Shared Value in Chile
Increasing Private Sector Competitiveness by Solving Social Problems

FOREWORD BY MICHAEL E. PORTER
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The Shared Value Initiative is a global community of leaders who find business opportunities in societal challenges. The Initiative connects practitioners in search of the most effective ways to implement shared value. Operated by FSG, with support from a network of strategic partners, the Initiative shapes this emerging field through peer to peer exchange, market intelligence, strategy & implementation support and shared value advocacy.

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Foreword

By Michael E. Porter
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Chile’s rapid social and economic progress over the last three decades is widely admired. As measured by GDP per capita, Chile is now the wealthiest country in Latin America, a striking rise from its 9th place regional ranking in 1990. Social indicators have improved, almost across the board, in many cases substantially. Much of this progress is attributed to the impressive growth of Chile’s private sector. In 2012, Chilean companies represented almost 12% of the top 500 companies by revenue in Latin America, despite the country accounting for less than 3% of the region’s population. Unemployment has declined and incomes have risen.

Yet major social challenges remain. Chile is one of the most unequal countries in terms of income in the world, and many Chileans suffer from a lack of access to quality education, healthcare, and economic opportunity. In recent years, periodic episodes of social unrest have captured the headlines. And, despite the success of private companies in driving Chile’s economic performance, mistrust of the private sector is high. Pressure is growing from society and government for Chilean companies to play a greater role in the wellbeing of ordinary Chileans.

Shared value offers an opportunity for companies to do so without sacrificing their competitive position. In fact, when companies create shared value they improve social outcomes while simultaneously strengthening their competitiveness. This is because companies’ success is inextricably linked to the economic and social health of the communities in which they operate. For example, large companies face diminished competitiveness if their small business suppliers suffer from poor management and inadequate access to finance, as is common in Chile. Health insurance companies that ignore the direct link between improving their customers’ health and their long-term competitiveness are missing the chance to lower their costs and increase their customer base by designing new products and changing internal practices to incentivize healthy lifestyles. And, companies that address social problems can tap significant product and revenue opportunities.

For companies embarking on the journey to creating shared value, the Social Progress Index (SPI) is an objective and powerful tool to inform a nation’s social priorities and establish a common language and priorities between business, the public sector, and civil society. SPI encompasses multiple dimensions of social progress, from basic human needs to the foundations of wellbeing and the factors that enhance opportunity for citizens. When properly linked to the core business goals of a company, the SPI can help identify shared value opportunities. In Chile, for example, the SPI highlights obesity as an issue where Chile lags behind other nations at similar levels of economic development. As discussed in this report, some Chilean companies are starting to develop shared value strategies linked to obesity. Many similar opportunities are present.

At its heart, shared value is a business strategy. Unlike sustainability, corporate philanthropy, and corporate social responsibility, it addresses social needs with a business model—doing so profitably. This makes shared value scalable and sustainable, so the positive impact that business can have on society is not incremental but transformative. However, creating shared value requires the private sector to think in new ways in order to identify and pursue shared value opportunities, reform internal practices, and build relationships across sectors and with competitors.
This report provides practical guidance for companies—not just on what shared value is, but on how to create it. It highlights many of the major opportunities for shared value creation in Chile, and provides real examples for each, both from Chile and around the world. The paper builds on Mark Kramer and my original article, “Creating Shared Value” in Harvard Business Review and illustrates what shared value can look like in the Chilean context.

The role of business in society is a subject of national debate in Chile. Shared value needs to be a major part of the conversation. If debate can shift from redistribution to social value creation, Chile will prosper in every sense of the word.
1. Chile’s High Stakes Opportunity

Over the last few decades, Chile has experienced rapid and sustained economic, social, and institutional development. Crucial challenges remain, however, in the form of social inequity, lack of opportunity, mistrust, and social unrest. The Chilean private sector is at an inflection point in its relationship with society. The corporate sector has both contributed to and benefited from the growth and development of the last decades, but remaining social challenges pose significant constraints to the continued growth of the private sector. High levels of mistrust regarding the role of business in society reflect a widespread belief that profit making activities are merely a demonstration of corporate greed. The Chilean private sector faces a frequently antagonistic relationship with government and civil society that will likely worsen unless companies are able to find ways to authentically link their businesses to efforts to solve Chile’s social problems. On the other hand, if government and civil society conclude that the private sector has no contribution to make to the country’s social and economic development strategy, Chile will squander an important engine for creating shared prosperity. The good news is that there does not need to be a trade-off between private sector competitiveness and greater prosperity for all Chileans. Shared value, a concept explained in Harvard Professor Michael Porter and Mark Kramer’s Harvard Business Review articles, suggests an approach for companies to increase their competitiveness and profitability by helping to solve social problems. The public sector and civil society can increase the social benefits from shared value by thoughtfully partnering with the private sector.

Over the last three decades, the growth of the Chilean private sector has been accompanied by significant social progress. In 2012, Chile’s GDP per capita, at over $21,000, was the highest among 17 major Latin American economies, up from less than $5,000 in 1990 when Chile ranked 9th in the region. Chilean businesses have flourished, attracting foreign investment while becoming regional leaders and important global players. The national poverty rate has declined steadily from 45% in 1987 to 14% in 2011. Other social measures, including educational attainment and health indicators, such as infant mortality and life expectancy, have also improved. In some measures, such as access to clean water and sanitation, Chile’s metrics are on par with those of the world’s most advanced economies.

It is clear, however, that economic growth in itself will not solve all of Chile’s social problems. Notwithstanding its accomplishments, Chile has the highest level of inequality in the Organization for Economic Cooperation and Development (OECD), registering a Gini coefficient of 0.5 compared to the OECD average 0.3. And while income has risen steadily over the last decades, the Commission on the Measurement of Poverty notes that up to 45.3% of the population lives in situations of economic uncertainty, with greater exposure to cyclical income poverty and chronic exposure to poverty of opportunity. Dissatisfaction with the current situation is manifested in social movements such as the student movement demanding quality public education, labor strikes, protests against new energy projects, and low levels of trust. Only 21% of Chileans say they trust the private sector and just over one in ten Chileans trust large companies. Many Chileans view the private sector as abusing customers, not fulfilling their promises regarding product and service offerings, and having limited interest in shared prosperity. This segment of the population believes that efforts to strengthen the competitiveness of the private sector are fundamentally incompatible with meeting the needs of the broadest expanse of the Chilean population.
At the same time, Chile’s significant social challenges threaten the competitiveness of its private sector. Over 40% of Chilean workers between the age of 15 and 65 are considered “functionally illiterate” in reading comprehension, graphic literacy, and quantitative abilities, severely compromising the private sector’s ability to innovate and grow. An unsustainable and unreliable energy supply raises costs and creates uncertainty, limiting companies’ ability to compete in global markets. Insufficient access to competitive suppliers, of which micro, small, and medium enterprises (MSMEs) are the vast majority, undermines larger companies’ productivity, quality, and capacity to innovate. This challenge is reflected in the fact that business executives rank Chile 29th in both supplier quantity and quality out of 34 OECD countries.

What’s more, when the private sector fails to recognize the business opportunities hidden in social problems, such as improving health outcomes, it represents a missed opportunity for both business and society. Chile has the 7th highest level of obesity among OECD nations; 65% of Chileans are either overweight or obese. This constitutes not only an emerging public health crisis but also has important implications for the competitiveness of the Chilean private sector in the form of decreased productivity, higher costs, and increased reputational and regulatory risks.

The current circumstances Chile is facing suggest the country needs to rethink the role of business in society. As Porter and Kramer wrote in their 2011 Harvard Business Review article “Creating Shared Value,” the private sector is often seen as the cause of myriad social, environmental, and economic problems and is “perceived to be prospering at the expense of the broader community.” Yet, “some of the biggest business opportunities for companies lay in tackling social issues.” By looking for opportunities to connect their companies’ purpose to specific social needs, Chilean corporate leaders have a chance to address some of the country’s development goals and simultaneously increase economic competitiveness.
Governments often see themselves as the answer to all of society's problems, and frequently attempt to address social problems without considering how the involvement of the private sector might make their efforts more successful. Accustomed to the fact that many companies ignore the link between their businesses and social problems, governments tend to focus their efforts on either requiring companies to help fund government programs through tax or royalty payments, or by imposing strict regulations. This coercive approach means that the government is not taking advantage of companies' power to innovate and to scale their efforts.

This study is intended to encourage Chilean private and public sectors, and civil society leaders to pursue new shared value opportunities and deepen efforts to build a more competitive country that offers opportunity and prosperity for all. The paper highlights shared value opportunities and concrete examples in MSME development, closing the skills gap, and decreasing obesity. These are not the only shared value opportunities available to Chilean companies. There are many more. Chilean companies need to find the shared value opportunities that are most relevant to their business strategy. When they do, they will position themselves for success and take an important step forward in closing the widening breach between the private sector and the rest of the Chilean population.
2. Shared Value: Fostering Widespread Prosperity while Strengthening Corporate Competitiveness

What is shared value?
Porter and Kramer first introduced the concept of creating shared value in the 2006 article “Strategy and Society,” in Harvard Business Review (HBR). The idea was further developed in 2011’s “Creating Shared Value,” also in HBR, where shared value is defined as “policies and operating practices that enhance the competitiveness of a company while simultaneously advancing economic and social conditions in the community in which it operates.” Enhanced competitiveness refers to real business returns, such as increased revenues, decreased risk, and lower costs; the objectives of any traditional business strategy.

