

Creating SHARED VALUE:

A How-to Guide for the New Corporate (R)evolution

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Driving Innovation and Sustainable Economic Growth

by Gabi Zedlmayer, Vice President, Global Social Innovation, Hewlett-Packard Company

Adopting the concept of creating shared value is a journey companies need to embark on.

Driving economic success and at the same time creating social value is not only a responsibility but also an opportunity to rethink the way we are doing business and drive sustainable economic growth.

At HP, we have a strong heritage of corporate responsibility that was initiated more than 70 years ago by Bill Hewlett and Dave Packard, the company founders, based on the belief that the betterment of our society is not a job to be left to a few but is a responsibility to be shared by all.

We believe that corporate success and social contribution are interdependent, and the same passion, energy and culture of innovation that makes us a successful company can also be used to make a profound and positive social impact in the world. As the world's largest technology company, we're in a unique position to use our global reach to serve considerable portions of the global population, improving quality of life, revolutionizing how businesses operate, and strengthening communities worldwide.

What we call Social Innovation is much more than philanthropy, and we've evolved from the traditional corporate model of financial and material goods donations to a model in which a corporation leverages all of its assets to make a social impact. Our workforce of more than 320,000 enthusiastic and talented employees is truly our greatest asset, and when combined with financial means, technology and our vast network of partners, we aim to make a significant and sustainable impact. This is how we can

provide innovative solutions and help better the societies we operate and live in.

Our Social Innovation approach is an integrated part of our overall business strategy and helps us create long-term value that will benefit customers, stockholders, partners and employees. The innovations driven and supported by our Global Social Innovation team broaden our understanding and perspective on customer needs, creating a virtuous cycle of business development.

We believe in the power of collaboration and innovation to drive sustainable improvement in the world, and we are optimistic about the evolution taking place in the private sector as companies embrace the concept of creating shared value. We are delighted to sponsor this report and the insights it offers to everyone journeying down this path for social impact and also to those who are considering it. In the highly connected world in which we live and work, accelerating the evolution through shared information and insight is something certain to benefit us all.

HP creates new possibilities for technology to have a meaningful impact on people, businesses, governments and society. The world's largest technology company, HP brings together a portfolio that spans printing, personal computing, software, services and IT infrastructure at the convergence of the cloud and connectivity, creating seamless, secure, context-aware experiences for a connected world. More information about HP (NYSE: HPQ) is available at <http://www.hp.com>

1

Creating Shared Value: The New Corporate (R)evolution

Until recently, corporate engagement in society has been viewed as a business cost, to be traded off against profitability. Increasingly, however, companies are realizing that by creating shared value, they can benefit society and boost their competitiveness at the same time.

TRADITIONAL APPROACHES TO CSR, WHICH PIT BUSINESS AGAINST SOCIETY, REPRESENT MISSED OPPORTUNITIES FOR BOTH. THE MOST ADVANCED COMPANIES ARE MOVING BEYOND THIS PARADIGM.

Corporate engagement in society — a broad field that encompasses such terms as sustainability, corporate social responsibility (CSR), corporate citizenship, and social innovation — is attracting more attention than ever before.

A recent study found that 93 percent of CEOs believe issues of sustainability will be critical to the success of their business.¹ Future business leaders agree: A 2007 study of 759 MBA students from 11 top-ranked business schools found that candidates were willing to sacrifice as much as \$8,000 in pay in order to work for an ethical company.²

Traditionally, the interests of business and society have been defined in opposition to each other. The core function of business has been seen at best as socially neutral — creating wealth that can be used to pay for social well-being — and at worst as destructive. Commentators have either encouraged companies to stay out of social issues and focus solely on creating the best financial returns for their shareholders, or else exhorted them to compensate for the perceived damage they do to society during the course of business. In response, many companies have limited themselves to making philanthropic grants and managing acute stakeholder concerns, without necessarily linking those activities to core business interests, expertise, and influence.

Some companies have achieved significant progress through such efforts. In general, however, traditional approaches to corporate engagement represent a missed opportunity. From a social perspective, such approaches create little incremental value beyond the cash amount donated. Equally, from a business perspective, benefits are typically claimed in terms of reputation or goodwill only — concepts that, while important, are often nebulous, difficult to define and measure, externally influenced, and only indirectly connected to the action being taken.

¹ Lacy, P., Cooper, T., Hayward, R., and Neuberger, L., "A New Era of Sustainability," U.N. Global Compact and Accenture, June 2010.

² Montgomery, D.B., and Ramus, C.A., "Including Corporate Social Responsibility, Environmental Sustainability, and Ethics in Calibrating MBA Job Preferences," Stanford Graduate School of Business, 2007.

Creating Shared Value: The New Corporate (R)evolution

In recent years, this sharp dividing line has started to blur. Companies increasingly recognize that their contributions can be more effective if they align them with core competencies. This allows them to leverage their expertise, value chains, and influence to “punch above their weight” on social issues. For example, the Mary Kay cosmetics company used its lobbying power to take breast cancer awareness to the top of the political agenda inside the U.S. Congress. Similarly, Dutch logistics firm TNT applied its expertise to help the World Food Program improve its efficiency in responding to famines and other natural disasters.

However, the most advanced companies have begun to look at social engagement through a different lens entirely. Rather than seeing business and society in opposition, they recognize the enormous potential of business to contribute to social progress. At the same time, they understand that firms depend on healthy and well-functioning societies to thrive. Such companies seek to create “shared value” — incorporating social issues into their core business strategies to benefit both society and their own long-term competitiveness (see Figure 1 below).³

FIGURE 1: **SHARED VALUE**



❖ Companies can create shared value in three basic ways:

Redefining value chains. Companies can improve the quality, quantity, cost, and reliability of inputs and distribution while they simultaneously act as a steward for essential natural resources and drive economic and social development. For example, Nestlé’s milk districts provide comprehensive support to dairy farmers in rural areas, enabling a reliable supply of more than 5 million tons of fresh milk from 30 countries each year.⁴ With its Project Shakti program, Hindustan Unilever is creating jobs for women in rural India through a cost-effective distribution network in small villages

³ For a more detailed discussion of shared value creation, see Porter, M.E., and Kramer, M.R., “Creating Shared Value,” *Harvard Business Review*, January-February 2011.

