



Social Impact Consultants

Discovering better ways
to solve social problems

Shared Value as Corporate Strategy

The next major transformation of business thinking



April 2013

Creating Shared Value Builds Upon Corporate Social Responsibility (CSR) by Including a Focus on Competitiveness

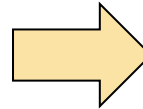
CSR

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

- **Value:** Doing good
- Philanthropy
- Selfless
- Discretionary
- Agenda areas externally determined
- Separate from profit maximization
- Limited (CSR) budget

Example

- Fair trade purchasing



Shared Value

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

- **Value:** Economic and social benefits relative to cost
- Joint value creation
- Mutual benefits for the company
- Integral to competing
- Company specific / internally generated
- Integral to profit maximization
- Total budget

Example

- Transforming sourcing to increase quality and yield

Agenda

- I. Introduction to Shared Value**
- II. How Shared Value Is Transforming Companies**
- III. Experiencing Shared Value**
- IV. The Intersection of Shared Value and Collective Impact**

Creating Shared Value Has Emerged as a Compelling Means of Aligning the Interests of Business and Society



“Creating Shared Value”
 by FSG founders Michael Porter and Mark Kramer, *HBR*, Jan-Feb 2011



“One of three megatrends for 2012”



“A trend in 2012”



HBR’s most-watched video of 2011



> 250 online media mentions



The New York Times

WALL STREET JOURNAL



The Washington Post



THE HUFFINGTON POST

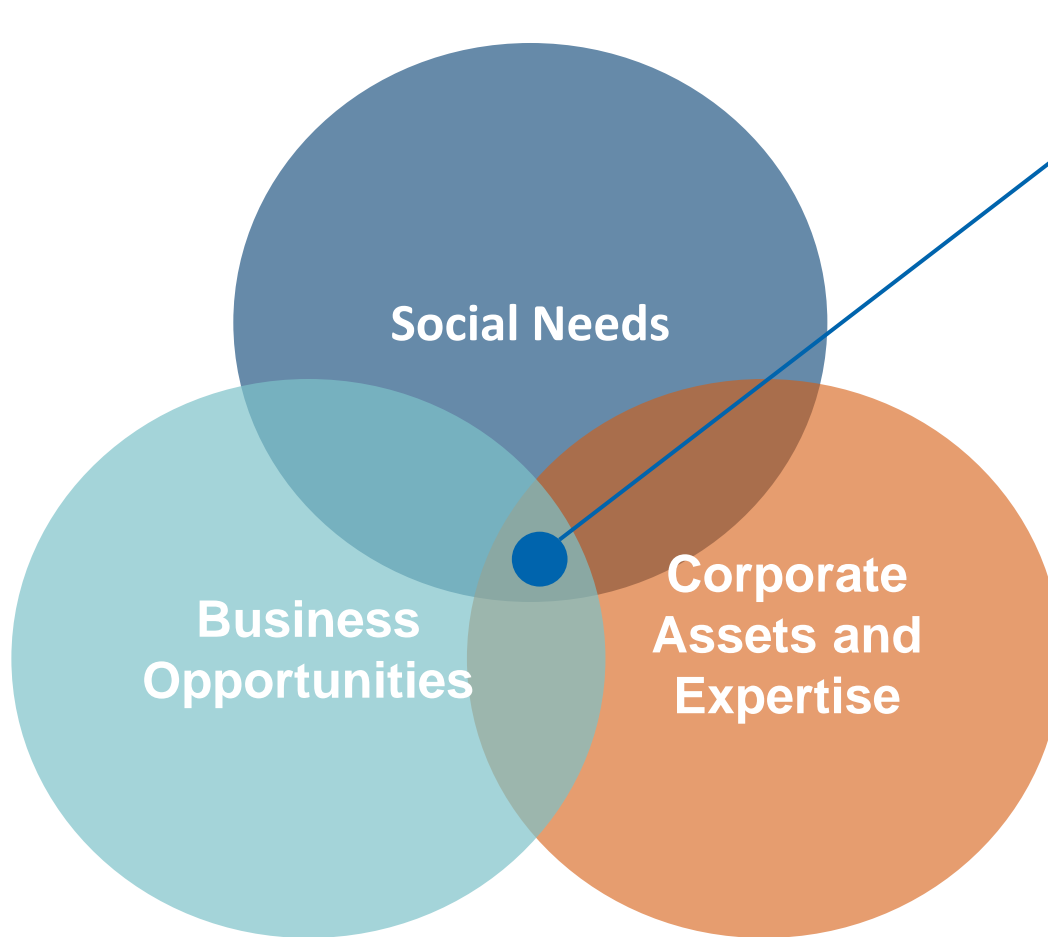


What Is Shared Value?

