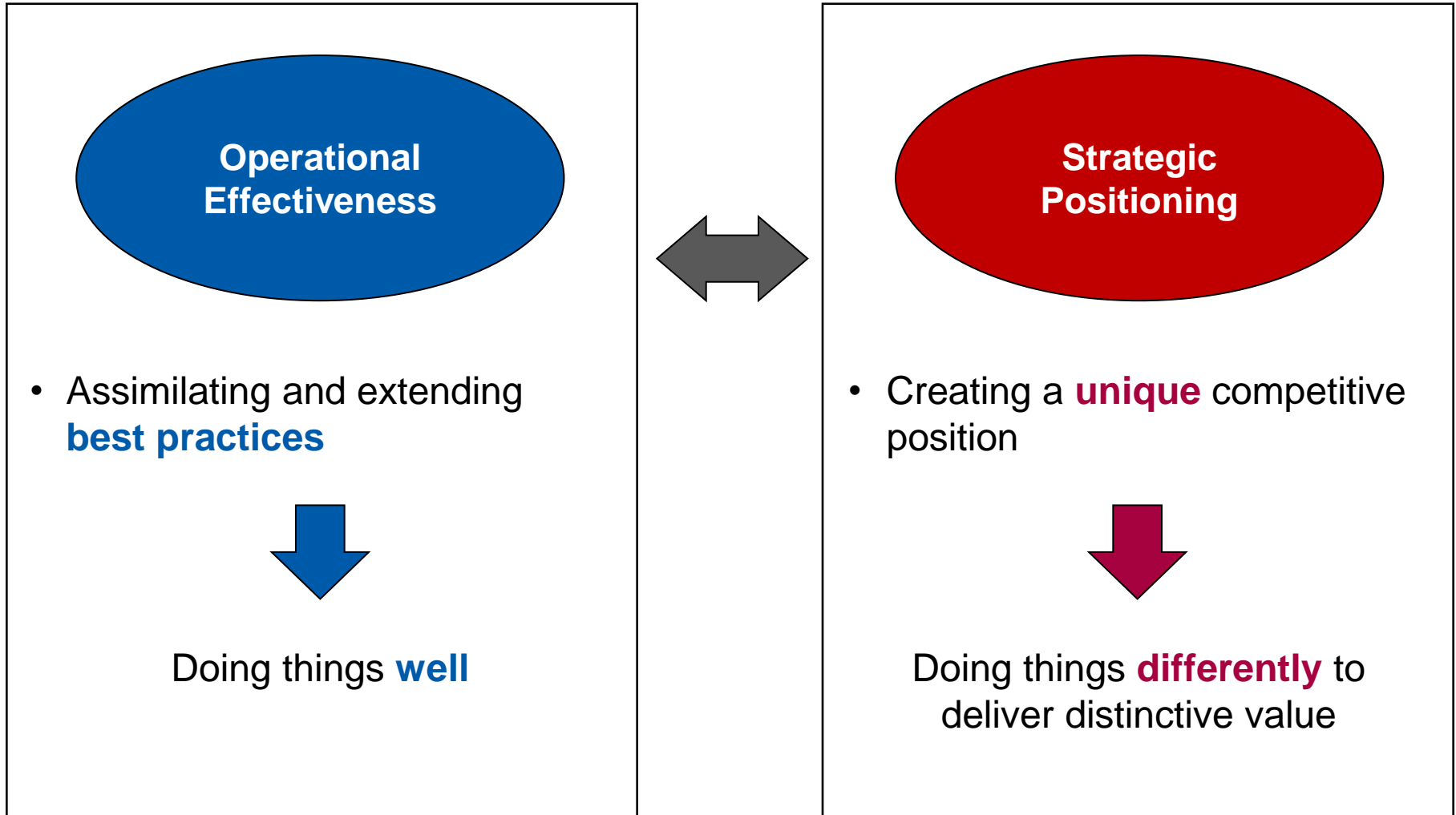
The essence of strategy is making **choices**

Strategy is about serving a particular set of customers uniquely well



- There is no one best way to compete
- The worst error in strategy is to compete with rivals on the same dimensions

