



Social Impact Consultants

Discovering better ways
to solve social problems

Creating Shared Value: Redefining the Role of Business in Society

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Corporate Thinking Has Evolved Over the Past Decade



“It is not a problem”

- *Let's ignore or understate the problem*
- *Let's minimize our responsibility*
- *Philanthropy is about personal values*

“It is a problem”

- *Let's minimize the problem and throw some money at it to show we're contributing*
- *CSR & Philanthropy is about corporate reputation*

“Let's solve the problem”

- *We need to add costs to fix the problem*
- *We need to report transparently on our results*
- *We can use our core business capabilities to find solutions*

“It's an opportunity to create shared value”

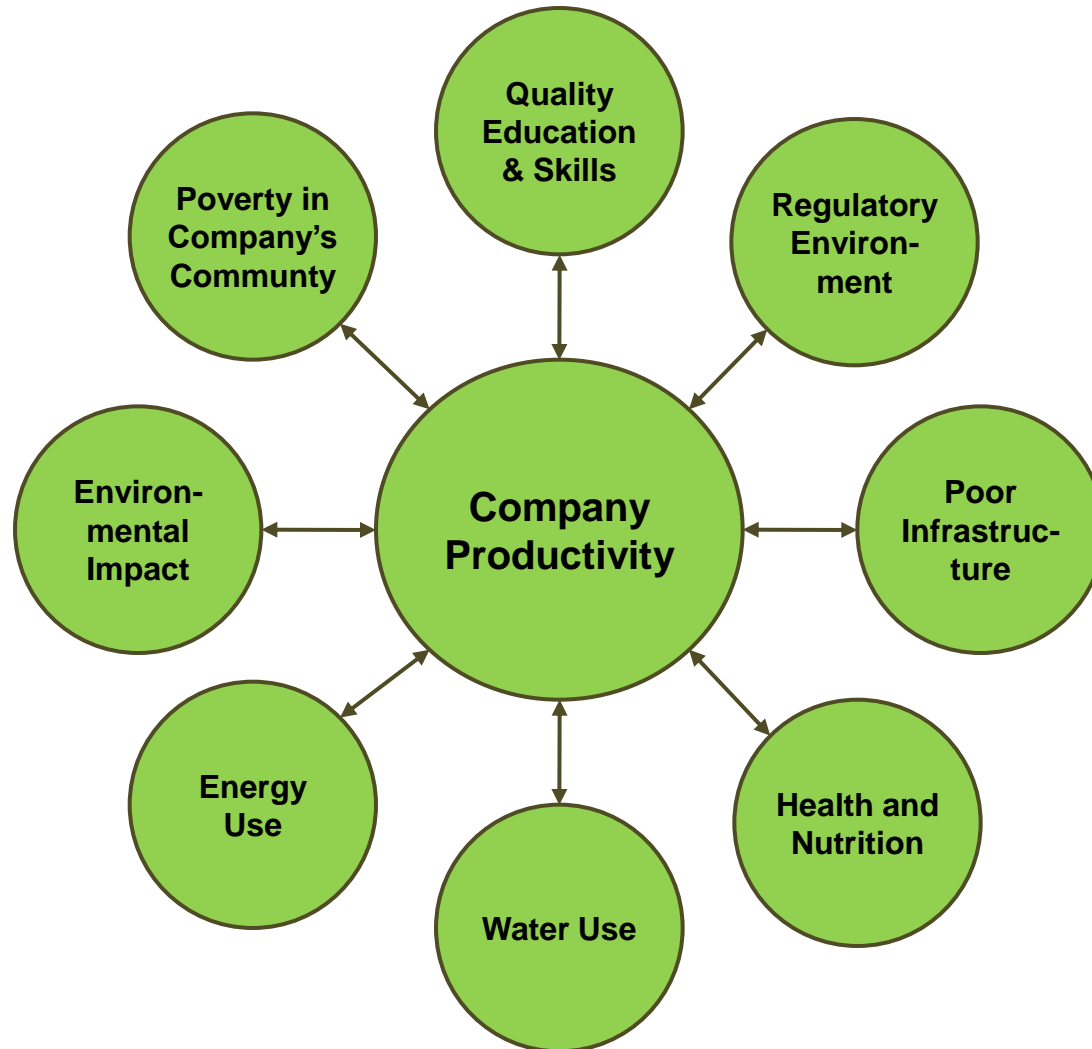
- *We can lower costs, grow revenues, or differentiate our value proposition by addressing social problems*
- *Even social problems we don't usually affect pose opportunities*