Shared Value: Corporate policies and practices that **enhance competitiveness of the company while simultaneously **advancing social and economic conditions** in the communities in which it sells and operates**

- All profit is **not equal**. Profit involving shared value enables society to advance and companies to grow faster
- Incorporating societal issues into strategy and operations is **the next major transformation** in management thinking
- Shared value thinking represents the next evolution of **capitalism itself**

Shared Value Is Created When Both Social and Business Issues Are Addressed, Connecting a Company's Success with Social Progress



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 (philanthropy)
- Personal values
- Balancing stakeholder interests
- Compliance

Why Is Shared Value Critical in Today's Economy?

Business' Current Context

- **Diminished Trust In Business:** Business is viewed as a major cause for social, environmental, and economic problems
- **Outdated Approach To Value Creation:** Companies are focused on optimizing short-term financial performance rather than investing in long-term, sustainable growth
- **Social Conditions Are Increasingly Challenging:** This is an era of growing **global populations** and increasingly **finite resources**

Shared Value

Shared value is created when companies **redefine business strategies** to address social problems and simultaneously achieve competitive advantage



Why Now?

We Stand Before **Unparalleled Challenges That Can Be Opportunities**

Aging Society



Climate Change



Food Security

Water Scarcity



Urbanization



Rural Poverty



Labor Shortages



Population Growth

Why Now?

Corporate Thinking about Social Issues Has Evolved Over the Past Decade

Evolving Perspectives on Corporate Social Engagement Approaches



“It is not a problem”

- Ignore it
- Minimize our responsibility
- Philanthropy is enough

“It is a problem”

- Focus on Public Relations
- Increase Philanthropy
- Engage stakeholders

“Let’s solve the problem”

- Add costs to fix the problem
- Report transparently on our results
- Leverage corporate assets

“It is an opportunity!”

- Build social issues into corporate strategy to:
- Lower costs
- Grow revenues or
- Differentiate our value proposition

Shared Value Is about Breaking Trade-Offs on Three Levels



Companies Create Shared Value in Three Ways

1 Reconceiving Products and Services

- Design products and services to **address societal needs**
- **Open new markets** by serving unmet needs in underserved communities
- Businesses have the potential to be more effective than governments and NGOs in **marketing solutions** to social problems



2 Redefining Productivity in the Value Chain

- Opportunities to create shared value arise because **societal problems can create economic costs** in the firm's value chain
- Synergy increases when firms approach societal issues from a shared value perspective and **invent new ways of operating** to address them



3 Building Clusters and Framework Conditions

- A strong local cluster with capable local suppliers and institutions **improves company productivity**
- Companies, working collaboratively, can **catalyze major improvements** in the local cluster and business environment
- This **strengthens the link** between a company's success and community success



Agenda

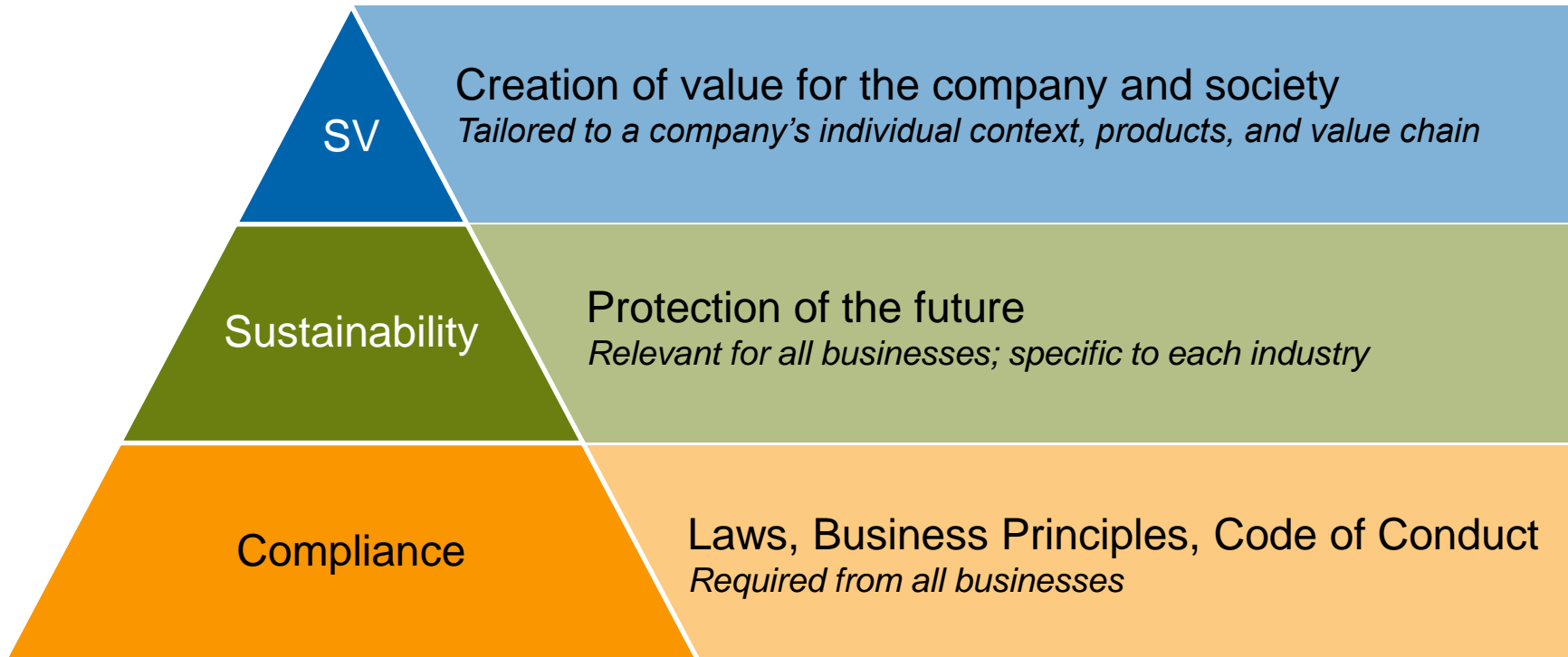
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Shared Value Goes beyond Compliance and Sustainability