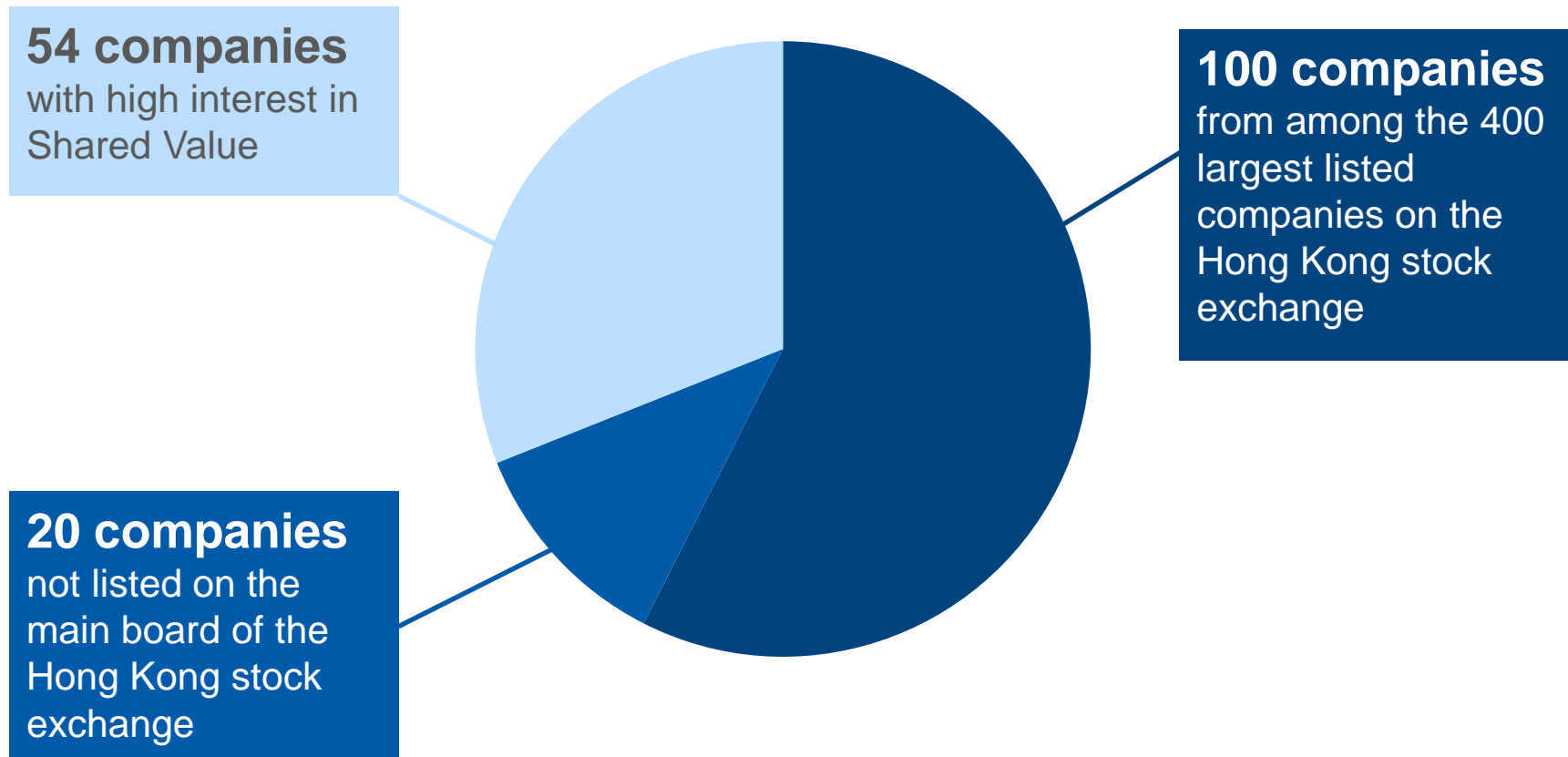
Operational effectiveness versus strategic positioning



The SIE Fund commissioned FSG to conduct a survey among HK companies

Objective: How many companies in Hong Kong have integrated social and environmental goals into their strategies and activities.

