WORKSHOP ON CREATING SHARED VALUE THROUGH CORPORATE SOCIAL RESPONSIBILITY IN INDIA

India's Public Sector | November 8th, 2012

The World Bank

Message

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India's Public Sector | November 8th, 2012

10:00AM – 4:00PM

1st Floor, Mantra Hall, Park Hotel, New Delhi, India

AGENDA

Time	Duration	Program	Speaker
10:00-10:45	45 mins	**Inaugural Session**	
		Background and Objectives of the Conference	Shabnam Sinha, Senior Education and Institutional Development Specialist, The World Bank, India
		Keynote Address	Onno Ruhl, Country Director, The World Bank, India
		Inaugural Address	Praful Patel, Honorable Minister, Ministry of Heavy Industries and Public Enterprises, Government of India
		Theme Address: CSR for Public Sector Enterprises – Key Priorities	O.P. Rawat, Secretary, Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, Government of India
		CSR and Public Sector Enterprises: The Journey So Far	A.K. Pavadia, Joint Secretary, Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, Government of India
		CSR and Creating Shared Value: Defining CSR	Mark Kramer, Co-founder and Managing Director of Foundation Strategy Group, FSG
		Vote of Thanks	John Blomquist, Lead Social Protection Specialist, The World Bank, India

Time	Duration	Program	Speaker
11:00-12:00	**60 min**	**Introduction to CSR and Shared Value**	
		State of CSR in India, Including Typical Activities of Companies in the Country and the Legislative Requirements of the Companies Bill	Shabnam Sinha, Senior Education and Institutional Development Specialist, The World Bank, India
		Indian Context for CSR	A.K. Pavadia, Joint Secretary, Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, Government of India
		Introduction to Shared Value	Mark Kramer, Co-founder and Managing Director of Foundation Strategy Group, FSG
12:00-13:00	**60 min**	**Lunch Break**	
13:00-15:00	**120 min**	**Strategy Evolving Session**	
15:00-16:00	**60 min**	**Closing Remarks and Way Forward**	
		Closing Remarks	Mark Kramer, Co-founder and Managing Director of Foundation Strategy Group, FSG A.K. Pavadia, Joint Secretary, Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, Government of India Shabnam Sinha, Senior Education and Institutional Development Specialist, The World Bank, India

BACKGROUND

India has grown economically but has several challenges in the field of human development. To achieve inclusive growth, India needs to meet the Millennium Development Goals (MDGs), to which it is committed. Challenges in India include: poverty, need for employable skills, health, sanitation, as well as infrastructure development in remote regions. The country ranks 136 in the Human Development Index. While some states have progressed well towards goals like education, malnutrition, financial inclusion and so on others remain far behind. Both the 11th Five Year Plan and 12th Five Year Plan in India have therefore focused on inclusive growth. To meet the various challenges of social development the Government has initiated several programs such as: the Right to Education Act; the elementary education for all and the secondary education program; the national skill development program; and the health and nutrition program. To ensure reach and achievement of goals the Government has initiated public-private partnerships as well as the process of urging corporates to actively get engaged in human and social development as part of the CSR work.

The World Bank in India is working with the Department of Public Enterprises (DPE), Government of India, to evolve CSR policies and guidelines through its knowledge missions and advocacy initiatives. The Department of Public Enterprises works closely with Public Sector Enterprises (PSEs) in CSR and social development goals. Public Sector Enterprises in India have since independence played an important role in social development. The DPE and the World Bank are working to create an institution that will undertake capacity building for CSR in Public Sector Enterprises and to develop a strong communications strategy for the CSR work of Public Sector Enterprises. The DPE is in the process of revising the CSR guidelines that were published in 2010 and the revised guidelines would be informed by the proposed New Companies Bill and ensure that CSR would be integrated throughout the organization and not be led by a single department.

Creating shared value is a concept of management thinking concerning the relationship of business with society. Michael Porter and Mark Kramer first wrote about shared value in their 2006 article “Strategy and Society” and later expanded upon the idea in their 2011 *Harvard Business Review* article, “Creating Shared Value.” Shared value means closely examining economic and social linkages in order to create new economic and social benefit. This differs from the traditional view of CSR as sharing value already created (i.e., redistributing existing value);creating shared value is using business strategies to find solutions to social problems that, if successful, will simultaneously advance a company’s economic interests.

It is important to note that companies cannot create shared value on their own; rather, they must engage in tripartite relationships to successfully implement shared value strategies. Only when companies combine their business acumen to solve a social problem with the innate scale of the government and local social knowledge of NGOs can shared value strategies be truly successful.

OBJECTIVES OF THE WORKSHOP

The World Bank, in partnership with the European Union, Foundation Strategy Group (FSG), and the Department of Public Enterprises, developed and hosted a training workshop to help build the capacity of Public Sector Enterprises to deploy more funds and deploy them in ways that can achieve maximum social impact. This workshop introduced the concepts of strategic CSR and shared value, highlighted the need for such approaches in India, presented global and India-specific best practices, and created a call to action among participants to change the way corporations engage with society.

The six-hour workshop sought to achieve the following objectives:

- Increase awareness of different approaches to high-impact CSR with special focus on shared value
- Learn how best practice companies, both globally and in India, within specific industries are leveraging shared value to achieve large-scale and meaningful social impact through their core business
- Understand the importance of considering the business case when designing CSR programs
- Understand the practical challenges in implementing CSR programs, such as the need for collaboration with Government and civil society

Participants included representatives of Public Sector Enterprises who lead CSR initiatives for their respective organizations. The discussions and presentations of the workshop are included in this report in order to inform policy makers, civil society, as well as Public Sector Enterprises.

INAUGURAL SESSION

The Panel:

- Shabnam Sinha, Senior Education and Institutional Development Specialist, The World Bank, India
- Onno Ruhl, Country Director, The World Bank, India
- Praful Patel, Honorable Minister, Ministry of Heavy Industries and Public Enterprises, Government of India
- O.P. Rawat, Secretary, Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, Government of India
- A.K. Pavadia, Joint Secretary, Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, Government of India
- Mark Kramer, Co-founder and Managing Director of Foundation Strategy Group, FSG
- John Blomquist, Lead Social Protection Specialist, The World Bank, India

Background and Objectives of the Conference:
Shabnam Sinha, Senior Education and Institutional Development Specialist, The World Bank, India

Sinha explained that social development was strategic to the growth of India and that the non-lending technical support being extended by the World Bank to the Department of Public Enterprises would bring international best practices and experiences in CSR and organize international knowledge exchange programs as well as capacity building workshops and seminars. She shared that the World Bank had organized a knowledge mission with the DPE and representatives of Public Sector Enterprises to Norway to study the CSR policies of Norway and the work undertaken in CSR by state-owned enterprises in Norway. She shared that although India was working in human development its Human Development Index (HDI) ranking was 136 while that of Norway was number one. The CSR concerns in Norway were not so much about inclusive growth or alleviation of poverty but on ethics, human rights, and sustainability. In the context of CSR it was important for businesses to leverage their core competencies to bring about social change.

Sinha explained that the workshop on shared value and CSR had been designed as a training and capacity building workshop for the Public Sector Enterprises. The objective of the workshop was to enable the Public Sector Enterprises to develop by the end of the workshop a CSR strategy for companies to adopt. Companies must transition from monolithic entities to forces that shape the societies in which they are anchored. CSR efforts needed to be strategic and influence business plans. The World Bank and the DPE were working together to structure an autonomous body that would undertake advocacy and capacity building for Public Sector Enterprises in CSR and create a communications strategy that will bring to the fore the important human development work undertaken by the Public Sector Enterprises.

Keynote Address: Onno Ruhl, Country Director, The World Bank, India

Onno Ruhl spoke about CSR being an important field and the need for the Government of India to facilitate knowledge sharing and advocacy around CSR among organizations. He said the Government had already taken important steps by initiating processes to mandate CSR through the proposed New Companies Bill. The most striking part of the Companies Bill was that companies would be required to spend 2% of PAT and that he said would be approximately Rupees 3,500 crores or US$700M in the case of the public sector. These funds needed to be used strategically to achieve meaningful impact.

India had immense opportunities to achieve inclusive growth. While farmers in Gujarat were sending children to school and educational parameters were reasonably good, malnourishment in the children was a challenge yet to be addressed. Speaking of companies that were helping meet social challenges, Ruhl illustrated the example of Amul which had changed the lives of dairy farmers significantly and benefitted as a business. Similarly Nestle was working in the field of malnutrition by adopting the shared value concept and seeing a business opportunity in meeting social and human development needs. He stressed the need for companies to evolve in CSR and move from philanthropy to strategic CSR and shared value.

Public enterprises had an important role to play as they were a part of the larger apparatus of the State. A public company was required to create value in its own space and not just be a part of the apparatus of the State and tap into the tremendous opportunity to create shared value. Companies in India like Tata Steel have become global entities and this growth must reflect in social development too.

Inaugural Address: Praful Patel, Honorable Minister, Ministry of Heavy Industries and Public Enterprises, Government of India

Minister Patel shared that CSR was ingrained in India's DNA, in both individuals and companies. Sharing with society and giving back to society was a part of the Indian tradition and ethos. The responsibilities and challenges in India were numerous and yet India had evolved as a society and nation. In India solutions to challenges and problems were taken care of by the Government which also provided the resources. CSR in India was being institutionalized and the Government was in the process of introducing a New Companies Bill that would include aspects of CSR, the spend of 2% of PAT and other guidelines.

The public sector in India he said, had a system where the companies signed a MOU with the Government and the Ministry awarded marks to the Public Sector Enterprises for CSR -- these marks he shared were linked to pay and depended on the CSR goals and achievements of the company. The Government had initiated many such important initiatives for Public Sector Enterprises and the approach was collaborative.

Patel explained that in India, early efforts of philanthropy had focused on establishing schools and building rest houses for travelers. Today CSR in India had evolved and companies were adopting business models and bringing about social change. While India had been working to lift people out of poverty, the challenges were huge as India has one-sixth of the world's population. In India, resource companies that work in remote areas were required to include the needs of the people into their business approach and community and environment were to be taken care of.

In India, Patel explained, there were 600 districts and companies could work collaboratively and adopt districts and focus on developmental needs with plans that spanned around five years. This kind of initiative he said would work towards the future -- the India of tomorrow. Quality vocational education would ensure employability and companies needed to develop training programs so that people in rural India are trained and become employable.

He concluded his address by saying that CSR must be sustainable and have tangible results for CSR to make a difference in India.

Theme Address: CSR for Public Sector Enterprises -- Key Priorities: O.P. Rawat, Secretary, Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, Government of India

Rawat shared that the DPE was in the process of reviewing the systems that were being used for monitoring the performance of public sector companies, including CSR. The department was also formulating new CSR guidelines for Public Sector Enterprises. Presently, in the context of the DPE, CSR was defined as a business system that enabled the production and distribution of wealth for the betterment of all stakeholders through the implementation and integration of ethical systems and sustainable management practices. The DPE was studying CSR policies and implementation world over and was studying the concepts of creating shared value as well. With the New Companies Bill being introduced in India and CSR being mandated, Public Sector Enterprises were required to evolve their CSR strategies and reporting procedures. India needed to set up systems that would ensure inclusive growth and development so that the disadvantaged sections of society could also join the mainstream.

CSR and Public Sector Enterprises, The Journey So Far: A.K. Pavadia, Joint Secretary, Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, Government of India

Pavadia, shared that the workshop would enable participants to focus on the road ahead for CSR and that CSR in India was a part of the nation's ethos. Post-independence, the public sector in India had focused on social good and this was more important for the companies than making profit. Visionaries in the public sector were guided by business social responsiveness and leaders of the corporate houses were guided by corporate social compulsions. This was because it was essential for the business to survive in areas where the terrain was hostile – for example, mining and extractive industries.

India as a country he shared, was influenced by worldwide movements on CSR – sustainable development, governance, triple bottom line, blended value, shared value. These trends were reflected in the policies for CSR and the CSR guidelines for India. In 2010, the DPE had issued CSR guidelines for Public Sector Enterprises and these guidelines were now being revised. The guidelines were comprehensive and detailed and included the planning activities, implementation, monitoring, evaluation, and more. The guidelines also included aspects of documentation, reporting, audit, and transparency. All PSEs, he said, were required to publish all details pertaining to CSR projects.

CSR in the case of Public Sector Enterprises was not philanthropy and was linked to sustainable development. CSR activities undertaken by PSEs needed to be aligned with the business goals and strategies. CSR in PSEs was required to be integral to the whole organization at every stage of processes and not exclusive to CSR teams. In the case of PSEs, the emphasis was required to be on social concerns first, followed by business outcomes. Pavadia shared that the definition of CSR needed to include social concerns of the nation, not just that of stakeholders impacted by the business activities.

CSR and Creating Shared Value, Defining CSR: Mark Kramer, Co-founder and Managing Director of Foundation Strategy Group, FSG

Kramer explained that the concept of shared value had been adopted all over the world. Shared value he said represented a different approach to the relationship between business and society where companies were making profits by solving social problems across industries and geographies.

It was the synergy in innovation that was integral to businesses and their ability to operate in a large scale and sustainable manner that made business ideal for pursuing opportunities to solve social problems. This propelled growth in business and was the future of business.

Kramer emphasized that businesses alone would not be able to bring about change; it was tripartite solutions that would do the needful. Solutions to social challenges he said could not be rooted in philanthropy, it needed business models that leveraged the skills and expertise of the business.

The greatest potential for world leadership in shared value was in India. The social challenges in India were many and solutions required both innovation and entrepreneurial energy. Shared value could be leveraged by Indian businesses to solve social problems at scale.

Vote of Thanks: John Blomquist, Lead Social Protection Specialist, The World Bank, India

John Blomquist of the World Bank closed the morning session with a Vote of Thanks.

INTRODUCTION TO CSR AND SHARED VALUE

The Panel:

- Shabnam Sinha, Senior Education and Institutional Development Specialist, The World Bank, India
- A.K. Pavadia, Joint Secretary, Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, Government of India
- Mark Kramer, Co-founder and Managing Director of Foundation Strategy Group, FSG

State of CSR in India, Including Typical Activities of Companies in the Country and the Legislative Requirements of the Companies Bill: Shabnam Sinha, Senior Education and Institutional Development Specialist, The World Bank, India

Sinha presented to the Public Sector Enterprises relevant portions of the upcoming New Companies Bill. She explained that Clause 135 was very important and that with the revisions the companies would potentially be mandated to spend 2% PAT on CSR; the word "endeavor" had been removed from the Clause 135. Every company was required to appoint an independent director to the board and this director would as an individual be responsible for CSR strategy and implementation. All eligible companies were required to prepare a detailed CSR plan with the requisite budgets and present the plan to the company board for approval. The board resolution would need to be included when the company files its report. Each company she shared was required to appoint a three member committee of Board Directors so that all decisions in CSR were made in a collaborative manner.

The New Companies Bill detailed areas in which CSR could be undertaken: eradication of extreme hunger and poverty; promotion of education; promotion of gender equality; empowerment of women, reduction of child mortality, improvements in maternal health; combating HIV, immune deficiency syndrome, and malaria. All CSR projects would need to be measurable in rupee terms and require third party monitoring. Details of all CSR activities would need to be published by the companies online on their respective websites.

Indian Context for CSR: A.K. Pavadia, Joint Secretary, Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, Government of India

Pavadia said that while companies that made a profit were with the New Companies Bill mandated to spend on CSR, PSEs that were making a loss could still contribute to CSR projects through management support and expertise. CSR he explained, needed to be a commitment that came from within.

He shared the example of Norway, which has four pillars of CSR: human rights, protection of environment and climate, rights of employees and working conditions, and corruption and transparency. In India he said aspects of ethics, staff welfare, and dignity of labor and so on were defined in the guidelines and that there were mechanisms in place for PSEs. India was a country with deep social and economic cleavages and disparities it therefore needed a different approach to CSR than Norway. The revised DPE guidelines would be in consonance with the New Companies Bill and, the guidelines would facilitate CSR in PSEs and all efforts would be made to integrate CSR into the entire organizational structure of PSEs.

Introduction to Shared Value: Mark Kramer, Co-founder and Managing Director of Foundation Strategy Group, FSG

Kramer shared that it is unique that India is mandating CSR spend and that the companies could decide whether 2% PAT became a tax or an investment. There were many companies that do good things irrelevant to business and had no tangible gain to the business and there were others who do good while reaping business profits and created shared value. FSG had consulted with Godrej who were facing an acute shortage of people who could repair their appliances. To overcome the problem, Godrej decided that they would train a million people to repair their appliances and create clusters that benefit the company as well as the people. Another example was that of CISCO which found that there were no trained IT experts to maintain their systems. CISCO instead of writing a cheque for CSR, decided to set up CISCO networking academies to train systems' managers. CISCO worked with NGOs, universities, and governments and created 10,000 academies and graduated four million people who now earn more money than they did before they took the course. This initiative benefitted all technology companies and IT companies as the two year training was comprehensive and went beyond what CISCO required. Kramer pointed out that these were the kind of investments that CSR money should be used for; initiatives that are large scale and sustainable. These are examples of CSR that are an investment and not a tax.