Compliance and sustainability remain the basis for all operations, but SV can exceed these efforts in dedicated and company-specific areas

Companies Across Industries Are Redefining Their Purpose To Achieve New Sources of Competitive Advantage and Meet Social Needs

Media



Information Agents



Food



Nutrition



Automotive



Green Mobility



Computing / IT



Smarter Cities



Chemistry



Enabling Growth



Shared Value Is Going Global Because It Is Powerful for 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

Shared Value Changes Key Roles, Especially CSR Managers

The CEO

Steward of the Company's Purpose

The CFO

Measurer of Shared Value Creation

The HR Director

Cultivator of Social Innovators and Long-Term Thinkers

The Supply Chain Manager

Incubator of Cluster Development

The Head of R&D / Product Development

Shared Value Experimenter

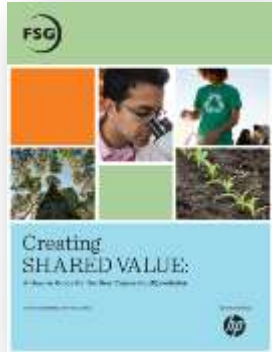


The CSR Manager

The Shared Value Instigator

- Teacher
- Business strategist
- Innovator
- Facilitator
- Collaborator
- Knowledge agent

Creating Shared Value Requires Companies to Excel at Several Levels



Vision & Leadership

Engagement seen as integral to strategy by board & senior leadership

Strategy

Key issues of “shared value” are prioritized...