⁴ See Profile 5 for more information about Nestlé’s approach to shared value.

“WHAT’S HAPPENING NOW IS REALLY A REDEFINITION OF THE BOUNDARIES OF CAPITALISM. CREATING SHARED VALUE IS THE NEXT STAGE OF EVOLUTION IN THE SOPHISTICATION OF THE CAPITALIST MODEL.”

— PROFESSOR MICHAEL E. PORTER, HARVARD BUSINESS SCHOOL

for the company’s soaps, shampoos, and personal care products. Alcoa offers another impressive example of redefining a value chain, through its efforts to boost the recycling rate of aluminum cans in North America, described in Profile 1. The initiative could avoid billions of tons in greenhouse gas emissions each year, while improving Alcoa’s access to a highly cost-effective source of its key raw material.

Reconceiving products and services. Companies can meet social needs while better serving existing markets, accessing new ones, or lowering costs through innovation. Opportunities span a huge range of issues and industries. HP, for example, is developing a range of technological solutions to pressing problems in health and education, such as cloud computing services that can transform the delivery cost of education, or secure labeling to combat counterfeit medications (see Profile 2). Jain Irrigation’s low-cost drip-irrigation systems stand to make a significant impact on agricultural water efficiency in emerging markets like India, as well as in more developed markets like California. Likewise, GE, through its Healthymagination program, is investing \$6 billion to improve health-care access and affordability (see Profile 3). GE aims to develop 100 new products that advance these goals.

Strengthening local clusters. Companies do not operate in isolation from their surroundings. To compete and thrive, they need reliable local suppliers, a functioning infrastructure of roads and telecommunications, access to talent, and an effective and predictable legal system. Anglo American’s small- and medium-size enterprise (SME) investment fund, Anglo Zimele, is an example of a company strengthening local clusters. As of 2008, the fund had invested more than \$3 million in mining-related SMEs located in communities around its South African mining operations, creating about 10,000 new jobs in the process. The local communities benefit from the economic development, while Anglo American also benefits through easier and cheaper access to high-quality suppliers. Cisco’s Networking Academy initiative, explained more fully in Profile 4, is another example. Over the last 10 years, the company has established nearly 10,000 training academies for network administrators and developers, increasing its recruiting base and enabling new customers to emerge in high-growth markets.

Although the move toward shared value is evolutionary rather than revolutionary, it nevertheless represents a paradigm shift in how companies see themselves and their role in society. As Prof. Michael E. Porter of Harvard Business School says, “What’s happening now is really a redefinition of the boundaries of capitalism. Creating shared value is the next stage of evolution in the sophistication of the capitalist model.”⁵

⁵ Prof. Michael E. Porter, speaking at the Nestlé/IBLF Creating Shared Value Forum, London, May 27, 2010.

ALCOA: MINING THE SHARED VALUE OF RECYCLING

For Alcoa, the world's third-largest aluminum company, recycled aluminum is a key source of raw material for the business. Aluminum is commonly referred to as an "infinitely recyclable" material, since recycled and virgin aluminum generally have the same metallurgical properties. Moreover, producing aluminum from its ore, bauxite, is an expensive and energy intensive process. By using recycled material instead, Alcoa can avoid 9.5 tons of global greenhouse gas emissions for each ton of aluminum processed — and it can save a similar magnitude of energy costs.

Seizing the initiative, Alcoa has led industry efforts to raise the recycling rate for aluminum cans in North America to 75 percent by 2015. Achieving that level would inject an additional 300,000 tons of recycled material into the supply chain each year, with an estimated scrap value of \$500 million at 2010 prices. It would also prevent some 3.35 million metric tons of global greenhouse gas from being emitted annually, which is the equivalent of taking more than 600,000 cars off the roads.

To achieve this goal, Alcoa is implementing a diverse range of approaches to help raise the recycling rate. The

company has developed a sophisticated social marketing and education program designed to change consumers' recycling habits. Among other initiatives, it is spend-

By raising recycling rates, Alcoa will increase the supply of a critical raw material while preventing more than 3 million tons of global greenhouse gas emissions.



Recognizing this key shared value opportunity, Alcoa recently invested \$24 million in a new recycling facility in Tennessee. However, it has faced a challenge to find enough material to run the facility at capacity. At the same time, thousands of tons of used aluminum cans in North America are being lost to landfills. Over the last decade, the rate at which cans are recycled in the U.S. fell from 66 percent to a low of 53 percent in 2008. This compares with a rate of more than 90 percent in places as diverse as Brazil and Switzerland.

ing \$3.5 million to support community-based recycling organizations, as well as investing in direct-to-consumer marketing through an iPhone app. The company is also investing in the infrastructure to collect aluminum cans, notably through a joint venture, Evermore Recycling, that works with key suppliers to increase recovery rates.

The program is still at an early stage, but has already seen some success. The decline in aluminum can recycling in North America has been reversed, and in 2010 the recycling rate rose to 57 percent. Going forward, Alcoa will need to align multiple efforts in order to generate an impact, including public policy change, social marketing, advocacy, and infrastructure improvements.

HP: LEVERAGING ASSETS FOR SOCIAL INNOVATION

Since being established in a California garage in 1939, HP has grown to become the largest technology company in the world, employing more than 300,000 staff with expertise stretching from printing to cloud computing. HP has long been regarded as a global leader in philanthropy and responsible business. After a period when it focused on strengthening the profitability of its core business, HP decided in 2009 to look again at the company's social engagement practices. It wanted to establish a distinctive, cutting-edge approach that built on HP's strengths in technology and innovation.