174 companies were invited to participate in the survey



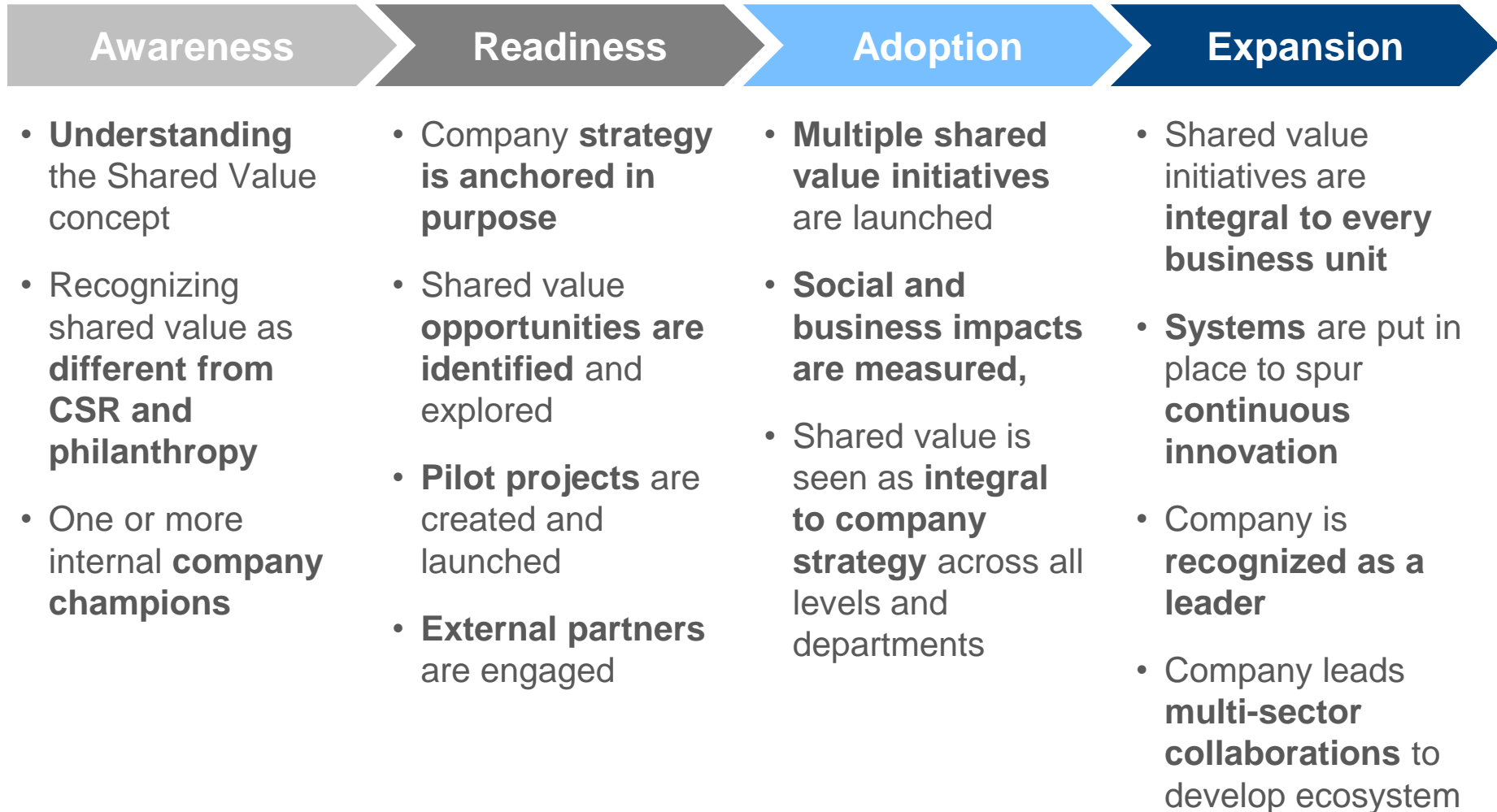
The industries represented by survey respondents are in line with Hong Kong's overall economic fabric