... for which ambitious “shared value” goals are set

Delivery

An array of key corporate assets are leveraged

Cash Goods Skills Voice

Efforts are managed holistically across the company

Partners are mobilized to complement needed skills

Information Action

Performance Management

Metrics relevant to the shared value creation objectives are used

Performance systems enable continuous learning

Investments anticipate needed scale from the outset

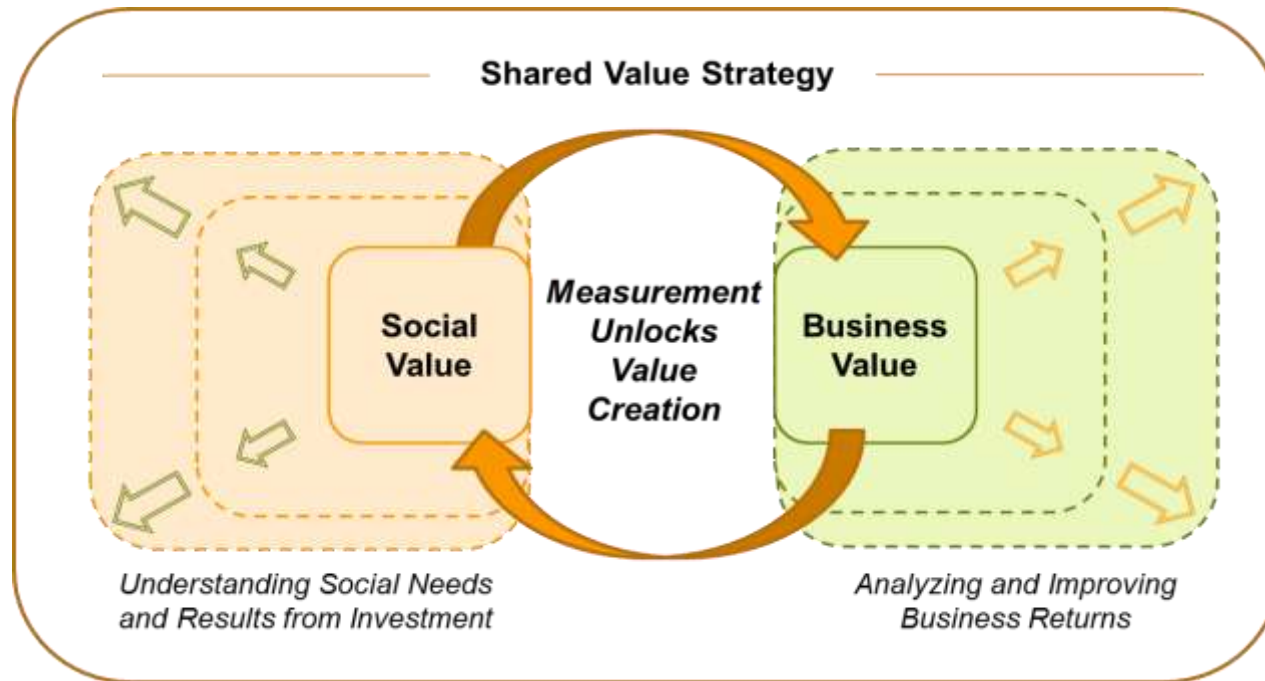
Progress is communicated as a means to achieve even greater value creation

Internally Externally



Measuring to Unlock Shared Value

TYPE	WHY / WHAT TO MEASURE?
Impact Assessment	<ul style="list-style-type: none"> Track and demonstrate the social and economic impacts of operations
Sustainability	<ul style="list-style-type: none"> Track and minimize the use of input factors and product / community impacts
Compliance	<ul style="list-style-type: none"> Compliance with laws and voluntary policies, standards, and codes
Brand Value and Reputation	<ul style="list-style-type: none"> How societal impacts contribute to the intangible brand/company value



The Value of Linking Social and Business Results Can Best Be Understood by Applying it to the Three Levels of Creating Shared Value

1. Reconceiving products and markets

How targeting unmet needs drives incremental revenue and profits



Measurement of Intel's Education Transformation Strategy to understand the unique technology needs of students and teachers in emerging markets and on the impact of its technology on student performance has helped it gain a 22% share of the education technology market

2. Redefining productivity in the value chain

How better management of internal operations increases productivity and reduces risks



Measurement of IHG's Green Engage Program focused on testing of dozens of options for reducing energy use, water consumption, or waste in pilot hotels to provide a detailed ranking of all possible shared value investment returns for roll-out to 1100 hotels and leading to a 25% energy savings