Societal and Corporate Success are Inextricably Linked

- **The long-term competitiveness of companies depends on social conditions**
 - Improving education and skills
 - Safe working conditions
 - Sustainable use of natural resources
- **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 sustainable and scalable solutions to many social problems in ways that governments and NGOs cannot
 - Competitions fuels innovation and efficiency
 - For-profit models are the most scalable and sustainable
 - Businesses can overcome constraints that limit their growth

Incorporating societal issues into strategy and operations is the next major transformation in management thinking

Competitive Advantage and Societal Issues: So-Called “Externalities” Have Internal Effects



A Shift in Mindset: From 'What's Good for Business is Good for Society' to 'What's Good for Society is Good for Business'

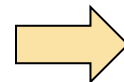
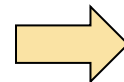
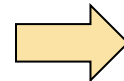
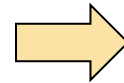
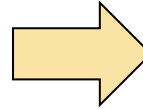
CSR

Traditionally focused on issues of compliance, transparency, volunteerism and corporate philanthropy

1. Create social benefit by **redistributing** some of the value created by business
2. Doing good is integral to a successful **risk management** strategy
3. Businesses help solve social problems because it is their **responsibility to 'give back'**
4. **All profit is equal**

Example

- Fair trade purchasing



Creating Shared Value

Policies and practices that create economic value by advancing economic and social conditions

1. Create social and business benefit by **"increasing the size of the pie"**
2. Doing good is integral to a successful **innovation** strategy
3. Businesses help solve social problems because they make it their **purpose** and a **source of competitive advantage**
4. **Not all profit is equal**: profit that is good for society is more sustainable

Example

- Transforming sourcing to increase quality and yield

Shared Value is:

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

Shared Value is NOT:

- Sharing the value already created
- Personal values
- Balancing stakeholder interests

Shared Value goes beyond traditional CSR and Sustainability:

- CSR practices such as ethical behavior, transparency, sustainable use of natural resources, and fair labor conditions are essential requirements for any successful business
- Shared Value adds additional opportunities to improve social and environmental conditions beyond the company's own footprint – helping to solve problems to which the company does not contribute

Companies Can Create Shared Value at Three Levels

Reconceiving Products and Markets

Redefining Productivity in the Value Chain

Enabling Local Cluster Development

Finding Product and Market Opportunities to Create Shared Value

- Redefine the business around **unsolved customer problems or concerns**, not traditional product definitions
- Think in terms of **improving lives**, not just meeting consumer needs
- Identify customer groups that have been **poorly served** or **overlooked** by the industry's products in both advanced and emerging markets
- Start with **no preconceived constraints** about product attributes, channel configuration, or the economic model of the business (e.g., small loans are unprofitable)