Following a wide-ranging review, HP identified a new concept, social innovation, that blurs the lines between philanthropy, CSR, and its core business. The company is moving beyond simply providing technology to worthy causes and toward an approach that develops technology-based solutions to educational and health problems.

For example, HP has worked with an African social enterprise, mPedigree, to develop a system based on cloud computing and mobile technologies to tackle counterfeit drugs, which are responsible for an estimated 700,000 deaths globally each year. The solution is a secure code printed on packaging that consumers can text to a free number in order to check that the drugs are genuine. The service has been rolled out in Nigeria and Ghana, where more than 40 percent of anti-malarial drugs are counterfeit, and it is being extended to additional countries in 2011.

The system works because it is simple to understand and easy to use: About three-quarters of people who use antimalarial drugs in those countries have access to a mobile phone. Its success lies partly in the array of actors that HP and mPedigree have assembled, including pharmaceutical companies, telecommunications operators, distributors, and regulators.



Similarly, through its Learning Initiative for Entrepreneurs (HP LIFE), the company has invested in face-to-face and online training in e-skills for over a half-million entrepreneurs from 47 countries. The program has helped create more than 6,400 new small businesses, and has enabled countless others to increase their operational efficiency. The U.S. Department of State, among other organizations, has cited HP LIFE as a best practice in the field.

Such initiatives leverage specialist skills and expertise from across the business. For example, the secure drug authentication codes developed with mPedigree use HP's proprietary secure-printing technologies to create labels that are difficult to fake, while HP's cloud computing services enable the medications to be verified from remote rural locations in a matter of seconds. HP's technological expertise also underpins the HP LIFE program from conception to delivery — including help in designing the e-skills curriculum, training and accrediting trainers, and developing the delivery platform for online training.

In order to deliver such innovations, it is essential to directly engage HP staff. As in other knowledge-based companies, expertise resides within dozens of business units and locations around the world.

HP is deploying the unique expertise of its staff to develop entrepreneurial solutions to challenging health and educational issues.

Without access to diverse individuals' energy, knowledge, and talents, implementing the company's social innovation strategy would be impossible.

One year into the rollout of its strategy, HP's program has generated a level of enthusiasm at all levels that has exceeded expectations. This bodes well for the company's ability to embed the strategy inside the organization over the long term, and it also points to the next implementation challenge: harnessing the vast reservoir of interest to create even more value for HP and for society at large.

2

The Building Blocks of Creating Shared Value

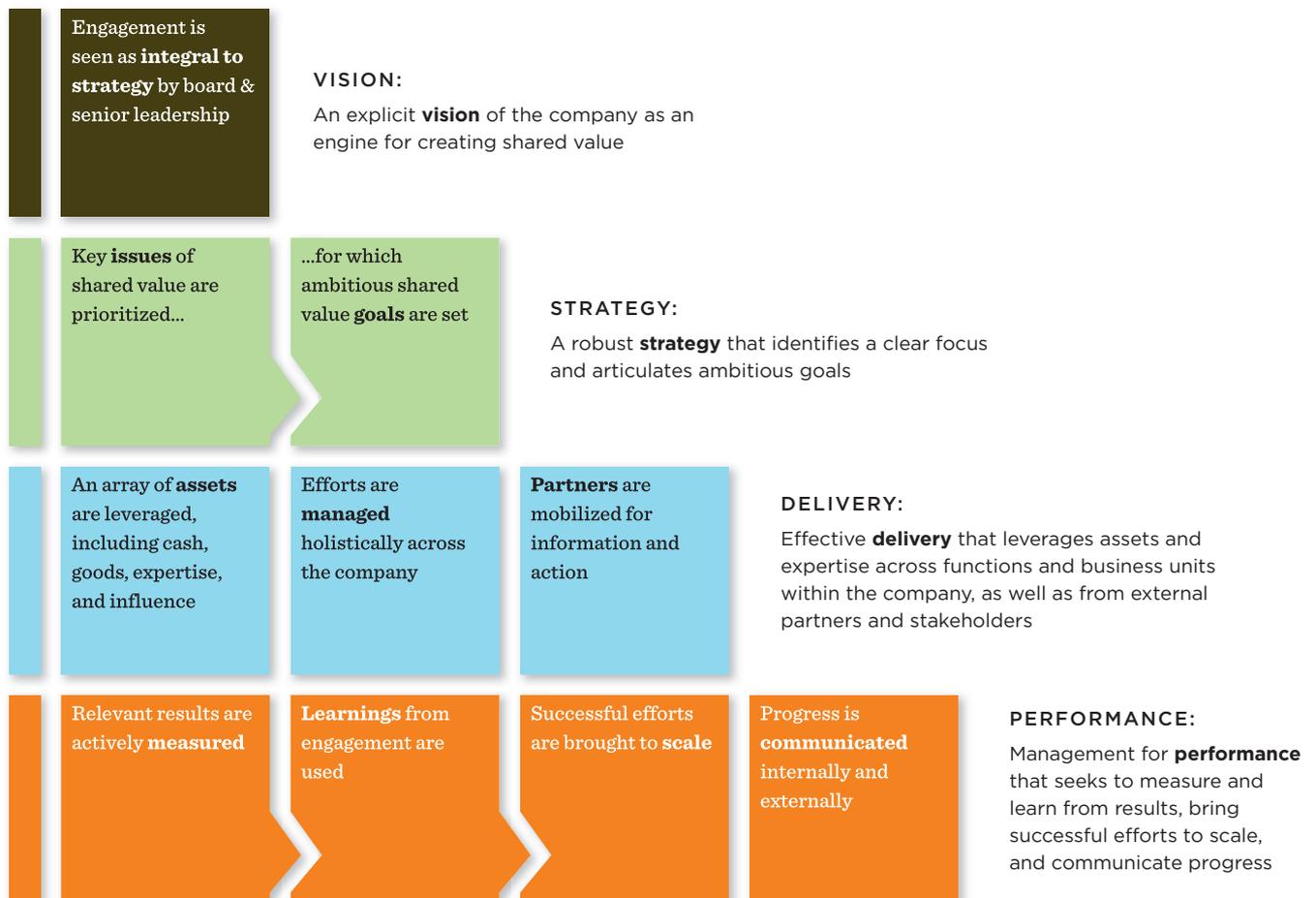
Creating shared value can be broken out into ten key building blocks from adopting a clear vision to measuring, learning from, and communicating performance. Taken together, these building blocks form a blueprint for translating a shared value agenda into action.