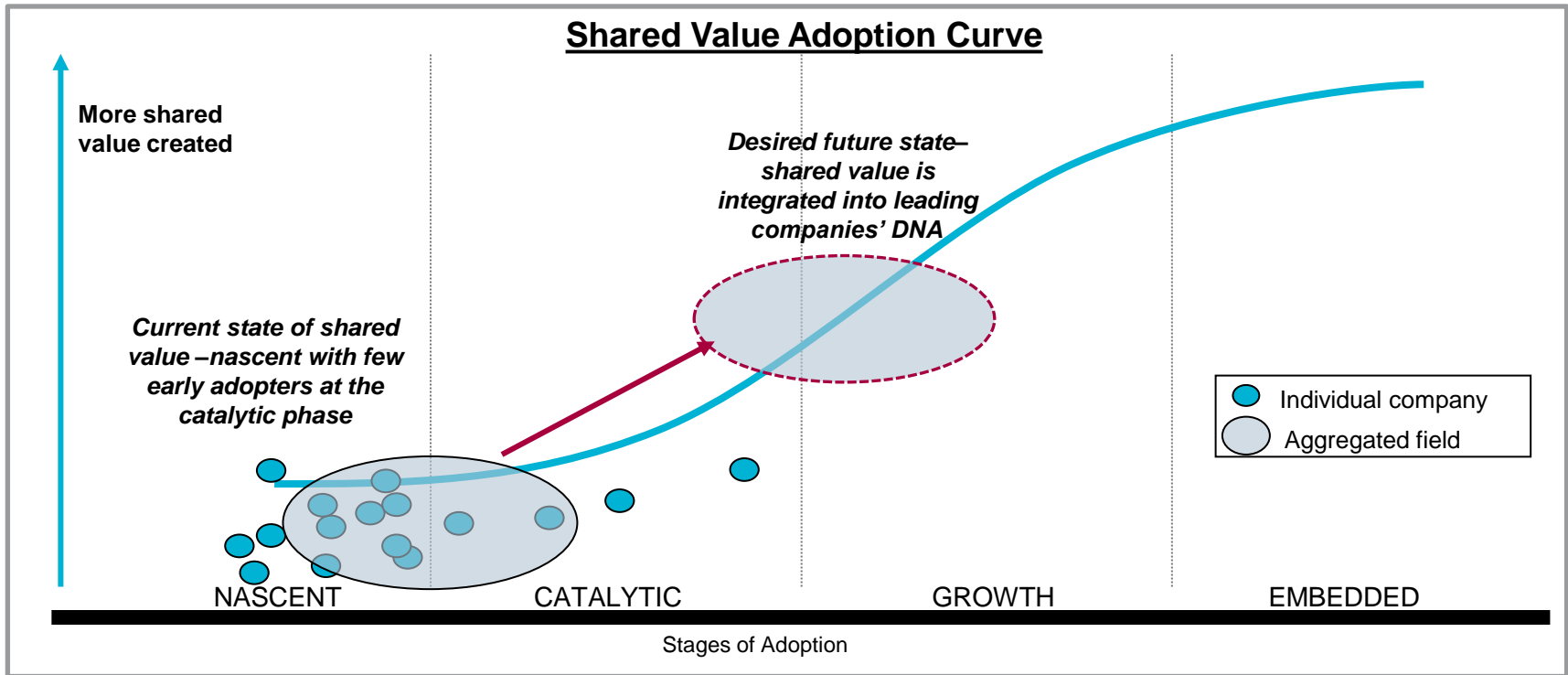
3. Enabling cluster development

How changing societal conditions outside the company unleashes new growth and productivity gains




Measurement of 12 RISE (Response-Inducing Sustainability Evaluation) indicators in milk producing communities helps focus investment where the greatest deficits are in 14 countries covering 82% of its milk supply globally

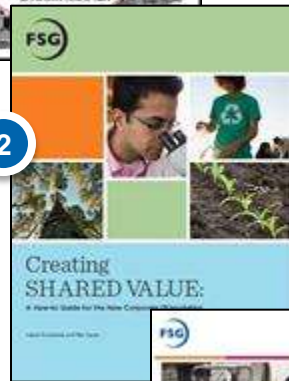
Shared Value Is at an Early Stage of Adoption



Shared Value Unfolds in Several Stages

			
	Initiating Shared Value	Implementing Shared Value	Living Shared Value
Commitment	Senior-level (CEO and Board) interest in shared value	Shared value as corporate priority	Shared value as part of competitive DNA of business
Implementation	Create a shared value framework; Pilot a dedicated shared value initiative	Run 1-2 dedicated initiatives up to scale	Entire corporate strategy about shared value
Management	Small group charged with leading a pilot, often with “roots” in CSR or sustainability	Shared value champions within business units; shared value “training” rolled out across firm	Shared value becomes embedded into planning and processes at all levels
Measurement & Learning	Focus on distilling value creation and value improvement data in pilot	Business units focus on understanding societal trends and their implications on the business	Focus on reporting on and improving value creation for business and society company-wide

FSG Has Just Launched the *Shared Value Initiative* to Support Global Expansion of SV Knowledge and Practice

