



REIMAGINING SOCIAL CHANGE

Shared Value: *Creating Competitive Advantage*

9 SEPTEMBER 2015

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Business can engage with society in three ways

Corporate Philanthropy

“Giving Back”

*Business must fulfill
**community
obligations***

Corporate Responsibility

“Minimizing harm to
society and the
company”

*Business should be
responsible*

Shared Value

“Finding business
opportunities in
social problems”

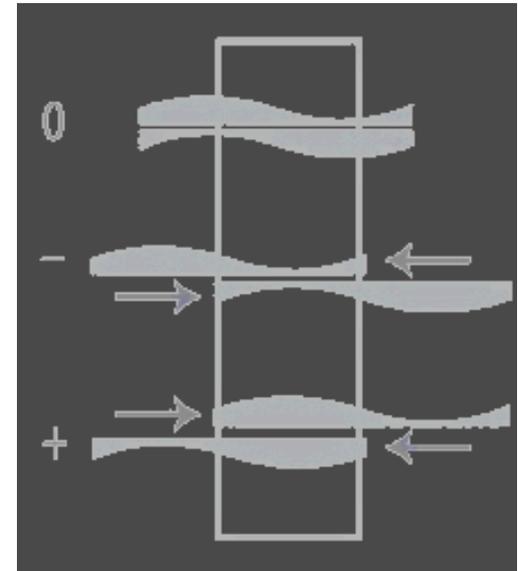
*Meeting social needs
can be a source of
**profit and
competitive
advantage***

*Past efforts have emphasized the friction
between business and society instead of the synergy*

Societal and corporate success are inextricably linked

- **The long-term competitiveness of companies depends on social conditions**
 - An educated and skilled workforce
 - Safe working conditions
 - Sustainable use of natural resources
 - A flourishing local economy
- **Business has an essential role to play in solving social problems**
 - Only companies can create **prosperity** that funds government and civil society
 - **Companies can create solutions** to many social problems in ways that governments and NGOs cannot
 - Companies have the **incentive to take risk**
 - Competitions fuels **innovation, efficiency, and adoption**
 - For-profit models are **scalable and sustainable**

Eyeglasses without opticians



700 million people in need of adjustable eyeglasses

Rainfall-based crop insurance



12 million farmers insured

Micro-life insurance sold by cellphone minutes



135 million people currently insured in Africa
Global market estimated at 3 billion people

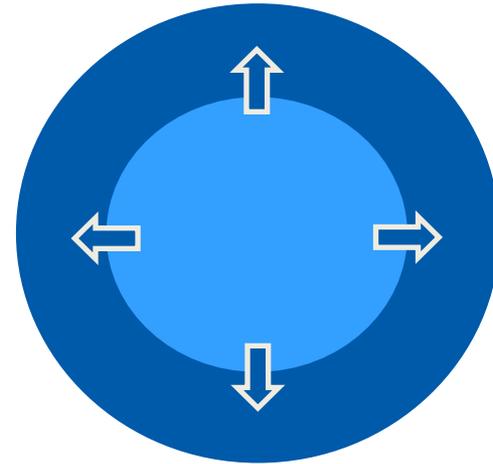
Shared value is self-sustaining and scalable