In the past, addressing social problems has been viewed at odds with enhanced competitiveness. However, the experience of companies that are creating shared value shows that it is possible to move beyond this trade-off. That is because shared value does not focus on redistributing existing value, but creating new value that can be unlocked by addressing social problems. This is the heart of shared value: “It is fundamentally about corporate strategy and the decisions individual companies make in pursuit of profit.” Companies that are able to identify and pursue these opportunities will develop a competitive advantage over their industry peers.

Shared value can achieve impact beyond that of traditional corporate social activities
According to Porter and Kramer, “shared value is not [corporate] social responsibility [or] philanthropy . . . , but a new way to achieve economic success. It is not on the margin of what companies do but at the center.” Corporate social responsibility (CSR) leverages core company assets to engage on societal or environmental issues and create indirect business value (e.g., mitigate reputational risk, build relationships). Similarly, philanthropy enables a business to meet community expectations while generating goodwill for the company. Both of these approaches face limitations in the scale of business and social impact they can achieve given their limited connections to business competitiveness. In contrast, shared value is integral to a company’s profitability and competitive position.

Shared value is also different from compliance and footprint management, in which companies mitigate negative social impact. Here, social impact is limited because improved societal outcomes add to the cost of doing business. While compliance and footprint management are generally driven by ethical considerations, shared value is not about personal values, but rather pursuing the unmet business opportunities presented by social problems.

By expanding their traditional understanding of business’s role in society to include addressing social needs that are linked to competitiveness, companies can unlock new business and social value. By aligning CSR, philanthropic, and other investments with shared value strategies, companies can maximize the business and social value created.

Companies can pursue a variety of strategies to create shared value
Opportunities to create shared value occur at three different levels: reconceiving products and markets, redefining productivity in the value chain, and enabling cluster development. The three levels of shared value are interrelated and often improving value in one area creates opportunities in others.

- **Reconceiving products and markets:** Improve access to products and services that meet pressing societal needs and thereby create **new market and revenue opportunities**
Example: In 2009, GE launched Healthymagination, aiming to develop profitable new products that lower cost, enhance quality, and expand access for marginal populations. Three years into the program, GE had developed 53 such products. One Healthymagination product is the MAC electrocardiogram machine, a portable and affordable cardiac diagnostic device that has extended diagnostic access to rural areas in India, where 70% of people live and cardiovascular disease is a growing problem. GE aims to develop more than 100 Healthymagination products by 2015 that improve on cost, quality, and access targets by 15%.22

• **Redefining productivity in the value chain:** Increasing the productivity of the company by helping to solve the social and environmental problems that constrain quality and efficiency in its operations

*Example:* Walmart is reducing transportation costs by working to source produce for its stores locally and by providing training and support to farmers near store locations. In doing so, the company has reduced transportation costs, cutting 100 million miles from delivery routes in the U.S., saving $200 million in fuel costs. Meanwhile, small and medium farm suppliers have experienced a 10-15% increase in income. Walmart customers have access to low-cost, healthy food, carbon emissions have decreased, and the company aims to reduce food waste by 15% in emerging markets and 10% in the U.S. by 2015.23

• **Enabling local cluster development:** Improve the operating context affecting business, such as regulatory factors, access to labor, and the vitality of supporting industries to unleash business growth.

*Example:* In Côte d’Ivoire, the world’s leading cocoa producing country, Mars Incorporated is working with smallholder farmers to reverse a decades-long decline in productivity and quality. The goal is to increase farmers’ yields by three to five times, producing enough cocoa to assure Mars’ growing supply needs and business sustainability while raising living standards in cocoa-growing communities. Because the challenges within the Ivorian cocoa sector are too complex to be tackled by the company alone, Mars proactively engaged other stakeholders, including the Ivorian government, the World Bank, bilateral donors, commercial suppliers, certifiers, and non-governmental organizations (NGOs). Since 2010, Mars and its partners have promoted an agricultural productivity package through various Cocoa Development Centers and fostered a network of rural entrepreneurs to sustainably deliver the package to local farmers. The productivity package includes training of farmers in effective cocoa growing techniques and distribution of tools, planting material, crop protection, and fertilizer that will allow farmers to triple their yields.24

**A new opportunity for business and society**

In a context where mistrust of the private sector is growing and profit is often associated with greed rather than a legitimate return on hard work, shared value presents an opportunity to redefine the sometimes contentious relationship between business and society. Traditional notions of good corporate citizenship no longer suffice. Companies that work to create shared value can unleash new resources and talent to address societies’ most pressing issues, while enhancing their own competitiveness. When businesses align commercial and societal objectives, they can develop scalable solutions to key social challenges and enhance their legitimacy. According to Porter, “the legitimacy of companies comes from what they do in their business, not what they say they do on the periphery with their social investments.”25 Perhaps most importantly, they can do so while increasing their competitiveness and profitability, therein finding continual motivation to deepen their connections to communities and the broader society around them.
3. Shared Value in Action

A few Chilean companies have started developing shared value strategies. The following section describes three major country challenges in Chile—increasing MSME competitiveness, bridging the skills gap that Chilean companies face, and promoting healthy lifestyles to reduce obesity. The section identifies shared value opportunities, highlights Chilean and international examples, and describes the paradigm shift that companies need to make to address these challenges through a shared value lens.

These three challenges are focal points for several reasons: (1) the problems themselves are serious and affect a large number of Chileans; (2) the link between the social problem and company competitiveness is evident and has particular relevance to vital Chilean industries; (3) they illustrate the potential to create shared value in three critical social realms—poverty, education, and health. Notwithstanding the importance and magnitude of these examples, there are many other shared value opportunities that companies can and should explore, such as lowering the cost and increasing the sustainability of the energy supply, fostering responsible financial inclusion, and lowering the cost and improving the quality of healthcare to name a few.
**FIGURE 2**

### Shared Value Opportunities

<table>
<thead>
<tr>
<th>Business Case</th>
<th>Social Case</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MSME Competitiveness</strong></td>
<td><strong>The Skills Gap</strong></td>
</tr>
</tbody>
</table>
| - MSMEs are vital to the **operational efficiency** and **quality** of larger companies’ value systems; they are also an important source of **innovation** and can help access **out-of-reach resources and markets** | - The skills gap affects:  
  - **Productivity**  
  - **Innovation**  
  - **Talent costs** (*recruitment, training, and turnover*) | - **Obesity leads to decreased productivity, higher costs, and increased reputational and regulatory risks**  
- Promoting healthy lifestyles to reduce obesity is a significant **business opportunity** |
| - MSMEs can serve as a critical **customer base** | - In Chile, the gap in wages between high and low-skilled workers is driving **rising income inequality**  
- A lack of skills limits **employability** and **earnings potential** | - About 65% of Chileans are overweight; a quarter are either **obese or morbidly obese**  
- Obesity contributes to the development of Type II diabetes and other **major non-communicable diseases (NCDs)**, and related public health costs |
| **MSME are the source of up to 85% of Chilean employment**  
- They play a role in **poverty reduction**, as they are more likely than large firms to employ women and low-income, less educated, and rural workers | **1. Increasing the competitiveness of MSMEs in the value system** | **1. Developing new products and services to respond to health needs**  
2. Adjusting practices to reach at-risk populations  
3. Creating an enabling environment for healthier lifestyles** |
| **1. Creating new products and services to address unmet MSME needs** | **2. Strengthening the value system by enhancing the capabilities of supplier and retailer workforces** | **2. Adjusting practices to reach at-risk populations**  
3. Creating an enabling environment for healthier lifestyles** |
| **3. Transforming labor force development at the industry level** | | **3. Creating an enabling environment for healthier lifestyles** |

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1 A value system encompasses everything required to get a product or service to its final consumer, from the producers of raw materials, to intermediaries, to distribution, to customers and retailers that sell the products or services. Source: Michael E. Porter, Competitive Advantage (New York: Free Press, 1985).
Within each of the three selected opportunities, we highlight case examples from Chile and around the world. Additional examples for each opportunity can be found in Appendix C. The purpose of sharing these cases is threefold. First, they show how shared value looks in practice. Second, the Chile-specific examples demonstrate that a few Chilean companies are already starting to develop shared value strategies. Finally, these cases emphasize that shared value creation is becoming an increasingly necessary element of competitive business strategy for companies around the world.

