Business and Social Good: What is the Role of Investors?

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Harvard Business School

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Investing for Social Good

• There is an **ever growing awareness** of major societal challenges

• Business is increasingly **recognized** as a crucial actor affecting these challenges, for better or for worse

• Investors have been seen as a **negative force** through encouraging narrow, short term profit maximization

• Investors are being challenged to **incorporate societal issues** into investment behavior

• There is a **growing appetite** for investment vehicles focusing on businesses that contribute to social issues

• The question is **how?**
The Role of Business in Society

Evolving Approaches

Philanthropy

• Donations to worthy social causes
• Volunteering
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Measurement
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Corporate Social Responsibility (CSR)
- Compliance with community standards
- Good corporate citizenship
- “Sustainability”

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- Standardized ESG indicators
  - E.g., GRI
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Creating Shared Value (CSV)

- Integrating societal improvement into economic value creation itself
  - Driving social improvement with a business model
Societal Needs and Economic Value Creation

- **Social** deficits create **economic** cost
- “**Externalities**” shape **internal** company productivity
- Social needs represent the **largest market opportunities**
Moving to Shared Value

Novartis

CSR

- Donate drugs to lower-income populations
- Same products, but free or at a discounted price
- Reach patients through existing health systems
- Lower revenue at the same cost

CSV

- Implementing a new drug business model for low-income populations (Arogya Parivar)
- New quantity, packaging, patient education, and distribution
- Improvement in local healthcare delivery infrastructure
- Learning about non-traditional customer behavior and new business models
- Higher revenue and profitability
Implications for Investors
Evolving Approaches

Maximize Shareholder Value

- The fiduciary duty of investors is to focus on economic return
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Maximize Shareholder Value

- The fiduciary duty of investors is to focus on **economic return**

Socially Responsible Investing (SRI)

- Desire to invest in "**good**" companies

- Good social and environmental performance will improve economic performance in the long run
  - Risk reduction
  - Better reputation
  - Managing ESG impacts is a sign of capable management

- Introduces a **negative** screen into investment analysis
Implications for Investors

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- Business can have both economic and social purpose
- Invest in entities that generate social returns along with economic returns

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- Right mix of economic and social?
- Fiduciary issues
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Shared Value Investing
- Opportunity to drive economic value through social impact
- All companies can create shared value
- Shared value expands the opportunity set
- A natural extension of traditional investment analysis
- Integrate shared value analytics into assessing every industry and company
Levels of Shared Value

I: Reconceiving **products**, **needs**, and **customers**
   - Meeting **societal needs** through products, and reaching **unserved** or **underserved customers** with these products

II: **Redefining productivity** in the value chain
   - **Using resources better** across the value chain to improve fundamental productivity

III: Enabling **local cluster development**
   - Improving **available skills**, **suppliers**, and **supporting institutions** in the communities in which a company operates to increase productivity, innovation, and growth
Creating Shared Value in Products and Markets

Novo Nordisk in China

- **Product design** that reflects Chinese patient demographics and culture

- **Diabetes training programs for physicians** in partnership with government, NGOs, and opinion leaders to promote 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

- New types of **diabetes education programs for patients** focusing on prevention, lifestyle changes, and effective use of insulin products

- Novo’s market share in China increased from **0% to 63%**, and China became the company’s third largest market with revenues of $935 million in 2011
Redefining Productivity in the Value Chain

- Shared value purchasing
- Energy use
- Resource use
- Location of facilities / supply chain
- Logistical efficiency
- Training to enhance the productivity and wage opportunities of employees, especially lower income employees