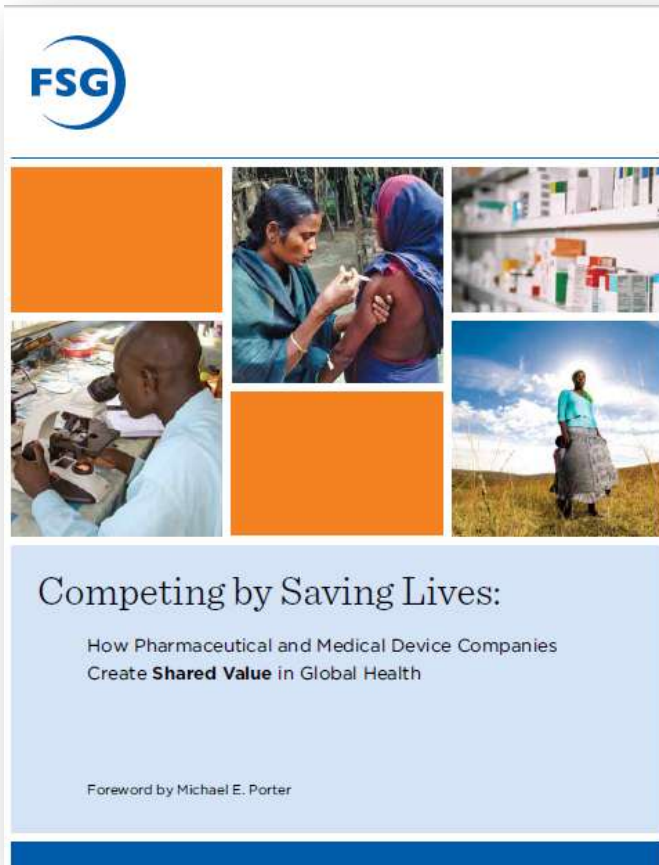


FSG Articles and Guides for the Field

1. ***Creating Shared Value: How to Fix Capitalism***
2. ***Creating Shared Value: A How-to Guide for the New Corporate (R)evolution***
3. ***Creating Shared Value in India: How Indian Corporations Are Contributing to Inclusive Growth While Strengthening Their Competitive Advantage***
4. ***Competing by Saving Lives: How Pharmaceutical and Medical Device Companies Create Shared Value in Global Health***
5. ***Shared Value in Emerging Markets: How Multinational Corporations Are Redefining Business Strategies to Reach Poor or Vulnerable Populations***
6. ***Measuring Shared Value: How to Unlock Value by Linking Social and Business Results***

Our Industry Research Agenda

Hot off the Press



Being Developed

Shared Value in...



Banking



Retail



Consumer Goods / Ag



Extractives



Media / Publishing



IT



Workforce Development






Global Ed

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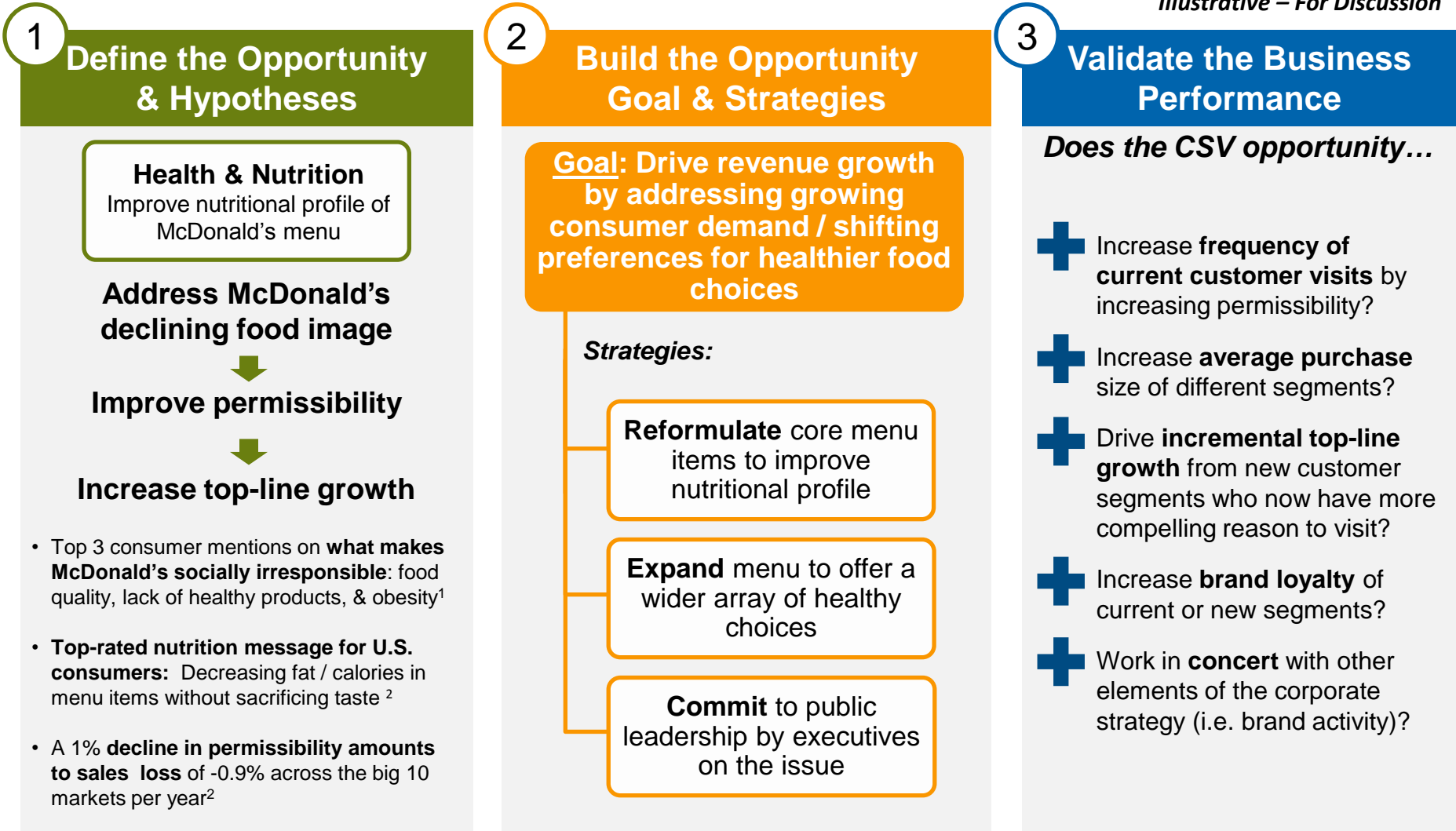
McDonald's Can Capitalize on Significant CSV Opportunities