FIGURE 3

Paradigm Shifts

<table>
<thead>
<tr>
<th>MSME Competitiveness</th>
<th>Business as Usual</th>
<th>Shared Value Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large companies <strong>look abroad</strong> for competitive suppliers, apply a <strong>short-term lens</strong> to local MSME competitiveness issues, occasionally <strong>subsidize</strong> uncompetitive local MSMEs, and miss MSME <strong>market opportunities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large companies <strong>leverage their assets and expertise</strong> to increase MSME competitiveness over the <strong>long-term</strong>, thereby decreasing costs, increasing productivity and innovation, and finding new revenue streams</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The Skills Gap</th>
<th>Business as Usual</th>
<th>Shared Value Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies rely on the education system to provide skilled workers, running the risk of having <strong>insufficient quantity and quality</strong> of labor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies <strong>actively design and deliver</strong> education and training aligned with their labor needs in partnership with government, other industry players, and education institutions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Healthy Lifestyles and Obesity</th>
<th>Business as Usual</th>
<th>Shared Value Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies <strong>absorb the costs</strong> associated with obesity and pass them on to consumers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies take a <strong>systemic approach</strong> to promoting healthy lifestyles to reduce costs associated with obesity or generate demand for healthy products and services</td>
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</tr>
</tbody>
</table>
3.1 Increasing MSME Competitiveness

The success of MSMEs is critical to Chile’s competitiveness and social prosperity. As suppliers, contractors, and retailers, MSMEs play a critical role in the value systems of many companies. They affect cost, quality, and reliability in the value system, can facilitate access to new resources and markets, and may be important sources of innovation. They can be an important customer base as well. MSMEs have an inherent social value, generating the vast majority of employment in most economies. Given MSMEs’ position at the nexus of social and business value creation, there is an opportunity to create value simultaneously for MSMEs, large companies, and society.

In Chile, a few leading companies, such as BHP Billiton, Codelco, and Bci, are starting to recognize this opportunity. They are moving beyond traditional transactional relationships with MSMEs to build collaborative partnerships. These companies are developing a deep understanding of the challenges MSMEs face. They are partnering to innovate, generate cost savings, and improve the quality and reliability in their value systems. Some are even building new markets by offering products and services tailored to unmet MSME needs. By increasing MSME competitiveness through shared value strategies, Chilean companies have an opportunity to improve the livelihoods of the up to 85% of Chilean workers employed by such enterprises.

MSME competitiveness is critical to the long-term success of Chile’s larger companies

There is an opportunity to enhance the competitiveness of larger companies and fortify the national economy by strengthening Chilean MSMEs. The productivity gap between Chile’s small and medium enterprises and its large companies is larger than the corresponding gap in Argentina and Mexico, and far larger than the gap in countries like Germany and Spain. Average productivity among small and medium companies in Chile, for example, is less than one third that of larger companies. Similarly, low innovation capacity—small companies are half as likely to be innovative as large companies—may hamstring the ability of large companies to work with their smaller counterparts to solve business challenges and improve efficiency. Business executives ranked Chile 29th in supplier quality out of 34 OECD countries. Over 87% of respondents to FSG’s shared value survey of Chilean business leaders agreed that increasing MSME competitiveness was an important challenge or opportunity for their company. Of those respondents, over half felt MSMEs’ lack of competitiveness made it difficult for their own company to find innovative solutions to important challenges, while almost half said it limited their productivity.
Competitive MSMEs are essential to fostering widespread prosperity

Employing as much as 85% of total employment in Chile, MSMEs can play a critical role in poverty reduction, as they are more likely than large companies to employ low-income and less educated workers, rural workers, and women. Lower levels of job security, however, diminish this impact. For example, while over 96% of workers employed by large companies have contracts, only 68% of workers at companies with 2-49 employees have contracts. Critically, poor management capacity and limited access to capital and technology constrain the productivity of workers at MSMEs, diminishing the value employees can create and the corresponding compensation they receive.

Increasing MSME competitiveness lies at the nexus of major social and business challenges in Chile

The private sector, particularly larger companies, is well positioned to help MSMEs become more competitive. Not only do these companies have the knowledge, resources, and access to markets that MSMEs need, they can also increase their own competitiveness by working with MSMEs to decrease costs, increase productivity and innovation, discover new revenue streams, and secure new supply and distribution channels.

To unlock this value, leading companies in Chile and around the world are:

1. Increasing the competitiveness of MSMEs in the value system
2. Creating new products and services to address unmet MSME needs
In both approaches, companies including BHP Billiton, Codelco, and Bci are developing a deep understanding of the factors limiting MSME competitiveness. Many are fostering the development of an ecosystem in which MSMEs can thrive.

1. INCREASING THE COMPETITIVENESS OF MSMES IN THE VALUE SYSTEM

Companies working to increase the competitiveness of their MSME suppliers, contractors, and retailers recognize the link between their own competitiveness and that of the MSMEs they work with. Increasingly, they are developing deep partnerships with MSMEs to jointly address challenges.

In order to generate a return on investing in MSME competitiveness, companies need to identify specific opportunities and determine which MSMEs can best help them. Companies should set mutual goals with their MSME partners and encourage shared investment to ensure that all are committed to success. Support for MSMEs should be tailored to target identified challenges and outcomes, and relevant indicators should be measured in order to verify progress toward established goals. Companies must also be ready to adapt internal practices that hinder progress toward these goals, such as procurement processes, reporting structures, and company culture and beliefs.

Innovation in the supply chain: BHP Billiton and Codelco’s World-Class Supplier Program

Faced with rising costs due to falling ore grades, increasing water scarcity, rising energy prices, and other challenges, the Chilean mining industry needs to innovate to stay globally competitive. Unable to find local suppliers that can meet their needs, Chilean mining companies sometimes must work with international suppliers that are unfamiliar with local challenges. Foreign suppliers may be unwilling to customize products and services for Chile, and response times can be slower than those of local suppliers.

To stimulate the emergence of competitive local suppliers, BHP Billiton and Codelco developed a World-Class Supplier Program to create a cluster of 250 world-class suppliers by 2020. The program takes a two-pronged approach. First, companies identify and present an operational challenge to suppliers instead of merely requesting existing, standardized solutions. For example, to reduce the amount of dust generated in its operations, BHP Billiton asked for new approaches to improving air quality instead of soliciting bids based on costs for a predefined solution. Second, suppliers are given access to senior expert advice to support them in the innovation process. A distinctive element of the BHP Billiton-Codelco program is “that the demand for innovation is being articulated by a source which has strong purchasing power,” as opposed to public programs that focus on the supply side of innovation. This ensures a greater alignment with market needs and a more efficient use of resources.
A critical element of the World-Class Supplier Program lies in the changes BHP Billiton and Codelco have made to internal processes, such as procurement. “In order to develop companies in your supply chain, you also need to change your own internal practices,” says Osvaldo Urzúa, BHP Billiton’s Institutional Relations Manager, who is responsible for the program. To maximize the program’s impact, BHP Billiton and Codelco prioritize the participation of companies from other industries. For example, 3M, a multinational conglomerate renowned for its innovative products, is contributing its know-how to improve suppliers’ innovation processes, and opening its network to aid suppliers in their internationalization.

As of December 2012, the program included 36 suppliers with a combined total of over 5,000 employees and $400 million in sales. The program also had an estimated net present value of $121 million in direct savings in the cost of inputs, goods, and services for BHP Billiton. Suppliers involved in the program benefited from new revenue generation opportunities, increased efficiency and innovation, and greater access to finance and diversified markets. Commenting on the dramatic transformation at his firm, an employee stated, “Just a few years ago, we were a grubby diesel shop; now you could eat your dinner off the floor.”

2. Creating New Products and Services to Address Unmet MSME Needs

Some leading companies in Chile and around the world recognize that they can grow their businesses by providing new solutions to the challenges that MSMEs face.

Supporting entrepreneurs from the beginning: Bci’s Nace program

Bci was founded in 1937 by a group of immigrants who lacked access to the financial system, with a clear goal of responding to the needs of emerging business owners. In line with its founding vision, Bci identified an opportunity for business and social value creation in providing financial services to entrepreneurs with no business history, who thus had limited access to the national banking system.

Seizing this opportunity, Bci launched the Nace pilot program in 2006 to provide financing to entrepreneurs without access to traditional sources of credit. The bank innovated by developing new products, tools, and business models to assist and support this new segment of their Small Business Bank.

In parallel, also in 2006, Bci created the Renace program to support the business recovery of bank clients and former clients who, despite having suffered from the close of their businesses, had a record of always striving to meet their financial commitments.

Through Nace, Bci learned that these companies faced a multitude of challenges beyond access to credit. For example, many MSMEs struggle with poor management capacity, a lack of technology, and limited access to markets. To address these challenges, Bci began offering access to its networks and partnered with other organizations to support MSMEs in business planning and other non-financial activities.

Seven years after the program’s creation, Bci had provided over US$160 million in loans to over 7,500 entrepreneurs through Nace, and had transformed the program into a new business line. With Nace, Bci
developed a competitive advantage in serving clients that require alternative forms of risk assessment, allowing it to reduce risk compared to its competitors. The default rate for these loan recipients has been similar to Bci’s standard SME business, and throughout its operation, the program has been highly-profitable.

In addition to generating profits for Bci, Nace is helping to address a significant challenge MSMEs face: lack of access to finance. The bank estimates that over two thirds of Nace’s clients would not have had access to credit if the program did not exist. Furthermore, some 15,000 new jobs have been created through the program.