COMPANIES THAT CREATE SHARED VALUE FIRST ADOPT AN EXPLICIT VISION OF DOING SO. TO REALIZE THAT VISION, THEY DEVELOP A ROBUST STRATEGY, LEVERAGE INTERNAL AND EXTERNAL ASSETS, AND MANAGE THEIR EFFORTS FOR PERFORMANCE.

Translating the idea of creating shared value into action requires a comprehensive effort that extends across a company.

The right shared value approach for each firm will be unique, depending on its strategy, context, and competitive position. Nevertheless, drawing on FSG's experience working with dozens of leading corporations, we have identified ten common building blocks of creating shared value that together provide a blueprint for successfully adopting this approach.

THE BUILDING BLOCKS OF CREATING SHARED VALUE



❖ Articulate a vision of the company as an engine for creating shared value

Creating shared value starts with an explicit strategic decision by corporate leaders. Without a commitment at the top, companies are unlikely to be able to marshal the resources, focus, and long-term thinking required to make a meaningful impact. Moreover, engaged senior managers set the tone, and they unleash the energy and creativity of the entire firm. The voice and credibility of the CEO, in particular, can be an important tool to leverage other interested parties, and bring new ones to the table.

The De Beers Group shows the power of engaged leadership. Over the last decade, the company founded and led two industrywide initiatives, the Kimberley Process and the Diamond Development Initiative, aimed at removing from the market diamonds that are illegally traded to fund conflict in war-torn areas (also known as “conflict” or “blood” diamonds). The initiatives seek to reduce demand for conflict diamonds and provide

alternatives for the artisanal miners who supply them. While more remains to be done, the efforts have led to impressive results. The supply of conflict diamonds has fallen from an estimated 15 percent of the global market in the late 1990s to less than 1 percent today.

De Beers’ long-term commitment and

industry leadership on the issue has contributed significantly to this success. After 10 years, the group is still actively involved with these landmark efforts. Top executives, from the chairman and CEO downwards, have paid close attention to the initiatives, and the company has taken steps to embed social and environmental engagement into its approach to business. Chairman Nicky Oppenheimer notes, “The restructuring exercise we undertook in 2009 has provided us with the opportunity to hardwire sustainability into our ‘new normal’ and exploit the clear synergies that exist between running a sustainable and responsible business, and a profitable one.”⁶

De Beers has led an industry-wide effort to end the trade in conflict diamonds. As a result, over the last decade, conflict diamonds have fallen from around 15% of the global market to less than 1%.

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⁶ De Beers, “Report to Society 2009.”

RIDING A SOCIAL MEGA-TREND

The General Electric Company's Healthymagination program is putting shared value into practice to produce substantial social and financial benefits. GE is a market leader in businesses that span a wide range of sectors, including aviation, consumer finance, and media. The company has already enjoyed considerable success through its Ecomagination strategy, which aims to reengineer thousands of GE products to reduce their environmental impact. This initiative has generated more than \$17 billion in revenues in 2008, even in the face of a financial crisis.

Building on this approach, GE identified its health-care division as another opportunity to create shared value.

The company recognized an emerging mega-trend as the health technology market moves away from expensive new technologies and treatments toward cheaper, mass-market access. Driving the shift are the emergence of a new middle class in developing countries and the increasing cost-consciousness of Western health-care systems.

To position itself ahead of these trends, GE launched Healthymagination, an integrated corporate strategy begun in 2008, with four goals to be achieved by 2015:

- Lower the cost of health care by 15 percent
- Increase access to GE health technologies by 15 percent
- Increase the quality of health-care delivered by 15 percent
- Strengthen the profitability of the health-care business



To achieve these goals, GE has assembled a range of assets and resources from across the corporation, starting with a \$6 billion investment between 2009 and 2015. Much of this figure is being spent on new technologies, through in-house R&D and the acquisition of promising start-ups. About a third of the investment is dedicated to financing health-care providers through GE's banking division. Finally, GE Capital has created a \$250 million equity fund to fund new innovations in health technology.

With Healthymagination, GE is developing new products that grow its business while benefiting society.

While the strategy is still in its early days, initial results are already impressive. Twenty-four new products have been developed, and the company is on target to create 100 innovations by 2015. A recent review of the philanthropic component of Healthymagination, known as Developing Health Globally, found that in Ghana the number of hospital-based deliveries are up 50 percent, the use of anesthesia and monitoring in surgery is as much as 250 percent higher, and outpatient attendance is up to 200 percent higher, depending on the condition.

Develop a robust strategy that identifies a clear focus and articulates ambitious goals

In order to create shared value, the vision must be translated into a clear strategy that focuses on a limited set of relevant opportunities and articulates ambitious, measurable impact goals. Developing a strategy gives shape and direction to a company's engagement, ensuring that its efforts are mutually reinforcing and add up to meaningful change.

Nestlé has defined a clear strategy focused on three key issues: rural development, water use, and nutrition. Each area has a direct impact on the company's core business.

Prioritize key shared value issues. A good strategy should be tailored to reflect a company's unique positioning, capabilities, and competitive landscape. It should identify a handful of genuine social challenges that also represent cost-reduction or growth opportunities, and prioritize the areas where it is best placed to act. Equally important, companies must shape this identification and prioritization process internally, rather than

allow external stakeholders to be the driving force. That way, they can retain control over their strategic agenda and maximize their chances of advancing strategic goals in ways that create value for society and the business.