CSR and Philanthropy



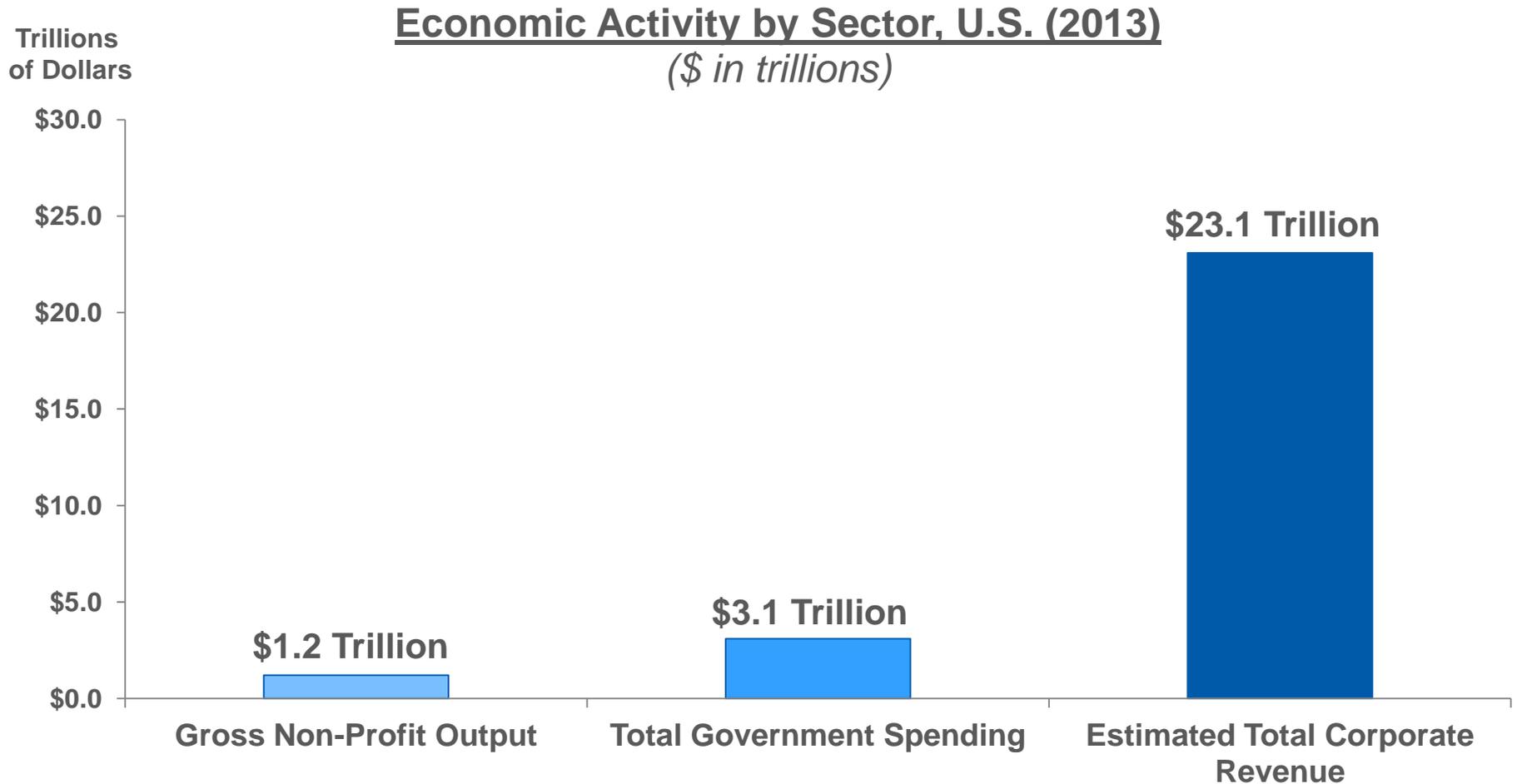
- *Redistribution of value to meet societal needs*
- *Impact dependent on scale of finite resources*

Shared Value



- *Creating new opportunities for the business by meeting societal needs*
- *Impact scalable because shared value is self sustaining*

The resources of capitalism vastly exceed other sources of social innovation



Note: Corporate revenue was estimated based on the 9.1% average annual net profit margin for U.S. private companies.
Source: Bureau of Economic Analysis, 2013, Sageworks Private Company Indicator