Industry ¹	% of Survey Respondents ² (n=49)	% of Value Added in Hong Kong GDP (2015)	% of Total Hong Kong Employees (2015)	% of Top 400 on Hong Kong Stock Exchange ²
Trading/ Logistics ★	20%	22%	20%	9%
Financial Services ★	27%	18%	7%	18%
Property	29%	5%	3%	19%
Professional Services ★	20%	5%	6%	15%
Retail/Food/ Consumer Goods	14%	6%	13%	14%
Tourism ³ ★	24%	3%	3%	13%
Manufacturing	4%	4%	1%	13%
Information/ Communications	10%	3%	3%	5%

★ Identified by the Hong Kong government as one of the SAR's Four Key Industries

1. In addition to those listed in the table, respondents also represent the infrastructure, utilities, education, and healthcare industries.
2. Percentages sum to over 100% because many companies are active in multiple industries.
3. Including hotels and hotel management, but excluding retail and food.

The shared value journey describes four stages along which companies progress over time



Most HK companies that responded to the survey are in the early stages of the shared value journey



Most company leaders do not yet understand how shared value is distinct from philanthropy and CSR.



One-fifth of respondents are piloting activities and business models, with significant involvement of business units and company leadership.



Five shared value champions are operating multiple shared value business models (although 2 are social enterprises).

None

Selected insights from companies that identified themselves as shared value practitioners

On average, **respondents target ~4 social and environmental problems** with their shared value activities

50% of respondents target **environmental protection**, followed by **economic development (46%)** and **social integration (43%)**.

~30% of respondents target at least **4 problems at the same time with both philanthropic and shared value activities**

Even practitioners show **low awareness of how shared value is different from philanthropy and corporate responsibility**

Overview of HK case studies

Ageing Population: Improve health outcomes through digital health monitoring



Waste: Reducing food waste through conversion to biogas



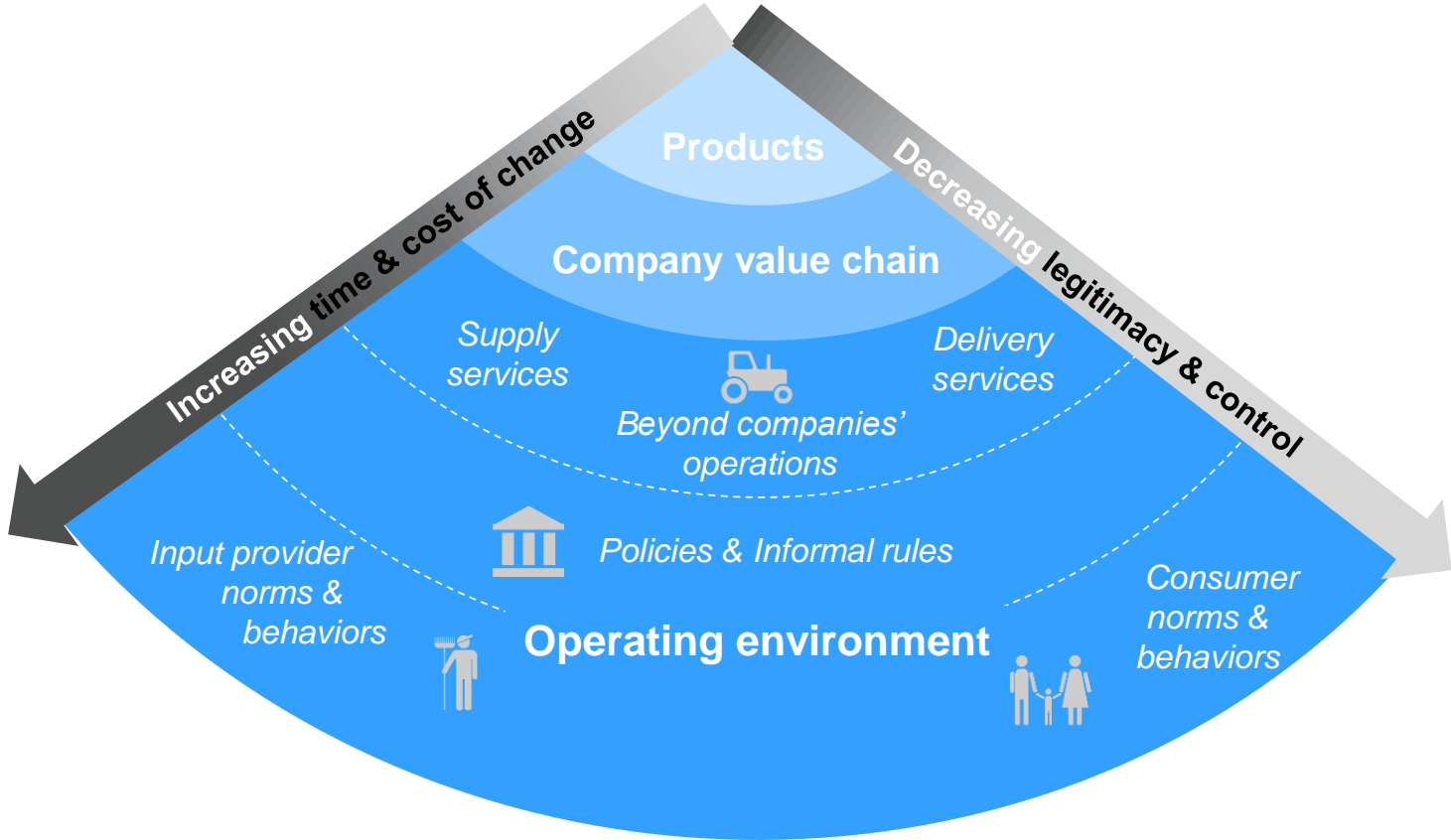
Economic Opportunity: Investing in vocational training to build the next generation workforce