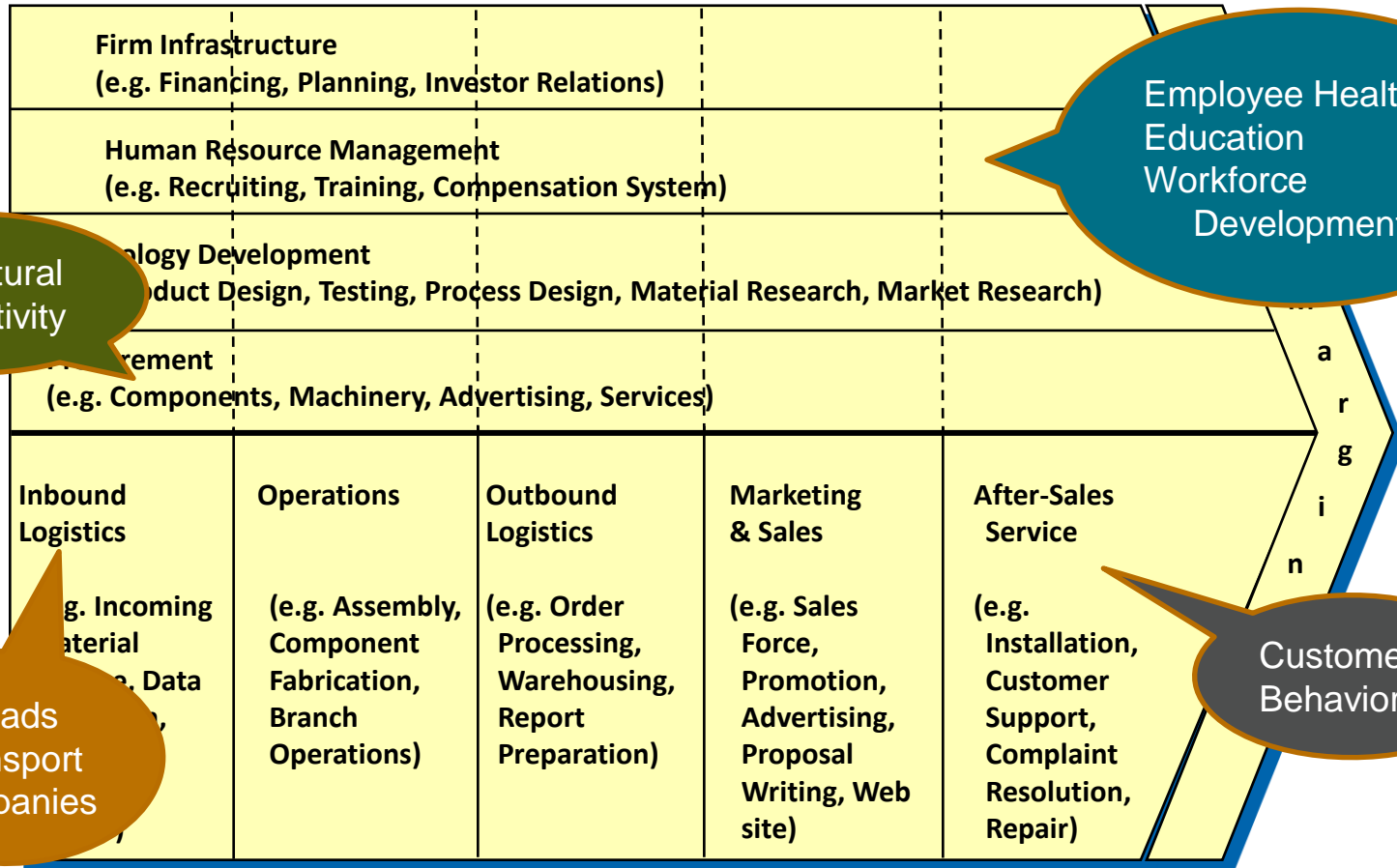


Dow's Shared Value Product Innovations

- **Solar Shingles** to provide clean energy with lower installation costs
 - Developed markets
- **Termite Colony Elimination System** using 1/10,000th the amount of product traditionally applied
 - Developed & emerging markets
- Investing in **WaterHealth International** to provide clean, affordable water to 10 million people living on \$2/day
 - Emerging markets



Shared Value in the Value Chain Requires Looking Beyond the Company's Existing Footprint





Cisco Networking Academy: Skills Training

Business Problem and Innovation

- Cisco's **growth is limited** by the number of trained network administrators worldwide
- As a result, Cisco established the **Networking Academy**
 - Developed a **distance learning program** that combines a web-based curriculum with local instructors and lab facilities
 - **Partnered** with industry peers, schools, governments and universities
 - Focused on **economically deprived regions around the world**



Social Impact

- Over **10,000 Academies** established in all 50 states and 165 countries
- **Over 4,000,000** students have been trained
- More than **70% have attained a new job, a better job, increased responsibility, or higher salary**