Key Touch Points with Society	CSV Opportunities	Issues Addressed	Business Case Hypotheses
 <p>Food</p>	<p>Health & Nutrition Improve nutritional profile of McDonald's menu</p> <ul style="list-style-type: none"> • Food image as driver of sales • Risk of missing consumer shifts • Government / activist pressure • Growing obesity concerns <p>Supply Chain Improve sustainability of raw materials supply at right price and quality</p> <ul style="list-style-type: none"> • Food image as driver of sales • Secure supply of raw materials • Sustainability leadership 		<p><u>Improves:</u></p> <ul style="list-style-type: none"> – Food Image – Permissibility – Brand Trust – Supply Security
 <p>People</p>	<p>Employment Make McDonald's an appealing career path</p> <ul style="list-style-type: none"> • Workforce attraction and retention • Jobs growth and economic development <p>Community Re-establish McDonald's as a trusted centerpiece of communities</p> <ul style="list-style-type: none"> • Global and local reputation for the three legs of the stool • Community resource gaps 		<p><u>Leading to:</u></p> <ul style="list-style-type: none"> – Sales Growth – Cost Reduction
 <p>Environment</p>	<p>Stores Improve visibility of reduce, reuse, recycle in-store</p> <ul style="list-style-type: none"> • Cost reduction from store waste • "Green" leadership • Reduce environmental footprint <p>Transportation/ Logistics Improve efficiency of supplier-to-store supply chain</p> <ul style="list-style-type: none"> • Cost reduction from energy and logistics • "Green" leadership • Reduce environmental footprint 		

Each business case hypothesis requires testing to validate the opportunity

Each Priority CSV Opportunity Should Pass a Stage-Gated Business Case Analysis to Validate and Quantify Its Business Performance

Illustrative – For Discussion



Source: 1 – Globescan McDonald's research, 2 –McDonald's Penn Schoen Berland Food Image market research

Experiencing Shared Value

Questions for the Exercise

- **What are the key business issues facing your selected company?**

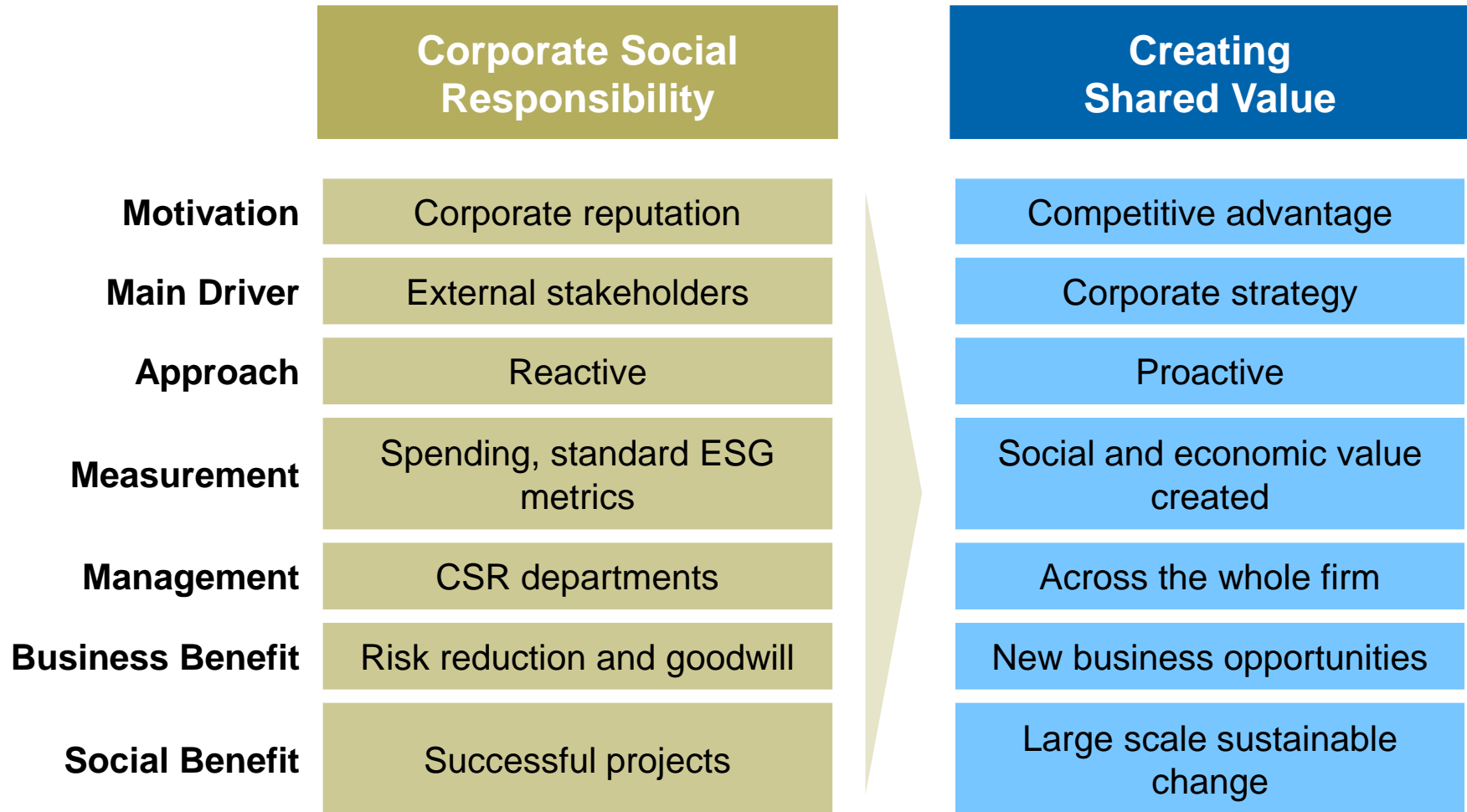
- **Overlaying key business issues with societal touch points what are significant shared value opportunities?**
 - **Products and Services**
 - **Value Chain Activities**
 - **Cluster and Context Conditions**

