Creating Shared Value

New Jersey Corporate Philanthropy Network
Council of New Jersey Grantmakers
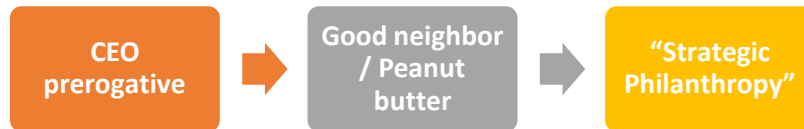March 22, 2018

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*"Companies have **overlooked opportunities** to meet fundamental societal needs and **misunderstood** how societal harms and weaknesses affect value chains. Our **field of vision** has simply been **too narrow**."*

Michael Porter

Evolving approaches in the role of business in society

PHILANTHROPY → **CORPORATE SOCIAL RESPONSIBILITY (CSR)** → **CREATING SHARED VALUE (CSV)**

CEO prerogative → **Good neighbor / Peanut butter** → **"Strategic Philanthropy"**

- Donations to worthy social causes

- Volunteering programs

- Compliance with company standards

- Strategic community engagement and good corporate citizenship

- "Sustainability"

  ↓

- Mitigating risk and harm

- Differentiation – competitive and recruitment & retention

- Addressing social needs and challenges with a **business model**

What is shared value?

- A framework for **intentionally creating economic value** while simultaneously **addressing societal needs** and challenges.

    "Shared value is not social responsibility, philanthropy, or sustainability, but a new way for companies to achieve economic success." – Michael Porter and Mark Kramer

- When **businesses act as businesses**, not as charitable donors, they can **improve profitability** while also **improving** environmental performance, public health and nutrition, affordable housing and financial security, and other **key measures of societal wellbeing.**

    *"Shared value is a **management strategy** in which companies find **business opportunities in social problems**. While philanthropy and CSR focus efforts on 'giving back' or minimizing the harm business has on society, shared value focuses company leaders on **maximizing the competitive value** of solving social problems in new customers and markets, cost savings, talent retention, and more." – Shared Value Initiative*

What is shared value?

- Reinforcing and expanding the concept of **Creating Shared Value (CSV) will reshape capitalism** and **its relationship to society**, and **legitimize business again** as a powerful force for positive change.

*"Shared value recognizes that the **health of any business** is inextricably linked to the **long-term prosperity** of its clients and communities. Through applying a shared value lens, companies can discover entirely **new avenues for growth** at the intersection of social needs, their business priorities, and their unique assets and expertise." – Nina Jais*

Benefits

Proactive
Both society and the firm benefit
Creating competitive advantage
Improved brand value

Criticisms

Unoriginal
Ignores the tensions between social and economic goals
Naïve about business compliance
Based on a shallow conception of the firm's role in society

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How is shared value created?

*"The concept of shared value **resets the boundaries** of capitalism. By **better connecting companies' success with societal improvement**, it opens up many ways to **serve new needs**, **gain efficiency**, **create differentiation**, and **expand markets**."*

| Reconceiving products and markets | Redefining productivity in the value chain | Building supportive industry clusters at the company's locations |

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Reconceiving products and markets

- Companies have traditionally sought to **parse and manufacture demand** for their products, while **ignoring existing but undiscovered markets** in society's unmet needs.

- For example, communities around the world constantly **aim for better housing, improved nutrition, greater financial security, less environmental damage**, etc. These aims present an **opportunity for business** to expand while contributing to societal gains.

- In **advanced economies**, demand for products and services that contribute to societal gains is growing.

- In **developing countries and disadvantaged communities**, developing **appropriate products** can provide both **great societal gains** and, by opening up new markets, **increased profits**. In Kenya, Vodafone's **mobile banking service** M-PESA signed up 10 million customers in three years, handling funds in excess of **10% of the country's GDP**.

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Reconceiving products and markets
Case Studies

- Developed **diabetes training programs** for Chinese physicians in partnership with government, NGOs, and opinion leaders to **disseminate the latest thinking on diabetes** prevention, screening, treatment, and patient communication.
- The program has trained **55,000 physicians to date**, each treating approximately 230 patients.
- Novo Nordisk's **market share** in China increased from **0% to 63%,** and China has become the company's **third largest market** with revenues of $1.28 billion in 2013.


- **Arogya Parivar** ("healthy family" in Hindi) is a for-profit social initiative developed by Novartis to reach millions in underserved communities in rural India, providing **opportunities to expand business** in innovative and responsible ways.
- The program offers **education on diseases**, **treatment options and prevention** and **increases access to affordable medicines.** Products and services are tailored to communities with low disposable income, usually earned on a daily basis.
- Arogya Parivar is a **commercially viable program**. It began returning a **profit** after 30 months and **sales have increased 25-fold**. Novartis has created **similar initiatives** in Kenya, Indonesia and Vietnam.