Over the last five years, Nestlé has pioneered a shared value approach — in fact, the company coined the term. It has defined a clear strategy focused on three key issues: rural development, water use, and nutrition (see Profile 5). Each area has a direct impact on the company's core business. Rural development is essential for a reliable, high-quality supply of raw materials, particularly perishables like milk, fruits, and vegetables. In addition, agriculture accounts for 70 percent of the world's water use, while many of the world's productive agricultural areas — from which Nestlé sources its ingredients — face severe water stress. Likewise, by focusing on nutrition, the company can differentiate its products while contributing to the health and well-being of consumers.

Of course, in focusing on these issues, the company does not neglect other areas, such as energy efficiency. However, at the same time it is careful to invest its scarce resources and management attention on the priorities that offer the greatest potential for shared value creation.

Set specific, ambitious goals. Goal-setting is an essential management tool for creating shared value: It focuses activities, creates and sustains momentum, and provides a basis for internal and external accountability. Well-crafted goals are ambitious: Just as business units do not outperform without being stretched, cautious incrementalism is unlikely to spur the leaps in innovation that are needed to make a serious impact. However, companies also strike a balance between clearly defining desired outcomes and allowing managers the freedom to decide how to meet them.

COMPANIES SHOULD DEVELOP A STRATEGY THAT INCORPORATES ROBUST, MEASURABLE GOALS FOR SHARED VALUE CREATION, AND LEVERAGES UNIQUE CORPORATE ASSETS.

Medtronic, for example, has identified a core company mission to increase access to its medical device technologies. In 2010 at the Clinton Global Initiative, Medtronic announced a \$1 million commitment to create a noncommunicable disease (NCD) platform. Such diseases account for more than 60 percent of deaths worldwide, and four-fifths of people suffering from NCDs live in low- and middle-income countries. The issue represents not only a huge public health challenge, but also a growing market opportunity for Medtronic.

The scale of the company's ambition is impressive. When Medtronic announced the investment, it also stated that it planned to increase the number of people using its devices from 7 million today to 20 million by 2020. By holding itself publicly accountable, the company stands a stronger chance of transforming the lives of an underserved segment of the population. It also sends a powerful signal to competitors, stakeholders, and potential partners about its seriousness in undertaking the challenge.

 **Manage delivery by leveraging assets and expertise from inside and outside the company**

Having set ambitious goals for a handful of relevant issues, the most effective companies next mobilize a wide range of internal and external resources. This step can be broken down into three essential practices.

Deploy a range of assets to address the issue. These assets can include cash, goods, and services; the skills of employees; and political and business influence. The most effective companies bring to bear an imaginative combination of assets in areas where they have an edge over other actors. With its anticounterfeit technology for medicines, for instance, HP is leveraging expertise that ranges from imaging and printing to mobility services and cloud computing (see Profile 2). GE is partnering with the media company NBC Universal to provide health and wellness content that complements its Healthymagination strategy (see Profile 3).

The most effective companies bring to bear an imaginative combination of assets in areas where they have an edge over other actors.

Medtronic's NCD initiative combines the company's R&D and marketing units, staff volunteers, and philanthropic efforts to develop and scale up solutions for chronic diseases in emerging markets. David Etwiler, former vice president for community affairs, says:

"Our vision calls upon us to leverage all our resources on alleviating pain, restoring health, and extending life. By focusing on areas where we have unique expertise as an organization, we are fulfilling our vision and increasing our impact on society."

The Building Blocks of Creating Shared Value

Manage efforts holistically across the organization. In the most effective companies, social engagement is not confined to an isolated silo, but instead is integrated into a wide variety of roles and functions, and often overseen at the board level. Rather than acting purely as grant administrators or report writers, CSR and philanthropy personnel play an orchestrating role, working to embed practices and coordinate multifunction projects throughout the company.

Alcoa, for example, recently created the position of chief sustainability officer to lead its social engagement activities, reporting directly to the board. One of the new CSO's early moves was to embed responsibility for sustainability goals within the relevant business units. For example, rather than being separately run, the recycling promotion efforts described in Profile 1 are managed as a business initiative from within the North America Rolled Products division, one of the primary consumers of recycled aluminum.

Collaborate with partners. Most companies consult with stakeholders and work with NGOs, either as an implementing partner or a grantee. However, companies that create shared value go beyond this. They develop consultation processes that inform action, but do not allow the loudest voices to dominate the agenda. They also take part in coalitions that tap into a range of complementary capabilities from across fields and industries to tackle a common issue.

“First, remember you’re not the smartest person in the world. Second, remember that not all the smartest people work for your company. Third, work with the smartest people.”

— Dr. Howard-Yana Shapiro, Global Director of Plant Science and External Research at Mars, Inc.

For instance, Mars partnered with IBM and the U.S. Department of Agriculture to sequence the cacao genome. The company hopes to revitalize cocoa production in West Africa, which is facing significant productivity challenges, with improved techniques to breed higher-yielding and disease-resistant plants. Dr. Howard-Yana Shapiro, global director of plant science and external research at Mars, explains the logic of working with people outside the company: “First, remember you’re not the smartest person in the world. Second, remember that not all the smartest people work for your company. Third, work with the smartest people.”

De Beers' work to combat the trade in conflict diamonds, described earlier, provides another example of the power of reaching outside an organization's four walls to achieve results. A key success factor in the initiative was involving the industry as a whole. Doing so meant it was possible to shut down the trade almost entirely, rather than simply reroute it through less scrupulous channels. The company partnered with two NGOs, Global Witness and Partnership Africa-Canada, to create a neutral platform from which to engage competitors like the Rapaport Group, as well as value chain partners like Tiffany & Co.

CISCO: TRAINING THE NEXT GENERATION OF STAFF AND CUSTOMERS

Cisco Networking Academy is a textbook example of how to build long-term competitive advantage via a sophisticated social engagement program.

