Creating Shared Value In Action

A Conversation with:

Mark Kramer, Founder and Managing Director, FSG

Tony Kingsbury, Associate Director, Sustainability, Dow Chemical & UC Berkeley, Haas School of Business

Dorje Mundle, Global Head of Corporate Citizenship, Novartis

Janet Voûte, Global Head of Public Affairs, Nestlé S.A.

May 5, 2011
Today’s Agenda

Introduction to Shared Value Creation (:10)
   
   *Mark Kramer, FSG*

Creating Shared Value at Nestle (:10)
   
   *Janet Voûte, Nestlé S.A.*

Novartis: Shared Value in Rural India (:10)
   
   *Dorje Mundle, Novartis*

Shared Value Innovations at Dow (:10)
   
   *Tony Kingsbury, Dow Chemical*

Audience Questions & Answers (:15)

Wrap-up by Panelists (:05)
Corporate Thinking Has Evolved Over the Past Decade

**Pre-2000**

“It is not a problem”
- Let’s ignore or understate the problem
- Let’s minimize our responsibility
- Philanthropy is about personal values

**2000-2005**

“It is a problem”
- Let’s minimize the problem and throw some money at it to show we’re contributing
- CSR & Philanthropy is about corporate reputation

**2006-2010**

“Let’s solve the problem”
- We need to add costs to fix the problem
- We need to report transparently on our results
- We can use our core business capabilities to find solutions

**2010 and Beyond**

“It’s an opportunity to create shared value”
- We can lower costs, grow revenues, or differentiate our value proposition by addressing social problems
- Even social problems we don’t usually affect pose opportunities

Shared value is created by policies and practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates.
Competitive Advantage and Societal Issues: So-Called “Externalities” Have Internal Effects

Company Productivity

- Poverty in Company’s Community
- Environmental Impact
- Energy Use
- Water Use
- Health and Nutrition
- Poor Infrastructure
- Regulatory Environment
- Quality Education & Skills
Corporate Shared Value Is Found at the Nexus of Business Opportunities, Corporate Assets and Social Needs
Companies Are Improving Their Competitiveness by Creating Shared Value at Three Levels

Reconceiving Products and Markets
- Meeting social & environmental needs
- Serving new populations
  - Bottom of the pyramid
  - Special needs

Redefining Productivity in the Value Chain
- Conserving energy & natural resources
- Procurement & distribution systems
- Employee productivity & welfare
- Selection of locations

Enabling Local Cluster Development
- Related & supporting industries
- Infrastructure
- Transparent markets
From Corporate Social Responsibility to Creating Shared Value

**CSR**

*Traditionally focused on issues of compliance, transparency, volunteerism and philanthropy*

- **Motivated by:** Improving corporate reputation among stakeholders
- **Measured by:** Funds expended and/or GSE indicators, (e.g., Global Reporting Initiative)
- **Managed by:** Separate CSR and philanthropy departments
- **Viewed as:** Discretionary compliance in response to external pressure or pending regulation
- **Business benefit:** Peripheral benefits through risk reduction and goodwill
- **Social Benefit:** Limited to corporate footprint and charitable activities

*Example: Fair trade*

**CSV**

*Policies and practices that enhance competitiveness while advancing economic and social conditions*

- **Motivated by:** Seeking competitive advantages and sustainable solutions to social problems
- **Measured by:** Value created (economic and social benefits relative to cost)
- **Managed by:** Cross departmental teams from senior management, operating units and CSR
- **Viewed as:** Integral to competitive advantage and profit maximization
- **Business benefit:** Innovations that provide new business opportunities and extend core strategy
- **Social Benefit:** Large scale and sustainable social benefits that can transform communities

*Example: Providing crop inputs, technology, training, and financing to increase smallhold farmers’ quality and yield*
Creating Shared Value

The definition

Nestlé Chairman and CEO, 2010:
"For a company to be successful over time and create value for shareholders, it must also create value for society."

"... beyond sustainability, to create value for shareholders & society - integrally linked to our core business"

"...meet the needs of the present without compromising future generations ..."