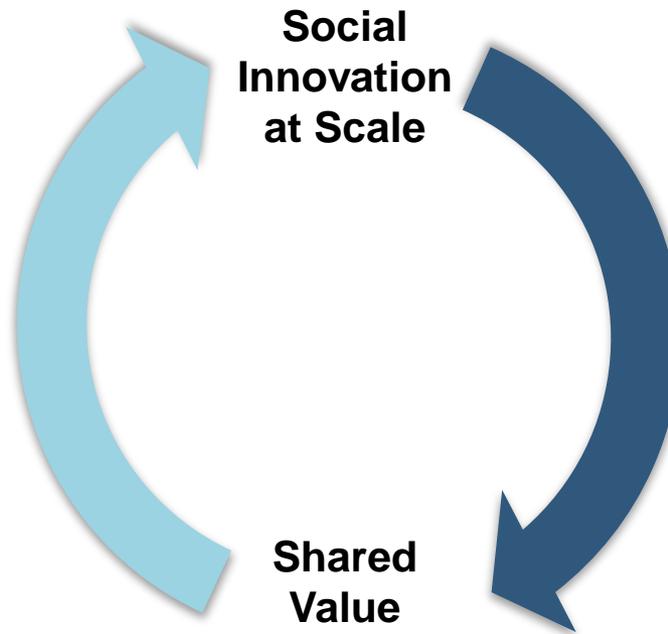
What is Shared Value?

- **Shared Value IS:**
 - Strategies that simultaneously create value for the business and for society

- **Shared Value is NOT:**
 - Sharing the value **already created**
 - Personal **values**
 - **Balancing** stakeholder interests

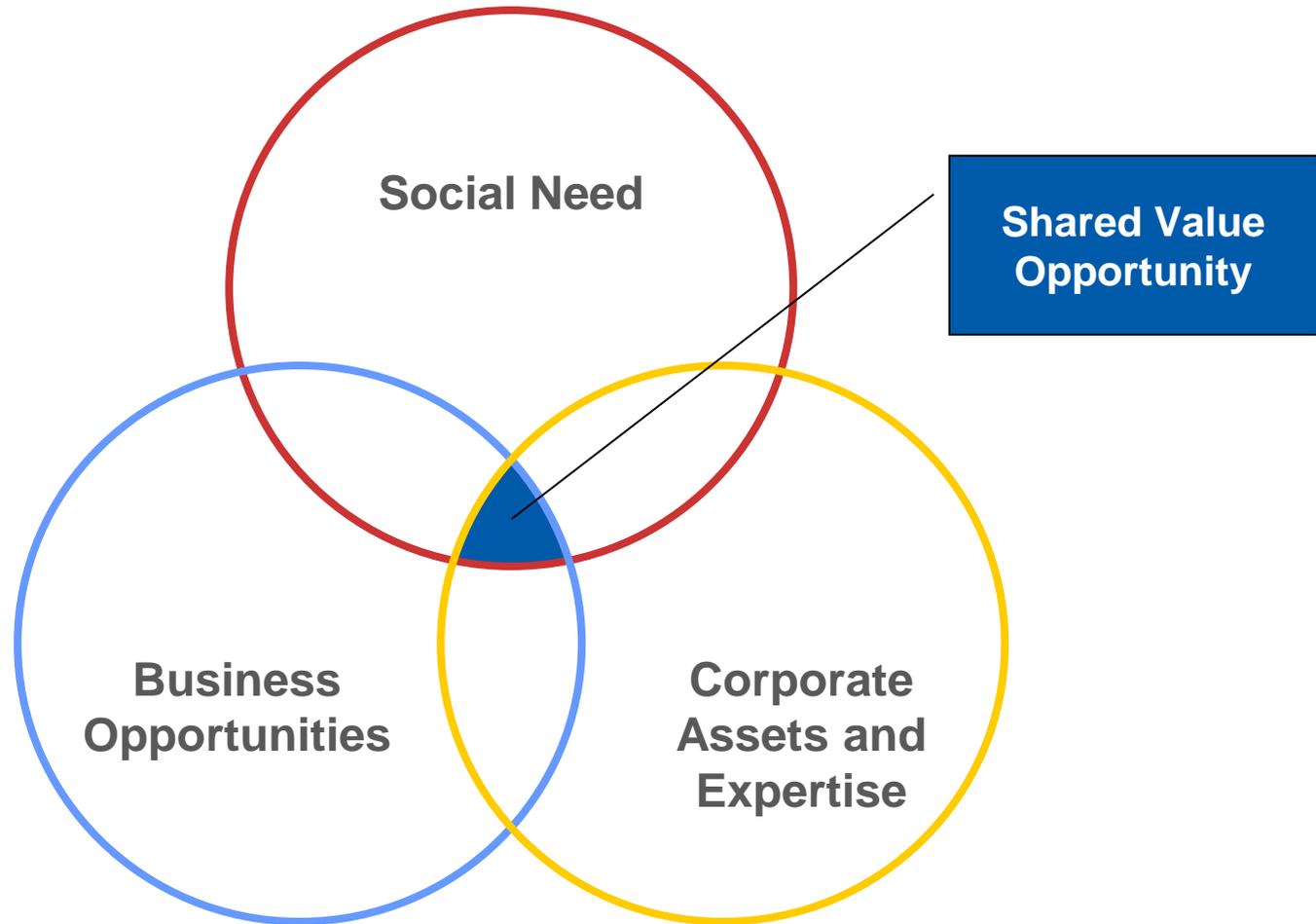
Innovation is essential to creating shared value