The global cloud-based initiative offers training in the latest networking technologies through a network of academies developed in partnership with educational institutions, non-governmental organizations, and U.N.

agencies. Since 1997, the company has invested \$350 million to create 10,000 academies in 165 countries, with an emphasis on reaching underserved communities. For

example, more than half of U.S. community colleges host an academy, and Cisco has partnered with several U.N. agencies to create academies in 40 of the world's least-developed countries.

Students learn online in one of 16 languages with the support of nearly 20,000 Cisco-trained instructors. Extracurricular activities include networking skills competitions, a career networking website with up to 30,000 positions available, and a Facebook fan page with 150,000 members. More than 1 million online assessments are conducted each month, enabling Cisco to analyze student achievement data in real time in order to find ways to refine and strengthen the program.



The Networking Academy program is creating significant social value. Cisco spurs economic development in thousands of communities as it adds skills to the local workforce and thereby increases the attractiveness of those areas as business locations. For the more than 4 million students trained since the launch of the program, the experience can lead to life-

Cisco Networking Academies are providing large-scale educational opportunities and an important source of competitive advantage.

changing improvements in their standards of living. More than 750,000 students are now considered "Cisco certification ready." Based on 19,000 exit surveys, more than 50 percent of these graduates have found a new job, and 70 percent have attained a new job, a better job, increased responsibilities, or a higher salary.

The program is also strengthening Cisco's business. The company's continued growth depends on a healthy supply of qualified technicians who can support and administer complex networks. The academies provide Cisco with preferred access to a skilled workforce in high-growth markets, and they create the sophisticated customers the company needs to fuel that growth. Not all of these trainees will go on to work for Cisco or buy its products, of course, but as the market leader, the firm nevertheless stands to benefit tremendously from the program's success.

Structure efforts for high performance

Finally, the most effective strategies to create shared value are managed to deliver high performance. Initiatives are structured for continuous improvement — an essential step if ambitious impact goals are to be met. As we will expand on below, companies measure their progress against impact goals and intermediate milestones; learn lessons from their activities and make adjustments; bring successful initiatives to scale, while discontinuing unsuccessful ones; and communicate in ways that engage and signal their peers, competitors, and markets.

Measure progress on key indicators. As the old saying goes, “If you can’t measure it, you can’t manage it.” Companies that create shared value track the usual performance measures against a baseline, but they also gauge underlying changes in the targeted issue. Cisco measures the number of students that its Networking Academies have trained, but also follows up with them to understand how many go on to secure a new or better job. Similarly, Alcoa measures the overall recycling rate in North America, rather than simply the proportion of recycled material used in its own products. Where efforts have competitive implications, or where indicators demonstrate a need for more work to be done, companies with robust measurement systems may not release information for external use.

Nestlé’s effort to tackle the issue of agricultural water use offers an instructive lesson. Early on, the company recognized that its existing approach — tracking average water use by product weight — was neither relevant nor sufficiently nuanced for the problem it was trying to solve. While water savings at the processing stage continued to be important, a higher priority was farmers’ access to sufficient water to produce the raw ingredients the company depended on.

As the old saying goes,
“If you can’t measure it,
you can’t manage it.”

The company also realized that all areas were not the same. Access is a critical issue in arid and semi-arid regions like northwest India, northern and central Mexico, and South Africa, where groundwater aquifers are overexploited and surface water is in high demand. In

places where fresh water is abundant, though, access is less important. So Nestlé developed an internal water-stress analysis to establish where it should focus efforts within the value chain, and to monitor and track improvements. This allows the company to continually adapt and focus its investments on the locations with the highest return on its resources and attention.

Crucially, effective measurement depends on having a robust strategy. Nestlé was able to identify water stress as a key unit of analysis precisely because it had decided to focus on water use in agriculture as a key shared value issue. Similarly, Alcoa’s core indicator became recycling rates, as opposed to the carbon footprint these rates imply, because it has specifically identified

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INITIATIVES SHOULD BE SCALED UP.

increasing the supply of recycled aluminum as a shared value opportunity. Companies that seek to develop a measurement system, but that have not articulated a clear set of shared value goals, may find it challenging to decide which of the hundreds of possible metrics are most relevant and cost effective.

Learn from measurement to improve efforts. The most successful initiatives are constantly on the lookout for opportunities to optimize investments and to rethink aspects that are not working as well as hoped. McDonald's, for example, has tapped into the power of its franchisee network to identify and scale up good practices through a website, www.bestpractices.mcdonalds.com, that allows franchisees to share ideas for greener operational practices. By crowdsourcing ideas, the company can move faster and further to reduce its greenhouse gas footprint.

McDonald's has tapped into the power of its franchisee network to identify and scale up good practices.

Nike's approach to identifying and addressing challenges in real-time is equally powerful. The apparel company goes beyond simple progress indicators to isolate and rank the root causes of challenges that the company and its suppliers face. This allows it not only to identify areas that require attention, but also to act in a way that increases the likelihood of success.

Address issues at scale. Opportunities to create shared value often lie in large, complex social challenges. To unlock solutions, it is essential to act at scale — otherwise, the impact on both social progress and corporate competitiveness will be negligible. Vodafone's M-PESA mobile banking service shows the benefits of working at scale. The service has grown from a pilot initiative in Kenya to handling an estimated 20 percent of that country's GDP, and it has been rolled out in additional countries, including Tanzania, Fiji, Afghanistan, and South Africa. By the end of 2010, the service had more than 11 million registered customers.

To reach this scale, companies systematically identify high-performing initiatives based on robust progress measures, and then reallocate resources toward them and away from less successful ventures. It is important to handle this process sensitively, particularly when it entails phasing out legacy programs that have a strong emotional attachment among employees.

Nevertheless, scaling back less successful projects is a necessary step in order to reassure managers and shareholders that creating shared value does not simply involve devoting a larger pool of assets to the same activities. For example, Intercontinental Hotels Group is working with its franchisees to align them with a global strategy focused on local economic opportunity. The company is gradually winding down less strategic local initiatives, such as animal welfare, in order to focus instead on more strategic initiatives.