Comply with the highest standards

Creating Shared Value
Nutrition, Water, Rural Development

Sustainability
Protect the future

Compliance
Laws, Business principles, codes of conduct
Nutrition highlights in 2010

- 6,502 products renovated for nutrition or health considerations, reducing salt, fat and sugar levels
- Nestlé Healthy Kids programmes run in partnership with governments, academia, and NGOs in 58 countries
- 4,860 Popularly Positioned Products
  - 90 billion servings of Maggi products fortified with key micronutrients (iodine)
  - Affordable fortified milks now available in 75 countries
Water highlights in 2010

• Reduced water withdrawal per tonne of product from 3.47 m³ to 3.29 m³ (2009-2010)
• Water savings of 80% in coffee production process in Yunnan, China
• 1 billion m³ of water saved annually in coffee-growing region of Dak Lak, Vietnam
• Leading role in global dialogue (Water Resources Group, WEF, UNGC)
KEY FACTS AND FIGURES

- Nestlé operates 63 farmer programmes worldwide
- These cover 4 continents: Africa, Asia, Latin America and Europe
- 950 agronomists and 15,036 extension workers and contractors offered support, training and technical assistance to farmers (2009)
- 144,926 farmers around the world were trained through Nestlé capacity-building programme (2010)

The main commodities we source are milk, coffee and cocoa. Other commodities include grains, sugar, maize, rice, chilli, potatoes, cassava, soybeans, fish and palm oil.

Nestlé extends approximately CHF 45 million in financial assistance to farmers (2010).

Many of our farmer programmes offer: microfinance initiatives, technical skills training, education in sustainable farming methods and improved water management techniques, and new opportunities for women.
## Worldwide Factory Impact Survey, November 2010

### Rural development impact of Nestlé’s factories

<table>
<thead>
<tr>
<th></th>
<th>422 factories responding to survey(^1)</th>
<th>195 factories in developing countries</th>
<th>144 rural(^2) factories in developing countries</th>
<th>51 urban factories in developing countries</th>
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</thead>
<tbody>
<tr>
<td><strong>Sourcing from local/national supplier:</strong></td>
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<tr>
<td>Milk</td>
<td>28%</td>
<td>33%</td>
<td>38%</td>
<td>22%</td>
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<tr>
<td>Coffee</td>
<td>13%</td>
<td>16%</td>
<td>17%</td>
<td>16%</td>
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<tr>
<td>Cocoa</td>
<td>16%</td>
<td>19%</td>
<td>22%</td>
<td>14%</td>
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<td><strong>Training programmes in past five years:</strong></td>
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<tr>
<td>Literacy and numeracy</td>
<td>25%</td>
<td>30%</td>
<td>33%</td>
<td>22%</td>
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<tr>
<td>Entrepreneurship</td>
<td>26%</td>
<td>33%</td>
<td>37%</td>
<td>24%</td>
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<td>Skilled trades</td>
<td>48%</td>
<td>43%</td>
<td>44%</td>
<td>39%</td>
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<tr>
<td>Formal apprenticeship</td>
<td>52%</td>
<td>57%</td>
<td>58%</td>
<td>55%</td>
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<td><strong>In the past five years:</strong></td>
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<td>Provided clean drinking water to local community</td>
<td>30%</td>
<td>33%</td>
<td>32%</td>
<td>35%</td>
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<tr>
<td>Contributed to local educational facilities</td>
<td>53%</td>
<td>57%</td>
<td>58%</td>
<td>55%</td>
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<tr>
<td>Invested in other local infrastructure</td>
<td>33%</td>
<td>39%</td>
<td>41%</td>
<td>33%</td>
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<tr>
<td>Nestlé-built water treatment plant</td>
<td>53%</td>
<td>67%</td>
<td>70%</td>
<td>59%</td>
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Novartis case study: the global health challenge

<table>
<thead>
<tr>
<th>Topic</th>
<th>Issue</th>
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<tbody>
<tr>
<td>Poverty</td>
<td>&gt;3bn live on $2.50 per day and &gt;5bn on $10 per day</td>
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<tr>
<td>Education</td>
<td>The poor receive inadequate education, which drives poor health decisions</td>
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<td>Accessibility</td>
<td>Billions live in rural locations and must travel long distances to receive healthcare</td>
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<td>Medical personnel</td>
<td>Huge shortfall of qualified care providers: 1 doctor /400,000 people in rural Malawi</td>
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<td>Health infrastructure</td>
<td>Diagnostic &amp; treatment infrastructure often missing or inadequate</td>
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<td>Health financing</td>
<td>Many governments allocate tiny proportion of GDP to healthcare</td>
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<tr>
<td>Scale</td>
<td>Huge need for pro-poor innovative healthcare delivery models for bottom 3-5 billion</td>
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<td></td>
<td>In India alone, 740 million people live in rural areas, mostly on $1-5 per day</td>
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<tr>
<td>Pricing</td>
<td>For some disease like HIV/AIDS, prices of patent-protected limits affordability</td>
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Solutions to many systemic issues needed to win the global health challenge
Novartis case study: business model innovation for the BOP

“Arogya Parivar” – Healthy Families
Creative entrepreneurship meets Corporate Citizenship