Today, Bci has established itself nationally as the bank most associated with financing for entrepreneurs, through offering credit accounts, support networks, and special financing that considers working capital, factoring, government-backed loans, and loans for international business. In addition, the bank is also planning to expand its scope through a particular focus on entrepreneurs who employ minority groups, such as the elderly and the disabled.

Companies ignoring MSME competitiveness lose significant business value
Companies that do not consider the importance of MSMEs to their business may be missing opportunities to increase profits and reduce costs. Supply chains and distribution networks fueled by MSMEs are often at the heart of company competitiveness. Companies that seize the opportunity to provide products and services to the MSME segment will benefit the most as that customer group grows.
**MSMEs can develop market-driven solutions to social problems**

MSMEs do not always have to rely on large company partners to create shared value. With greater agility and proximity to target problems and populations, MSMEs can address social challenges that larger companies overlook. Around the world, MSMEs have demonstrated an ability to create innovative products, services, and business models that address unmet social needs sustainably and at scale.

**Business model innovation and behavior change to increase recycling: Triciclos**

Chile generated 17 million tons of solid waste in 2009, a 42% increase from 2000. A small amount of this waste is recycled by municipalities, non-profits, and corporations, as well as individuals who collect materials that can be sold for a profit. Nevertheless, while 90% of waste in 2010 was recyclable, only 10% was recycled.

Founded in 2009, Triciclos is a private company and certified B Corporation that is working to reduce waste in Chile through recycling. It recycles all recyclable materials, selling some for a profit and seeking opportunities to establish new markets for materials that cannot currently be recycled profitably. Critically, Triciclos aims to increase recycling rates and reduce consumption by changing the behaviors of different actors in the waste cycle, including consumers, companies, and independent recyclers. For example, Triciclos educates consumers at its recycling collection points to improve the sorting of materials, which lowers the cost of processing, and to discourage the use of non-recyclable materials. The company’s profitable model offers an efficient and effective service and needed infrastructure where an official recycling system is lacking. Triciclos also offers companies certification to demonstrate that they are responsibly managing their waste.

By 2013, Triciclos had established 47 recycling collection centers and had recycled over 2 million kilograms of material, equivalent to over 5 million kilowatts of electricity, over 20,000 trees, nearly 750,000 liters of petroleum, over 3.5 million liters of water, and nearly 9 tons of carbon dioxide. The company is also considering how to measure changes in consumer behavior as a result of its education efforts. In 2012, Triciclos accumulated US$1.4 million in revenue, generating a profit of 8% of sales and a 30% return on capital.

**A new business model to provide healthy school meal options: Revolution Foods**

The United States faces a well-documented youth nutrition and obesity crisis, driven in part by the non-nutritious food served in many school lunches. In conversations with school teachers, principals, parents, and students, the co-founders of Revolution Foods discovered that students would choose to forgo lunch rather than eating “unappetizing” healthy options. Revolution Foods, also a certified B Corporation, was launched in 2006 to provide a solution to the school lunch challenge.

Creating a sustainable business model required Revolution Foods to partner and innovate. The company worked with Whole Foods, a national grocery chain to deliver fresh meals to local schools. To ensure that meals are popular, Revolution Foods brings youth into the menu design and tasting process. Students also receive nutrition education. Materials posted around the schools aim to popularize once shunned menu options. To keep costs low, the company consolidates school kitchens into one regional location and sources food in bulk.

Starting in 2009, Revolution Foods’ annual revenue grew by nearly 600%, reaching US$70 million in 2012. As of 2013, the company was present in 25 cities and employed 1,000 people. Revolution Foods serves one million healthy meals each week in nearly 1,000 U.S. schools. As an example, at one school, the proportion of students accepting free meals increased from less than half to over 85% with the introduction of the Revolution Foods’ meals, while visits to the school nurse plunged and teachers reported improved work habits from students after lunch.
3.2 Bridging the Skills Gap

The gap between the supply and demand of skills is a critical challenge for Chilean companies. It raises costs and constrains productivity and innovation. At the same time, skills shortages cut off a large segment of the population from participating in the country’s increasing prosperity. These gaps are a driving force behind Chile’s persistent inequality.

This intersection of business and social challenges represents a significant untapped opportunity for the private sector to create shared value. Traditionally, companies have been passive recipients at the end of the education pipeline. Some companies have realized that by becoming active participants in designing and delivering education they can address core competitiveness issues, while creating new economic opportunities for Chileans with limited options. Even companies that do not face critical skills shortages have the opportunity to enhance their competitive position through strategic investments in their workforce and that of their broader value system.

The skills gap limits the competitiveness of Chile and its companies

Worker productivity depends on everything from basic skills (e.g., elementary math and literacy) to more advanced technical skills (see section titled “Evidence indicates skills shortages in Chile are varied and widespread”). Each percentage point increase in basic literacy skills has been associated with a 2.5% increase in countries’ labor productivity. In Chile, lagging productivity is a major challenge, declining relative to the U.S. in 9 of 11 key sectors between 2009 and 2012. Many Chileans lack even the most basic skills. Over 40% of Chilean workers between the age of 15 and 65 are rated as “functionally illiterate” in reading comprehension, graphic literacy, and quantitative abilities. According to the OECD, countries with such critical skills shortages “can no longer compete in an increasingly knowledge-based global society.”

Companies in Chile are feeling the effects of skills shortages, with 42% of large and medium companies reporting challenges finding needed personnel due to a lack of demonstrable skills, and over 87% of business leaders responding to FSG’s shared value survey saying that addressing the skills gap is an important challenge or opportunity for their company. In the mining industry, the demand for labor in 2015 is projected to be almost two and a half times the number of qualified workers. Most Chilean companies do not understand the magnitude of the challenge. According to education expert José Joaquín Brunner, “much of the current skills gap conversation in Chile is based on anecdotal evidence, not hard data. The skills gap exists but in many areas has not been studied in depth.”

In addition to limiting productivity, skills shortages can increase costs, and constrain innovation. In 2014, more than one in five employers said skills shortages led to higher labor costs and one in four reported increased employee turnover due to such gaps. Likewise, skill levels are strongly correlated with innovation. In 2005, human resources constraints, including a shortage of skilled workers, were reported as the second most important obstacle to innovation in Chile. Almost two thirds of the FSG survey respondents said the skills gap raised costs. Over half said they limited productivity and innovation, and nearly half said they negatively affected the costs and quality of the products and services provided by contractors, suppliers, and retailers.

Low skill levels limit Chileans’ access to quality employment

A recent OECD report states that without proper skills, “people languish on the margins of society.” At the global level, the gap in wages between high and low-skilled workers is driving rising income inequality.
In Chile, a large education and skills deficiency limits the labor force’s employability and earnings potential. Poor linkages between education and job related skills limit employment prospects.

Limited access to quality employment leaves many Chileans poor or vulnerable (at a high risk of falling back into poverty). In 2014, 28% of Chileans reported not having enough money to buy food with their current incomes, compared to a 13% OECD average.

FIGURE 5

Poor and Vulnerable Populations in Chile
(By household per capita income, % of total population, 2009)


Bridging the skills gap can increase company competitiveness and generate prosperity

Companies have traditionally been passive consumers of the education outputs produced by schools and governments, waiting for students to graduate with the skills necessary for the workplace. The problem with this model is that the education system is not producing workers with the skills companies need, and most corporate training programs are not doing enough to close the resulting gaps. The problem goes beyond the simple lack of skills—frequently there is a mismatch between the skills taught and those needed by companies.

Some companies, such as Arauco, Coca-Cola, Minera Escondida, and the companies represented by the Mining Skills Council, are taking a new approach. They are becoming active participants in designing and delivering education. To do so, they must first develop an understanding of the skills gap facing them. They often must look beyond their immediate needs and consider the broader challenges that face their industry and value system now and in the future. Armed with that knowledge, they can improve skills development through offering internships, providing mentors, or creating new education institutions. These companies leverage their own expertise and engage partners, such as educational institutions, multilaterals, and industry competitors to align curricula with industry needs, create certification mechanisms, and build cross-sector regional collaboration.
Companies that are becoming active participants in addressing the skills gap are increasing their productivity, fostering innovation, and reducing costs while simultaneously increasing workers' employability and career opportunities. They are taking the following approaches:

1. **Building a competitive workforce by equipping current and future workers with the skills needed to grow a thriving business**

2. **Strengthening the value system by enhancing the capabilities of supplier and retailer workforces**

3. **Transforming workforce development at the industry level**

### 1. Building a competitive workforce by equipping current and future workers with the skills needed to grow a thriving business

While internal initiatives to build a productive workforce are not uncommon, few companies are maximizing the benefit of these efforts. The most advanced companies carefully evaluate their needs and then develop new career paths and supplement existing skills accordingly. They are mindful of their future needs and actively work to build a talent pipeline.