NESTLÉ: ONE COMPANY'S SHARED VALUE JOURNEY

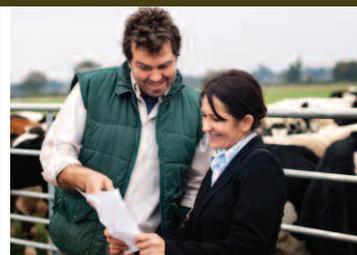
Nestlé is one of the world's largest food and beverage companies, and the global market leader in dairy and coffee. Based near Lake Geneva in Switzerland, the company employs about 280,000 employees in 165 countries. While it has a culture of strong leadership, it has a devolved structure and its managers enjoy a high degree of autonomy.

The company was founded more than a century ago with shared value at its heart. Pharmacist Henri Nestlé developed and patented the first baby-milk formula in order to save his neighbor's children, who were dying from malnutrition. As the company grew, its contribution to society continued. For example, in the Moga district of northern India in the 1920s, the company established its first milk district — a comprehensive package of support to small-scale dairy farmers that improved both their livelihoods and Nestlé's supply chain. By the first decade of the 21st century, however, some observers sensed that the company had "lost its way." Activists increasingly challenged individual aspects of the company's operations.

Having developed the concept of shared value, defined what that meant for the company, and prioritized key issues, the next step for Nestlé was to understand where it currently stood. The firm commissioned a series of reviews of its operations, starting with Latin America, to identify existing examples of shared value that could be built upon, such as the milk districts. These reviews highlighted starting points for further development and helped explain the concept to a mostly internal audience of autonomous — and sometimes skeptical — managers.

By 2007, the company had built enough internal buy-in to develop specific corporate-level goals and performance measures. However, the process of embedding shared value into the corporate DNA did not stop there. Since 2008, Nestlé has taken a number of measures to further build momentum for its shared value agenda. It has redrafted its corporate business principles to explicitly include the concept, and changed its articles of incorporation to reflect the new direction.

The evolution of Nestlé's shared value strategy, and how it has been embedded in the company, holds valuable lessons for organizations that want to follow a similar path.



Recognizing its skeptical investor base, the company has organized conferences in New York and London to explain the idea to investors and highlight the

Inspired by a 2004 conference that FSG cofounders Michael Porter and Mark Kramer hosted, the company identified the concept of shared value as one of its core corporate goals.

In 2005, it followed this up by selecting three priority issues on which to focus: rural development, water use, and nutrition. The first two areas were relevant primarily to the company's supply chain. Farmers produce most of Nestlé's raw materials. In order to meet Nestlé's reliability and quality standards, farmers need vibrant rural economies, access to sufficient irrigation water, and fertile soils. The third area focused more on consumers: Nestlé saw products of superior nutritional value as a source of competitive differentiation. All, of course, are also tremendously important social issues in their own right.

benefits to long-term wealth creation. It has created a governing board, chaired by the CEO, to coordinate moves toward shared value across Nestlé's businesses. And most recently, it has launched a training program aimed at all 280,000 employees — ranging from forklift operators to C-suite executives — to explain shared value and how it relates to their work.

COMMUNICATION SHOULD FOCUS ON INFORMING KEY INTERNAL AND EXTERNAL STAKEHOLDERS, AND ENGAGING THEM IN EFFORTS TO CREATE SHARED VALUE, RATHER THAN ON MANAGING REPUTATION.

Communicate progress to both external and internal audiences.

Effective companies go far beyond traditional CSR reporting, employing a range of communications approaches to reach specific groups in targeted ways. The organizations have a clear sense of who consumes the information they provide, what these people need to know, and how to meet those needs efficiently. Novo Nordisk, for example, provides in-depth data on its social and environmental performance in a format that is similar to its financial statements, enabling investors and analysts to easily incorporate the information into overall assessments of corporate performance. Dow Chemical offers quarterly updates on its website about a range of indicators, and it invites readers to track the company's performance. SAP's interactive reporting system allows users to create charts that generate the insights they need.

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Internal communication is particularly important. Employee engagement has long been at the root of corporate responsibility and social engagement practices. This is particularly true for companies that seek to create shared value. Shared value creation requires the active participation of a wide range of corporate functions. To develop a sense of shared ownership, employees must first understand and buy into the concept.

Internal communication is an essential ingredient of any effort to embed shared value creation in a company.

HP, for example, has engaged with more than 150 senior managers to communicate its social innovation strategy and bring key stakeholders on board. It also participates in broad-based initiatives like the U.S. National Lab Network — a White House online education initiative in which corporate volunteers and others support learning in science, technology, engineering, and mathematics — to build and maintain support within the wider workforce.

Siemens has similarly created an internal stakeholder engagement position specifically for this purpose. As we will explore in the next section, internal communication is an essential ingredient of any effort to embed shared value creation in a company.

3

Getting Started

Embedding shared value creation in a company is likely to require a thoroughgoing change process. While the details of this process will vary for each firm, three common lessons can be identified.

Adopting a shared value agenda often requires a major mindset change within a company.

Traditional approaches have tended to view corporate efforts to engage with social issues as functionally separate from core operations. Companies that share this perspective may recognize the necessity of acting on social issues and see value in broadly aligning that action with the goals and philosophy of the business. However, their activities typically consist of stand-alone programs managed by a specialist team, often focused on externally defined priorities, and dependent on — but not integral to — the daily “business of business.” Corporate goals are defined primarily in terms of changes in internal and external reputation, whether among pressure groups, potential recruits, or current employees.

Creating shared value demands a different set of assumptions. Social engagement is treated as a long-term investment that is intrinsic to business success, similar to research and development. Instead of reacting to external pressure, companies define their own priorities, based on a clear understanding of their business goals, their corporate impact on society, and the effect of social issues on their competitiveness. Reputation and employee engagement are still important, but they are a consequence of a company’s efforts, rather than the principal driver. Action is embedded in and coordinated throughout the entire business, as opposed to being conducted through isolated initiatives. Managers across the firm are accountable for progress.