Kramer shared that Michael Porter and he had come up with the concept of shared value and started Foundation Strategy Group, FSG twelve years ago. FSG specialized in strategy, evaluation and research and partnered with foundations, corporations, non-profits and governments to develop effective solutions to the world's most challenging issues. He explained that working with companies around the world has sharpened FSGs' thinking -- that environmental and social issues were very relevant to business. He said that to meet social challenges there was a need for philanthropy and shared value and that, just one or the other would not work.

With evolving concepts in CSR, Kramer explained companies thought beyond philanthropy; they considered aspects of risk mitigation, worker safety, ethics and more. While corporate philanthropy was about giving back and risk mitigation helped companies minimize harm done to society, it was shared value that enabled solving of social problems through application of a business approach. Shared value he explained was an efficient way to create large-scale social change with the businesses making profits from the initiatives. The overlap between social needs and business needs was the core of the shared value premise. Kramer shared that according to Porter shared value is the biggest shift in corporate strategy thinking.

He presented the example of Wal Mart a world leader in low cost sales. Until a few years ago, Wal Mart was not energy efficient; they took action and their carbon foot print was reduced by re-routing trucks, recycling packaging, and using roofs for generating solar energy. Wal Mart had not thought of the social and environmental concerns of their business at first; the company took steps and adopted strategies to reduce their carbon foot print and reaped profits. Shared value is Kramer explained a win-win situation wherein lives are improved through business strategies and not through charity.

Kramer explained that capitalism could solve problems and work with society and not against it. FSG he said was working with cocoa farmers in Cote d'Ivoire to increase their income by 10-15%. What FSG discovered were problems that affected productivity: old government tax policies, old plant stock that was not productive, no understanding of farming techniques, no roads for markets, and no co-ops and technology. FSG solved the challenge by putting together a coalition of companies like Mars and Nestle and worked with the government to reduce taxes, FSG provided new cocoa tree stock and increased productivity through better farming techniques. The benefits of the intervention were reaped by both farmers as well as the coalition. Cocoa companies first thought of the project as philanthropy; it was later that they understood the economic approach and realized benefits of a billion dollar enterprise, this realization increased investments and interaction.

GE was working in social change through Healthy Imagination and Eco Imagination. They created products that saved energy and brought affordable health care to rural areas. GE spent around 10 million dollars in research and reaped a return that was ten times the investment. Their future, GE has realized is in solving social problems in water, health, and environment.

India, Kramer explained should link CSR to the MDGs and that corporates need to treat social challenges as business opportunities. Areas for intervention included: skill development, health, financial inclusion, climate change, and agriculture. There were companies in India that were already addressing many of these challenges -- L&T trained 5000 construction workers and gave them a card stating their training. Now the migrant workers can find employment anywhere in the country. L&T fulfilled the need of both society and themselves as they require trained construction workers for many of their projects. Similarly, GE –Health Imagination produced an infant warmer for rural India that cost less than USD 200. Research showed that in India people ate 4-6 biscuits everyday; Britannia worked in partnership with the Global Alliance for Food and Nutrition, the Government of Andhra Pradesh and Nandi Foundation to combat anemia in children. Britannia fortified biscuits with iron and these were given to children during the mid-day meal. They found that the children became healthier and bigger and Britannia has now rolled out sales of these biscuits nationally and are generating profits.

Kramer also shared the case of farmers with small plots of land who often suffered from weather related crop failure. ICICI provided insurance to these farmers; they wrote weather based crop insurance for these farmers who could insure through a cell phone. ICICI saw a business opportunity and is making profit through this social initiative. Vaatsalya is a small startup firm that helped reach health care to remote areas. The company just invested Rupees one crore per clinic and recovered their costs in 6-10 months. This successful initiative, Kramer shared, had attracted a 10 million dollar venture capital. Novartis reached rural India through Arogya Parivar, a distribution system and health care system that addressed a bottom of pyramid challenge. The project provided basic health care education and trained health care providers and reached a population of 42 million customers and created health care clusters in rural India.

Kramer explained that shared value worked in three ways: by reconceiving products and markets; by redefining productivity in value chain; and by enabling local cluster development. Plans for CSR, he stated, must solve problems and not just spend money. Power companies should innovate to provide power to remote areas: provide solar energy or generate energy from resources like rice husk. Power companies must generate energy created off the grid and consider providing finance for energy retrofit –saves energy and money and reduces carbon emissions.

He urged companies to think beyond traditional CSR and create value – shared value; Nestle, he explained, worked on malnutrition in Africa. Nestle created Maggi cubes that supplied required micronutrients needed to combat malnutrition. Nestle sold over 100 million Maggi cubes a day and made money on it. Large organizations like Nestle, he explained, had resources that the government did not have.

There are many examples of business innovation creating shared value in India and abroad. Outstanding business models of shared value address fundamental needs and reap profits. The investments in meeting social goals enable the business themselves to thrive and grow. Inclusive growth needs cannot be met by normal business models. Businesses need to use business strategy and CSR to solve social challenges and meet inclusive growth—train workers, strengthen clusters, save costs and improve energy efficiencies.


Workshop on
Creating Shared Value through
Corporate Social Responsibility in India
EUROPEAN UNION
SHABNAM SINHA
A.K. PAVADIA
PARK


A.K. PAVADIA
MARK KRAMER


ONNO RUHL


O.P. RAWAT


SHABNAM SINHA


EUROPEAN UNION
Workshop on
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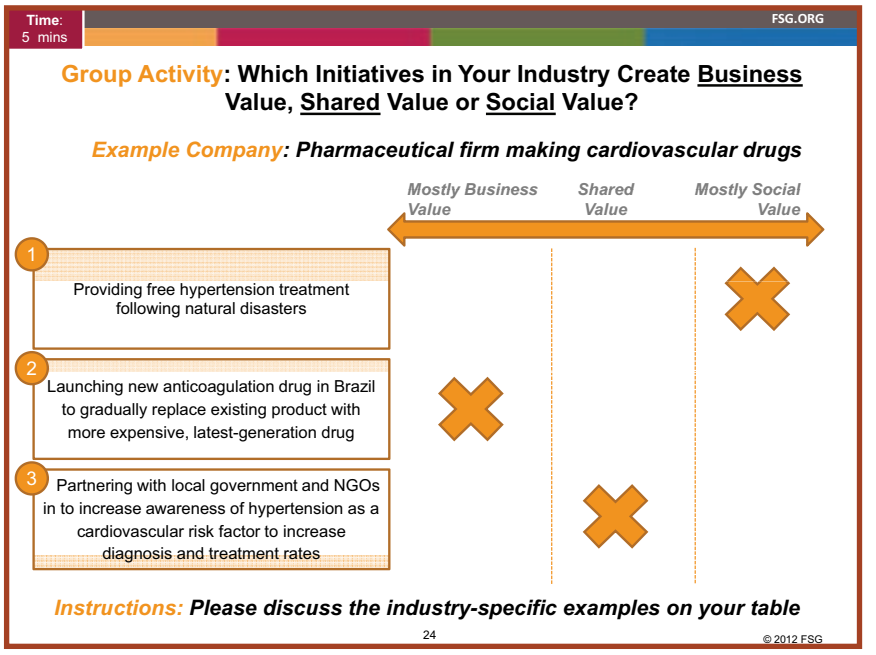
porate Social Responsibility in India
O.P. RAWAT
PRAFUL PATEL
ONNO RUHL

STRATEGY EVOLVING SESSION

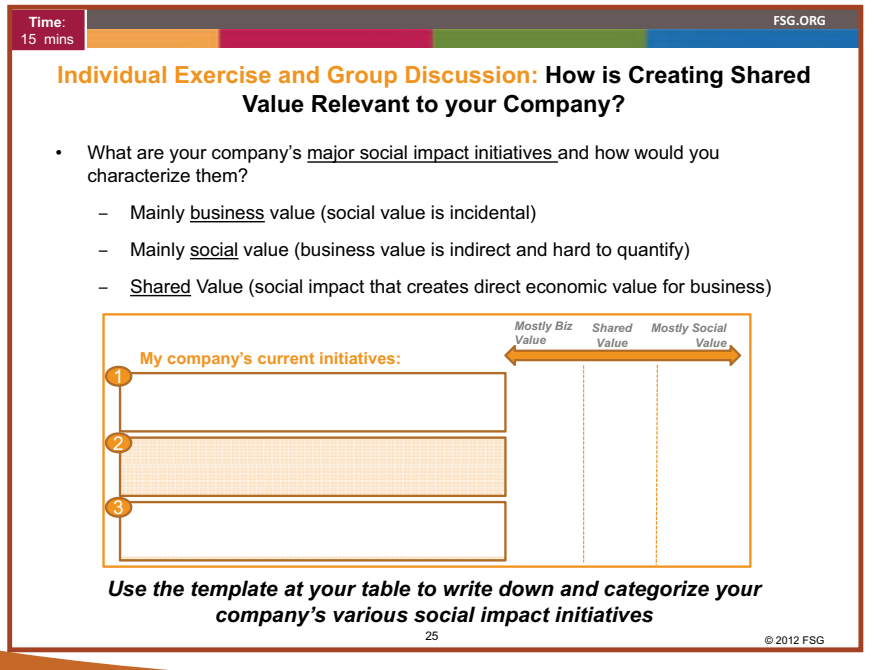
For the strategy evolving session the participants were grouped according to their specific industry:

- International development agencies / NGOs
- Extractives
- Financial services
- Infrastructure
- IT / Telecom

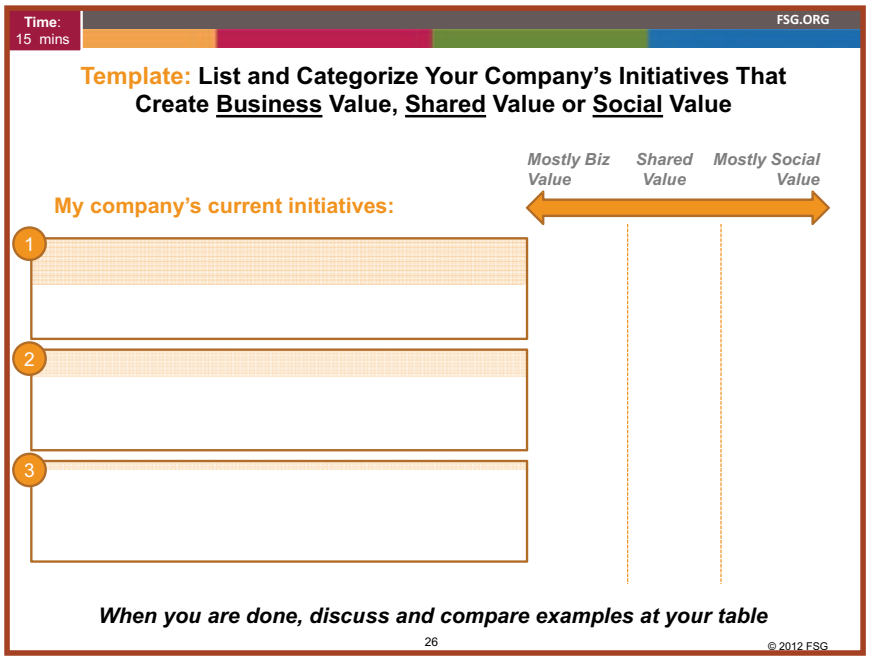
The session started with groups reviewing a template of examples of ways that companies engage with society, ranging from activities for pure social value, to pure business value – shared value was in between. Groups discussed and classified these activities.



Next, individuals listed out the current social initiatives at their company, classifying each as social value, business value, or shared value. Participants shared these various activities among their tables.



Finally, each group was asked to create a shared value idea and "pitch" it to the entire group. This idea needed to highlight (1) the social need addressed (2) the business opportunity and (3) the innovation used to implement the strategy.



Some of the ideas pitched included the following:

Extractives Sector

- Social problem: Often, the communities where oil and gas companies work face high unemployment, left wing extremism, and lack of healthcare
- Business opportunity: Training people will ensure a ready supply of labor, a license to operate, and improve brand equity.
- Innovation: Companies can set up high-quality training centers. They can also start to build the community from the land acquisition stage – so that the community is aware that the company is working on social development.

Mining and Power Sector (note: training idea also came up for Tourism Sector)

- Social problem: There is high unemployment and little opportunity for increased income in areas where companies operate
- Business opportunity: Generation of skilled labor through training local communities.
- Innovation: Companies can set up high-quality training centers.

Import/Export Sector

- Social problem: Artisans need to have more empowerment – to know that their trade is still respected and needed, despite the development of new disruptive technologies. They also need to continue to improve their skills while preserving historical trades and skills.
- Business opportunity: Generate a market for art objects.
- Innovation: Find ways to market the products and work with artisans to hone their skills.

Oil and Gas Sector

- Social problem: Large sections of India still do not have access to power and, in India sources of electricity (fossil fuels) are quickly being depleted.
- Business opportunity: By shifting to alternative and innovative sources of energy, oil and gas companies can generate new sources of revenue.
- Innovation: Find ways to deliver this alternate energy to the rural areas.

Aviation Sector

- Social problem: Air travel contributes heavily to carbon emissions
- Business opportunity: Fuel contributes to more than 40% of an airline's budget. Without finding ways to reduce this cost, this quickly becomes a barrier to growth.
- Innovation: Find ways through innovative R&D to reduce carbon emissions and fuel use – for example, new flight patterns and navigation systems. With these streamlined processes, some carbon emissions could be reduced. However, there also needs to be investments to find alternative fuel. Finally, one way, airlines can also foster social inclusion is to start flight routes to backward, disconnected areas such as Northeast India. If we can develop that as a business model, it will begin to make money over time (but losses at first).

CLOSING REMARKS AND WAY FORWARD

Shabnam Sinha, Mark Kramer, and Ashok Pavadia all took the stand once more to share closing comments, answer questions, and form next steps.

Kramer shared that he was impressed by the level of understanding the PSEs had as regard CSR. The key in creating shared value is the linkage between business and social benefits. Companies can with vision, leverage social needs to create business opportunities. It is important to develop a key performance indicator for social and economic goals and have a system of measuring performance and a reporting and tracking system.

Tripartite partnerships of government, corporates and civil society are optimal, but need trust and a shared agenda. In social development, the need is for both philanthropy and shared value. Participants need to take forward the learning and apply them within their organizations.

FSG is creating a platform to facilitate sharing of knowledge and experiences in CSR. The aim is to create a library of case studies worldwide so that companies can learn from one another. Shared value needs to be a discipline and practice. The social dimension needs to be woven through the workings of the organization and the thinking needs to evolve to see business opportunities in social challenges .

Pavadia shared that in order for companies to adopt shared value it was important for board members and CEOs to understand the concepts and potential that shared value offered and that, knowledge of concepts and experience as well as best practices could be shared online. The revised DPE guidelines for CSR would include he said, shared value concepts and an initiative would be made for all public sector CEOs to create a vision for CSR which could be then shared with the Government. The DPE would act as a nodal agency and work towards shaping and evolving CSR frameworks, policies, and interventions and work closely with Public Sector Enterprises in social development.

Pavadia explained that CSR was the responsibility of the whole organization and not just one person or department. The mindset needed to be changed as also CSR vision and strategies. CSR is a part of corporate governance and care needs to be taken on aspects like ethics while adopting shared value concepts. The model should be sustainable and

measurable in terms of corporate responsibility and governance. Organizations must understand needs of society as well as its own organizational capacities. CSR work should be both measurable and scalable and meet social challenges that the country is working towards.

Sinha shared that the World Bank would initiate broader dissemination of the concepts of shared value and that CSR guidelines for Public Sector Enterprises should include the concepts and potential of shared value in meeting social challenges. The DPE would be the nodal agency for Public Sector Enterprises and the World Bank and DPE would work on advocacy and knowledge missions to explore partnerships in social development such as that undertaken in Brazil by Ethos for education. She shared that Gordon Brown has suggested that the World Bank's Global Partnership for Education be converted into an independent Global Fund for Education (GFE) to serve as a focal point for ensuring primary education by 2015.

Way Forward

Deepen and Document Knowledge

1. Conduct targeted workshops to increase awareness of shared value in the Indian context:
   a. CEO vision / strategy workshop that takes top CEOs in both public and private sectors away on a "retreat" for a day where they will discuss shared value with their peers and make a commitment as to how their company can contribute to shared value.
   b. CSR / functional manager workshop to discuss the overall concept of shared value. As also the role shared value implementers will play.

2. Update the CSR guidelines to reflect shared value's position among philanthropy and strategic CSR:
   a. Highlight shared value as a problem solving approach which goes beyond a spending target.
   b. Change the language from a "pushed" mandate to a "pulled" strategy to solve social problems at scale and sustainably.
   c. Shift the understanding of CSR as purely for creating social value to a shared value opportunity.

Create Tool Kits

1. Create shared value implementation guidance, which would include:
   a. How to interpret the guidelines.
   b. How to implement shared value (e.g., diagnostic tools and partnership guides).
   c. How to measure the impact of shared value.
2. Create a collection of case studies across the DPE and private sector to highlight shared value best practices.