Shared value is essential to **invest sufficiently** to overcome many social problems



Social innovation is essential to **break trade-offs** between meeting social needs and maintaining profits

Shared value is found at the nexus of business opportunity, corporate assets and social need



Shared value operates at three levels

1

Reconceiving Needs, Products, and Customers

- Meeting societal needs through products
- Addressing underserved customers

2

Redefining Productivity in the Value Chain

- Driving productivity through better utilizing resource, employees, and business partners

3

Enabling Local Cluster Development

- Improving skills, supplier base, and supporting institutions in the communities where a company operates

These levels are overlapping and mutually reinforcing



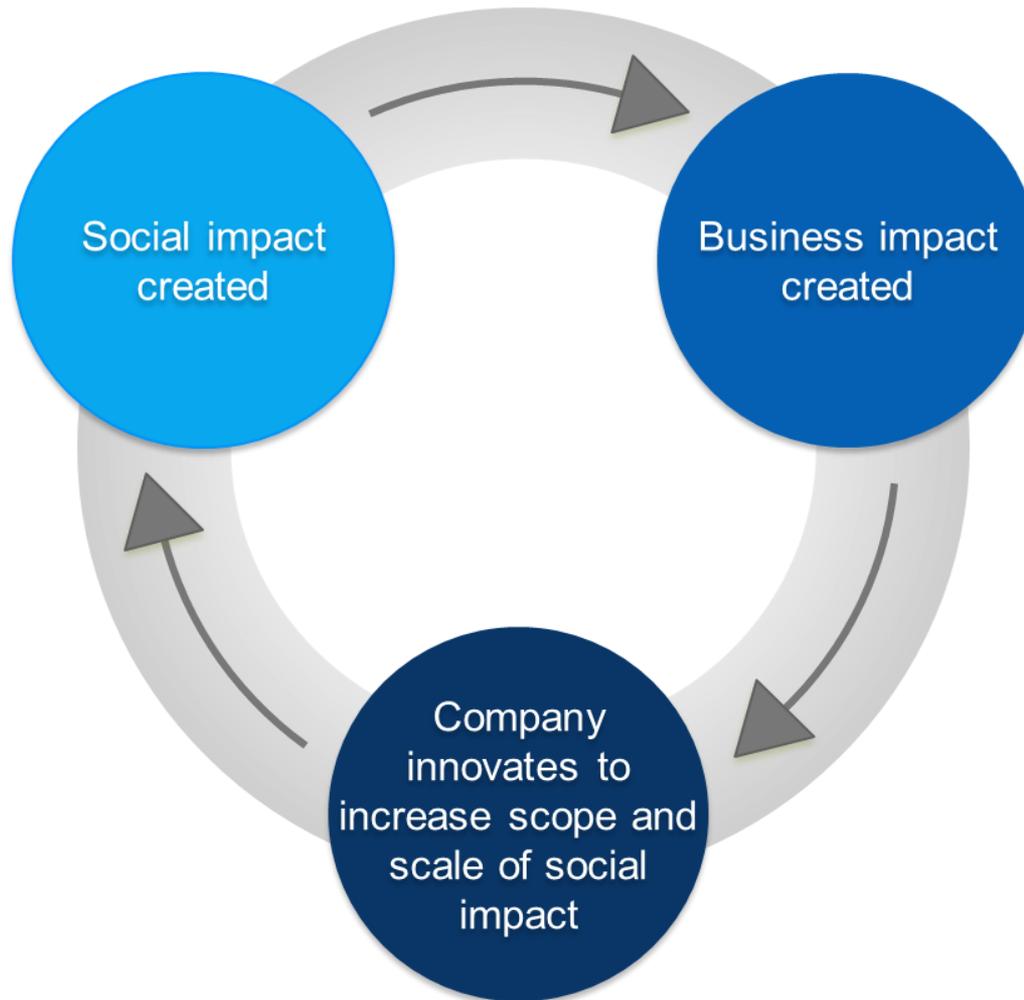
- **Nestlé Micro-nutrient fortification**
 - Worked with the WHO to identify specific nutritional deficiencies by region
 - Severe **Iron, Vitamin A** and **Iodine** deficiencies in West Africa
 - Studied 1,500 low income families in the region to identify purchasing and cooking preferences
 - Developed product with desirable taste and pricing
 - **Maggi** bouillon cubes
 - 75 million units sold daily
 - 200 million lives improved

