Building Competitiveness and Prosperity through Shared Value

Dane Smith
Managing Director, FSG
The Developing World Cannot Create Sustained Prosperity Without Improvements in Social Conditions

• **Private sector competitiveness depends on social conditions**
  - Improving education and skills
  - A sense of fairness and equal opportunity

• **Business has an essential role in solving social problems**
  - Only companies create prosperity
  - Companies can create sustainable and scalable solutions in ways that governments and NGOs often cannot

*Past thinking about sustainability has focused on the friction between business and society rather than their interdependence*
Shared Value Offers a New Model for How Companies Can Increase Their Competitiveness and Prosperity

“Creating Shared Value”

“Shared Value is the key to unleash the next wave of business innovation and growth.”

Shared Value is:
Increasing the competitiveness and profitability of companies by solving social problems
Social needs represent enormous markets:

- Healthcare spending in Latin America is estimated to be $600 B.
- The BOP market for energy in Latin America and is over $30 B.
- The market for clean water in developing countries is estimated at $13 B.

Sources: EIU, WRI
Thinking about Sustainability and CSR has evolved

 Blind Eye | Damage Control | CSR = Good PR | New Paradigm

“What problems?”
- Let’s ignore the problems

“Problems could harm us”
- Let’s donate money to minimize brand damage

“We should do something”
- Let’s create dedicated CSR efforts

“We see opportunity”
- Let’s strengthen our company by solving societal problems relevant to our business
Shared Value goes beyond compliance and sustainability

- **CREATE**
  - Company Specific

- **PROTECT**
  - Industry Specific

- **COMPLY**
  - with laws, codes of conduct
  - Required from all businesses
# Shared Value is different from traditional CSR

<table>
<thead>
<tr>
<th>Corporate Social Responsibility</th>
<th>Creating Shared Value</th>
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<tbody>
<tr>
<td><strong>Motivation</strong></td>
<td><strong>Creating Shared Value</strong></td>
</tr>
<tr>
<td>• Corporate reputation</td>
<td>• Competitive advantage</td>
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<td><strong>Main Driver</strong></td>
<td>• Corporate strategy</td>
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<tr>
<td>• External stakeholders</td>
<td>• Proactive</td>
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<tr>
<td><strong>Approach</strong></td>
<td>• Social and economic value created</td>
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<tr>
<td>• Reactive</td>
<td>• Across the whole firm</td>
</tr>
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<td><strong>Measurement</strong></td>
<td>• New business opportunities</td>
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<td>• Spending, standard ESG metrics</td>
<td>• Large scale sustainable change</td>
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<tr>
<td><strong>Management</strong></td>
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<tr>
<td>• CSR / Public Affairs</td>
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<td><strong>Business Benefit</strong></td>
<td></td>
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<tr>
<td>• Risk reduction and goodwill</td>
<td></td>
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<td><strong>Social Benefit</strong></td>
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<tr>
<td>• Successful projects</td>
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How do companies create Shared Value?

Shared Value is:
Enhancing 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 (philanthropy)
• Personal values
• Balancing stakeholder interests

Shared Value strategies:
- Reconceiving Products and Markets
- Redefining Productivity in the Value Chain
- Enabling Local Cluster Development
In 1997, BD introduced its healthcare worker safety strategy, with a safety syringe as its first product.

**Business Impact**

- Safety syringes constitute the largest source of BD growth with $2B in annual sales,
- CEO-level belief that the principles of shared value are fundamental to their strategy

**Social Impact**

- Needlestick injuries substantially reduced (51% reduction for nurses 1993-2004)
- Prevention of the spread of HIV, hepatitis B and C
Redefining Productivity in the Value Chain

**Shared Value Investment**

In partnership with MercyCorps, FdC developed an innovative micro-franchising model that increases rural access and creates profits for the company.

**Business Impact**
- 50 stores set-up, with expansion plans for 500 more
- Changes to its value chain that enable store growth and servicing at a much lower cost
- Profitable after 24 months

**Social Impact**
- Access to much-needed medications for 450,000 people in rural areas
- Increase of family income of 20%-30% for operators of the microfranchises
Mars is tackling a declining cocoa sector in Cote d’Ivoire by improving smallholder farmer livelihoods and cocoa sustainability throughout the value chain.

**Shared Value Investment**

- Protection of 40% of the world’s cocoa supply produced in Cote d’Ivoire
- Increased supply sustainability through improved productivity and post-harvest processes
- Improved farmer income
- Access to healthcare and education
- Protection of biodiversity, reduced deforestation and control of runoff
Creating Shared Value: An Integrated Approach

1. **Reconceiving Products and Services**
   - Jain created new micro-irrigation products and agronomy services specifically designed for the smallholder Indian farmer.