Build Communities of Practice

1. Ensure ongoing learning among key stakeholders, with targeted workshops for developing a strategy, implementing a strategy, and measuring the impact.
2. Encourage multi-stakeholder collaboration, especially in the area of Public-Private Partnerships, PPPs.
3. Develop a training and certification program for CSR professionals and others involved in shared value initiatives.
4. Create and launch an academic network that can help to educate the next generation of Indian leaders on the importance of shared value.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Measuring Shared Value: How to Unlock Value by Linking Social and Business Results

Measuring Shared Value
How to Unlock Value by Linking Social and Business Results

Michael E. Porter, Greg Hills, Marc Pfitzer, Sonja Patscheke, and Elizabeth Hawkins

ABOUT THIS REPORT

The genesis of this article occurred at the FSG-hosted Shared Value Summit in Cambridge, Massachusetts in June 2011 where sixty company representatives and co-authors of the *Harvard Business Review* article "Creating Shared Value," Michael E. Porter and Mark Kramer, identified measurement as a key driver of shared value adoption. Nestlé, Intel, InterContinental Hotels Group, and the Rockefeller Foundation committed to work with and support FSG in developing this article on measuring shared value. Insights were drawn from a systematic literature review, in-depth interviews with featured companies, and FSG's work on shared value with dozens of corporations.

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Measuring Shared Value

How to Unlock Value by Linking Social and Business Results

More and more, companies are creating shared value by developing profitable business strategies that deliver tangible social benefits. This thinking is creating major new opportunities for profit and competitive advantage at the same time as it benefits society by unleashing the power of business to help solve fundamental global problems. Despite the widespread embrace of the shared value concept, however, the tools to put this concept into practice are still in their infancy. In particular, a new framework for measurement that focuses on the interaction between business and social results is among the most important tools to drive shared value in practice.

Even the companies that are most advanced in pursuing shared value today lack the data they need to optimize its results. Companies cannot know the extent to which they are creating shared value if they do not measure their progress on social objectives and, importantly, the degree to which social performance improves economic value for the business. When companies do not understand or rigorously track the interdependency between social and business results, they miss important opportunities for innovation, growth, and social impact at scale.

Companies today track and report myriad financial, social, and environmental metrics, drawing in part on efforts by the social sector to develop more sophisticated methods for evaluating social impact. There is also a nascent integrated reporting movement that aims to add sustainability measures to financial statements. Still missing, however, is a framework to link social progress directly to business success, and vice versa. Efforts to understand the link between business performance and social value creation are just beginning.

When companies do not understand or rigorously track the interdependency between social and business results, they miss important opportunities for innovation, growth, and sustainable social impact at scale

Measurement approaches that link social and business results are vital to unlocking shared value for companies and scalable solutions to social problems. Effectively measuring shared value starts with a well-developed shared value strategy. To develop such a strategy, companies must identify key social issues to focus on, plan the relevant business activities involved, and model anticipated business and social benefits relative to projected costs. Shared value measurement, in turn, assesses progress and results, generating actionable data and insights to refine shared value strategies.

Data and insights from measuring shared value enable companies to scale shared value initiatives while also providing an indispensable basis for effective communication with the investment community. By illuminating the direct connection between tackling social issues and achieving economic value creation, shared value measurement will diminish investor skepticism and ultimately transform how the investment community rewards companies that create shared value. In other words, measurement makes shared value strategies tangible for investors.

In preparing this report, we examined emerging measurement practices in more than a dozen leading companies that are pursuing shared value strategies. The process included in-depth research at Nestlé, Intel, and InterContinental Hotels Group (IHG). Each of these organizations opened its doors and provided information on existing systems and approaches to inform this work. Our research revealed that shared value measurement is distinct from other existing measurement approaches, is practical and achievable, and powerfully informs improvement and innovation in shared value strategies.

Anchoring Shared Value Measurement in Strategy

Companies Pursue Shared Value at Three Levels

Much like any business strategy, shared value strategies are unique and tailored to an individual company. As the *Harvard Business Review* article "Creating Shared Value" explains, companies can pursue shared value opportunities on three levels: reconceiving products and markets, redefining productivity in the value chain, and enabling cluster development. The shared value opportunities at each level will differ by industry, company, and geography, depending on how a company's particular business and strategy intersect with social issues.

Creating shared value from **reconceiving products and markets** focuses on revenue growth, market share, and profitability that arise from the environmental, social, or economic development benefits delivered by a company's products and services.

Creating shared value from **redefining productivity in the value chain** focuses on improvements in internal operations that improve cost, input access, quality, and productivity achieved through environmental improvements, better resource utilization, investment in employees, supplier capability, and other areas.

Creating shared value from **enabling local cluster development** derives from improving the external environment for the company through community investments and strengthening local suppliers, local institutions, and local infrastructure in ways that also enhance business productivity.

Measuring shared value aims to track the progress and results of tailored shared value strategies. For each shared value opportunity, companies identify and track both social and business results; their parallel goals are to address a social problem and improve business performance (see Table 1).

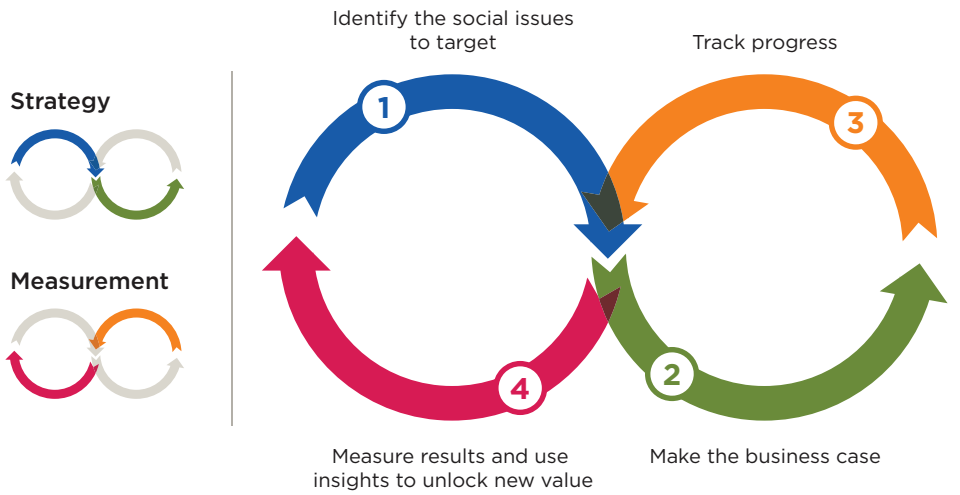
TABLE 1:

Illustrative Business and Social Results by Level of Shared Value

LEVELS OF SHARED VALUE	BUSINESS RESULTS	SOCIAL RESULTS
Reconceiving product and markets: How targeting unmet needs drives incremental revenue and profits	• Increased revenue • Increased market share • Increased market growth • Improved profitability	• Improved patient care • Reduced carbon footprint • Improved nutrition • Improved education
Redefining productivity in the value chain: How better management of internal operations increases productivity and reduces risks	• Improved productivity • Reduced logistical and operating costs • Secured supply • Improved quality • Improved profitability	• Reduced energy use • Reduced water use • Reduced raw materials • Improved job skills • Improved employee incomes
Enabling cluster development: How changing societal conditions outside the company unleashes new growth and productivity gains	• Reduced costs • Secured supply • Improved distribution infrastructure • Improved workforce access • Improved profitability	• Improved education • Increased job creation • Improved health • Improved incomes

FIGURE 1:

Integrating Shared Value Strategy and Measurement



The Shared Value Measurement Process

Shared value measurement requires an iterative process that is integrated with business strategy, not a one-time or periodic effort separate from measuring business performance. An integrated shared value strategy and measurement process includes four steps (see Figure 1). Strategic priorities inform the focus and extent of shared value measurement; the data and insights from shared value measurement inform refinement of the shared value strategy. This ongoing feedback loop is one of shared value measurement's central benefits—providing a roadmap for understanding and unlocking further shared value creation.

Step 1: Identify the social issues to target. The starting point for shared value is identifying and prioritizing specific social issues that represent opportunities to increase revenue or reduce costs. This requires a systematic screening of unmet social needs and gaps and an analysis of how they overlap with the business across the three levels of shared value. The result of this step is a list of prioritized social issues that a shared value strategy can target.

Step 2: Make the business case. After identifying potential social impact at one or more of the three levels, the next step is to develop a solid business case based on research and analysis of how social improvement will directly improve business performance. This step includes identifying the targets and specifying the activities and costs involved for each shared value opportunity, modeling the potential business and social results relative to the costs (i.e., value creation potential), and making a go/no-go decision.

Step 3: Track progress. Using the business case as a roadmap, companies then track progress against the desired targets, as with any performance improvement process. This step includes tracking inputs and business activities, outputs, and financial performance (revenues and costs) relative to projections.

Step 4: Measure results and use insights to unlock new value. The final step focuses on validating the anticipated link between social and business results and determining whether the outlay of corporate resources and efforts produced a good joint return. Insights and lessons from this analysis will inform opportunities to unlock

further value creation through refining the shared value strategy and execution.

While some companies track progress on social and business results separately, few companies yet understand how the linkage of social and business results can create new opportunities for value creation. Unlocking shared value through measurement requires understanding the social results from business investments and analyzing and improving the business result from social outcomes. For example, if a company's community jobs skills program results in simultaneous job creation and expansion of its market, it should ask how it could expand those strong program elements to further benefit the company and other communities. If a pharmaceutical company's training of health professionals yields inconsistent health worker capacity across locations, and thus inconsistent drug sales, it should ask what changes it needs to make to optimize health outcomes and business results. If a company works successfully to improve a farmer's yield and therefore increases the company's raw material supply, it should consider ways to transfer that successful approach to other farmers in the same crop or in other crops.

Unlocking New Value from Measurement

While shared value measurement is still in its infancy, leading companies are employing each of these four steps to unlock new value from measurement. They are also piloting a range of shared value measurement approaches.

Coca-Cola and Youth Employment

Coca-Cola's Coletivo initiative in Brazil creates shared value by increasing the employability of low income youth while strengthening the company's retail distribution channels and brand strength to increase local product sales. Coca-Cola has integrated shared value strategy and measurement steps and uses data and insights to unlock new value creation.

1. Identify the social issues to target

In 2008, after six months of studying the needs of Brazil's growing lower middle class population, Coca-Cola identified skills development among low-income youth as a core social issue for strategic focus. While the Brazilian government was rather successful at providing primary education for all kids, most young people at low income levels had little or no opportunity to find jobs due to their lack of relevant skills and limited employment opportunities in their communities.

2. Make the business case

To improve the skills and employability of these young people, Coca-Cola sought to use the company's value chain. The Coletivo initiative, in partnership with local NGOs, trains local youth for two months in retailing, business development, and entrepreneurship while also pairing youth with a local retailer to get their first job experience and recommend ideas for improvement. Coca-Cola hypothesized that the small retailers could significantly improve their operations with trainee assistance, resulting in increased sales of Coca-Cola products and higher penetration of consumers among the emerging lower middle class segment.

3. Track progress

Coletivo supervisors in each community measure and report progress on a monthly basis, tracking

the number of youth participating, the number of retailers involved, and the performance of retailers over time. The company also closely monitors the costs associated with the effort to ensure its cost effectiveness and efficiency. Since launching the initiative in 2009, Coca-Cola has trained thousands of youth in retailing, business operations, and basic entrepreneurship concepts. The company now operates 135 Coletivos across Brazil, each with an average of 500 students, and plans to be running 170 by the end of 2012. In 2012, the program's budget was several millions of dollars.

4. Measure results and use insights to unlock new value

Coca-Cola measures results using four key indicators: 1) youth job placement; 2) youth self-esteem; 3) company sales; and 4) brand connection.

The Coletivo Initiative has been highly successful so far. Approximately 30 percent of the young people trained immediately land their first job with Coca-Cola or one of its partners, and at least 10 percent set up their own business with microcredit support from the company. From a business perspective, an investment in a Coletivo site is profitable in only two years.

Coca-Cola's rigorous measurement by region, community, and model during the pilot phase allowed the company to identify and focus on the most effective approaches and interventions—ways to unlock new value. For example, in the first year, Coca-Cola focused its training sessions on the technical aspects of retailing, such as merchandising or stock management. Based on measurement data, however, the managers realized that the students faced significant self-esteem challenges that prevented them from finding a job and being effective workers. In response, Coca-Cola revised the content of the training program to put more emphasis on soft skills, including leadership and presence.

Measurement data also revealed that a key success factor was the strength of the local NGO that acted as an implementing partner. The company modified its approach to bolster the NGO partners' management and leadership capabilities, and helped them build sustainable sources of funding. This support led to better retailer performance and a stronger Coca-Cola brand connection across the community, both of which improved product sales.

Novo Nordisk and Diabetes Care

Novo Nordisk, a global healthcare company with 88 years of leadership in diabetes care, has demonstrated the power of measuring shared value through its long-term growth strategy in the Chinese insulin market.

1. Identify the social issues to target

With China's urbanization, fast-growing economy, and increasing affluence, residents are increasingly prone to chronic disease such as diabetes. In 2010, an estimated 40 million people in China had type-2 diabetes, and that number was projected to double to 80 million over the next 15 years.

As a global leader in insulin medications, Novo Nordisk identified improving the health system and diabetes care in China as a core social issue for its business.

2. Make the business case

Two decades ago, Novo Nordisk initiated a long-term China market growth strategy centered on improving diabetes care. Its shared value strategy was clear: by investing in physician training, patient education, and local production, the company believed it would dramatically improve the diagnosis of diabetes, a disease that was often

unrecognized, and increase the demand for its insulin products. Helping to improve diabetes diagnosis, care, and treatment would not only improve the lives of millions of Chinese citizens but would also improve the company's bottom line.

3. Track progress

Novo Nordisk tracks several key indicators, such as the number of physicians trained and patients educated. To date, Novo Nordisk's programs have facilitated more than 220,000 physician training sessions for more than 55,000 physicians who treat, on average, 230 patients annually. Since 2008, Novo Nordisk's Changing Diabetes® World Tour has visited more than 100 cities in China and attracted over 60,000 patients for diabetes screening and free education sessions.

4. Measure results and use insights to unlock new value

Over the last decade, Novo Nordisk's "Blueprint for China" shared value strategy has resulted in an estimated 80 percent improvement in total patient life years[1] because of improved products and services, while increasing the company's market share from below 40% to 63% in the second largest insulin market in the world. Surveys indicate significantly increased diabetes control rates, which reduce overall health system costs. At the same time overall insulin sales increased, providing direct business benefits to Novo Nordisk.

Through robust measurement, Novo Nordisk has also identified ways to unlock additional shared value by refining its physician training approach. Analysis revealed that training physicians in smaller cities is more effective in improving patient outcomes than training them in big cities. The company consequently rechanneled a greater portion of its physician training toward second and third tier cities, unlocking incremental shared value.

Measuring by Level of Shared Value: Measurement considerations differ at each level of creating shared value, requiring different approaches to understand how to unlock greater value, as indicated in the following examples.

Reconceiving Products and Markets: Intel

Intel's Education Transformation strategy focuses on improving student outcomes while also increasing sales of classroom technology.

Technology has great potential to improve education results, provided it is integrated in a holistic manner. Yet only five percent of the approximately one billion students worldwide currently have access to a PC or the Internet at school and teachers lack professional development, curricula, and assessment approaches to integrate technology into the classroom.

As one of the leading technology companies in the world, Intel launched the Education Transformation strategy to help close this gap while simultaneously growing business opportunities for the entire global information and communications technology (ICT) ecosystem. Intel supports government efforts to improve the quality of their education systems with a holistic model for education transformation. The model combines advocacy for policy reform and leadership, curriculum standards and assessment, sustained professional development of teachers, ICT deployment, and

[1] Refers to Disability Adjusted Life Years (DALYs), a common measure in the global health field, which represents the sum of the years of potential life lost due to premature mortality and the years of productive life lost due to disability.

support of research and evaluation. The ultimate goal is to improve students' learning and outcomes and the development of twenty-first century skills. The model also offers business opportunities for the entire ICT ecosystem by increasing sales of classroom technology and, in the long term, helping to prepare the future workforce.

"What we found at Intel was just because you have the data, it isn't everything. It's more about how you're using that data and how you're changing your decision making with that data."

Shelly Esque, Intel

To inform this strategy, Intel researchers studied how students and teachers interact to understand how a technology solution could support and optimize the learning experience and outcomes. Together with governments, education institutions, and regional training agencies, Intel teams designed and implemented teacher professional development programs, including the Intel® Teach program, which through mid-2012 had trained more than 13 million teachers worldwide. Intel also engaged national governments and educators to develop tailored solutions, such as the Intel®-powered classmate PC and the broader Intel® Learning Series family of products, including infrastructure, software, content, and services such as training and support in addition to hardware. These innovations were designed to meet the country's education needs, to support the growth of the local ecosystem, and to grow Intel's own business.

Insights from measuring technology effectiveness in the classroom are informing Intel's product and program improvements, resulting in better learning and increased business.

For Intel, shared value measurement is an essential component of its product/solutions development and sales process. A key to business success is to understand "what works" for students and teachers and to incorporate that knowledge into product design and deployment. Intel tracks product performance on characteristics important to kids' classroom usage, such as ruggedness, water resistance, and battery life, as well as levels of teacher engagement and student performance.

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.

