The Role of Business in Society: Creating Shared Value
The Role of Business in Society

• Only business can **create economic prosperity**, through meeting needs at a profit

• Societies everywhere are facing significant **social, environmental and economic development** challenges

• Government and NGO’s **lack sufficient resources and capabilities** to fully meet these challenges alone

• Corporate social responsibility efforts are greater than ever, but the **legitimacy of business has fallen**

We need a **new approach**
The Role of Business in Society
Evolving Approaches

Philanthropy

• Donations to worthy social causes
• Volunteering
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Corporate Social Responsibility (CSR)

- Compliance with community standards
- Good corporate citizenship
- “Sustainability”
- Mitigating risk and harm
- Improving trust and reputation
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Creating Shared Value (CSV)

- Addressing societal needs and challenges with a business model

- Mitigating risk and harm
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Philanthropy

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The Role of Business in Society
Evolving Approaches
CSR versus Shared Value

**Fair Trade**

- Paying a *higher price* to farmers for the same products
- **Certification** as a fair trade company

**Transforming Procurement**

- Collaborate with farmers to improve quality and yield
- Supporting investments in *technology* and *inputs*
- Higher prices for *better quality*
- Higher yield increases *quantity* produced
- **Environmental** impact also improved
Social deficits and environmental impact create economic costs for companies.

Community weaknesses affect company productivity.

Social needs represent the largest unserved market opportunity.
Levels of Shared Value

I. Reconceiving needs, products, and customers
   – Meeting societal needs through products and services
   – Serving unserved or underserved customers

II. Redefining productivity in the value chain
   – Utilizing resources, energy, suppliers, logistics, and employees differently

III. Improving the local and regional business environment
   – Improving skills, the supplier base, the regulatory environment, and the supporting institutions that affect the business
   – Strengthening the cluster on which the company depends

• Strengthens the link between company success and community success
Shared Value in Products
Dow Chemical

• Dow recognized that global social issues represent its largest market opportunities
• Created the “Breakthroughs to World Challenges” Program
  – Each business unit was challenged to apply Dow’s tradition of “solutionism” through innovation to a range of global problems inspired by the Millennium Development Goals

• One of Dow’s business units developed Omega-9 canola and sunflower seeds that produce cooking oil with no trans fats and low saturated fats
• The technology yields twice the oil per hectare for farmers than soybeans, raising farmer and farmland productivity
• The oils have longer shelf life and usage life for food processors

• Has become one of Dow’s largest selling product lines, with 2012 total revenues of approximately $700 million
Shared Value in 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 disseminate the latest thinking on diabetes prevention, screening and treatment
  - The program has **trained 55,000 physicians** to date

- 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 has become the company’s third largest market with revenues of $935 million in 2011
Unlocking Shared Value in Products and Markets

• Rethink the business around unsolved customer problems or concerns, not traditional product definitions

• Identify customer groups that have been poorly served or overlooked by the industry

• Think in terms of improving lives, not just meeting customer “needs”

• Start with no preconceived constraints about product attributes, channel configuration, or the economic model of the business (e.g., small loans are unprofitable)
Shared Value in the Value Chain

- Procurement that enhances supplier capabilities and efficiency
- Improving energy, water and resource efficiency across the value chain
- Minimizing logistical intensity
- Improving employee health and safety
- Enhancing the productivity and wages of lower income employees
- Recruiting that represents the diversity of customers and the communities where a company operates
- Others
Shared Value in the Value Chain
Intercontinental Hotels Group

- **Energy** represents the second highest cost in a hotel, with water use and waste also significant.

- IHG introduced the GreenEngage program in 2009 to address its environmental footprint as an efficiency improvement opportunity.

- Over 1,900 IHG hotels are using the Green Engage tools to enhance environmental and economic performance.

- IHG hotels have achieved energy savings of up to 25% to date, and other improvements are following.

- Environmental performance also differentiates IHG hotels with consumers and corporate clients.
Shared Value in the Value Chain
Employee Health, Johnson & Johnson

- J&J designed a **corporate employee health program** that would improve the health of employees, increase employee productivity and decrease healthcare costs for the company

- With a focus on **prevention and disease management**, the redesigned health program offers:
  - Health assessment & counseling services
  - 100% coverage of preventative screenings
  - Incentives to employees and their families to make healthy choices
  - Partnerships and programs to increase health literacy among employees and their families
  - On-site fitness centers and personal training

- Since the late 1990s, J&J has seen a **two thirds reduction** in smoking for its US workforce, from 12% percent to 4%

- The company also saw improvements in high blood pressure and high cholesterol, which **dropped** from 14% to 6% and 19% to 6%, respectively

- J&J employee health program reduced medical costs by **$225 per participating employee per year** because of reduced inpatient use and fewer mental health and outpatient visits