**Building a talent pipeline: Escondida Mine’s Industrial and Mining Training Center (CEIM)**

The Escondida mine in Antofagasta, Chile, is the world’s largest single producer of copper. Finding qualified employees can be challenging in the Chilean mining industry. Fortunately, Antofagasta is home to CEIM, a nationally recognized center of training excellence. Most of Escondida’s employees have received training at CEIM and 20% of the center’s students enter without any previous experience in the industry. CEIM’s skill-building program for women has helped Escondida advance toward its gender diversity goals.

Less than two decades ago, however, CEIM did not exist. An Escondida review of technical training centers determined that they did not meet the mine’s hiring needs. The mine recognized that it could not passively wait for others to address the industry’s skills gap. Drawing on BHP’s experience developing talent around the world, Escondida decided to establish the Escondida Technical College in Antofagasta, which became CEIM in 2002.

When Escondida reviewed other training centers, it found little familiarity with the mine’s processes and misalignment between the skills taught and those needed by the mine. In contrast, CEIM has close ties to Escondida, allowing it to tailor instruction and curricula to the needs of the industry while improving students’ employability and career prospects. Escondida also found it difficult to verify the skills prospective employees had developed in other training programs. To remedy this, CEIM students pass a rigorous certification process that is recognized across the industry.

CEIM opened its training programs to other mining companies in 2002, aiming to create a more dynamic and skilled regional labor pool. By 2012, Escondida’s workers accounted for only 30% of CEIM’s roughly 17,000 students. CEIM also opened enrollment to mining contractor employees and the local population. While graduates are not guaranteed employment, students have an increased chance of being hired by participating companies, who in turn benefit from privileged access to skilled workers. Most recently, CEIM has started to align its curricula and certificate process with standards established by the Mining Skills Council and Fundación Chile. The work that the Escondida team began in order to address skills shortages at Escondida is now a pre-competitive collaborative effort to strengthen the Chilean mining cluster.
Developing a local forestry workforce: Arauco’s Center for Industrial and Forestry Labor Training

Another example can be found in the province of Arauco, in Chile’s Bio Bio region. Arauco, the forestry company, has been present there for 40 years and has a US$2 billion project to expand and modernize their activities. Arauco faces a major challenge in finding local workers with necessary technical skills. The region has high levels of poverty, and education and employment opportunities are limited. While the area has some training institutions, those programs are not sufficient for the population’s needs, nor are they tailored to address Arauco’s specific technical requirements.

To address the shortage of skilled labor, and the community’s need for increased career opportunities, Arauco is developing a center for industrial and forestry labor training. The company is working to build necessary partnerships and is designing the center’s model in close collaboration with communities. Their objective is to find the model that will best meet the needs of the company and the surrounding communities, while generating additional talent for other industries in the region. While still in its initial phase of development, Arauco plans to monitor both social and business indicators to evaluate the center’s effectiveness in addressing the skills gap and creating employment opportunities.

2. STRENGTHENING THE VALUE SYSTEM BY ENHANCING THE CAPABILITIES OF SUPPLIER AND RETAILER WORKFORCES

Company competitiveness depends on the competitiveness of suppliers and retailers. Firms that choose to improve workers’ skills across their value system must develop collaborative partnerships rather than transactional relationships. When working as partners, the companies can jointly explore the skills shortages that constrain growth, agree on shared goals, and contribute resources to address gaps. Successful efforts in this space often draw on partnerships with NGOs or academic institutions.

Strengthening the value chain and increasing sales by preparing youth for retail employment: Coca-Cola’s Coletivo Retail

In 2009, Coca-Cola Brasil became increasingly aware of a growing business opportunity associated with consumers moving from the low-income D and E socio-economic classes into the lower-middle class C segment. The company identified an opportunity to boost relevance and sales by increasing access to economic opportunities and enhancing the life skills of low-income youth in favela communities.

Coca-Cola’s Coletivo Retail trains unemployed youth from low-income communities for two months in technical and career skills such as retail and merchandising, computer skills, and interview preparation, as well as life skills including leadership, self-presence, and self-esteem. To ensure local relevance, the program partners with leading NGOs that have a physical presence in target communities. Students are paired with a local retailer to practice their skills and identify opportunities to improve the business.
Coca-Cola uses rigorous measurement to track and increase the business and social impact of Coletivo Retail. In the program’s 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, managers realized that the students faced self-esteem challenges that often prevented them from finding and maintaining employment. Accordingly, Coca-Cola revised the content of the training program to emphasize life skills. Measurement data revealed that another key success factor was the strength of the local implementing partner. The company continues to strengthen its approach by considering ways to enhance NGO partners’ management capabilities.

Coletivo Retail has been highly successful, training approximately 60,000 youth in more than 100 communities across Brazil as of January 2014. Over 70% of program participants are women. Before entering the program, most youth living in low-income communities had few job opportunities. However within six months of completing the program approximately 30% of graduates typically find employment. For those that find employment, family income increases by an average of 50%. From a business perspective, Coca-Cola sales increase at a more rapid rate in Coletivo Retail communities. The growth comes from the improved retail environment in the community and better consumer and retailer relationships. The program has now expanded into the Coletivo Platform, consisting of seven different models that include Coletivo Retail, which address different community and business needs across the value chain.

3. TRANSFORMING WORKFORCE DEVELOPMENT AT THE INDUSTRY LEVEL

A third shared value opportunity lies in addressing industry-wide skills shortages. Strategies can include a wide range of activities, from identifying skills shortages to curriculum alignment and public policy advocacy. Many of the most successful efforts involve collaboration among companies that traditionally are competitors.

“Addressing skills gaps through the mining skills council is not seen as part of the industry’s social responsibility, but rather part of its competitive strategy.”
– JOAQUÍN VILLARINO, DIRECTOR, CONSEJO MINERO, 2013

“Creating a common framework for addressing the mining industry skills gap: Mining Skills Council”

In Chile, the mining industry faces challenges related to the scarcity of qualified human capital for critical positions in its value chain and the need to increase its current workforce’s productivity. “Mining companies shared the opinion that there was a shortage of properly prepared technical personnel and we agreed on the need to improve productivity. This problem was at the heart of our business, for current and future operations; a challenge to competitiveness and sustainability,” said Alejandro Mena, VP of Human Resources at Anglo American and Chairman of the Mining Council’s Committee on Human Capital. Traditionally, mining companies often created their own independent training centers. These well-intentioned efforts, however, have limited impact, with limited scale, and can result in an inefficient system. For instance, according to Carlos Manzi, a researcher at Grupo Educativo, “there are more than 3,000 training centers . . . which each create
their own curricula and produce graduates of varying quality.”

This situation represented a challenge not only for the private sector, but also for the efficient use of public training resources and for the employability of hundreds of young graduates from technical-professional training programs.

In an effort designed to address the projected shortage of workers, in 2012, the large companies in the industry created the Mining Skills Council (CCM) under the leadership of the Mining Council, the organization that unites the large mining companies in Chile. The CCM integrated and systematized information regarding the current and projected human capital demand for critical positions in big mining companies and their suppliers, and contrasted this information with worker supply. Based on job profiles, the CCM projected the required amount of workers and the skills and abilities needed, and then calculated the gaps for each profile over the next decade. In addition, the CCM designed career paths, created complete training packets, and is setting the foundation for meeting quality and training standards, and collaborating with government to work toward skills certification. Claudia Vargas, Director of Recruitment and Staff at Codelco, a government-owned mining company, notes that “from the perspective of attracting young people to the industry, our work has allowed us to show what career paths present the greatest opportunities, and also highlight the essential skills valued by the mining industry that they should develop. This way, young people can make more informed decisions regarding what to study in order to increase their employability.”

The CCM outputs are intended to be public goods: they are shared openly and educational institutions may use and adopt the CCM outputs.

Evidence indicates skills shortages in Chile are varied and widespread

Many different skills are needed for a workforce to be productive and innovative. While the classification of worker skills varies, the categories below are commonly discussed in the literature. Anecdotal evidence and quantitative measures suggest that deficits exist in each of these skill areas in Chile.

Basic or foundation skills generally refer to elementary literacy and numeracy skills, while STEM (Science, Technology, Engineering and Math) skills can refer to either elementary or advanced skills. In the OECD’s most recent assessment of 15-year-olds in 2012, Chile ranked second to last in reading, mathematics, and science. Although weak basic skill development in secondary schools does not represent a shared value opportunity for most companies, these deficiencies persist in the adult workforce, where there is a stronger business case for companies to intervene. The OECD also indicates that “technological progress [in Chile] has suffered from a shortage of qualified STEM graduates.”

Technical and industry-specific skills, including Information and Communication Technology (ICT) skills, range from vocational-level to more advanced skills that are not part of the general skills base acquired in primary or secondary school. Few industries in Chile have clearly defined the significance of the skills gap. The mining and forestry sectors, however, are starting to recognize that skills shortages are compromising competitiveness.