For instance, teachers in Pirai, Brazil, using the Intel®-powered classmate PC, scored above the national average for quality of lesson plans and delivery of materials for the three years measured after implementation of the pilot. In Portugal, where a national project was launched in 2007 to provide every primary school student with a classmate PC for home and school, PISA (Program for International Student Assessment) scores rose by approximately 20 points in all three subjects tested (reading, science, and math) between 2006 and 2009.

Linking educational outcomes to the effective application of technology and other elements of the education transformation model can help school systems understand the importance of the integration of ICT in education. This can lead to further adoption of new technology in the classroom, thus driving Intel's business. The strong focus on continuous product improvement based on the insights from measurement has also led the company to achieve market leadership in the growing global education technology market with an increased market share.

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Redefining Productivity in the Value Chain: InterContinental Hotels Group

InterContinental Hotels Group tested dozens of options for reducing energy, water, and waste to lower its environmental footprint while also driving down hotel operating costs.

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. IHG also identified water and waste as environmental and social issues with significant shared value potential. Green Engage started in 2009 by testing dozens of options for reducing energy use, water consumption, and waste disposal in pilot hotels. These included new cooling/warming systems, solar panels, and automatic computer shutdown applications. The objective was to provide a detailed ranking of all possible shared value opportunities in terms of returns to IHG as well as its franchises. Areas with high environmental impact and return were clearly distinguishable from other areas popular with the general public, such as solar energy, which yielded fewer reductions in emissions or economic value.

Insights from measurement drive ongoing improvements.

Shared value measurement has been instrumental in driving Green Engage to achieve resource efficiencies and cost reductions across hundreds of hotels. Through measurement, IHG gained a rich understanding of the relative shared value potential of a wide range of practices. Green Engage was rolled out to more than 1,900 hotels using an online tool that continues to update actual shared value returns based on the ever-growing base of program adopters. The program has helped to create substantial reductions in hotel operating costs, including energy savings of up to 25 percent at individual sites.

"When measurement is done right, you can start to develop theories around how these targets impact your business. Measurement leads to real refinements not only of the things you measure, but even in how you run your business."

David Jerome, IHG

Enabling Cluster Development: Nestlé

Nestlé trains and assists smallholder farmers to foster rural development while ensuring a reliable supply of high quality raw materials.

As the world's largest food and beverage company, Nestlé depends on a reliable supply of good quality raw materials, which in some cases are produced by smallholder farmers in low-income communities. Many decades ago, Nestlé started to implement a rural development strategy, recognizing that farmers earning decent incomes in thriving communities would be able to supply more and better agricultural goods. Nestlé employs over 1,100 agricultural staff and works with an additional 10,600 support staff across the world to train farmers, provide them with better technology, and assist farm communities in local development projects.

Insights and data from shared value measurement have helped identify where and how Nestlé's agronomists should focus their time to optimize farmer yields, quality, and quantity.

Measurement has allowed Nestlé to validate the link between farm improvements and increased supply of milk in India, for example. Since 2008, the company has invested in the development of

a new milk district in Rajasthan to satisfy the increasing demand for milk. This initiative builds on the company's long history of helping Indian dairy farmers increase the productivity of their cattle, starting with the establishment of the first milk district in Moga in 1961 and later in the state of Haryana. Today, Nestlé assures purchase at declared prices to more than 110,000 farmers—many of whom depend on milk production for their living—and supports their development through the establishment of collection and chilling centers, free agricultural advice, veterinary services, and other essential infrastructure.

"Improving farmers' lives is only possible when measuring progress at a farm and rural community level."

Janet Voûte, Nestlé

To date, Nestlé has worked directly with more than 8,000 farmers in Rajasthan. The company's rural officers monitor progress through regular farm visits and they track specific indicators such as herd size and cattle health. Nestlé also measures the increased volume of milk it sources, which in this region has grown 13 percent per year since 2008.

As Nestlé's agronomists gain a deeper understanding of the performance of individual farmers, they are able to better allocate their efforts to those farmers who have the most improvement potential and can therefore increase the shared value created.

Existing Social Impact Measurement Approaches Serve Different Purposes

With a plethora of sophisticated sustainability reporting and impact measurement techniques, how is shared value measurement different? In what ways does shared value measurement overlap with or complement existing practices?

Companies face challenges from the proliferation of externally specified measures, yet they do not have full clarity about the purpose they serve or how they relate to each other. Many companies have begun to measure their social and environmental performance without regard for the business benefits and continue to measure their financial results without regard for social impact. Shared value measurement builds upon these existing measurement systems and approaches but focuses on the *intersection* of business and social value creation.

Existing social performance measurement practices cover sustainability, social and economic development impact, reputation, and compliance. All these practices address important management questions, but their aim is to demonstrate a company's progress in managing its social impact regardless of the value or cost to the business (see Table 2). What companies measure to demonstrate impact can inform—but is distinct from—what they should measure to capture value creation.

Sustainability indicators have proliferated globally. More than 3,500 organizations in more than 60 countries, for example, use the Global Reporting Initiative's (GRI) voluntary sustainability standards to report on their environmental, social, and governance (ESG) performance. Sustainability and related certification standards have met important needs. They have heightened corporations' awareness of their impact on society and triggered

meaningful improvements in social and environmental performance. Their emphasis, however, has been on comprehensiveness (covering all possible impacts) and on demonstrating progress against these issues to stakeholders.

A subset of sustainability measures, such as tracking the reduction of water or energy use, for example, can form the basis for shared value measurement in businesses where these areas are material to the company's financials. Which areas to measure for shared value, however, depend on the industry and the company's strategy and business model.

Impact Assessments are conducted by companies to demonstrate to stakeholders that their operations or philanthropic investments have created positive benefits for communities. Such studies focus on social, environmental, or economic development impacts and changes over time. They are often retrospective or based on complex (and costly) evaluation methodologies such as randomized control trials, and they typically contain little or no connection between the studied impacts and company performance. Impact assessments can contribute to shared value measurement when the demonstration of impact informs a shared value strategy. For example, a detailed study on the health impact of micronutrient products in diets can be used to anticipate the shared value potential of a new product designed to meet micronutrient deficiencies.

Reputation measurement differs fundamentally from shared value measurement. Many companies use perception surveys and reputation metrics to consider how their philanthropic and social responsibility efforts improve their reputation and brand. While brand value does influence business value, such approaches capture the overall perception of a company on multiple dimensions, some of which may be influenced by a company's specific societal engagement activities. However, a range of other factors also influence reputation, such as product quality, marketing, and executive leadership. Attributing an overall reputation rating to any single company action is challenging, so it remains difficult to ascribe a direct linkage between social responsibility efforts and business value accrued from reputation enhancements. Shared value measurement, in contrast, focuses on measuring how social outcomes directly drive tangible business value creation.

The positive perception of a successful shared value strategy can amplify the overall business value created. In the case of Coca-Cola's Coletivo program in Brazil, for example, engaging trainers and trainees in improving the performance of retailers directly affects Coca-Cola sales. In addition, however, Coca-Cola's brand perception and consumer engagement improves markedly in the Coletivo communities, contributing to sales increases. Similarly, in IHG's Green Engage program, the direct business value of the energy cost savings is supplemented by enhanced customer engagement. For example, some corporate customers sign exclusive deals with IHG because of its environmental track record; such business flows directly from the Green Engage shared value program.

Compliance measurements indicate how well companies meet laws, standards, and policies throughout the world, and many companies have well-established systems and externally validated measures to track compliance. The primary purpose of such compliance activities is to maintain a license to operate. Nonetheless, companies rarely seek to quantify the potential business value of avoiding adverse events.

TABLE 2:

Understanding the Purpose of Measurement

MEASUREMENT FOCUS	WHAT TO MEASURE?	WHY MEASURE?	FOR WHOM?
Shared Value	**Joint business and social value creation**	• **Grow the total shared value created**	• **Primarily for management** • **Targeted communication to external stakeholders**
Sustainability	Efficiency in the use of input factors (e.g., natural resources and labor) and improved product and community impacts	• Minimize negative externalities and augment positive impacts • Maintain a license to operate	• Management • Communication to external stakeholders
Impact Assessment	The long term social and economic development impacts of operations and/or philanthropy	• Track progress on social and economic development impact • Maintain a license to operate	• Communication to external stakeholders
Reputation	How societal impacts contribute to company reputation	• Manage reputation	• Primarily for management
Compliance	Compliance with laws and voluntary policies, standards, and codes	• Ensure adoption and compliance • Maintain a license to operate	• Management • Communication to external stakeholders

Shared value measurement should not displace current measurement approaches. Companies will continue to audit their compliance with established laws or voluntary policies, report on the ESG factors that stakeholders expect, conduct impact assessments to demonstrate their positive impact on society, and track perceptions of the company's brand.

While companies are understandably hesitant about adding yet another measurement system, current measurement is insufficient to inform shared value strategies. The current emphasis on comparability across companies, comprehensiveness across issues, and corporate social responsibility will not replace the need for tailored measurement of the connection between business and social value that promises to shift the fundamental connection between business and social progress.

Shared Value Measurement and Investors

Investors remain skeptical about the connection between a company's performance on social issues and the creation of economic value. To date, efforts to prove such linkages have failed to provide conclusive evidence. Results of recent studies offer contradictory findings, and even studies that find a positive correlation face the recurrent challenge of identifying causality. Shared value measurement, however, through directly linking social and business results, provides investors a direct line of sight between achieving social results and business performance.

How does shared value measurement fit into the broader movement to increase investor awareness of the importance of social issues to the bottom line? An international effort toward "integrated reporting," spearheaded by the International Integrated Reporting Committee (IIRC), is currently underway to establish standards for linking a company's social and environmental impact to its financials. In general, recent debate and activity reveal three different approaches to integrating social and business results.

The first approach seeks a correlation between good performance on ESG indicators and company value. Bloomberg, for example, has captured sustainability indicators reported by thousands of companies together with their financials, allowing analysts to explore correlations between these two data sets.

The second approach seeks to monetize the positive or negative social and environmental impacts of companies and to incorporate these impacts into notional company financials. This approach estimates and assigns a monetary value to the social or environmental gains/losses triggered by company activities; that value is then added to or subtracted from actual company financials.

Shared value measurement is a third approach that does not rely on statistical correlations or estimated monetary values of environmental and social outcomes. Instead, the aim is to establish a direct linkage between social outcomes and actual financial results.

Correlating ESG (Environmental, Social, and Governance) Performance to Market Value

Numerous studies have sought, and some have found, a positive correlation between sustainability indicators or ESG performance and overall stock performance. These studies find a correlation between a company's overall sustainability performance across a range of ESG factors and the company's overall financial performance. Yet they cannot specify which social or environmental issues are most important in driving business performance. Unsurprisingly, therefore, investment funds that select companies on the basis of ESG performance still represent less than 10 percent of total global investments.[2] As long as companies fail to link their sustainability activities to core business metrics such as revenue growth, cost reduction, and profitability, they are unlikely to have the full value of their actions recognized by more mainstream investment professionals. Some of the most advanced practitioners seeking ESG correlation, such as Corporate Knights in Canada, have begun to address this weakness. By running thousands of correlations between sustainability indicators and stock performance, they have demonstrated that specific indicators do in fact correlate with stock performance for specific

[2] While precise global data on socially responsible investment (SRI) are not available, this figure represents an assumption based on publicly available estimates for SRI in the United States, Europe, and Canada.

industries. For example, they have statistically demonstrated that in *redefining productivity in the value chain,* specific issues such as carbon and water use do indeed matter most to specific industries and companies.

Monetizing ESG Performance and Creating Notional Financial Statements

Some companies have sought to estimate the cost of externalities and incorporate them into shadow profit and loss statements. Puma, for example, has created an "environmental P&L," which includes a notional cost for its greenhouse gas emissions or water use in its supply chain, thus integrating lost "environmental capital" into its financials. The objective is to encourage more companies to adopt such measures. Eventually, governments could tax these externalities and therefore trigger greater efforts by companies to better manage these costs. While understandable, this approach faces considerable hurdles. It requires assigning a value to environmental and social capital, for which consensus will be hard to achieve. Also, financial officers and investors are not prone to taking fictitious costs seriously. Puma, in fact, continues to publish its conventional financials for investors.

The concept of SROI (social return on investment) has emerged as another way of considering the total value of investing in social or environmental outcomes. By estimating and assigning a financial value to social or environmental outcomes, and then adding that estimated value to actual economic value, SROI creates a "total" economic value. The SROI methodology is problematic for the investor community because it combines notional and actual economic value and hinges on a subjective estimate of the monetary value of social change—one extreme example of such difficulty is the challenge of assigning a monetary value to a human life. In contrast, shared value measurement looks at the actual economic value accrued to the business from improving social outcomes, without making any assumptions about the economic value of the social change.

Shared Value Measurement's Role with Investors

Measuring shared value offers a *direct connection* between social and business results. It focuses on measuring those company activities and investments that drive social change and, through them, business results.

A way forward for integrated reporting should be to recognize the difference between what is measured to demonstrate impact and what is measured to capture value creation. Measuring compliance and progress across a number of important issues as captured by ESG indicators, where companies seek to improve their impacts on society at extra cost as a matter of responsibility, should be clearly distinct from shared value measurement, an approach to capture data and insights on strategies to deliver both social and business outcomes.

DSM, a diversified life sciences and material sciences company that releases an "Integrated Annual Report," clearly makes this distinction in how it reports on its shared value creation from a specific product strategy compared to how it reports progress on key sustainability indicators, GRI results, and compliance. DSM's integrated report includes its financials and links financial and social results where it intended to deliver such shared value; for instance, the same report discloses both the contribution to revenues of its ECO+ products and their impact on the environment. However, the company does not seek to assign a financial value to its progress on sustainability and compliance objectives.

Pragmatic Approaches for Measuring Shared Value

Measuring shared value builds on well-established practices in business that connect strategy to execution and performance management. The need to capture social results and their impact on business results, however, adds new complications and challenges. Companies are finding pragmatic approaches to tackle these challenges. The following six measurement challenges illuminate some ways companies are innovating in their shared value measurement practices. As in any other area, resources committed to measuring shared value must yield a positive return.

Challenge #1: A Wide Range of Social Issues Could Be Addressed and Measured

Identify and measure the few high-priority social results that the shared value strategy seeks to address

Companies can be overwhelmed by the range of potential social impacts of their activities that could be tracked and analyzed. They need to identify and prioritize the set of highest potential social results that they are targeting and resist measuring every possible benefit for every possible social dimension affected by their efforts. For example, Intel has outlined specific goals in the areas of teacher professional development and policy change to guide its Education Transformation strategy, and it links these goals to countries' socio-economic development outcomes. For over a decade, Intel engaged third-party research firms to evaluate the progress of Intel's education programs.

Challenge #2: Measuring Social Outcomes for Large Populations

Determine social outcomes early in the product development process and select measurable outcomes

A long-standing measurement challenge is measuring social outcomes for large populations of people. For example, how does one measure the social impact of a healthier food product that reaches millions of customers? What is the health impact of a new medicine for the population as a whole? Pharmaceutical companies use clinical studies to establish the efficacy and safety of new drugs, and physicians, in turn, expect those outcomes when they prescribe those products to patients. Health outcomes are extrapolated on a larger scale based on evidence of smaller scale impacts.

This same approach of smaller sample testing can be adapted to other social issues. Jain Irrigation Systems, for example, tests each irrigation technology prototype in the field to determine its impact on agricultural yields and water savings, and it only launches the product if the prototype adds value. Once it commercializes the product, Jain continues to collect specific data on the farm-level impact of its products and uses this to continuously improve the product through its R&D process.

In addition, selecting measurable outcomes helps companies assess progress against a shared value strategy when the social benefits accrue to a large number of people. Nestlé's fortified Maggi bouillons and seasonings and NIDO affordable milks are targeted at lower income consumers in Africa, Asia, and Latin America, to improve micronutrient consumption. Nestlé's measurement approach rests on the knowledge that clinical studies demonstrate the efficacy of fortification on health as well as

on mapping consumer micronutrient deficiencies and tracking Nestlé fortification efforts relative to those gaps. In some cases, Nestlé uses targeted studies that track the specific nutritional and health impact of Nestlé fortified foods.

Challenge #3: Business Value Accrues on a Different Timeline Than Social Value

Measure intermediate social outcomes

Effective shared value measurement must address the fact that business results and social results can have different time horizons. Measurement of intermediate outcomes allows early insights into social results to refine the strategy. While Intel can easily measure the short-term outcomes of its programs (such as number of teachers trained or students reached) and the sales of its technology, longer-term social results such as improved student achievement can take years to unfold. Intel has focused on short-term and intermediate social outcomes such as teacher and student engagement to gain insights into the effectiveness of its Education Transformation strategy.

Challenge #4: Measuring Business Value for Cluster Investments

Use proxy indicators to track business results

Changes in external conditions in the communities in which a company operates can be difficult to measure because their impact on business value is indirect and can sometimes be slow to develop. Tracking proxy indicators can help companies assess whether the desired improvements in the cluster are progressing. When Nestlé works with milk producing communities in Rajasthan to ensure a steady flow of quality supply to its factories, for example, tracking the exact business value is difficult. Milk supplies and prices are subject to a multitude of market forces that go beyond a single community, and tracing the value of milk used in different end products is a rough science. Instead, Nestlé tracks the overall volume of milk sourced and milk quality measures as pragmatic proxy indicators for business value.