Major social and environmental issues in Hong Kong can represent shared value opportunities

Selection of major social and environmental issues in HK	Industries with high potential for shared value	# of key industry respondents	# of key industry respondents addressing issue with SV
Affordable Housing	<i>Property, financial services, utilities</i>	26	2
Ageing population	<i>Healthcare, financial services, property, retail/food/consumer goods</i>	32	5
Pollution and waste	<i>Trading/logistics, manufacturing, retail/food/consumer goods, property, utilities</i>	28	15
Economic opportunity	<i>Tourism, trading/logistics, professional services, financial services</i>	33	9

Such complex social issues can only be addressed through the broader shared value ecosystem



Companies need to team up with governments, NGOs and even rivals to improve the policies, informal rules and behaviors that define the operating environment

Collective impact offers a model for effective cross-sector collaboration

Collective impact is the **commitment** of a group of important actors from **different sectors** to a **common agenda** for solving a **specific social problem at scale**.

It depends on 5 conditions:

- **Common Agenda:** All participants share a vision for change that includes a common understanding of the problem and a joint approach to solving the problem
- **Shared Measurement System:** All participating organizations agree on a short list of common indicators identified, measured and reported to support learning and improvement.
- **Mutually Reinforcing Activities:** Participants coordinate a set of differentiated activities through a mutually reinforcing plan of action.
- **Continuous Communication:** All players engage in frequent and structured open communication to build trust, assure mutual objectives, and create common motivation.
- **Backbone Support*:** An independent, funded staff provides ongoing support by guiding the initiative's vision and strategy, supporting aligned activities, establishing shared measurement practices, building public will, advancing policy, and mobilizing funding.

Recommendations for advancing the practice of shared value in Hong Kong



Conduct targeted capacity building to improve understanding of the concept and ability to identify shared value opportunities

- Briefing books and workshops
 - Case studies in Hong Kong
 - Knowledge exchange
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Increase senior executives and investor attention and improve shared value positioning within the company

- Hong Kong shared value awards with media partner(s)
 - Create executive level club for shared value champions
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Launch collective impact efforts on pressing issues

- Provide research and coordination
 - Support business planning, measurement and cross-sector partnerships
-



Support and incentivize shared value

- Support with feasibility assessment and business model development through professional service providers
- Provide seed capital, co-investment, and tax incentives for shared value initiatives

All profit is not equal

- Profit involving shared value enables **society to advance** and **companies to grow faster**
- Profit at the expenses of society is **self-defeating**
- Incorporating societal issues into strategy and operations is **the next major transformation** in management thinking

*Shared value thinking represents
the **next competitive frontier** of capitalism*



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