Soft skills help individuals understand what kind of behavior and communication is appropriate for a particular professional context. These range from basic professional etiquette (e.g., attendance and punctuality) to advanced management skills. While data in this area is scant, 80% of employers surveyed in Argentina, Brazil, and Chile indicated difficulty filling positions due to lack of social or “life” skills. Hernán Araneda, Director of the Center of Innovation in Human Capital at Fundación Chile, comments that “a lack of skills, particularly management capacity, is the most important challenge that we have in Chile.”
materials as they see fit, at no cost. As Alex Jaques, VP of Human Resources at BHP Billiton, states, “we concluded that it was necessary for industry to provide clear signs to the education sector. This was the most effective and efficient approach to addressing the challenge.” While the formation of the CCM is too recent to assess its long-term impact, the CCM is starting to be viewed as a model in Chile. The structure has been replicated in the wine and salmon sectors. Additional councils are planned in forestry, manufacturing, metallurgy-metal mechanics, and tourism.

The Mining Skills Council offers important lessons for Chile’s private sector. One is the importance and viability of cross-industry collaboration, allowing companies to pool knowledge and resources and avoid duplicating efforts. Second, the council shows the importance of incorporating suppliers. This is particularly important in mining where the supplier workforce outnumbers the mining workforce by a ratio of three to one. “If you have excellent people inside your company, but not in your suppliers, your company will not succeed,” explains Osvaldo Urzúa, Institutional Relations Manager at BHP Billiton. Third, and no less important, is “the need to work with the education sector, actively engaging it to incorporate the standards developed by industry in their course offerings,” says Hernán Araneda, Director of the Center for Innovation in Human Capital at Fundación Chile.

Companies must become active participants in building the skilled workforce necessary to compete in the national and global economy

In a global marketplace where competition is driven by constant innovation and increases in productivity, a company’s competitiveness is determined by the skills of its employees. Companies that want to position themselves as leaders in Chile and in the world cannot wait for the public or education sectors to build those skills for them. They must proactively develop the skills within their current and future workforce, and in the value system around them. Closing the skills gap is not just an imperative for companies. Recognizing the potential to decrease poverty and increase opportunities for workers, the government and civil society should encourage these efforts and look for opportunities to partner. Shared value has the potential to address this challenging social problem at scale, making it a priority for all sectors interested in creating positive social change.
3.3 Promoting Healthy Lifestyles to Decrease Obesity

Rapidly increasing obesity rates have given Chile the seventh highest level of obesity among OECD nations; 65% of Chileans are either overweight or obese. This emerging public health crisis has important implications for the competitiveness of the Chilean private sector in the form of decreased productivity, higher costs, and increased reputational and regulatory risks. Promoting healthy lifestyles to decrease obesity represents an important business opportunity for visionary companies and can lead to significant improvements in individual health outcomes.

Companies in Chile are just beginning to recognize this shared value opportunity; few are pursuing it in a material and systematic way. To effectively turn the tide on rising obesity rates and seize the associated market and productivity improvement opportunities, companies should develop strategies to improve products, fortify value chains, and strengthen the enabling environment in a way that will help address a multifaceted challenge like obesity.

Obesity poses increased costs and risks for the private sector, but also offers sizable market opportunities

The costs of obesity to the Chilean economy have not been documented extensively, but studies from the U.S. and Mexico tell a cautionary tale. Annual obesity-related medical costs in the U.S. totaled nearly $150 billion in 2008 and obese patients, on average, have medical costs nearly $1,500 higher than normal weight patients. Obesity-related healthcare spending in Mexico is expected to increase by nearly 50% between 2010 and 2030. In Chile, the cost incurred by an insurance company for a patient with obesity-related conditions, such as Type II diabetes can be up to 37% higher than normal-weight beneficiaries.

In addition to the costs to the healthcare industry, obesity imposes worker productivity costs as well. In the U.S., for example, annual full-time productivity losses related to obesity are estimated at $42.8 billion. This may affect a wide range of industries. In Chile, a study on mining workers showed that average annual health care costs were 17% and 58% higher for obese and morbidly obese workers respectively compared to workers with normal weight and that average sick days increased up to 57% for obese and morbidly obese workers.

The processed and retail food sectors are facing increasing regulatory and reputational scrutiny in part due to the obesity epidemic. Countries such as Mexico, Denmark, and France have imposed taxes on soft drinks and foods high in salt, sugar, and saturated fat. Chile is considering levying similar taxes and is planning to introduce regulations on ingredients, labeling, publicity, and products sold in schools. As noted by Felipe Lira, Manager of Corporate Affairs at Tresmontes Lucchetti, “this issue affects us [the
food and beverage sector] as an industry. It is difficult to have a successful food and beverage business with a sick population.”

Despite the risks to Chilean society, high obesity rates offer market opportunities for shared value creation in various sectors. For example, in Chile, health and wellness processed foods sales grew almost 15% between 2002 and 2012, nearly twice the rate of other retail sales. In the United States, food products with reduced calories, salt, sugar and/or fat have had nearly two and a half times the 5-year sales growth of traditional foods, and company performance metrics for the food and beverage industry suggest that companies that take the lead on growing their healthier product portfolios experience superior sales and operating profit growth when compared to those focused on traditional products. The healthcare industry also has potential to expand their product offering to include preventive services that would provide additional revenue while helping to decrease long-term costs.

FIGURE 6

Sales Growth in Chile
Compounded annual growth rate (%), 2002-2012

<table>
<thead>
<tr>
<th></th>
<th>Traditional</th>
<th>Health &amp; Wellness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processed foods</td>
<td>7.9%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Beverages</td>
<td>7.1%</td>
<td>16.6%</td>
</tr>
</tbody>
</table>

Note: In Chile, the market for health and wellness food products reached $3 billion and equaled 19% of the total industry for processed food and beverages.


**Obesity rates highlight socio-economic inequalities and will affect long-term prosperity**

A quarter of all Chileans are either obese or morbidly obese. Social and economic inequalities play a role in obesity prevalence, with higher-than-average rates found among the less educated, poor, and rural residents, as well as women, the middle-aged and elderly. Childhood obesity is also on the rise: first graders’ obesity rates increased by 35% between 2001 and 2010, and the prevalence of children aged 2-5 with excess weight increased 37% between 1996 and 2011, reaching 44%. Today over 34% of children in Chile are either overweight or obese, the 9th highest childhood obesity rate globally.

Obesity contributes to the development of Type II diabetes and other non-communicable diseases (NCDs). Nearly 70% of deaths in Chile are attributable to NCDs, with cardiovascular diseases as the leading cause of death. Moreover, being overweight or obese in Chile is responsible for over 234,000 life years lost. While obesity is not the sole contributor to NCD development, its prevalence and related complications can largely be prevented through healthy eating and physical activity. With the average Chilean diet high in fat, sugar, and sodium with low levels of fruit and vegetable consumption,
and nearly 90% of Chileans maintaining sedentary lifestyles, there is ample opportunity for healthy behavior change to decrease obesity and NCD prevalence. Reducing growing rates of being overweight or obese is a complex and multifaceted challenge that will require leadership not only from the private sector, but also from the public sector and civil society in order to change patterns of consumption and activity, modify environments, and create accessibility, among others.

FIGURE 7

Percentage of Chileans Classified as Overweight or Obese, or Diagnosed with Related Non-Communicable Diseases, 2009-2010

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Increase in Prevalence from 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overweight</td>
<td>39%</td>
<td>+4%</td>
</tr>
<tr>
<td>Obese</td>
<td>25%</td>
<td>+15%</td>
</tr>
<tr>
<td>Morbidly Obese</td>
<td>2%</td>
<td>+77%</td>
</tr>
<tr>
<td>Chronic Respiratory Disease</td>
<td>25%</td>
<td>+13%</td>
</tr>
<tr>
<td>Diabetes Type II</td>
<td>9%</td>
<td>+49%</td>
</tr>
</tbody>
</table>

Source: Ministerio de Salud, Chilean National Health Survey, 2003 and 2009-2010 Results.

**Promoting healthy lifestyles to decrease obesity can lead to greater competitiveness and improved health outcomes**

Although some firms are exploring opportunities to reduce costs and/or generate growth through promoting healthy lifestyles, very few have shown the systemic approach that is needed to capture the full business value at stake. Companies in several industries are positioned to both intervene in and benefit from investing in this issue. The continued vitality of the processed food industry, for example, is contingent on maintaining a healthy client base. Similarly, the healthcare industry can generate significant long-term cost savings by innovating to encourage more extensive preventive care. Several other sectors, such as the personal fitness, retail, and agriculture industries, may also find interesting opportunities in this area.

Three main shared value opportunities exist for companies in combating obesity. The most successful efforts will integrate two or more of these.

1. **Developing new products and services to respond to health needs**
2. **Adjusting internal practices to reach at-risk populations**
3. **Creating an enabling environment for healthier lifestyles**
1. DEVELOPING NEW PRODUCTS AND SERVICES TO RESPOND TO HEALTH NEEDS

There are numerous opportunities for companies to innovate to promote healthy living. In particular, there are significant obesity-related shared value opportunities in the healthcare and food and beverage industries. Health insurers have an interest in helping consumers adopt healthier lifestyles to prevent or better manage chronic diseases and lower costs. Healthcare providers can complement these efforts and expand their product offerings by providing early detection, comprehensive case management, and holistic disease management services. Finally, food and beverage providers can develop new products and reformulate existing offerings (e.g., nutritional components, portion sizes) that satisfy consumer preferences and simultaneously help ensure the long-term health of their existing customers and expand their consumer base.