Challenge #5: Determining a Company's Attribution When Strategies and Activities Require the Efforts of Many Partners

Focus measurement of social results on contribution, not attribution

Measuring shared value should avoid the trap of trying to *attribute* social results solely to company actions; rather, it should focus on how company actions *contribute* to social progress. Social and environmental outcomes are rarely determined by one organization or one influence, making costly and time-consuming studies such as randomized control trials impractical. Alcoa, for example, has invested steadily to achieve its shared value goal of raising the aluminum recycling rate in the United States from about 50 percent in 2008 to 75 percent by 2015, and the company can measure the benefits of that shift on business performance. Despite being the market leader in aluminum products, however, the company is well aware that progress toward the target depends on the actions of a wide range of actors, including other companies, governments, communities, and NGOs. As a result, Alcoa works in partnership with important stakeholders and focuses on its contribution to the overall result.

Challenge #6: Management Desires an Aggregation of Social Impact Data

Aggregate results selectively and only for the same social outcomes

Different social dimensions cannot be summed or aggregated (e.g., health and education outcomes are not additive). For a particular type

of outcome, however, programs or investments can be compared. For example, IHG's Green Engage program aggregates the total cost savings generated by resource use reductions (e.g., water, energy, and waste) of each participating hotel. IHG also compares whether carbon footprint reductions yielded greater financial returns than water savings. Yet IHG makes no effort to compare resource reductions with the workforce development outcomes of its IHG Academy program, although the company could compare the two programs' financial returns.

Organizing for Shared Value Measurement

Measuring shared value must be embedded into existing management processes. Organizational implications include the following:

Increasing the role of business units in measuring social performance

Business units need to play a bigger role in driving shared value strategies and decisions. Corporate affairs and corporate social responsibility departments have historically managed performance measurement and reporting on social issues. With shared value measurement, these groups need to partner more closely with business units, corporate finance, and corporate strategy departments to better link business and social results. When IBM launched its Smarter Planet strategy in 2008, for example, the market development and insights organization embarked on a process to understand and define the "ROI of Smart," combining operational value with societal, brand, and strategic value. The resulting assessment tools were handed over to the business unit and are used to illustrate Smarter Planet's value proposition to customers.

Creating performance incentives aligned with shared value objectives

An increasing number of companies are beginning to integrate social performance metrics into senior management incentive structures—a useful first step. PepsiCo's "Performance with Purpose" agenda, for example, includes measurable, time-bound company goals across specific key performance indicators (KPIs), such as reducing the average amount of sodium per serving in key global food brands in key countries by 25 percent by 2015. As an indicator of senior-level alignment to these objectives, PepsiCo's CEO Indra Nooyi's performance evaluation includes accountability for progress against the short- and long-term performance of the company as well as "Performance with Purpose" KPIs.

Building cross-sector partnerships to execute and measure shared value strategies

Cross-sector partnerships are becoming increasingly important for executing and measuring shared value strategies. NGOs, governments, and foundations recognize that companies integrating social outcomes in their business models represent powerful allies in meeting their own aspirations for social change. In partnering with companies to achieve shared value objectives, they become co-creators of social and business value. Since cross-sector partners can execute key activities within the shared value strategy, they are well-positioned to track the intended outcomes and should be invited into the measurement design process early in the planning phases.

Third parties can also provide necessary technical expertise to assist companies in measuring the social results and the ultimate value creation from a particular investment. Working with external evaluation partners can bring relevant social

sector expertise to the process and add credibility to the results. For example, GE works with Oxford Analytica, a global analysis and advisory firm, to measure the impact of Healthymagination, GE's business strategy to commercialize medical technologies that reach underserved and rural populations. Oxford Analytica supports GE in two ways: it conducts and/or validates upfront assessment of products in the pipeline to ensure that they meet the social and business targets set by GE, especially for social value creation; and it conducts ongoing measurement of products on the market. On health access, for example, Oxford has created a formula that estimates how many patients per day use a specific product based on the number of units sold.

The Future of Shared Value Measurement

Measuring shared value yields data and insights that offer significant opportunities across each level of shared value. Yet most companies around the world remain unaware of shared value improvement opportunities and are ill-prepared to capitalize on them when they materialize. Ignoring these opportunities limits a company's bottom line and shortchanges society of much needed innovation to solve social problems. We hope that more companies will follow the footsteps of companies like Coca-Cola, Novo Nordisk, Nestlé, Intel, and InterContinental Hotels Group and incorporate shared value measurement practices.

Despite its complexities, the pathway to shared value measurement is clear. First, companies must anchor shared value measurement in shared value strategy. An iterative and integrated shared value process provides focus to measurement activities and yields data that validates and improves shared value strategies. Second, shared value measurement must establish a direct link between meeting social needs and improving the business; understanding this linkage is the key to unlocking additional value creation. Third, measurement must assess the extent of value creation—tracking social and business results relative to the costs—in order to ensure the efficiency of current and future efforts. Fourth, companies must clearly distinguish shared value measurement from other important forms of measurement, including compliance, sustainability, and impact assessments. Fifth, companies must adopt pragmatic approaches to navigate shared value measurement challenges.

Ultimately, shared value measurement will inspire and influence investors, not just CEOs and business unit managers. The investment community remains the ultimate lever for encouraging shared value adoption at scale. Shared value measurement concepts will reveal new and material data to investment analysts and leading investors. Isolating the business strategies that drive social results, and vice versa, will help create a new level of dialogue with investors. They will finally have evidence of direct economic value created from companies' investments in social issues and thus be better-informed in their capital allocation decisions across companies. Shared value measurement provides a roadmap for reaching the promise of shared value, which is a global imperative at a time when innovating to achieve sustainable, scalable solutions to the world's toughest problems requires the best business has to offer.

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For more information on the Shared Value Initiative, please contact:

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Creating Shared Value in India: Case Studies

Creating Shared Value in India: Case Studies

Prepared for Shared Value Workshop Participants
November, 2012

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Introduction

India has experienced immense economic growth in recent years. However, this growth has been far from inclusive. Despite the work of many stakeholders, including the public sector, private sector, non-profit organizations, multilaterals, and the others, India continues to face enormous social, economic, and environmental challenges at scale. It is clear that a fundamentally different approach to solving social problems is required in order to provide innovative, sustainable, and scalable solutions.

Companies in India are uniquely positioned to play an active role to catalyze social progress at scale. Companies increasingly recognize that addressing the needs of poor or vulnerable population can bring new opportunities for business to increase their competitive advantage – this is the concept of shared value. Shared value is about creating new economic and social value for business and society. It offers a different worldview from corporate philanthropy; rather than considering how a portion of their profits can be used to address social issues, shared value business leaders ask how they can use their business strategies to find solutions to social problems that, if successful, will simultaneously advance their economic interests.

Companies can create shared value in three different ways:

1. **Reconceiving products and markets:** Companies can meet social needs by better serving existing markets, accessing new ones, or developing innovative products that serve social needs
2. **Redefining productivity in the value chain:** Companies can improve the quality, quantity, cost, and reliability of inputs production processes, and distribution systems, while simultaneously acting as a steward for essential natural resources and driving economic and social development
3. **Enabling local cluster development:** Companies do not operate in isolation from their surroundings. To compete and thrive, they need a strong competitive context that includes reliable local suppliers, functioning infrastructure of roads and telecommunications, access to talent, and an effective and predictable legal system

Creating shared value requires companies to <u>intentionally</u> and <u>directly</u> link business success to social impact. Only by linking business and social goals will shared value strategies be measurable and sustainable; social implications cannot be an afterthought.

Companies within the same sector are likely to share similar business goals and social challenges. For this reason, the rigorous analysis of the intersection of social issues and business strategy may identify similar opportunities to generate new sources of revenue or reduce cost across players within an industry. As with the development of traditional business strategies, the context in which a company operates drives strategic choices.

However, when filtered by the unique corporate assets available to address these opportunities, distinct shared value strategies emerge. The operating context of a specific industry or geography paired with the unique assets a company can bring to solve a social problem begins the formation of a shared value strategy.

The following case studies illustrate the ways companies can create shared value in the healthcare, consumer goods, manufacturing, extractive and IT/telecom industries. The appendix also includes a list of additional resources such as case studies from other industries.

Healthcare

Healthcare represents an industry closely linked to social wellbeing yet inherently has huge divides between developed and developing countries. Several barriers exist to healthcare companies delivering services to low-income populations including lack of health-seeking behavior, limited market information, limited ability of patients to pay, inefficient regulation, and inadequate health systems. However, these barriers also represent market opportunities for companies that find innovative ways to overcome them.

Healthcare companies can create shared value in three ways:

1. Developing new products or refining existing products to respond to local health needs
2. Innovating within distribution channels to ensure that quality products reach underserved patients
3. Investing resources to create health-seeking behavior among poor or vulnerable populations

The following two case studies illustrate these opportunities for creating shared value in healthcare.

CASE STUDY: Novartis in India - Arogya Parivar (AP)

Novartis is a Swiss pharmaceutical company with annual global revenue of USD$51B. Their core business includes pharmaceuticals, vaccines, consumer goods, eye care, and animal health.

- **Situation:** About 75 percent of health infrastructure, medical workforce, and other health resources in India are concentrated in urban areas where only 27 percent of the population resides. Infectious diseases such as diarrhea, typhoid, measles, malaria, tuberculosis, whooping cough, pneumonia, and reproductive tract infections are significant causes of morbidity, especially in rural areas. Leaders at Novartis saw an opportunity in the lack of health care services available to rural Indian and grew determined to find a solution.

- **Approach:** in 2007, Novartis launched Arogya Parivar to increase access to medicine in rural India. The program's portfolio includes a range of health products, from low-cost generics to branded drugs that are repackaged into smaller doses to make purchases more affordable for patients with low and irregular incomes. Novartis also established new distribution networks to facilitate product delivery to remote locations, developing a network of local sales team to uncover market insights and gain consumer trust. The company found partnering with the Indian health system to be particularly critical to getting products into patients' hands. To bridge the infrastructure gap in the short term, Arogya Parivar organized frequent health camps to bring physicians into rural areas. In addition to expanded health care access, these camps provided an additional sales channel for Arogya Parivar's portfolio of products (doctors retain a choice of medicines and are not limited to Novartis products), as well as a small source of income for the doctors who participate.

Implementation Lesson Learned:

Novartis orchestrated many stakeholders and partners to effectively execute the AP model. It leveraged its **generics manufacturer**, Sandoz, to produce generic drugs at low cost and smaller package sizes to be more appropriate for rural patients. The company also partnered closely with **village leaders** and **local NGOs** to identify, train, and employ local "**health educators**" to educate patients about the benefits of healthy lifestyles to raise awareness about the benefits of health-seeking behavior (often a barrier in the Indian context) while increasing demand for effective medicine. Finally, it relied on **sales teams** who understood local cultures and language to gain trust among patients.

"[Aogya Parivar] empowers villagers, provides employment, and improves rural healthcare. Ultimately, it will dramatically enhance the well-being of families, as main income earners benefit from chronic disease prevention and treatment." - *Incanus Public Affairs (a global public relations and communications firm[1]*

- **Results:** As of 2011, the Arogya Parivar product portfolio offered 79 products in 12 therapeutic areas, and Novartis planned to add more health product to its line. From 2007 to 2011, the program doubled in size, improving access to health education and medicine for 42 million patients in 28,000 villages. Rural patients, who might otherwise have delayed or discontinued treatment, received access to complete treatment at an affordable, fixed price through a dependable network of health service providers. Arogya Parivar broke even in its 31st month of operations and is not generating profits. Novartis's leaders are planning to expand the program to cover 100 million rural Indian who earn $1 to $5 per day and are considering expanding into other developing countries as well.

Implementation Lesson Learned:
Arogya Parivar is run as a **separate, social business group** which allows it to innovate with respect to shared value. Free from the usual constraints of short-term returns that make some customer segments unattractive, AP experimented with **different business models and incentive structures** in order to meet local demands in a modestly profitable way.

Source: "Shared Value in Emerging Markets." FSG and the Rockefeller Foundation. September 2012.
Source: "Measuring Shared Value." FSG. October 2012.
Source: "Creating Shared Value in India". FSG. October 2011.

CASE STUDY: Novo Nordisk China

Novo Nordisk is a Danish company with annual sales of USD$11B and more than 88 years of global leadership in diabetes care.

- **Situation:** The increase in GDP per capita in China has unfortunately brought about an increase in lifestyle-related chronic disease. In 2010, the incidence rate for Type 2 diabetes was estimated at 40 million people and experts expected that number to double over the following 15 years. Novo Nordisk suspected that patient diagnoses were lower in second- and third-tier cities, where sales volumes had traditionally been much lower.

- **Approach:** Careful market research confirmed that inaccurate diagnoses were indeed a problem in those cities. One hypothesis suggested that continuing education was more readily available in bigger cities due to higher concentrations of pharmaceutical representatives. Novo Nordisk thus invested in improving diabetes awareness among local Chinese communities (including patients, physicians, and public officials). The company partnered with the World Diabetes Foundation and the Chinese Ministry of Health to develop and update national standard treatment guidelines for diabetes care. Novo Nordisk also engaged in a physician training program to improve diagnosis rates and conducted a broad-based behavior change campaign to increase consumer awareness, encourage health-seeking behaviors, and improve patient management.

  In addition to investing in human capital in the Chinese market, Novo also invested in a local R&D facility in order to capitalize on Chinese market knowledge to develop more locally-appropriate insulin products. Further, a local production facility allowed Novo production efficiency and responsiveness to market needs.

[1] "Novartis India's Arogya Parivar Reaches 42 Million," Incanus Public Affairs. Accessed August 3, 2011, at http://www.incanuspublicaffairs.com/publications/novartis-india%E2%80%99s-arogya-parivar-reaches-42-million.

Implementation Lesson Learned:
Many of Novo's shared value activities focused on **cluster building** to increase diabetes awareness and ultimately the diabetes market, which may concern some companies that competitors would later enter the market and capitalize on this pre-competitive market building effort. However, Novo's case illustrates the power of **first mover advantage** translating into market leadership.

- **Results**: Today, Novo Nordisk's share of the Chinese insulin market exceeds 60 percent. The disproportionate driver of the company's tremendous growth has been new patients who otherwise may have remained unaware of their treatment needs and options. The company also discovered that training physicians in small cities had a 9 percent greater effect on treatment management than training their counterparts in larger cities. Novo Nordisk has estimated the value of better disease management in diabetic patients for both its company and Chinese society. The company calculates that improving patient control over diabetes – through better diagnosis, appropriate treatment, and ongoing disease management – creates a value to Chinese society of $2,350 per patient. Novo Nordisk has also determined that increased sales are worth approximately $3,400 per patient to the company. The company estimates that if the nearly 16 million people with diabetes in large urban centers are able to exercise greater control over their disease, the resulting value could be worth $37 billion to China. And if Novo Nordisk maintains a 60 percent market share, the net present value to its business of such an improvement could reach as high as $30 billion.

  In terms of social impact, Novo's "Blueprint for China" shared value strategy has resulted in an estimated 80 percent improvement in total patient life years due to improved products and services. Surveys also indicate significantly improved diabetes control, which results in lower healthcare system costs and longer, healthier lives for diabetics.

Implementation Lesson Learned:
By measuring the impact of physician training on patient management across geographies, Novo was able to **re-allocate funds** to those areas that had the greatest impact in terms of improved patient outcomes and increased sales. Only by **linking social outcomes with business performance** can companies continue to unlock value through shared value strategies.

Source: "Shared Value in Emerging Markets." FSG and the Rockefeller Foundation. September 2012.
Source: "Measuring Shared Value." FSG. October 2012.

Consumer Goods

Consumer goods, especially those in the food and beverage category, represent some of the most relevant industries to address the needs of the poor. Malnourishment alone represents one of the world's largest problems that clearly intersects with business strategy. Consumer goods companies also represent large employers of citizens from poorer populations and can contribute to the skills development of these populations. Consumer goods companies also can immensely impact the value chain through innovative distribution models, supplier knowledge building, and infrastructure improvement.

The points of leverage to create shared value in consumer goods, specifically with respect to food, beverage, and agriculture include:

- Addressing nutritional deficiency through additives to low-cost, staple products
- Improving smallholder farmers' access to information, inputs, and technical assistance to create a more reliable and higher-quality supply of inputs
- Supporting infrastructure development, increased access to financing, and improved knowledge/skills of consumers, retailers, and suppliers to enhance competitive context

The following two case studies illustrate these opportunities for creating shared value in consumer goods.

CASE STUDY: Britannia's Tiger Biscuits

Britannia is an Indian manufacturer of biscuits and other food products with annual turnover of USD$805M.

- **Situation**: estimates indicate that nearly two out of every three Indian children suffer from anemia, diminishing their energy and limiting their ability to focus in school. Because iron deficiency is not a visible ailment, parents and educators are often unaware of the problem, enabling it to persist undiagnosed and untreated. Malnutrition, along with vitamin and mineral deficiencies, can become costly to India – leading to healthcare costs of 2-3% of GDP and costs of low productivity of 3% of GDP[2].