Each year, Nestle renovates more than 6,000 products to lower salt, fat and sugar content

Nestlé's Milk Districts

- India, China, Latin America, Philippines
- Local milk supply hampered by small infertile farms, droughts, animal disease, and lack of technology to collect, transport, refrigerate, and pasteurize milk
- Over decades the company developed an infrastructure through technology transfer and investment
 - The company established local dairies in thousands of villages, collecting milk from hundreds of thousands of farmers
 - Collection infrastructure was accompanied by veterinarians, nutritionists, agronomists, and quality assurance experts
- Nestlé gained a low cost and steady local supply for a basic commodity – core to its global strategy
- Residents gained improved income, nutrition, schools, medical care, technology, and a higher overall standard of living

Shared value creates a virtuous cycle

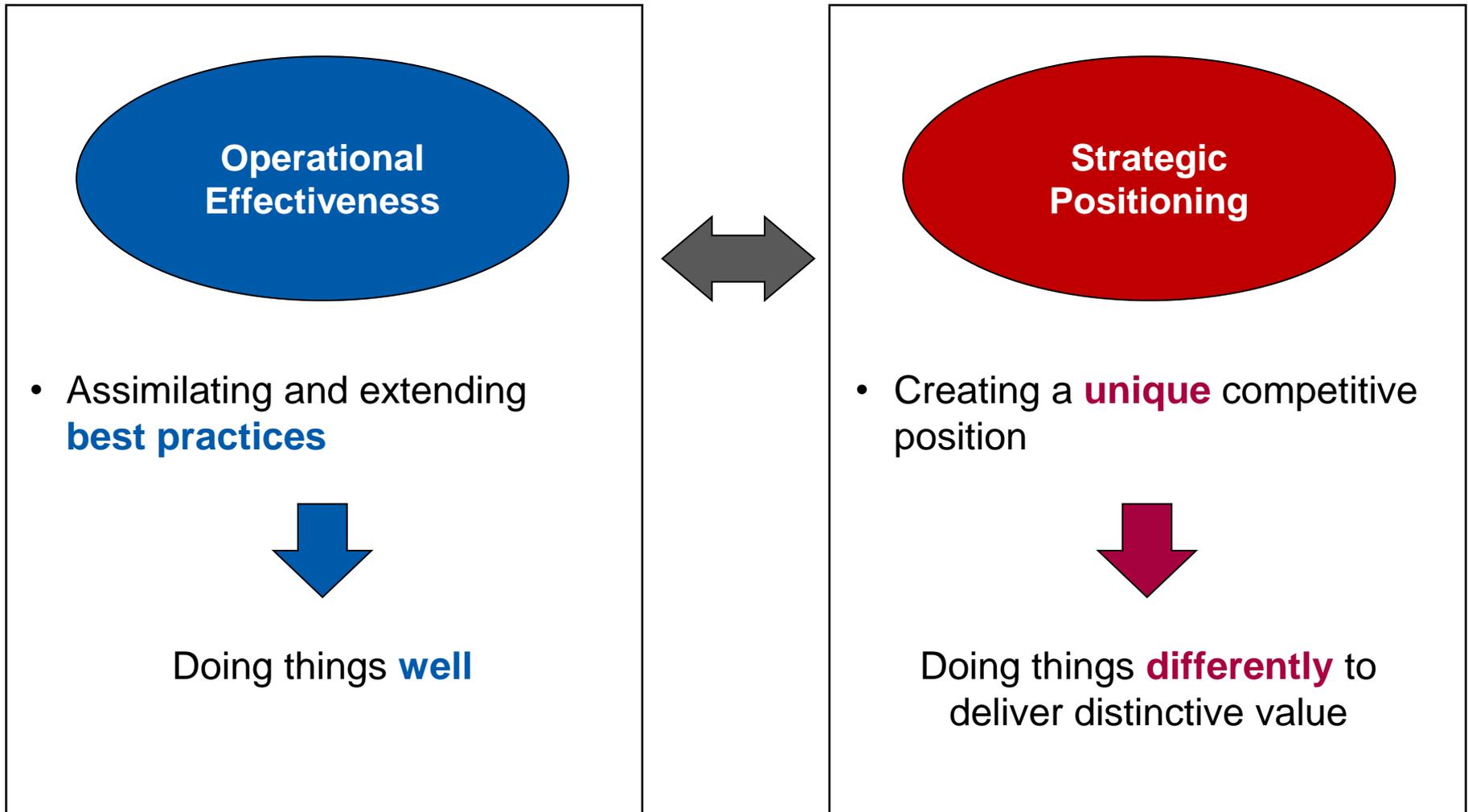


Shared value is a competitive strategy

- Strategy is different than **aspirations**
 - “Our strategy is to be #1 or #2...”
- Strategy is more than **particular actions**
 - “Our strategy is to merge...”
- Strategy is not the same as **mission / values**
 - “Our strategy is to serve our customers and communities while meeting the highest standards of integrity...”

*Strategy is the set of choices
that define a company’s **distinctive approach**,
and the **competitive advantages** on which it will compete*

Operational effectiveness versus strategic positioning



Discovery Health Insurance

- Discovery's unique value proposition is **health for its subscribers** by incentivizing healthy behaviors
- Extended into auto and life insurance



- Vitality is now the largest wellness program of its kind, with **5 million members** globally
- Clinical studies show that Vitality members are **healthier**, **live longer** and have **lower healthcare costs**
- Discovery is one of the **fastest growing** and most **profitable** health insurance companies in the world
- Started in South Africa, expanded into China, Australia, Europe and U.S.

Discovery offers lower premiums
yet earns higher margins than its competitors

Tests of a successful strategy

- A **unique value proposition** compared to competitors
- A **distinctive value chain** involving clear choices about how the company will **operate differently** to deliver its value proposition
- Making clear **tradeoffs**, and choosing what **not** to do
- Integrating choices across the value chain so that activities **fit together** and **reinforce each other**
- **Continuity** of strategic direction, with continuous improvement in realizing the unique value proposition

The essence of strategy is making **choices**

All profit is not equal

- Profit involving shared value enables **society to advance** and **companies to grow faster**
- Profit at the expenses of society is **self-defeating**
- Incorporating societal issues into strategy and operations is **the next major transformation** in management thinking

*Shared value thinking represents
the **next competitive frontier** of capitalism*

On sale this month





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