<table>
<thead>
<tr>
<th>Inbound Logistics (e.g., Incoming Material Storage, Data Collection, Service, Customer Access)</th>
<th>Operations (e.g., Assembly, Component Fabrication, Branch Operations)</th>
<th>Outbound Logistics (e.g., Order Processing, Warehousing, Report Preparation)</th>
<th>Marketing &amp; Sales (e.g., Sales Force, Promotion, Advertising, Proposal Writing, Website)</th>
<th>After-Sales Service (e.g., Installation, Customer Support, Complaint Resolution, Repair)</th>
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</thead>
<tbody>
<tr>
<td>Firm Infrastructure (e.g., Financing, Planning, Investor Relations)</td>
<td>Human Resource Management (e.g., Recruiting, Training, Compensation System)</td>
<td>Technology Development (e.g., Product Design, Testing, Process Design, Material Research, Market Research)</td>
<td>Procurement (e.g., Components, Machinery, Advertising, Services)</td>
<td>Margins</td>
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Identifying Opportunities for Shared Value in the Value Chain: Mining

- Enhancing skill training and technology partnerships with local colleges and universities
- Value added purchasing practices with suppliers
- Local supplier development
- Recruitig from disadvantaged surrounding communities
- Diversity in the workforce
- Employee education and job training
- Onsite housing
- Employee health initiatives
- Compensation and benefit models to support a living wage
- Staff retraining and rehabilitation after mine closures

- Energy and water use
- Limiting emissions and waste
- Low ecological and biodiversity impacts
- Minimizing use and effects of hazardous materials
- Recovering additional materials from “exhausted” mines
- Worker safety practices
- Minimizing logistical and handling impacts
Shared Value and Strategy
Whole Foods Markets

Value Proposition

• Natural, fresh, organic, and prepared foods and health items with excellent service at premium prices
• Cater to specialized nutritional requirements (gluten allergies, vegan, etc.)
• Educated, middle class, and affluent customers who are passionate about food and a healthy lifestyle

Distinctive Activities

• Well-lit, inviting supermarket store formats with appealing displays and extensive prepared foods sections
• Produce section as “theater”
• Café-style seating areas with wireless internet for meals and meetings
• Each store carries local produce and has the authority to contract with the local farmers. Company provides low-interest loans if needed
• Nutrition information and education provided to shoppers along with products
• High touch in-store customer service via knowledgeable, flexible, and highly motivated personnel
• Flat compensation structure
• Own seafood procurement and processing facilities to control quality, sustainability and price from the boat to the counter
• Heavy emphasis on environmental sustainability in all activities
• Emphasis on supporting community development

• Whole Foods is the most **economically successful** food retailer in North America
• Successful strategies in the future will embody a significant **shared value dimension**
### Purpose Based Strategic Positioning

<table>
<thead>
<tr>
<th>Traditional Positioning</th>
<th>New Positioning</th>
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</thead>
<tbody>
<tr>
<td>Nestlé • Food</td>
<td>• Nutrition</td>
</tr>
<tr>
<td>Nike • Shoes</td>
<td>• Health and Wellness</td>
</tr>
<tr>
<td>Thermo Fisher • Leader in Serving Science</td>
<td>• Making the World Healthier, Cleaner, and Safer</td>
</tr>
</tbody>
</table>

• A **broader sense of purpose** not only opens up **new opportunities** for growth and profitability, but also **motivates** and **attracts** employees, consumers, business partners, shareholders, and the public.
Measuring Shared Value

• Measure the **direct link** between social impact and economic impact
  – Line of sight

• Measures **unique** to the type of shared value being created

• **Intentional** and **focused**

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**Shared Value Measurement in Action**

• **Intel** measured the impact of its technology on student performance in its **Education Transformation Strategy**

• The company achieved **market leadership** in the growing global market for mobile computing for K-12 education
The Purpose of Investing

• The fundamental purpose of investing is to allocate capital to companies who can earn an attractive return

• The highest societal value of investors comes from selecting companies that will use capital well, monitoring their fundamental success and intervening to improve performance

• Shared value can multiply the societal impact of the capital invested by business

• If the investment behavior of investors increases the flow of capital to companies that create shared value, the societal purpose of investors is greatly amplified