- **Shared value approach**: In response to this health issue, Britannia created its Tiger product line. Tiger biscuits are low-cost, designed to appeal to children, and fortified with iron. Britannia complements the product line with advertising and public health campaigns to improve awareness and increase the social and business performance of Tiger products. Rural villages often lack access to mass media, so Britannia supports local efforts to educate rural populations on childhood iron deficiency. Additionally, Britannia's mass-media advertising is more weighted toward issue awareness than brand promotion.

Implementation Lesson Learned:
Britannia conducted the R&D and initial launch of Tiger fortified biscuits through a **partnership model** with the Naandi Foundation and the Global Alliance for Improved Nutrition (GAIN). These organizations partnered together to first bring iron-fortified biscuits to 150,000 children in the state of Andhra Pradesh through Naandi's midday meal program. The pilot required sixteen attempts before achieving fortification without losing product taste.[3]

[2] GAIN Website, www.gainhealth.org/economic-costs
[3] Britannia, Naandi and GAIN: A Public-Private Partnership for Delivering Nutrition through Fortification in India http://www.naandi.org/strategy_papers/PDfs/Naandi%20Case.pdf

- **Results**: Tiger has been Britannia's largest product line since 1997, and it is India's second most popular biscuit brand. Although Tiger products yield lower margins than other Britannia offerings, they are profitable and high volume. Britannia accepts lower margins to achieve higher volume, increase access to Tiger products, and enhance its market penetration. During a 2009 pilot study in North Delhi, Britannia and the Navjyoti India Foundation found that consumption of fortified Tiger biscuits, in conjunction with treatment for hookworms, raised the iron levels more of more than 300 anemic children by an average of more than 25 percent in 90 days.

"For us, corporate social responsibility is best achieved through our business, not as a separate activity. It has to be embedded in what we do, what is the sustainable model" – *Vinita Bali, Britannia CEO*

Source: "Shared Value in Emerging Markets." FSG and the Rockefeller Foundation. September 2012.

CASE STUDY: The Coca-Cola Company's Coletivo in Brazil

The global beverage company has invested heavily in emerging markets such as India, China, and Brazil in recent years, oftentimes using different approaches to these markets as compared to developing countries to focus on serving low-income customers in order to unlock much of the market's unrealized value.

- **Situation**: with a strong brand in Brazil, Coca-Cola wanted to find ways to better serve its low-income customers. It conducted a six-month study in 2008 that revealed the greatest need among this customer segment was employability and skills development. While primary education was provided by the Government, young adults faced challenges with employability due to lack of relevant skills and employment opportunities.

  At the same time, Coca-Cola faced a business constraint among these customers: the retailers within the Brazilian *favelas*, poor areas on the outskirts of major cities, were highly ineffective. Coca-Cola recognized that by improving the skills of retailers in these areas, it could grow its volume while promoting economic development and employment in some of the poorest areas of Brazil.

- **Shared value approach**: to improve the skills and employability of the young adults in *favelas*, Coca-Cola sought to use the company's value chain. The *Coletivo* program was developed to improve the level of customer service offered by retailers in *favelas* and prepare youth living in these Brazilian slums to succeed in entry-level jobs. In partnership with local NGOs, the program enrolls youth in courses teaching retailing techniques and includes modules on behavioral training. Students of the program provide consulting to retailers in their local communities, increasing sales of fast-moving consumer goods (including, but not limited to Coca-Cola products). Upon completion of the *Coletivo* program, students are placed in entry-level jobs outside of the retail sector. Coca-Cola now operates more than 120 *Coletivos* in approximately 69 Brazilian cities and trains more than 50,000 people per year.

- **Results**: Coca-Cola carefully measures both social and business value created by the program. The program currently operates 135 *Coletivos*, each with an average of 500 students, and the goal is to run 170 by the end of 2012. Coca-Cola currently monitors:
  - The number of youth participating
  - The number of retailers involved
  - The performance of retailers over time
  - The total costs of running the effort to ensure effectiveness and efficiency

In addition to these output measures, Coca-Cola also measures four key indicators:

- Youth job placement
- Youth self-esteem
- Company sales
- Brand connection

In terms of job placement, initial results show that approximately 30 percent of the youth trained immediately land a job with Coca-Cola or one of its partners, and an additional 10 percent set up their own business with microcredit support from the company. Graduates of the program increase their family income by an average of approximately 50 percent and demonstrate greater self-esteem and optimism than their peers.

From a business perspective, an investment in a *Coletivo* site becomes profitable within two years. Additionally, pilot tests and evaluations have shown that Coca-Cola brand relevance in areas targeted by the *Coletivo* program was more than twice as high as in control areas, leading to revenue growth. Coca-Cola believes that the program also helps improve its long-term competitive positioning.

Implementation Lesson Learned:
Coca-Cola's **rigorous measurement and evaluation** of the *Coletivo* program has allowed it to adjust the program for greater impact. For example, the first year of the training sessions focused heavily on the technical aspects of retailing, such as merchandising or stock management. Based on measurement data, however, the managers realized that the students faced self-esteem challenges that prevented them from finding a job and being effective workers. In response, Coca-Cola revised the content of the training program to put **more emphasis on soft skills**, including leadership and presence.

Source: "Shared Value in Emerging Markets." FSG and the Rockefeller Foundation. September 2012.
Source: "Measuring Shared Value." FSG. October 2012.

Manufacturing

Manufacturing is a driving sector of most economies – both in terms of GDP creation and, more importantly, in terms of employment. For India specifically, the manufacturing sector holds great potential for growth both in absolute terms and in its sophistication. With increased investment and innovation, more highly skilled jobs will be in demand and finding skilled labor will become a point of competitive advantage for many companies. Further, as the sustainable development agenda moves forward, companies will have to find new ways to manufacture in more sustainable ways that bring less impact to the environment.

Companies in manufacturing industries can create shared value along the following points of leverage:

1. Developing the technical and life skills among low-income, unskilled populations and equipping such people to be employed by the industry
2. Cultivating local supplier networks to support operations in developing nations
3. Innovating in the value chain to reduce carbon emissions from operations

The following two case studies illustrate these opportunities for creating shared value in manufacturing.

CASE STUDY: Tata Motors

Tata Motors Limited is India's largest automobile company, with annual consolidated revenues of USD$32B (2011-12). It is the market leader in the commercial vehicle segments and represents the fourth largest truck and bus manufacturer worldwide.

- **Situation:** Similar to many industries across India, the trucking industry faces immense challenges in finding and retaining reliable, skilled labor. The National Skills Development Corporation (NSDC) predicts the supply-demand gap to worsen in coming years: while there are currently 20 lakh vehicles sitting idle due to lack of drivers, the trucking industry will demand over 50 lakh drivers from 2010-20 to fulfill the requirements of the industry's growth[4]. Today, all the Industrial Training Institutes (ITIs) across India only produce 20,000 drivers per year.[5]

  In addition to facing a supply shortage, the industry also faces challenges with safety. Undertrained drivers can lead to accidents, which are oftentimes fatal: India has the highest road fatalities in the world with 120,000 deaths annually. Seventy-eight percent of these deaths occur due to driver error, with the largest number of fatalities (24%) involving commercial trucks[6].

  Tata Motors identified the supply of trained drivers as a vital link in their value chain as their customers' future growth will be limited by the ability to find qualified drivers and thus will not purchase additional trucks. One estimate by Tata indicates that the driver shortage could slow growth in commercial vehicle sales from 25% to 20%[7] - at a time when expanded, improved highways systems should bring booming growth to the industry.

  Further, improving the quality and safety of drivers will positively impact society by reducing road accidents and fatalities. To meet the need for better trained drivers, Tata set the aggressive target to train 3.4 million drivers in ten years.

- **Approach:** In order to improve the safety of truck drivers and initiate roadside safety awareness across India, Tata designed and implemented a fee-based driver training course. This initiative

[4] "It's Truck Drivers' Turn to be Pampered." *The Hindus Business Line.* 14 October 2012. http://www.thehindubusinessline.com/industry-and-economy/logistics/its-truck-drivers-turn-to-be-pampered/article3994613.ece
[5] "Tata Motors to Train Truck Drivers in Sales Push." *Daily News and Analysis.* 3 August 2011. http://www.dnaindia.com/money/report_tata-motors-to-train-truck-drivers-in-sales-push_1572042
[6] Blum, Andreas. "Development of A Sustainable Business Model for Truck Driver Training. http://www.india.jbs.cam.ac.uk/engagement/tataises/downloads/report_blum.pdf
[7] "Shortage of Truck Drivers May Turn Speed Bump for Economy." *The Mint.* 24 February 2011. http://www.livemint.com/Politics/0V1lomCyassnt99bzx0M8O/Shortage-of-truck-drivers-may-turn-speed-bump-for-economy.html

was the first CSR program that was closely aligned with Tata's business of manufacturing trucks and built the cluster surrounding the industry of truck manufacturing, shipping, and logistics. The course was designed as part-time across 45 days' time to allow trainees to maintain employment during training. Tata developed the course content and deployed it in a train the trainer format. In order to scale and achieve the 3.4 million trainees in a decade, Tata partnered with its dealers, the government, and non-profits to implement the program across co-branded training centers. This has worked particularly well with the 21 government ITIs Tata adopted and provided trainer trainings to improve the program quality; the company has targeted an additional 100 ITIs for adoption in the coming years.

Implementation Lesson Learned:
One of the private sector's largest contributions to skills development is **relevant, quality training program** content. However, private companies oftentimes lack the resources to scale quality programs on their own. By partnering with the government and NGOs to enhance the program content of existing ITIs, Tata successfully leveraged its core competency of relevant content development and **achieved scale** by building on the existing ITI infrastructure.

- **Results**: Tata has trained over 500 students in driving and motor mechanics, with capacity being expanded to handle 25,000 students from 2012-2015. Tata's model illustrates that in order to solve workforce development issues at a national level, efforts must be jointly led by the private sector, government, and NGOs. By providing funding and its industry knowledge to develop a high-quality curriculum, Tata is actively building upon the foundation of existing ITIs to improve the quality and scale of their offerings. As skills shortages are faced across many industries in India, this public-private partnership model for training is becoming a win-win solution: industry gets appropriately trained workers and many defunct ITI centers are successfully turned around or further scaled up.

CASE STUDY: The Audi Group

The Audi Group represents one of the world's leading carmakers in the premium and supercar segment with EUR44 billion in annual revenues.

- **Situation**: with rising petrol prices and growing environmental concerns, the automobile industry has felt immense pressure to create eco-friendly cars, reducing the future environmental impact of driving. In order to achieve reduced emissions, automobile manufacturers are innovating with alternative fuels including electricity, hydrogen, and methane gas. However, while much of the industry's focus remains on creating energy-efficient *products*, there is also greater shared value to be realized by improving the energy efficiency of the car manufacturing *process*. Audi is going beyond eco-friendly product innovation to reinvent the manufacturing value chain to only use renewable energy.

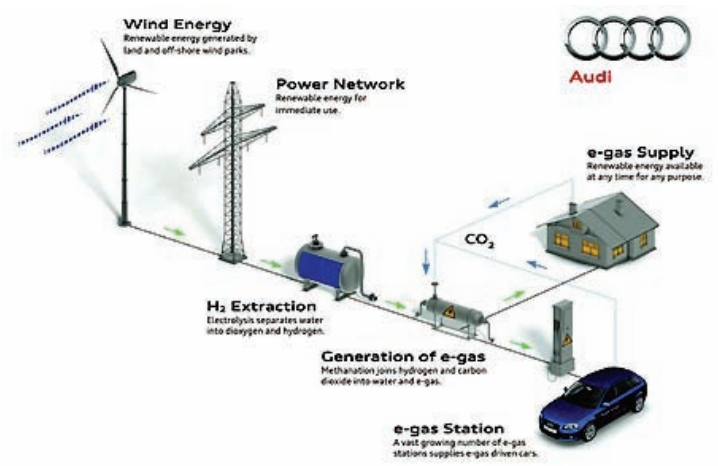
- **Approach**: in building a car that is carbon-neutral, Audi is not stopping at defining carbon neutrality as merely not creating any new net emissions when driven. Rather, Audi believes that for the car to be truly carbon neutral it needs to be manufactured and run by using only renewable energy sources. Wind energy is the most cost effective among renewable sources and Germany has been a pioneer in building the infrastructure required to generate wind power. In fact, in any given year, Germany has a net excess of wind energy – there is no problem with supply. The challenge lies in wind power's unpredictability – while one minute of strong winds can generate enough power for 300 KM of CO2-free travel in a vehicle such as Audi's A1-etron electric car, that wind is not continuously available. This unreliability could be overcome if there was a way by which this excess energy could be captured and stored for non-windy days. Currently when there is not wind power supply, the gap is filled by traditional sources of energy.

  Audi viewed this obstacle in the value chain as an opportunity and is spearheading efforts to develop technology that will capture and store excess wind energy to be later used in the production process and to fuel natural gas powered vehicles. Branded the Audi "e-gas project", the process will ultimately synthesize a chain of sustainable fuels by 2013, with end products of hydrogen and the synthetic Audi e-gas. This means that alternative fuels - such as hydrogen for fuel cell vehicles, e-gas for natural gas vehicles, and electricity for electric models - will be created from renewable sources and they will be able to fuel our cars with the CO2 that would have otherwise ended up in the atmosphere. This is being made possible by storing e-gas on the largest available energy-storage system: the public gas network. In other words, energy can be moved from the electricity power grid to the public gas network, held there for several months, and then released from the gas network to the power grid at any time. While this process does not clean up existing problems in the environment, it creates great strides towards a better tomorrow.

  The process of harnessing wind energy, storing it on the power grid, extracting H2 and finally generating e-gas may sound simple but the underlying technology and process innovation required to accomplish this feat are extremely complex. While pioneering this technology has direct benefit to Audi, it will also benefit Germany (where it is being piloted), and ultimately the entire world, as other industries look to more effectively use renewable energy.

"Our technology has the potential to give new direction to the discussion on expanding renewable sources of energy. We ourselves are taking the initiative and are complementing electric mobility with an equally eco-friendly concept for long distances." *—Michael Dick, Member of the Board of Management for Technical Development*

Figure 1. The Audi e-gas Project



- **Results**: Following extensive research, Audi is now implementing this project. Beginning in January 2011, a testing facility was launched. Following these initial tests, Audi partnered with several others to build a multi-million euro e-gas facility. The Audi e-gas project can easily be replicated in any country with an existing natural-gas network.

  In addition to this value chain innovation and cluster building effort, Audi will also continue to innovate with respect to its products and begin production in 2013 of the Audi A3 TCNG with an engine using Audi's TFSI technology that can operate on e-gas, CNG, or conventional gasoline when neither alternative fuel is available.

  The development of this novel technology is still in very early stages, so only time will tell how successful this innovation will become. But it is energizing to see that a car company — which in the past could have easily said that helping to solve Germany's energy storage problems was not part of its mandate — has decided to become an example of the leadership the private sector can bring in energy innovation. One thing is clear: while Audi may be pioneering this effort, they cannot solve the problem of what our future sources of energy might look like in isolation. The company will need partners and co-pioneers from the auto industry, government, sustainability think-tanks, social enterprises, and so on to bring this innovation to full fruition.

Sources: "Audi T3 TCNG e-gas Project." *YouTube.* 13 May 2011. http://www.youtube.com/watch?v=q7LMjsFK_Y8
"Create Shared Value with a Trampoline Approach." Harvard Business Review Blog. 16 November 2011. http://blogs.hbr.org/cs/2011/11/create_shared_value_with_a_trampoline_approach.html
"Audi e-gas Project Combines Hydrogen CO2". *Greencar.* 15 May 2011. http://www.greencar.com/articles/audi-e-gas-project-combines-hydrogen-co2.php
"Green Car Congress: Audi Unveils e-gas Project: synthetic methane from the methanation of green hydrogen." *Green Car Congress.*13 May 2011. http://www.greencarcongress.com/2011/05/egas-20110513.html

Extractives

Extractives companies add tremendous value to the world economy, producing essential inputs for products that improve the lives of billions. The sector's health is essential for the development of resource-rich nations where mining dominates the local economy. Extractives companies also offer large sources of employment, oftentimes in regions without much employment opportunity. However, these companies also face many challenges such as labor relations, negative environmental impacts, and other social ills. While many extractives companies have tried to address social issues through charitable giving or risk mitigation measures, oftentimes these programs end up being short-sighted and don't achieve the long-lasting impact necessary.

Extractives companies can create shared value along the following points of leverage:

1. Addressing social needs in communities surrounding extraction sites to enhance the competitive context of these geographies
2. Cultivating local workforces and supplier networks to support operations in developing nations
3. Working with suppliers to maximize the output of renewable natural resources
4. Using byproducts from production to expand the scope of the business

The following two case studies illustrate these opportunities for creating shared value in extractives.

CASE STUDY: Essar Steel Academy

Essar Steel is a fully-integrated carbon steel manufacturer, handling the steel process from iron ore to ready-to-market products. The final products are used in industries such as automotive, white goods, construction, engineering, and shipbuilding.