Moving a corporation toward a shared value approach, then, is likely to require a thoroughgoing change process. The details of this process will differ for each firm, depending on its goals, context, history, and culture. Nevertheless, it is possible to identify three common lessons for companies that want to take this step.



Companies should work from the inside out and from the top down

Creating shared value entails a progressive reorientation of how the company understands its relationship with society. Firms should first identify a vision and direction, and then systematically work to build that into the corporate DNA.

HP has initiated a far-reaching change process in order to weave a shared value approach into the fabric of the business. For its approach to work, the company must engage employees across the business in deep and sustained ways, as described in Profile 2. Like many companies of its size, HP operates with a matrix structure that affords managers a high degree of autonomy. To be successful, the company must persuade managers to incorporate shared value goals into the planning and execution of their work. Many other corporations are taking a similar approach. Houghton Mifflin Harcourt, for instance, is seeking to leverage its position as a leading textbook publisher to improve educational outcomes for the students it serves. To do so, the company's new shared value team has proactively involved leaders of functions ranging from product research to global supply chain.

For such ambitious efforts to “stick,” the first hearts and minds to be won are those at the top. Even in firms with the flattest of hierarchies, corporate leadership sets the tone. While it may be tempting to build a movement from the bottom up — and it is certainly a good idea to involve as many employees as possible — shared value is ultimately about the strategic direction of a corporation. If those responsible for establishing that direction are not on board, the process will likely stall.

In HP's case, the company began to engage senior management during the strategy development process. In addition to assessing the external

landscape and benchmarking competitors, HP reflected carefully on the intersection between social issues and the corporate strategy, and conducted a firmwide “audit” of existing social engagement activity. More than 150 senior managers from across the company were engaged through workshops and individual interviews. In addition to providing valuable information that refined the strategy, these conversations recruited a new cadre of ambassadors within the firm, creating a ripple effect that helped to build excitement and momentum for its implementation.

HP used its strategy development process as a platform to engage with senior management early on.

It takes time to embed a shared value approach

Creating shared value requires energy, tenacity, and patience. Often, it can take many years for a company to fully integrate the idea into its operations. Nestlé, for example, started to formalize its shared-value strategy in 2004 (see Profile 5). The work to embed this thinking within the business was still ongoing seven years later. Similarly, HP anticipates that implementing the strategy it developed in 2009 will be a multiyear process.

In order to maintain momentum, therefore, it is particularly important to identify and communicate early successes. In many cases, such quick wins could come from “legacy” programs that are aligned with, but predate, the process to develop and implement a strategy. Nestlé’s milk districts, for example, had been operating since the 1920s, even though the company only explicitly defined its strategy for creating shared value in 2004. The districts became an important anchor point for the company as it moved forward with implementation. They also functioned as a ready-made illustration of the company’s vision for social engagement.

Conducting an audit or similar exercise to identify such initiatives would be an important early step for any company seeking to move in this direction.

Tracking results is essential to keeping initiatives on track and demonstrating progress. Robust measurement can be more challenging than many managers are used to. Companies are often accustomed to getting detailed data on effectiveness in a matter of weeks or months, particularly in functions like communications and marketing, which oversee aspects of social engagement in many corporations. However, identifying the impact of social investments can take much longer. The process typically has more in common with trying to forecast the profitability of a new business unit than with assessing the reaction to a new marketing campaign — and in this case, even less may be known about how to succeed.

To keep colleagues and corporate leaders abreast and engaged, companies need to root their measurement in a clearly articulated strategy. They should track progress against goals

and implementation plans, and constantly adapt and update the strategy based on new information and insights. Without such a robust framework, questions about an initiative’s achievements will be hard to answer satisfactorily — and the continuing excitement that such answers help fuel will start to dissipate.

Tracking results is essential to keeping initiatives on track and demonstrating progress.

COMPANIES THAT THRIVE IN THE FUTURE WILL BE THOSE THAT ANTICIPATE AND CAPITALIZE ON NEW COMPETITIVE FRONTIERS, AND THAT SHAPE THE CONTEXT IN WHICH THEY OPERATE RATHER THAN SIMPLY REACTING TO IT.

The process requires change managers more than program managers

Driving such a change process implies a substantially different role for CSR, sustainability, and philanthropy staff, and for the way these activities are overseen at the board level. Under the old model, managers were primarily focused on external relations: grant administration, stakeholder consultation, partnership management, and communications. These activities are still necessary for creating shared value, but they are no longer central to the role. Instead, the primary emphasis is on facilitation and change management. This requires a new skillset: Managers need to broker and coordinate — but, crucially, not necessarily directly execute on — a wide range of activities across the company and beyond.

Houghton Mifflin Harcourt has created a position at the vice president level to oversee its shared value creation.

Also needed are a strong link with and oversight from the board, along with sufficient managerial authority to act. Where these factors don't already exist, many companies moving toward a shared value approach have created senior positions with responsibility for implementing the change.

Alcoa's chief sustainability officer is a good example; also, Houghton Mifflin Harcourt has created a position at the vice president level to oversee its work. Focused board oversight, such as HP's board-level Public Policy Committee, is also common. Indeed, for Intercontinental Hotels Group, it was a question the board raised — "What is the role of a hotel in society?" — that prompted the company to start down the path toward creating shared value.

The field is still at an early stage of development. While a number of companies have successfully implemented some building blocks of shared value, few excel at all of them. However, the long-term direction is unmistakable. Companies that thrive in the future will be those that anticipate and capitalize on new competitive frontiers, and that shape the context in which they operate rather than simply reacting to it.

Implementing a shared value approach is an opportunity not only to contribute to good works, but also to redefine core business strategies, simultaneously transforming society and creating value for owners. We hope this paper helps you to advance that process inside your company.

All statements and conclusions, unless specifically attributed to another source, are those of the authors and do not necessarily reflect those of the other organizations or references noted in this report.

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