- **Intel's Education Transformation** strategy focuses on **improving student outcomes** while also **increasing sales.**
- **Post-sales measurement** creates a **virtuous cycle of innovation**; **better understanding of educational needs** and the **impact of Intel's education technology solutions** improves the product, ultimately leading to **additional sales** and **greater market share for Intel**.

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Redefining productivity in the value chain

- Utilizing resources, energy, suppliers, logistics, and employees differently can **reduce negative effects** from a firm's operation, thus **providing societal gains**, while **increasing profits**.

- For example, by **reducing its packaging** and **cutting 100 million miles** from the delivery routes of its trucks, Wal-Mart both **lowered carbon emissions** and **saved $200 million in costs.**
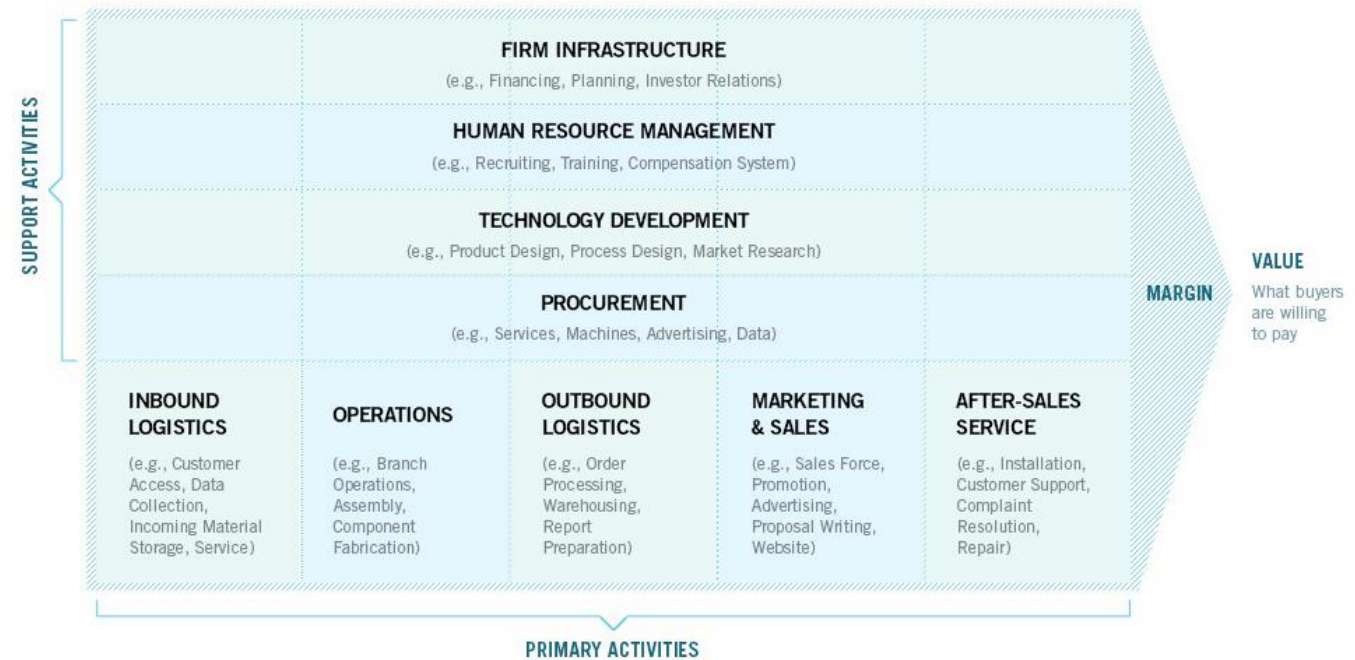
Redefining productivity in the value chain

Energy use and logistics	• **Improvements in energy use**, through better technology, recycling, and cogeneration, have created shared value. These reexaminations of energy use were triggered by **energy price spikes** and the growing prominence of **energy efficiency opportunities**.
Resource use	• Heightened **environmental awareness** and **advances in technology** are catalyzing **new approaches in utilization of water, raw materials, and packaging**, as well as **expanding recycling and reuse.**
Procurement	• Companies are increasingly aware that **marginalized suppliers cannot sustain productivity and quality**. By **increasing access to inputs**, **sharing technology**, and **providing financing**, companies can **improve supplier quality and productivity** while ensuring volume growth.
Distribution	• Many new distribution models **reduce resource use**, like paper and plastic and transportation, while maintaining profitability.
Employee productivity	• Companies are increasingly realizing the **positive effects** that a **living wage**, **safety**, **wellness**, **training**, and **opportunities for advancement** for employees have on productivity. J&J saved $250 million in healthcare costs by implementing wellness programs.
Location	• The **rising costs of energy** and carbon emissions, the **productivity cost of highly dispersed production systems**, and the **hidden costs of distant procurement** have led companies to establish **deeper roots in their communities**, creating shared value.