- **Situation:** The Ministry of Mines estimates there will be a shortage of 1600 professionals in geosciences and 300 in mining engineering for 2009-2017 - a factor that will surely hinder mining GDP growth. The industry must also ensure ample training capacity; current estimates indicate that the number of seats in engineering programs must increase 3x to meet 2025 demand. Essar Steel represents just one of the many private sector companies concerned about this lack of supply of well-trained youth, especially in the more impoverished states where extractive operations often take place.

- **Approach:** In 2010 Essar Steel set up a customized training facility to train local youth – the Essar Steel Academy. The two-year training program for Diploma Engineer Trainees (DETs) enhances technical capabilities, teaches communication skills, and fosters leadership development. The program mixes classroom teaching with on-the-job training, site visits, and guest lectures from Essar executives to ensure well-rounded professional development; the mix of plant training vs. classroom training moves from 20% plant / 80% classroom to the inverse (80% plant, 20% classroom) across the students' four semesters in order to increasingly expose students to hands-on training opportunities. Students are recruited and trained across engineering specializations including: mechanical, electrical, civil, and metallurgy.

- **Results:** The first batch of 174 DETs graduated in 2012 and will be absorbed into the business, ensuring that well-paid jobs are staffed locally and that Essar has the high-quality employees it needs. Essar plans to expand the program in the future; models for expansion are currently being explored and vetted.

Source: Essar Academy for Steel Overview. http://www.essarsteel.com/upload/pdf/Essar_academy_for_Steel.pdf

CASE STUDY: Salala Rubber Corporation in Liberia

Salala is Liberia's fourth-largest rubber producer. In addition to its company-owned 8,500 hectares of land, it also sources rubber from private farms and smallholders to supplement its own production capabilities.

- **Situation**: Salala, a Liberian company that grows and processes rubber, received a $10 million loan from the International Finance Corporation (IFC) to expand its processing capacity to ten times its current self-supplied capacity. While this expansion provided Salala with an opportunity to expand its business, it also made the company more dependent on third-party suppliers of raw materials.

- **Approach**: To ensure access to a reliable supply of rubber, Salala partnered with smallholder rubber farmers in Liberia, providing them with technical assistance and inputs to improve the quality and quantity of their rubber output. For example, Salala provides smallholders with 1,000 tree rubber stumps for every 20 metric tons of raw rubber they sell to the company. They also provide critical inputs such as fertilizer, cutting knives, formic acid, rubber tapping containers, wires, and even rice for distribution to laborers – all at cost.

  To improve the skills of the farmers, Salala has also established a rubber tapping school to help improve the quality of their farming practices. The program teaches farmers how to protect their rubber from external contamination, how and when to tap rubber from a tree for the first time, and how to organize tapping activities on a farm.

  Salala also provides these farmers with credit to help them expand their operations – the repayment is deducted from the income they receive when selling raw rubber to Salala.

- **Results**: Salala's efforts provide financial support to an estimated 1,800 smallholder farmers, 4,000 farm workers, and more than 20,000 dependents and family members. By working with smallholder rubber farmers, Salala improves the supply of its most critical raw material while enabling smallholder farmers to increase their output and, as a result, their incomes.

Source: "Inclusive Business Models: Guide to the inclusive business models in IFC's portfolio". International Finance Corporation. 2011.

IT/ Telecom

Technology can undoubtedly be a powerful tool for advancing social conditions around the world. It can help society unlock information, communicate, and build social relationships; technology is also often the foundation of innovations in health, education, economic development, and the environment. As such, shared value can offer companies in the sector a powerful way to imbue social purpose into core business activities. In this way, tech companies inspire and engage employees by enabling them to see their work as a means to achieving greater good in the world. In addition, by applying their core technological assets and expertise to solving social problems, tech companies can gain insights into new applications for their products and services that in turn can unleash new sources of business growth and lead to more sustained competitive advantage.

Technology companies can create shared value in the following ways:

1. Creating technology solutions for good, such as specialized data management systems that improve efficiencies in agriculture
2. Building capacity of social sector actors and small businesses
3. Redefining productivity in the value chain to lead technology-enabled solutions to environmental challenges
4. Strengthening cluster conditions by training the technology workforce and bridging the digital divide

The following two examples highlight shared value in the IT and telecom industries

CASE STUDY: Cisco's Networking Academy

Cisco a US-based multinational that designs, manufactures, and sells networking equipment (both hardware and software).

- **Situation**: Finding qualified staff is a challenge faced by many companies and sectors across the world. Local markets also need talent that is trained in 21st century skills in order to manage the use, integration and adoption of technology; it is a matter of competitiveness and development. These local markets, especially those in developing countries, require investment in education and workforce development beyond scholarships and one-off programs. Seeing this need and opportunity, Cisco developed the Networking Academy to train the next generation of IT managers.

- **Approach**: Cisco began its Networking Academy in 1997 and has now grown the program to have 10,000 academies worldwide. It offers a robust vocational training program in 165 countries to teach students functional IT skills, including how to build, design, and maintain networks, and then further build their career in information technology.

- **Results**: in its 15 years of existence, Cisco's Networking Academy has trained more than four million students. Students receive certifications that make then more marketable for high-demand, well-paying jobs in the technology sector. More than 70% of the students trained have attained a new job, a better job, increased responsibility or higher salary as a result of the training. Because they are trained on Cisco's networking systems, a new generation of technology workers are more likely use and buy Cisco's products and services – an immense business benefit to Cisco in the ever-competitive IT industry.

CASE STUDY: IFFCO Kisan Sanchar Limited (IKSL)

IKSL is a social enterprise developed via powerful partnerships and use of technology to help farmers overcome challenges they face in accessing accurate and timely information.

- **Situation**: Indian farmers face many challenges and lack of access to accurate and timely agriculture advice is one of the largest. Rajan Sharma hoped to overcome this in 2005 by developing IFFCO Kisan Sanchar Limited (IKSL).

- **Approach**: IKSL sells farmers a "Green" SIM card and provides them five free daily voice messages that give guidance on agriculture and related issues, including animal husbandry, agro-marketing, dairy farming, poultry, and weather conditions. IKSL also offers a dedicated helpline to answer queries in farmers' own languages.

  The creation of IKSL depended on two important partners: the Indian Farmers Fertilizer Cooperative (IFFCO) and telecommunications company Bharti Airtel. IFFCO manages more than 40,000 cooperative societies and a base of 60 million farmers. IFFCO's network of farmers and high credibility with government institutions helps reduce the costs of distribution and content creation. IKSL also relies on IFFCO's large network of farmers to sell the co-branded IFFCO/Bharti Green SIM card. The company shares the information that IFFCO provides through Bharti Airtel's extensive existing mobile network, capitalizing on India's largest mobile communications company by market share.

  IKSL's Green SIMs provide relevant and useful advice to farmers in various agro-climatic zones and have achieved great popularity; in many villages, 100 percent of farmers have adopted the program. Farmers pay a nominal one-time fee of up to Rs. 10 ($.22) to become a mobile customer. They then buy pre-paid top-ups to make calls and send text messages. IKSL's revenue comes from commissions, paid by Bharti Airtel, on all new Green SIM subscriptions and top-ups made on the SIM. This revenue model allowed IKSL to break even within its first year of operations. In 2010, the venture earned revenues of Rs. 170 crore ($36.9 million, an increase of 110 percent over 2010) and a profit of Rs. 20 crore ($4.3 million).

- **Results**: IKSL has proven to be a win-win venture for all stakeholders. The company documents several success stories every month that suggest crop yield increases between 20 and 60 percent. Most of those increases are the result of tips IKSL provides to farmers on agriculture techniques, disease prevention, and animal husbandry. Moreover, IKSL accounts for nearly half a million of the 3 million new subscribers that Bharti Airtel adds each month, and IFFCO communicates directly with its primary customers (farmers) five times each day, creating an effective marketing channel that the company values highly.

  Currently, IKSL maintains a presence in all Indian telecom circles except North East and Jammu & Kashmir. Thus far, the company has identified 61 distinct agro-climatic zones based on soil quality, crops grown, and prevailing weather conditions. Looking ahead, IKSL plans to provide more tailored information, such as daily messages related to agriculture and breeding practices for animals and crops selected by the recipient farmer. Over the next three years, IKSL will make its services available to 25 million farmers through 450 agro-climatic zones that provide customized information.

  "There is enough space for many players in this industry, but specialization is important. Companies should not presume that the poor will accept any information even if it is free, and need to know that information, unless tailored to suit their specific needs, may not be received well." *—Ranjan Sharma*

Source: Creating Shared Value in India. FSG. October 2011.

Appendix A. Shared Value Resources

To read more case studies on creating shared value, please visit www.fsg.org. In our knowledge exchange, you will find the following articles helpful to read more about this concept:

1. "Strategy & Society: the Link Between Competitive Advantage and Corporate Social Responsibility." *Harvard Business Review*. 2006.
   http://www.fsg.org/tabid/191/ArticleId/46/Default.aspx?srpush=true

2. "Creating Shared Value." *Harvard Business Review*. January/February 2011.
   http://www.fsg.org/tabid/191/ArticleId/241/Default.aspx?srpush=true

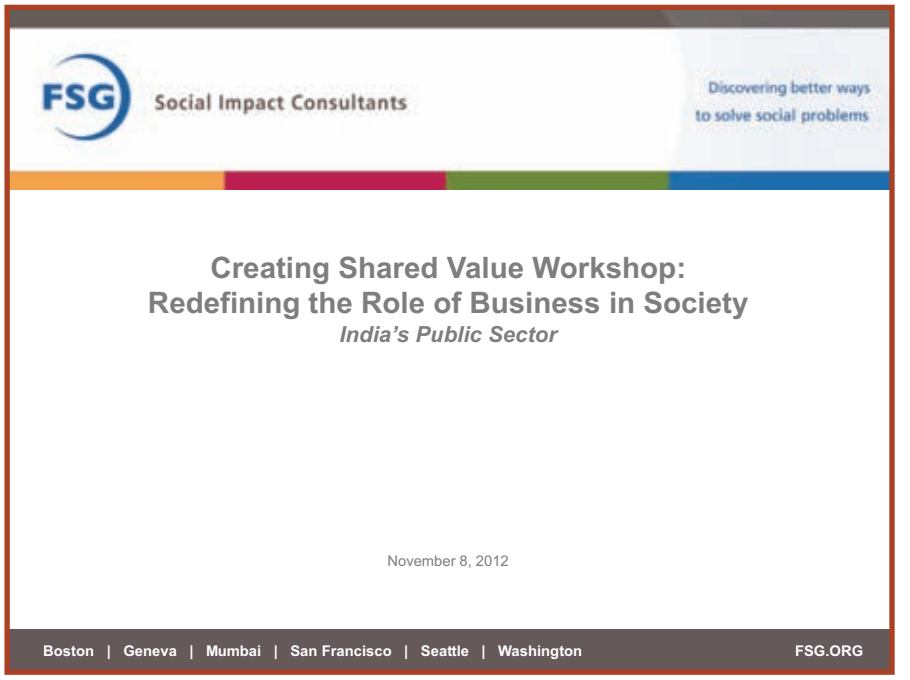
3. "Creating Shared Value in India". FSG. October 2011.
   http://www.fsg.org/tabid/191/ArticleId/493/Default.aspx?srpush=true

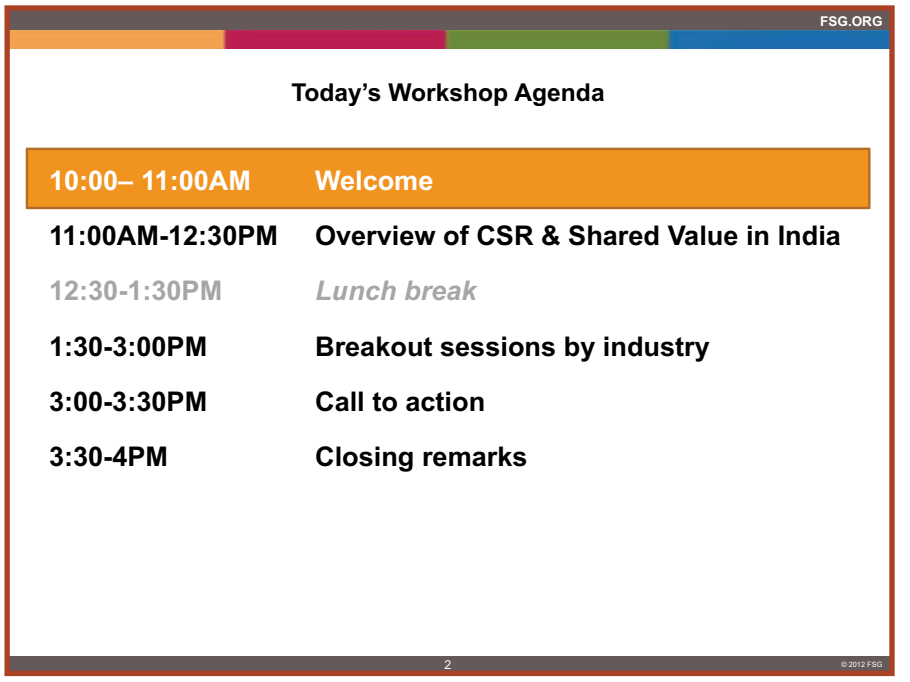
4. "Shared Value in Emerging Markets." FSG and the Rockefeller Foundation. September 2012.
   http://www.fsg.org/tabid/191/ArticleId/737/Default.aspx?srpush=true

5. "Measuring Shared Value: How to Unlock Value by Linking Business and Social Results." FSG. October 2012
   http://www.fsg.org/tabid/191/ArticleId/740/Default.aspx?srpush=true

APPENDIX III

Creating Shared Value Workshop: Redefining the Role of Business in Society -- India's Public Sector





Today's Workshop Agenda

10:00– 11:00AM	Welcome
11:00AM-12:30PM	Overview of CSR & Shared Value in India
12:30-1:30PM	*Lunch break*
1:30-3:00PM	Breakout sessions by industry
3:00-3:30PM	Call to action
3:30-4PM	Closing remarks

FSG Overview

- **Nonprofit consulting firm specializing in strategy, evaluation and research**, founded in 2000 as Foundation Strategy Group
- Staff of **100 full-time professionals** with offices in Boston, Seattle, San Francisco, Washington, Geneva, and **Mumbai, India**
- Partner with **foundations, corporations, nonprofits, and governments** to develop more effective solutions to the world's most challenging issues
  - Advised **over 400 clients** in every region of the world
  - **Clients in India include the World Bank, Shakti Sustainable Energy Foundation, Godrej Group**, **Eli Lilly Foundation**
- Issue areas include **education, global development, global health, and environment**
- Recognized **thought leader in philanthropy, corporate social responsibility, and evaluation,** with multiple articles published in *HBR and SSIR*

Typically Business Engage With Society In Three Ways, Each Serving a Different Purpose

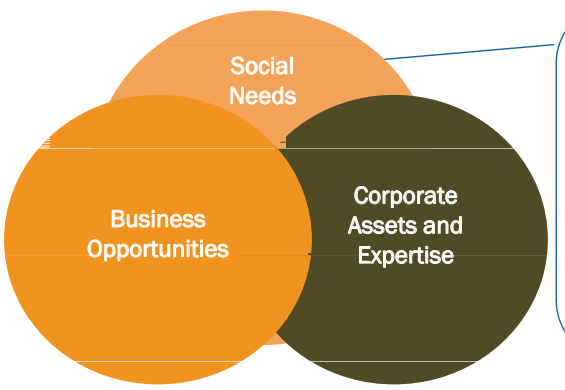
Corporate Philanthropy	Risk Mitigation	Shared Value
"Giving Back"	**"Minimizing harm to society and the company"**	**"Finding business opportunities in social problems"**
Business must fulfill ***community obligations***	*Business should be* ***responsible***	*Social problems can be solved with a* ***business approach***

Shared Value is the way to create large-scale social change

Shared Value Is Different from Traditional CSR

	Corporate Social Responsibility	Creating Shared Value
Motivation	• Corporate reputation	• Competitive advantage
Main Driver	• External stakeholders	• Corporate strategy
Approach	• Reactive	• Proactive
Measurement	• Spending, standard ESG metrics	• Social and economic value created
Management	• CSR / Public Affairs	• Across the whole firm
Business Benefit	• Risk reduction and goodwill	• New business opportunities
Social Benefit	• Successful projects	• Large scale sustainable change

Shared Value Is Grounded in its Intentionality to Solve Social Problems with Business Strategies and Unlock New Value



Social needs can represent enormous markets:

- The Indian healthcare market is projected to reach $280 B by 2020
- Improved highways, ports, airports, and other infrastructure projects require $1.2 T in government investment over the next five years
- The market for clean water in developing countries is estimated at **$13 B**

India's inclusive growth agenda also aims to find opportunities at the intersection of economic growth and sustainable development

Companies Can Increase Competitiveness and Profitability by Helping to Solve Social Problems

"Shared Value holds the key to unlocking the next wave of business innovation and growth.

[Exploring] societal needs will lead companies to discover new opportunities. . . and recognize the potential of new markets previously overlooked."