- J&J has so far saved over **$250M** in healthcare costs, **270% ROI** for every dollar the company has spent on the program
Shared Value in the Local Business Environment
Cisco Networking Academy

• Cisco established the **Networking Academy** to train network operators

• The company has trained **4 million** young people from **165 countries** in ICT skills

• 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 for Cisco customers, increasing industry growth

• The program strengthens Cisco’s **relationships** with suppliers, customers and government
Leveraging Shared Value Across Levels
Pharmaceuticals and Medical Devices

Reconceiving Products and Markets

- R&D for drugs, vaccines, and devices that **fill unmet health needs**
- Modification of **existing products** to reduce complexity and cost for **lower income** consumers and **emerging markets**
- **Tailored product offerings** to meet local market conditions

Redefining Productivity in Value Chain

- New, local supply chains and manufacturing approaches to reduce product costs
- **Locally-adapted sales and distribution** models to reduce cost, access new markets, and better meet patient needs

Enabling Local Cluster Development

- **Behavior-change campaigns** to create more educated consumer demand for health care
- **Strengthening local health systems** to enable the delivery of needed products and services
- **Advocacy and capacity building** to improve the regulatory environment

- Leading firms are beginning to design **multi-level approaches** to shared value that are mutually reinforcing
Partnering for Shared Value

**NGOs**
- Hold business accountable
- Seek donations

**Government**
- Regulate how businesses operate
- Tax businesses to pay for social services
- Operate social programs

**Foundations**
- Donate to charitable causes

**Competitors**
- "Brand" solo CSR initiatives

**Company**
- Partner with business to **implement** and **scale** shared value solutions
- Regulate to **encourage** market solutions
- **Jumpstart market solutions** through purchase commitments or subsidies
- **Partner** on shared value solutions to delivering social services
- Invest in **infrastructure** to enable shared value approaches (e.g. roads, skills)
- Invest **with** companies, NGOs and government to enable shared value solutions
- **Partner** on business environment improvements
Connecting the Company’s Social Roles

- Foundational investments to enable:
  - Education
  - Basic research
  - Investments in enabling assets and infrastructure

- Engaging stakeholders to collaborate on shared value solutions

- Address societal needs and challenges with a business model
Creating Shared Value: Where is the Opportunity?

Nestlé

- Opportunities to create shared value are inevitably tied closely to a company’s particular businesses
Shared Value Opportunities in Banking: Regions Financial

I: Reconceiving customer needs, products, and markets
   – Serve unbanked and under-banked consumers
   – Financial literacy education embedded in products
   – SME lending and business services
   – Real estate lending with a focus on community projects with broader effects
   – Financing affordable housing
   – Offering financial instruments that advance environmental and social progress (e.g., loans repaid with energy savings)

II: Redefining productivity in the value chain
   – Local procurement
   – Hiring and training
   – Energy and resource efficiency

III: Improving the local and regional business environment
   – Leveraging facility locations as community anchors
   – Skill development programs in partnership with universities, technical schools or community colleges to improve the pipeline of prospective employees in shortage areas
   – Specialized business banking groups to support regional clusters
   – Leadership in regional competitiveness improvement
### Value Proposition

- Natural, fresh, organic, and freshly prepared foods and health items with excellent service at premium prices
- Cater to specialized nutritional requirements (gluten allergies, vegan, etc.)
- Serve educated 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

**Value Proposition**

- 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

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<tr>
<th>Traditional Positioning</th>
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<tr>
<td>Nestlé</td>
<td>• Nutrition, Health and Wellness Company</td>
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<tr>
<td>Thermo Fisher Scientific</td>
<td>• Making the World Healthier, Cleaner, and Safer</td>
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<tr>
<td>Nike</td>
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<td></td>
<td>• Scientific and Laboratory Instruments Company</td>
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<td>• Footwear and Apparel Company</td>
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• Defining a **clear social purpose** opens up new opportunities for growth and profitability, while motivating and attracting consumers, business partners, employees, shareholders, and the public
Redefining Corporate Purpose
Danone

• In the late 1990’s, Danone realized that it had drifted away from its origins as a manufacturer of **healthy foods**

• **Sold off** its beer, meat and cheese units

• Refocused the company on **dairy** and **water**

• Acquired **medical nutrition** and **baby foods** businesses

• Created **Innovation Committees** in business units to provide “healthy food for as many people as possible”

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**Vision**

*The ‘dual economic and social’ project, creating economic value by creating social value*

**Mission**

*Bringing health through food to as many people as possible by refocusing on four complementary business lines and expanding into fast-growing new regions*
The Purpose of Business

• The purpose in business is to create economic value while creating shared value for society

• Businesses acting as businesses, not as charitable givers, are arguably the most powerful force for addressing many of the pressing issues facing our society

• Shared value will give rise to far broader opportunities for strategy and economic value creation and will drive the next wave of innovation, productivity, and economic growth

• A transformation of business practice around shared value will give purpose to the corporation