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Redefining productivity in the value chain
Case Studies

- Fibria is the world's **leading manufacturer of eucalyptus pulp**. It utilizes planted eucalyptus trees and integration of the native habitat to **dramatically reduce the land required** in wood fiber cultivation.
- The company also **encourages small-scale producers** near its mills, which contribute 27% of the raw materials utilized in Fibria Mills, to plant eucalyptus in conjunction with other crops, **assisting them with technical training and inputs.**
- Fibria **achieves far greater land and water efficiency** versus traditional plantation methods while **improving the productivity and income** of more than 4,000 households.

- Through the **Cocoa Plan**, Nestlé benefits from ensuring the supply of **high-quality and sustainably sourced cocoa** for its products. It also ensures **community development** and meeting certified **ethical and environmental standards**.
- Nestlé has set up a **R&D Centre** in Côte d'Ivoire to support the development of **higher-yielding, disease-tolerant cocoa plantlets.** These produce 50%–200% more cocoa, enabling cocoa farmers to **grow more and sustain a higher income**.
- **Training farmers** to understand better **crop and pest management** techniques also helps increase **yields and incomes**.

- InterContinental Hotels Group (IHG), the largest hotel company in the world, launched its **Green Engage program** when the company assessed its **environmental footprint** and realized that **energy represented its second largest cost**.
- Through **measurement**, IHG gained a rich understanding of the **relative shared value potential** of a wide range of practices. An **online tool** continues to update **shared value returns** of various initiatives rolled out at individual hotels.
- The program has helped to create **substantial reductions** in hotel operating **costs**, including **energy savings** of up to 25 percent at individual sites.

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Building supportive industry clusters at the company's locations

- In every company, **productivity and innovation** are strongly influenced by "**clusters,**" or geographic concentrations of firms, related businesses, suppliers, service providers, and logistical infrastructure in a particular field.

- The firm's **productivity** is often **negatively affected** in the absence of a supporting cluster, and **deficiencies** in the framework conditions surrounding the cluster also create **internal costs**. For example:
  - **Poor public education** imposes **productivity and remedial-training costs**.
  - **Poor transportation infrastructure** increases the **costs of logistics**.
  - Other conditions, like **poverty**, **limit the demand for products** and lead to **environmental degradation**, **unhealthy workers**, and **high security costs**.

- Firms **create shared value** by **building clusters** to **improve their own productivity** while **addressing gaps or failures** in the framework conditions surrounding the cluster.

- A key aspect of **cluster building** is the formation of **open and transparent markets**. This is often best done in conjunction with partners, and can allow a company to **secure reliable supplies** and give suppliers better **incentives** for **quality and efficiency** while also substantially **improving the incomes** and purchasing power of local citizens.

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Building supportive industry clusters at the company's locations

Case studies

- Cisco has **trained 4 million young people** from 165 countries in IT skills through its **Networking Academy**.
- **70% of graduates** have attained a new job, or a better job at their existing employer. The Networking Academy has **alleviated a key workforce constraint** for not only the company but also for Cisco customers, **increasing industry growth**.
- The program has also **strengthened** Cisco's relationship with **suppliers, customers, and government.**

- Yara, a **global leader in fertilizer sales**, faced numerous **obstacles** in its effort to reach African smallholder farmers from its port of entry in Tanzania. Yara worked to bring together 68 organizations in a partnership known as the **Southern Agricultural Growth Corridor of Tanzania (SAGCOT).**
- Although Yara did not control SAGCOT, it **boosted Yara's sales in the region** by 50% and **EBITDA** by 42%.
- Although originally envisioned as a 20-year project, the corridor was well established **within three years** and has **bolstered the incomes** of hundreds of thousands of farmers.

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Developing a CSV strategy

Identify a goal
You could start with your **current philanthropic priorities**. The United Nations' **Sustainable Development Goals** (SDG) are also a good place to to identify a problem that your company can help address, Are there **critical needs** in your organization's general sphere of influence?

Select a CSV framework
Is your organization better positioned to 1) **reconceive products and services**, 2) redefine **productivity in the value chain**, or 3) build supportive **clusters**?

Find allies & collaborators
Who or what **departments in the company can you work with** on this? Product, manufacturing, sales, marketing, finance, facilities, etc.? **Identify individuals who "get it"** and who can help create shared value and make the business case. Listen, listen, listen.

Immersion, Research, Concepting… and Educate
Better **understand need/challenge** you'd like to address. Immerse yourself in **enterprise goals**. What idea **addresses both**? Who are the external partners that are critical to your idea - sound them out to get more insight? What are the **desired outcomes** and how are those **measured** (metrics)? Educate internal stakeholders on CSV and successful precedents.

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Exercise

- **[Sustainable Development Goal 5](#)**: Achieve gender equality and empower all women and girls

- **[Sustainable Development Goal 13](#)**: Take urgent action to combat climate change and its impacts

- **[Sustainable Development Goal 10](#)**: Reduce inequality within and among countries

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Thank you.

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