In Porter's Own Words…

http://www.dailymotion.com/video/xtieci_solo-sessions-2012-michael-porter-creating-shared-value_lifestyle

Companies Create Shared Value in Three Ways

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**

India Faces Many Challenges on Its Journey to Sustainable Development

Underskilled Youth Workforce

2-4% of current workforce vocationally trained

Infant Mortality / Malnutrition

40% Under 5 Underweight

Climate Change

+1°C, Erratic monsoons

Banking Access

41% unbanked

Maternal Health

One maternal death every 10 minutes; off track for MDG

Agriculture

85% of farm HHs earn <$1/day per capital

Women's Empowerment

India in bottom 20th percentile in gender gap indices

Healthcare Access

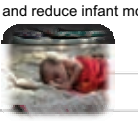
Healthcare spend % of GDP <2%

These are just a few examples of the social problems hindering India's inclusive growth

Many Companies in India See the Opportunity in Solving These Problems Through Inclusive Business Models

Trains over 5,000 youth annually through Construction Skills Training Institutes on topics critical to construction – carpentry, masonry, welding. 100% placement rates ensure L&T **quality, consistent labour** and trainees higher earnings

GE used it marketing and distribution expertise to partner with Embrace – a social enterprise that engineered a **low-cost infant warmer** – to bring this innovation to market and reduce infant mortality



Yum brands made their **restaurants "green"** to cut electricity costs and emissions

ICICI created a **weather-based crop insurance** product for farmers to help mitigate risks due to weather and improve farming practices

Jain created specially-designed **irrigation systems for small-holder farmers** – made them more affordable and appropriate for one-hectare farms. Also secured access to low-interest loans and education of how to use the system to reduce water use and increase incomes

Britannia's **low-cost Tiger biscuits** are fortified with iron, appeal to children, and are marketed in rural areas with public health awareness messages

Paymate uses mobile technology to **allow migrant workers to send funds home** efficiently and securely via kiosks

Use the power of media and celebrities such as Aamir Khan to **raise critical societal issues** such as violence against women in a weekly show, Satyamev Jayate

Novartis brought healthcare to over **45M rural Indians** by creating a separate social enterprise arm, Arogya Parivar,

Companies in India Create Shared Value Across All Three Levels

Reconceiving Products and Markets

Redefining Productivity in the Value Chain

Enabling Local Cluster Development

The varied unmet social needs and cost constraints associated with different industries lead to different shared value opportunities

Companies Across the Globe Are Creating Shared Value

Reconceiving Products and Markets

Redefining Productivity in the Value Chain

Enabling Local Cluster Development

We will explore some of these examples in more detail in the following section

1 Reconceiving Products and Markets

- Design products and services to **address societal challenges**
  - E.g., Health, education, poverty, environment
- Open **new markets** by serving unmet needs in underserved communities
  - Often requires **redesigned products** or different **distribution methods**

- Businesses can **be more effective** than governments and NGOs in marketing solutions to social problems
- Shared value offers new opportunities for **differentiation, innovation,** and **growth**

1 Reconceiving Products and Markets

healthymagination

GE mobilizes assets across its business to **improve healthcare and grow the market for GE's products**. Expertise in R&D and venture funding is leveraged to develop new products (such as Vscan, a lower-cost handheld ultrasound machine, pictured below) while GE's marketing expertise is used to educate and engage consumers in healthcare improvement.

Business Goals

- **Create 100 new products** by 2015. Forty-three products have been developed to date.
- **Realize revenues and enter new markets** with Healthymagination products*

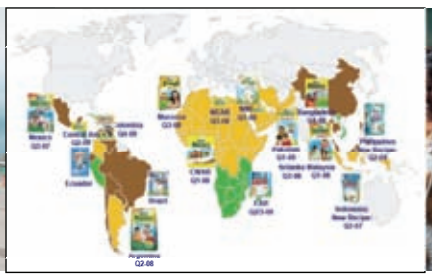
Social Goals

Products are designed to achieve three goals for healthcare by 2015:

- **Decrease costs** by 15%
- **Increase access** by 15%
- **Improve quality** by 15%

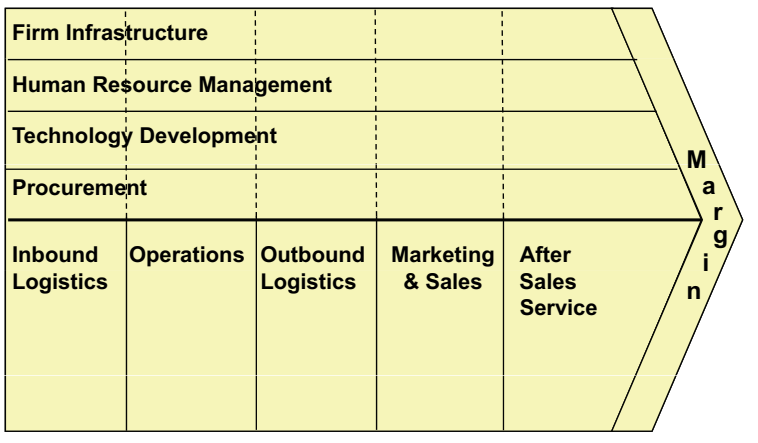
* Sales targets not publically available
Source: Company websites and reports, news articles

1 Reconceiving Products and Markets
Nestlé's Renovated Foods


- Over 6,000 products renovated to reduce salt, fat, and sugar levels
- Nestlé Healthy Kids programmes run in partnership with governments, academia, and NGOs in 58 countries
- 5,000 Popularly Positioned Products (Maggi, fortified milk) designed to meet specific nutritional needs

2 Redefining Productivity in the Value Chain:



Every activity can be redefined through a social perspective

2 Redefining Productivity in the Value Chain

LARSEN & TOUBRO
It's all about Imagineering

L&T created state-of-the-art Construction Skills Training Institutes (CSTIs) to **address the need for marketable skills among rural youth** alongside **growing shortage** of ~30M skilled workers in India

Business Goals

- **100% placement of 15,000 trainees within L&T annually,** bringing hands-on knowledge to the workplace
- **Reducing attrition due to migration**, as training is applicable across geographies

Social Goals

- **Increase skills** and **earning potential** for trainees
- Leverage curriculum and program into **government/NGO partnerships** for wider regional skill development

3 Enabling Local Cluster Development

- A strong local cluster with capable local suppliers and institutions **improves company productivity**
  - e.g., greater supply chain efficiency, lower environmental impact, and better access to skills
- Companies, working collaboratively, can catalyze major improvements in the local cluster and the local business environment

- Local cluster development **strengthens the link** between a company's success and community success
  - What suppliers are **inefficient** or **missing locally**?
  - What **institutional weaknesses** or **community deficits** create internal costs for the firm?

3 Local Cluster Development: Cisco Networking Academy

Cisco established the Networking Academy to train network administrators worldwide, in partnership with industry peers, schools, governments, and universities, to build a pipeline of trained users of their products. The program focuses on economically deprived regions around the world.

Business Outcomes

- Alleviates a **key labor constraint** for Cisco customers
- Students become **familiar with Cisco products**
- **Strengthened relationships** with key suppliers, local businesses and government

Social Outcomes

- Over **10,000 Academies** established in all 50 states and 165 countries
- **Over 4,000,000 students** have been trained
- More than **70% have attained a new job, a better job, increased responsibility, or higher salary**

Source: Company websites and reports, news articles

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 due to lower barriers to entry (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** by $300-400 per acre for onion farmers
- **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

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Today's Workshop Agenda

10:00– 11:00AM	Welcome
11:00AM-12:30PM	Overview of CSR & Shared Value in India
12:30-1:30PM	*Lunch break*
1:30-3:00PM	Breakout sessions by industry
3:00-3:30PM	Call to action
3:30-4PM	Closing remarks

Time: 5 mins

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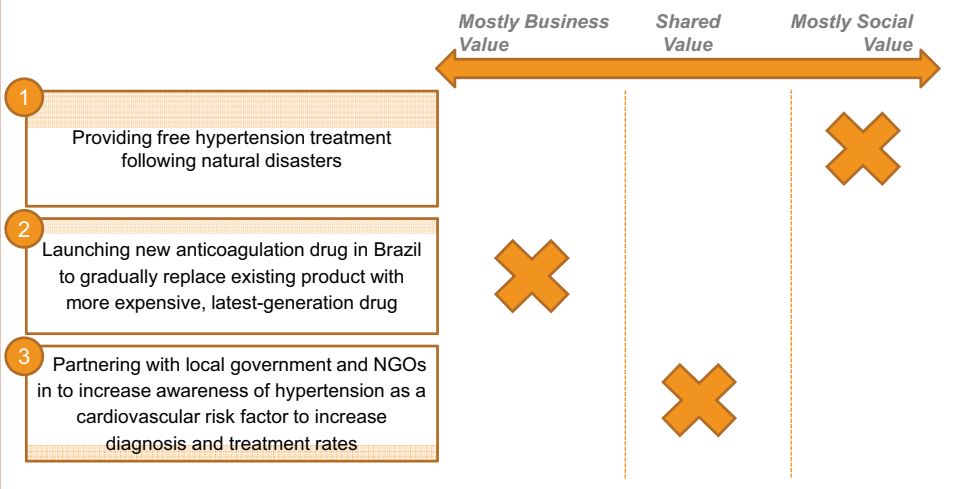
Group Activity: Which Initiatives in Your Industry Create Business Value, Shared Value or Social Value?

Example Company: Pharmaceutical firm making cardiovascular drugs



Instructions: Please discuss the industry-specific examples on your table

Time:
15 mins

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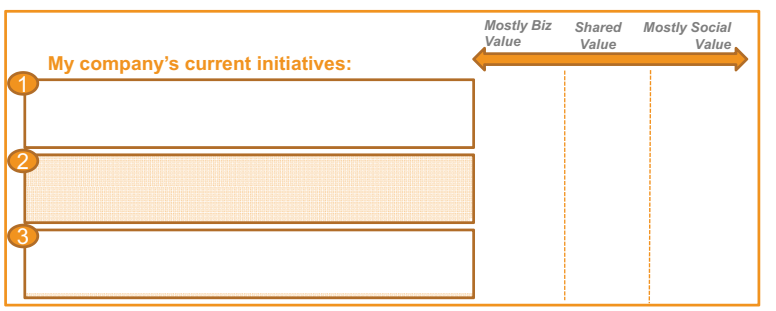
Individual Exercise and Group Discussion: How is Creating Shared Value Relevant to your Company?

- What are your company's major social impact initiatives and how would you characterize them?
  - Mainly business value (social value is incidental)
  - Mainly social value (business value is indirect and hard to quantify)
  - Shared Value (social impact that creates direct economic value for business)



Use the template at your table to write down and categorize your company's various social impact initiatives

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Time:
15 mins

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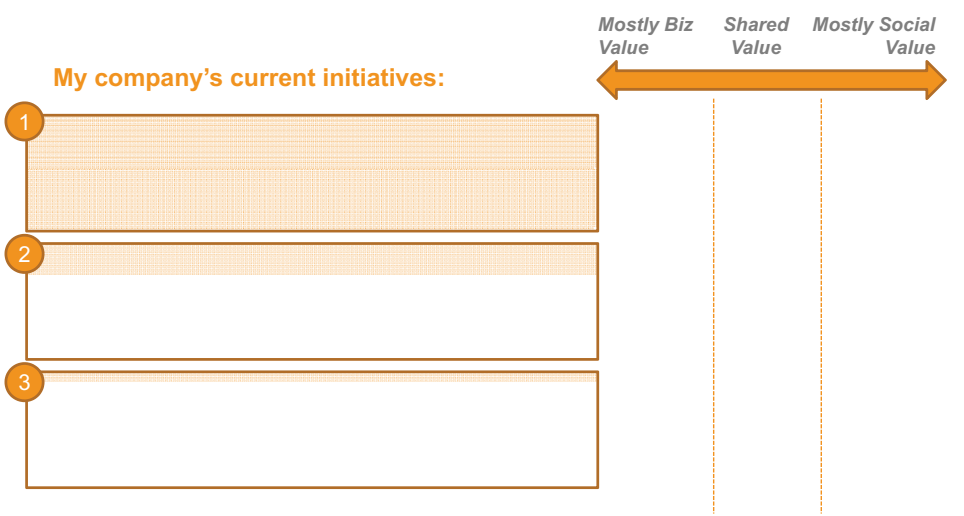
Template: List and Categorize Your Company's Initiatives That Create Business Value, Shared Value or Social Value



When you are done, discuss and compare examples at your table

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There are Two Critical Steps to Begin Exploring Shared Value Opportunities at Your Company

1

Consider social needs as business opportunities

2

Unleash targeted innovation

These two steps will be explored in the industry breakout groups

Shared Value Opportunities Exist at the Intersection of Social Need, Business Context, and Unique Corporate Assets

Time:
10 mins

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Breakout Instructions: Identify Shared Value Opportunities For Your Industry at Your Table

What social issue is being addressed?

What is the benefit for business?
Increased revenue?
Decreased cost?

What assets can we use to innovate towards this opportunity?

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Time:
10 mins

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Breakout Instructions: Prepare a "Pitch" Its Best Idea To the Entire Group

The Pitch Template

Each team will "pitch" its "best idea" in this template:

1. **What specific <u>societal issue</u> does the idea address?**
2. **What is the <u>benefit for the business</u>?**
3. **How can the business <u>innovate</u> towards that opportunity?**

Don't forget to think about ideas that can either uncover new revenue streams or remove barriers to growth

30

Example of a Shared Value "Pitch"

What specific societal issue does the idea address?

By 2050, the world needs to produce 70% more food to satisfy a global population of 9 billion. The key to this is increasing productivity, which in turn can be done with the help of tailored technology solutions.

What is the benefit for the business?

Farming represents a large portion of the livelihoods in many of Vodafone's current and target markets. Technology could unlock $138 billion of additional agricultural productivity by 2020, a portion of which Vodafone can capture as revenue.

How can the business innovate towards that opportunity?

Vodafone first invested heavily into understanding the exact problem to solve and the role technology could play. Now it is working with many partners (commercial units and NGO, government and corporate partners) to design new and adjust existing technology solutions that enhance agricultural productivity.

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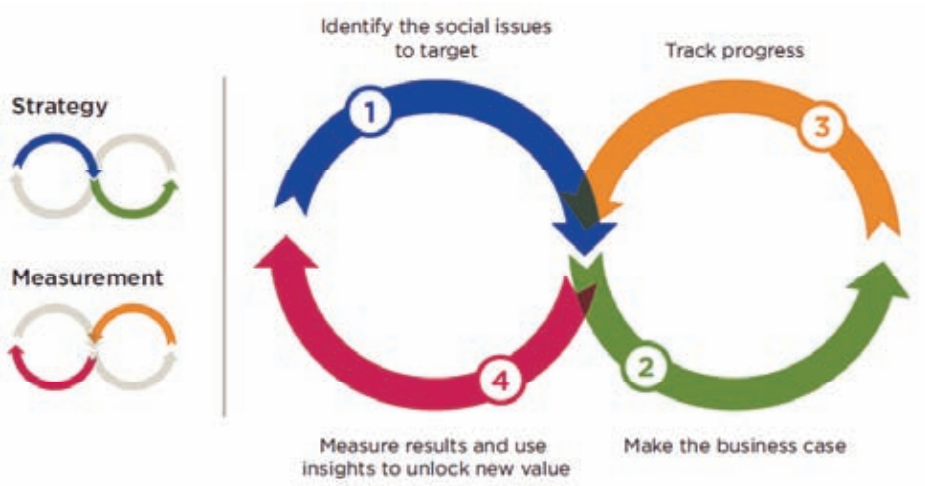
Measure to Unlock Shared Value



You Represent Just One Stakeholder Required to Transform Your Industry and India's Human Development

Companies
- Initiate and drive shared value programs

Governments
- Partner with companies and NGOs to enable and support shared value strategies

NGOs
- Enable implementation of new shared value business models in their fields

Philanthropists
- Partner with companies and NGOs to drive shared value initiatives

Incorporating societal issues into strategy and operations is the next major transformation in management thinking

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What Commitment Can Your Industry Make Together Today to Move Towards Shared Value and Foster Inclusive Growth?

1. What barriers to growth does your industry face?
2. Which of these barriers represent social problems that are ripe to be solved to unleash growth for the industry?
3. What would it take to remove these barriers?
4. Who else (e.g., government, industry association) would need to be involved in finding a solution?
5. What are the first steps required to move towards solving this problem?

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FSG Just Launched the *Shared Value Initiative* with Key Corporate and Foundation Partners

The Shared Value Initiative aims to drive adoption and improve implementation of shared value strategies. Key elements include:

- **Virtual community of practice** (*sharedvalue.org)* for Shared Value research and activity
- **Library** of successful Shared Value examples across industries and geographies
- **Toolkits** to support Shared Value implementation
- **Convenings** to support the exchange of ideas and experiences
- **Network** of affiliated professional services firms to provide Shared Value strategy support

Typically Business Engage With Society In Three Ways, Each Serving a Different Purpose

Philanthropy	Risk Mitigation	Shared Value
SIR RATAN TATA TRUST DR. REDDY'S FOUNDATION bharti Bharti Foundation	*Human Rights* NIKE *Community Development* Ambuja Cement Foundation	ICICI Lombard NOVARTIS Irrigation Inc

Shared Value is the way to create large-scale social change