Early detection to improve health outcomes: Empresas Banmédica’s Pack de la Vida

For healthcare providers, offering preventive services can be an important source of new revenue while reducing costs and improving patient outcomes through early diagnosis and effective disease management. Early diagnosis is particularly relevant for conditions such as metabolic syndrome, a group of five risk factors including obesity that increases the risk of developing chronic diseases, such as diabetes, arterial hypertension, and cardiovascular disease, among many others.

In Chile, Empresas Banmédica, a group of healthcare companies in the health insurance and medical service provider sectors, noted the rise in prevalence of metabolic syndrome and the implications for healthcare costs over the long-term for public and private health insurers. Working in collaboration with their Foundation Banmédica and the Empresas Banmédica network in the city of Viña del Mar, they developed a new preventative exam package, Pack de la Vida. This package is now part of a new service, covered by health insurers and offered at the Clínica Ciudad del Mar, to detect the presence of metabolic syndrome based on five risk factors. As a result, Clínica Ciudad del Mar coordinated a multidisciplinary team of medical professionals in order to help patients manage risk factors, improve nutrition, and adopt active lifestyles to help prevent the onset of NCDs.

The Pack de la Vida has been utilized by over 500 patients in Viña del Mar since its launch in June 2013. Of these, 85% had at least one of the metabolic risk factors. With early diagnosis and lifestyle changes, patients can prevent metabolic syndrome and improve long-term health outcomes. The indicators are promising given that 27% of the patients who started treatment with metabolic syndrome had reversed their condition at the end of the first year. Empresas Banmédica and Clínica Ciudad del Mar expect that over the next few years, they will continue reducing the prevalence of metabolic syndrome among patients in treatment. They also expect to increase the number of outpatients over the next few years through chronic disease prevention and management services, while simultaneously strengthening customer loyalty. Empresas Banmédica is starting to offer the Pack in other network clinics in order to reach a larger number of people and collaborate in the fight against chronic diseases.

Product reformulation to provide improved nutrition: Nestlé

Rising obesity rates have increased the scrutiny of processed food and beverage companies, often criticized for promoting convenience foods with lower nutritional value. Nestlé, the largest food company in the world, long ago recognized that both malnutrition and obesity impact the health, wellness, and livelihoods of its consumer base, and saw an opportunity to differentiate itself by using rigorous nutritional criteria in its product development while working to remain the preferred choice in blind taste tests.
At a global level, Nestlé has prioritized product innovation for improved health and nutrition, reformulating over 6,500 products over the past decade. Over 75% of Nestlé’s product portfolio now exceeds the company’s World Health Organization-inspired nutrition criteria. Product reformulations range from fortifying products to meet geographic-specific nutritional deficiencies, such as iodine, iron, calcium, and vitamins in Latin America, to reducing sodium or fat content. Furthermore, Nestlé’s CEO announced in 2012 that the company would accelerate its plan to meet its public nutritional commitments. These commitments establish plans to increase the nutritional value of all of Nestlé’s products, comply with high nutritional standards for all infant products, and promote children’s nutritional education and healthy living at the global level.

Through its Popularly Positioned Products (PPP) initiative, Nestlé aims to create products “with good nutrition and great taste . . . for consumers in emerging markets.” In Chile, Nestlé has 109 PPP products that increased in sales from US $187 million to US $225 million between 2009 and 2010 and contributed 19% of Nestlé’s 2010 total Chilean sales. One example is the Acticol product line, which Nestlé Chile launched in 2012 to help control cholesterol and support heart health in a country where an estimated 38.5% of adults have elevated cholesterol. With increasing sales in Chile and an 11% growth in sales of PPP products globally, Nestlé’s investments in nutrition have increased the variety of healthy options available to consumers globally and have the potential to improve consumer health outcomes moving forward.

2. ADJUSTING INTERNAL PRACTICES TO REACH AT-RISK POPULATIONS

In addition to creating new products, companies can modify their processes to better reach at-risk populations. Health insurance companies and healthcare providers can modify disease management practices. Supermarkets and pharmacies can improve distribution channels to target local health needs.

**Improved monitoring services for at-risk patients: SulAmerica**

Insurance providers can capture significant cost savings by helping at-risk patients improve their long-term health outcomes. SulAmerica, the largest independent insurance group in Brazil with over 7 million clients, noticed that patients with chronic diseases (including conditions linked to obesity) had significantly higher costs than other patients. Seeing an opportunity to lower costs by changing internal practices, SulAmerica launched a disease management program in 2002 for members that had more than US $20,000 in claims the previous year. The company modified its monitoring methodology and provided additional resources, such as in-home monitoring and a Nurseline service for medical questions, to high-risk program members.

The improved health outcomes of participants in the SulAmerica’s disease management program have reduced the company’s overall costs. Statistical analysis comparing costs between participants and a control group indicated that costs were nearly 15% lower for program participants, who decreased their use of in-patient healthcare services by more than 30%. The Nurseline service managed to resolve 70% of callers’ issues over the telephone and 83% of program participants made lifestyle changes based on program guidelines. As a result, 51% of obese patients lost weight, 79% had lower blood pressure, and 83% of participants with high cholesterol decreased their LDL/HDL ratios.

3. CREATING AN ENABLING ENVIRONMENT FOR HEALTHIER LIFESTYLES

Innovation in products, services, and business practices can play a critical role in decreasing obesity. These efforts are magnified when companies use education and advocacy to build an environment that encourages healthy living. Traditional corporate social responsibility efforts in this area generally lack
scale and have limited social and business results. A few innovative companies, like Tresmontes Lucchetti and Nestlé, are building partnerships and launching pilot projects to build the enabling environment.

Changing cultural norms through education and advocacy: Tresmontes Lucchetti

Tresmontes Lucchetti realized that the rise in obesity and sedentary behavior in Chile was threatening the long-term sustainability of its business. The company offers a wide portfolio of pastas, soups, instant drinks, nectars, desserts, snacks, among others, a mix that has been continuously reformulated to reduce ingredients such as sugar, sodium, and fat, through innovation. Tresmontes Lucchetti’s Felipe Lira recognizes the link between his company’s success and the country’s health. “The only way for us to grow and secure a long term demand for our products,” says Lira, “is to help Chileans develop healthier nutrition and lifestyle habits.”

Healthy Space (Espacio Saludable) is an intervention in public schools that comprehensively addresses the commitments of local authorities, the leadership and teacher teams, and involves parental engagement. The intervention includes increasing healthy food and drinks in kiosks, encouraging “active recess” periods with designated playground spaces, increasing weekly P.E. hours with planned classes taught by specialized teachers, and incorporating nutritional education into the curriculum.

This project began in 2001, when Tresmontes Lucchetti with the support of INTA, the Chilean Health Ministry, and local communities, piloted their first program focused on reducing childhood obesity, improving nutrition, and increasing physical activity at three public elementary schools. The project trained parents in healthy eating, recommended nutritious foods and snacks, and provided new recipes to demonstrate that healthy eating can be affordable. In two years, the program reduced the prevalence of obesity by 50% and overweight by 25%.

Following the success of the pilot program, Tresmontes Lucchetti in partnership with INTA replicated this intervention in Macul starting in 2008, by also incorporating a model of “Healthy Kiosks” in public schools across the municipality. Based on these experiences, a rapid replication and improvement of the model began. In 2014, the company launched a study to measure the effectiveness of the various components of the Healthy Space model, which is being carried out in three regions across Chile, and the results will be released in 2015. By working collaboratively with academics to evaluate the outcomes of these interventions, Tresmontes Lucchetti is building a base of evidence for how school-based obesity prevention programs can be used to improve the health of future generations of Chileans.

Nestlé Chile has also sought to develop innovative interventions and partnerships that contribute to reducing the percentage of infants who are overweight or obese. As Francisco Frei, Communications and Corporate Affairs Manager at Nestlé Chile, states, “Nestlé has put Nutrition, Health, and Wellbeing at the center of its business. This not only implies providing delicious and healthy products and continuously innovating to nutritionally improve our food products, it also encompasses a commitment to promoting healthy lifestyles. Given the nutritional reality of our population and understanding that overweightness
and obesity are multifactorial issues affecting our country, we are working with various societal actors because we understand that it will take all of us.” In collaboration with INTA, among others, Nestlé drove the development of pilots in school settings in Puente Alto and Peñalolén that generated valuable insights. In 2013, leveraging their deep knowledge in nutrition and experience working with teachers in the classroom, Nestlé developed an educational manual on diet and nutrition directed toward preschool through 4th grade teachers that currently reaches more than 9,000 children. Nestlé trains teachers and provides them with the materials and support necessary to incorporate health-related skills and habits, and contribute to the fight against obesity from a very young age, from an educational standpoint. These programs are part of Nestlé’s *Global Healthy Kids* program that serves nearly 7 million children worldwide.