2. **Redefining Productivity in the Value Chain**
   - Jain offered a suite of services to participating farmers including farm management training, soil sampling, and limited financing.

3. **Building Clusters and Framework Conditions**
   - Jain partnered with the Indian government to help secure access to financing for smallholder farmers seeking working capital and investment loans.

**Business Impact:**
- Market expansion – 1,800 new contracts (90% with smallholder farmers)
- Improved supply chain security – More than 35,000 tons of onions from contract farmers in the first year

**Social Impact:**
- Increased farmer incomes among irrigation users by $100-$1,000 due to efficiency gains
- Reduced water use by an estimated 500M cubic meters of water/year
Shared Value Can Have a Profound Impact on Business and Society

100+ products
$70b in 5Y revenues
$10b reinvested in R&D

$800m+ in sales
5Y CAGR 30%
22% PBIDT

63% share of insulin in China
Future NPV of $30b
140’000 life years saved to date
Business Has Been Anchored in a Philosophy of Trade-Offs: Shared Value Requires a Change of Mindset

Companies “ought to” mitigate harm in their value chains, even if it increases cost.

Companies “can” invest in social issues, giving up profits to do so.

Redistribute Value To Meet Social Needs
Coca-Cola Is Breaking Out of That Mindset

Social Needs
Lack of Career Opportunities in Brazilian Favelas

Business Opportunities/Needs
Sales Growth among Lower Socio-Economic Classes

Company Assets
Deep Knowledge of Retail / Training
Coca Cola Brasil Developed *Coletivos* to Create Retail Employment for Favela Youth

- 8 Week classes that teach merchandising and build self esteem
  - Managed by local NGOs and taught by local youth

- Graduates gain employment that raises household income an average of 50%

- Increases retail outlets and sales for Coca Cola

- After a pilot in 2009, Coca Cola has now established 160 Coletivos training 65,000 youth per year
Innovating for Shared Value

5 Key Elements for Innovation

1. Purpose
   Elevate the company purpose

2. Defined Need
   Identify specific needs

3. Co-Creation
   Integrate partners with unique expertise

4. Measurement
   Measure the link between social and business outcomes

5. Structure
   Integrate or insulate the innovation structure

All the elements are essential; each one strengthens the others
Innovating for Shared Value

- Company has a clear purpose
- Need is well defined
- Competencies exist in-house
- Business case is clear

**Integrate into existing innovation processes**

**Create an autonomous (social business) unit**

**Obtain philanthropic support**

**Finance through external social entrepreneurs**
Governments and Multilaterals Have an Opportunity to Accelerate Shared Value and Increase Social Impact

<table>
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<tr>
<th>Obstacles</th>
<th>Opportunity Identification</th>
<th>Scarcity of Partners</th>
<th>Unattractive Risk/ Return Profile</th>
<th>Regulatory Obstacles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government / Multilateral Intervention</td>
<td>Research</td>
<td>Convene</td>
<td>Co-Invest</td>
<td>Get out of the way!</td>
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<td></td>
<td>- Explore new technologies and innovation that will help the private sector solve social problems</td>
<td>- Bring together groups that are not currently collaborating (e.g., private sector and NGOs, industry groups, etc.)</td>
<td>- Create incentives for companies to implement Shared Value strategies through targeted investment</td>
<td>- Remove regulatory obstacles that make it difficult for companies to develop Shared Value initiatives</td>
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**Governments and Multilaterals should do everything to encourage Shared Value except distort competition**
The Shared Value Initiative Is a New Community of Shared Value Practitioners Launched with FSG Support

Shared Value Initiative: *Building A Global Shared Value Community*

**Leadership Council**

Nestlé  
Verizon  
Rockefeller Foundation  
Mercy Corps

**Supporters**

Intel  
ARAUCO  
IHG  
PATH

**Associates**

Western Union  
BD  
Lilly  
Medtronic  
Novartis  
Rio Tinto  
Chevron  
Hess  
Newmont  
IDB  
Future Finance  
Deloitte  
SAP  
Coca-Cola  
Pearson  
IDB Future Finance
Appendix
FSG Overview

• Consulting firm and think tank specializing in strategy, evaluation and research, founded in 2000 as Foundation Strategy Group and celebrating more than a decade of global impact

• Partner with corporations, foundations, nonprofits, and governments to develop more effective solutions to the world’s most challenging issues
  – Advised over 500 clients in every region of the world
  – Issue areas include global development, global health, education & youth, environment, and community philanthropy

• Recognized thought leader in shared value and corporate social responsibility with multiple articles published in *HBR*, *SSIR*, *Chronicle of Philanthropy*, and *the American Journal of Evaluation*

• Staff of 100+ full-time professionals with offices in Geneva, Boston, Seattle, San Francisco, and Washington, DC

• Our team brings a combination of extensive on-the-ground experience in the social sector and world-class consulting skills