- **Which shared value opportunities seem to be most promising?**
 - **Company's ability to implement at scale**
 - **Revenue and profit size**

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What Is Different about Creating Shared Value?



Shared Value Example: IHG's Green Engage



Redefining Productivity in the Value Chain

- **Company Overview** – Largest hotel company in the world with over 4500+ hotels globally in over 100 countries – Crowne Plaza, Holiday Inn, InterContinental Hotels; >80% operate under franchise agreements
- **Business Issues** – Environmental and energy assessment leads company to realize that energy represents the second highest cost in a hotel
- **Social Issues** – Environmental issues of water, waste and energy usage; greater societal / customer understanding of the importance of these issues
- **Shared Value Program Elements**
 - Tested dozens of energy reduction options within a hotel operating environment from cooling/warming systems to solar panels to automatic computer shutdown applications
 - Provided a detailed ranking of all possible energy investments linked to environmental issues in terms of returns to IHG's hotels as well as those of its franchises
 - Areas with high environmental impact and return became distinguishable from other areas popular with the public, such as solar energy, which yielded fewer emissions reductions or economic value
 - Franchise owners then make the investment decisions based on transparent investment and ROI data
 - Investments are tracked by franchisees and fed back to IHG improving the initial model with realized returns
- **Linkages to Competitiveness**
 - Improvements in cost position versus competitors – some hotels have reduced energy expenditures by 25%
 - Improve engagement with / commitment from customers – individual and corporate

Shared Value Example: Mars Cocoa in Côte d'Ivoire



Building Clusters and Framework Conditions

- **Company Overview** – Privately-held global manufacturer of confectionary / chocolate products
- **Business Issues** – Declines in the quantity and quality of cocoa being sourced from Côte d'Ivoire resulting in increasing raw materials costs; increased manufacturing costs due to rejects / low quality
- **Social Issues** – 70% of the world's cocoa is sourced from Côte d'Ivoire, Ghana, Cameroon and Nigeria with 40% from Côte d'Ivoire alone; Côte d'Ivoire has a broad set of interrelated challenges – social (e.g., health, education, labor conditions), environmental (e.g., biodiversity), economic (e.g., economic viability / livelihoods), and political (e.g., corruption, political instability)
- **Shared Value Program Elements**
 - Promoting a systems change approach to transforming one cocoa growing region with approximately 300,000 of the 1M total cocoa farmers in Côte d'Ivoire
 - Agronomic – Improved materials (e.g., plant stock, fertilizer, pest control) and farmer knowledge
 - Social – Education, healthcare, labor conditions
 - Environmental – Biodiversity protection through diversification strategies
- **Linkages to Competitiveness**
 - “Public goods” investment – Requires co-investment and co-commitment from a broad array of related stakeholders both within the industry (pre-competitive collaboration) and related stakeholders (government, multi-lateral institutions)
 - Free rider challenges – Uninvolved chocolate industry companies and those that source from other countries