**Products**

- **Portfolio:**
  - 79 products in 12 therapeutic areas

- **Affordable:**
  - Sandoz generics
  - Over-the-counter (OTC) medications & nutrients
  - Pharma products
  - Custom small packs branded in local dialect

**Services**

- **Community health education:**
  - ~300 health educators
  - Focus on prevention, child & maternal health, symptom awareness

- **Healthcare provider education:**
  - Address low level of medical training

- **Supply chain management:**
  - Ensure continuity of supply in village pharmacies
  - Provided directly in villages via health camps

**Results & next steps**

- Improved access to health education and medicines for 42 million patients in 28,000 villages
- Partnering with ~50 000 pharmacists and clinics
- Portfolio expansion in 2011: vaccines, generics, diagnostics and more
- Will pilot in three Asian/African markets in 2011
- Partnering to expand access to health infrastructure financing
Novartis case study: challenges and lessons learned

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Opportunities</th>
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<tr>
<td>▪ BOP market conditions</td>
<td>▪ Low cost of experimentation</td>
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<td>▪ Business process misalignment</td>
<td>▪ Strong articulation of strategic rationale</td>
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<tr>
<td></td>
<td>▪ Business process integration (e.g. capital allocation)</td>
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<tr>
<td>▪ Scale of challenge</td>
<td>▪ Tech innovation driving cost efficiency, scalability and new service offerings</td>
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<tr>
<td></td>
<td>▪ Lower operating costs &amp; competition</td>
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<tr>
<td>▪ Mindset shift</td>
<td>▪ Senior management support</td>
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<td></td>
<td>▪ Real world exposure</td>
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<td></td>
<td>▪ Talent &amp; leadership development</td>
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We are at the beginning of the journey and scratching the surface of what’s possible
Solving Challenges Through Sustainability… Shared Value

Starts with our Mission:

To passionately innovate what is essential to human progress by providing sustainable solutions to our customers.

Dow people include some of the world’s best scientists and engineers dedicated to solving global challenges. We focus our innovation engine on delivering new technologies that are good for business and good for the world.

Energy  Climate Change  Water  Health & Nutrition  Transportation & Infrastructure

Dow is preferentially investing its $1.6B annual R&D Budget to meet the Worlds needs in these areas.
**Example:**

**Omega-9 Healthy Oils**

Virtually free of trans fat and containing the lowest saturated fat content of any vegetable oil, and half the saturated fat of olive oil, Omega-9 Canola and Sunflower Oils can be used in numerous applications, including deep frying, sautéing, baking and in salad dressings.

**Shared Value Profile**

- Zero Trans Fat
- High in heart-healthy monounsaturated fat
- Lowest saturated fat of typical cooking oils and half the saturated fat of olive oil
- Since 2005 Omega-9 Oils have eliminated nearly a Billion pounds of trans fat and 250 million pounds of saturated fat from North American foods
- Studies show people prefer the taste of foods fried in Omega-9 Canola Oil over common oils
Example: Spinetoram™ Family of Insect Control Products

Innovative insect control technology derived from a biological organism (nature’s own) that provides control of a broad spectrum of insect pests in a variety of crops.

Shared Value Profile

- Applied at lower rates than conventional insecticides
- Low impact on beneficial insects
- Naturally degrades through UV light and soil microbes
- Low solubility in water
- Favorable tox profile
- Carries lowest human hazard label
- Organic version available
- Growing (pun intended) business
Other Shared value Innovations

**Solar Shingles** to provide clean energy with lower installation costs

**Termite Colony Elimination System** using $1/10,000^{th}$ the amount of product traditionally applied

Investing in WaterHealth International to provide clean, affordable water to 10 million people living on $2/day

**If Dow was a country we would have met the Kyoto Protocol for GHG reduction**... saving Dow $ billions in the process
“Sustainability begins at home, but its destiny is to engage the problems of the world. We will build on our company’s rich legacy of leadership in solving the world’s most pressing problems.”

- Andrew Liveris, Chairman & CEO
  The Dow Chemical Company
Audience Questions

Mark Kramer, FSG

Tony Kingsbury, Dow Chemical & UC Berkeley, Haas School of Business

Dorje Mundle, Novartis

Janet Voûte, Nestlé S.A.
Thank You!

- Thank you for joining in the shared value conversation today

- Please fill in the brief electronic survey that you’ll receive after today’s event to share your feedback with us

- For more information on shared value, visit [www.fsg.org](http://www.fsg.org) and click on *Creating Shared Value* or contact us at info@fsg.org

*Today’s webinar presented in cooperation with the Committee Encouraging Corporate Philanthropy*

[www.corporatephilanthropy.org](http://www.corporatephilanthropy.org)