Business Impact

- Alleviates a **key labor constraint** for Cisco customers
- Students become **familiar with Cisco products**
- **Strengthened relationships** with key suppliers, local businesses and government

Nestlé's Farmer Programs: Building Incomes that Build Customers



- 950 agronomists and 15,036 extension workers offered assistance to farmers in 2009
- 144,926 farmers around the world were trained in 2010

- Nestlé operates 63 farmer programs across Africa, Asia, Latin America and Europe
- The main commodities Nestlé sources are milk, coffee and cocoa.
- Nestlé extended approximately \$60 million in financial assistance to farmers in 2010.
- Farmer programs combine microfinance, technical skills training, education in sustainable farming methods and improved water management, and new opportunities for women.

As farmer incomes rise, they purchase more Nestle products -- creating a self-reinforcing cycle

Shared Value Through Local Cluster Development

- A strong local cluster with capable local suppliers and institutions **improves company productivity**
 - e.g., greater supply chain efficiency, lower environmental impact, and better access to skills
- **Companies**, working collaboratively, can catalyze major improvements in the local cluster and the local business environment
- Local cluster development **strengthens the link** between a company's success and community success



- What suppliers are **inefficient** or **missing locally**?
- What **institutional weaknesses** or **community deficits** create internal costs for the firm?



Minera Yanacocha – Latin America’s largest goldmine: Newmont Creating Shared Value in Peru

- Newmont has invested hundreds of millions of dollars into the development of Yanacocha, the largest goldmine in Latin America
- Newmont’s SME Linkages Program was created strengthen SMEs within Yanacocha’s value system, with a principal focus on transportation, maintenance, construction
- The company also supported training of government officials to improve the utilization of Newmont tax revenues to strengthen the infrastructure

Social Impact

- SMEs bidding for contracts with the mine increased their sales by over 60%
- Created 6,000 new jobs

Business Impact

- 10-15% decreased costs in maintenance, transportation, and other support services
- Improved relations with local business and government leaders

Health Companies Are Shifting from Product Donations to Cluster Building: Novartis *Arogya Parivar*

Products

- **Portfolio:**
 - 79 pharmaceutical products in 12 therapeutic areas
- **Affordable:**
 - Sandoz generics
 - Over-the-counter (OTC) medications & nutrients
 - Custom small packs branded in local dialect

Services

- **Community health education:**
 - ~300 health educators
 - Focus on prevention, child & maternal health, symptom awareness
- **Healthcare provider education:**
 - Address low level of medical training
- **Supply chain management:**
 - Ensure continuity of supply in village pharmacies

Results & next steps

- Improved access to health education and medicines for **42 million patients in 28,000 villages**
- Partnering with **~50 000** pharmacists and clinics
- Portfolio expansion in 2011: vaccines, generics, diagnostics and more
- Will pilot in **Indonesia, Vietnam** and **Kenya** (2011)
- Partnering to expand access to **health infrastructure financing**

Six Key Principles Support an Effective Shared Value Strategy

- 1 Focused and determined **leadership** from the CEO and senior executives
- 2 A mindset **of innovation and learning** that is willing to take risks
- 3 Aligned financial and non-financial **incentives** and governance structures to translate a CSV mandate into practice
- 4 Dedicated implementation at the **business unit** level
- 5 New areas of **expertise and partnerships** that must supplement the traditional base of knowledge and relationships
- 6 New approaches to **measurement** that assess the business benefit of addressing targeted social and environmental objectives

***CSV depends on selecting targeted social issues
rooted in the core business strategy
then setting explicit goals and tracking progress toward them***

The Moral Purpose of Business

- There is an opportunity **to transform thinking and practice** about the role of the corporation in society
- Shared value gives rise to **far broader approaches** to economic value creation
- Shared value thinking will drive the next wave of **innovation, productivity enhancement, and economic growth**
- Businesses **acting as businesses**, not as charitable givers, are arguably the most powerful force for addressing many of the pressing issues facing our society
- A transformation of business practice to create shared value will demonstrate the value of business to society and **restore corporate credibility**