Gaining national scale, building ownership among local partners, and aligning efforts with other community-based healthy lifestyle initiatives are key to creating the scale of change in health outcomes and consumer preferences that will create meaningful value for the business and society.

**Pursuing complementary forms of shared value to amplify social and business impact: Discovery Group**

Discovery Group, a South African-based global insurance company, has produced impressive business and social results, including lower costs, increased market share, and improved customer health by pursuing complementary forms of shared value. Discovery is modifying its product offering and internal processes, partnering with many others, and advocating for nation-wide policy changes.

**DEVELOPING NEW PRODUCTS AND SERVICES: HEALTH INSURANCE THAT INCENTIVIZES HEALTHIER CHOICES**

Health insurance providers have high costs due to insurance claims from obesity-related diseases. In South Africa, NCDs and lifestyle-related diseases affect more than 40% of South African adults. To reduce its overall risk and broaden its consumer base, the Discovery Group developed its premium *Vitality* Program to meet the needs of younger clients.

The *Vitality* program uses financial incentives to encourage members to make healthy lifestyle choices, awarding points for physical exercise, discounts on healthy foods, and points-based rewards ranging from reduced insurance premiums to travel options and shopping discounts. Discovery pays for *Vitality* members’ health club memberships, but only if they visit three times a month. They also offer a HealthyFood™ benefit, with discounts of 10-25% for foods on their HealthyFood™ list at local grocery stores. As a result of these benefits, gym usage among *Vitality* members increased by 22% over a 5-year period, and the proportion of HealthyFood™ being purchased increased by 3% in the first year. The use of benefit programs to engage members in healthy behavior change has also led to significantly reduced

“One of the ways to be much more efficient about . . . spend[ing] on healthcare is by helping people live more healthily, and that’s how Vitality was born.”

– TAL GILBERT, SENIOR VICE PRESIDENT FOR MARKETING, DISCOVERY VITALITY®
costs. For chronic conditions, risk-adjusted hospital costs are as much as 30% lower for engaged Vitality members. A fitness study showed that hospital admission rates are 10% lower and length of stay in hospital is 25% lower for highly-engaged Vitality members.¹⁴⁰

**FIGURE 8**

<table>
<thead>
<tr>
<th>Number of additional monthly gym visits over 3 years</th>
<th>Decline in odds of being hospitalized in the following 2 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>3%</td>
</tr>
<tr>
<td>2</td>
<td>7%</td>
</tr>
<tr>
<td>4</td>
<td>10%</td>
</tr>
<tr>
<td>6</td>
<td>13%</td>
</tr>
</tbody>
</table>


By encouraging improved long-term health outcomes for consumers, the Vitality program has contributed to Discovery gaining over 40% of South Africa’s private health insurance market to date.¹⁴¹ Discovery continues to monitor business and social outcomes and is investigating the development of a low-cost version of the plan that could help target a larger proportion of the population.¹⁴²

**CREATING AN ENABLING ENVIRONMENT: ADVOCATING FOR URBAN ENVIRONMENTS THAT FOSTER ACTIVE LIVING**

Discovery also advocates for improving urban infrastructure to make active living easier. To raise awareness and encourage policy change, Discovery collaborated with public health, physical activity, and urban planning experts to rank South Africa’s major metropolitan areas in physical activity-related health and infrastructure.¹⁴³ The outcome was the Vitality Fittest City Index, ranking six metropolitan areas in areas such as self-reported physical activity, use of non-motorized transport, and the availability of facilities for physical activity. In their 2013 report, Discovery ranks each city and provides recommendations and action steps for educators, employers, community members and policymakers to help create urban environments that encourage movement.

Dr. Tracy Kolbe-Alexander, one of the index co-creators, notes that the intention of the index is to encourage people to move more. “We also hope that it will encourage policymakers and local government to create supportive environments which will improve the health and physical activity profile of their city,” says Kolbe-Alexander.¹⁴⁴ Cooperation between public and private organizations to increase urban physical activity has the potential to improve health for as many as 1.3 million people in South Africa. Discovery’s efforts can make a significant contribution to population health while also improving Vitality’s bottom line.
Addressing obesity is critical to ensuring long-term business sustainability

Obesity is an emerging public health crisis with important implications for the competitiveness of the Chilean private sector. Shared value presents an avenue for visionary corporations to simultaneously increase their profitability and help reduce obesity. The complexity of the obesity challenge—impacted by multiple factors such as culture, dietary preferences, access to recreational opportunities and many other factors—makes working in partnership essential to long-term success.

As Justo García, President of Tresmontes Lucchetti, notes, “to win the war on obesity, magic formulas do not exist, nor can one [intervention] reverse this trend. We [all must] contribute to resolving this issue: government officials, academia, the food and beverage industry, trade, media, local government, and each of us in our family environment.”

Companies that leverage shared value opportunities to take the lead on tackling this epidemic can reap significant competitive advantage and help ensure the long-term success of their business models in the years to come. Failing to consider the implications of obesity on consumer preferences and health could have drastic implications for business returns over time.
4. Taking Action is an Imperative, not a Choice

Chile is at a key moment in its history. The aspirations of millions of Chileans to find a future with greater prosperity are at stake. The private sector has a unique opportunity to simultaneously increase its competitiveness and tackle relevant social problems through shared value. Increasingly, finding ways to address Chile’s social challenges through business is becoming an imperative. In today’s challenging environment, companies cannot afford to overlook opportunities just because they fall outside the scope of business as usual. Companies that successfully create shared value will be better positioned to compete in environments where private sector legitimacy is seriously questioned. The long-term sustainability and profitability of Chilean companies will increasingly depend on their ability to see the connection between social problems and business, and to find new opportunities that have been overlooked in the past.

How to get started

The private sector, the Chilean government, and civil society all have important roles to play in implementing shared value. Shared value is preeminently a business strategy; the private sector must take the lead in developing shared value opportunities. The country challenges and associated shared value opportunities explored above are just three of many shared value opportunities available to Chilean businesses. Chilean companies should pursue the following steps to start or advance in their shared value journey (see section titled “Identifying opportunities” and Appendix for more details and examples):

1. Identifying opportunities
2. Building the case
3. Measuring outcomes
4. Engaging senior leadership
5. Organizing for shared value
6. Nurturing effective partnerships

Shared value creation is most effective when pursued in relation to a clear strategy, tailored to reflect a company’s unique positioning, capabilities, and competitive landscape, and focused on a limited set of relevant opportunities. Companies that are merely “checking the box” on shared value, rather than authentically seeking business advantage and social impact, will not be effective at developing shared value strategies. The difference between “checking the box” and engaging authentically is outlined in the following table:

FIGURE 9

<table>
<thead>
<tr>
<th>Checking the Box</th>
<th>Engaging Authentically</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating one-off programs without a clear strategy</td>
<td>Designing complementary initiatives to build a platform for shared value creation</td>
</tr>
<tr>
<td>Focusing on identifying partnerships that will get public attention</td>
<td>Thinking critically about organizations that would best serve the initiative’s goals; learning from partners</td>
</tr>
<tr>
<td>Pursuing only the shared value initiatives that fit the current corporate structure</td>
<td>Developing new business models to maximize business and social value</td>
</tr>
</tbody>
</table>
Identifying opportunities

The first step in creating shared value is to find attractive opportunities. Simple as it may sound, opportunity identification can actually be quite challenging because it requires a nuanced understanding of the link between social problems and business opportunities. Although companies may understand the way in which their business intersects with societal issues, they may not be aware of the best ways to translate this knowledge into a business opportunity. Making this link can be a challenging shift in mindset.

Companies can start by conducting a systematic review of social issues with key stakeholders. This is different from more traditional stakeholder analysis, where the corporate affairs/social engagement team leads the effort and a limited set of stakeholders are engaged. Companies can draw on their CSR divisions for their knowledge of local context, but to understand the business nature of the opportunity, business units must also be deeply engaged. By having a broader range of conversations, companies will often discover aspects of the social challenge and business opportunity that they had overlooked before.

In Mexico, for example, CEMEX, one of the largest cement and building supply corporations in the world, identified low-income families as a market with significant growth potential, but did not know how to adapt its traditional strategies for the low-income market. In an unexpected paradigm shift, the company issued a “Declaration of Ignorance,” stating publicly that it had no idea how to reach low-income markets and was willing to move away from traditional business approaches to pursue the opportunity. Following this Declaration, the CEMEX management, supported by a multidisciplinary internal team with representatives from planning, logistics, marketing, commercial sales, and concrete, worked in partnership with an external consulting team to perform in-depth research into the low-income market. The team surfaced three primary obstacles for low-income customers:

1. Insufficient capital, forcing low-income families to delay the purchase of building materials
2. Limited distribution networks and storage space, leading to deterioration of purchased materials
3. Lack of expertise among contractors, leading to poor quality or incomplete construction projects

This deeper understanding of the social challenge allowed CEMEX to clarify the business opportunity. The company launched *Patrimonio Hoy*, a membership program for low-income home improvement customers that incorporated a microlending model and access to an engineer and architect to oversee participants’ construction projects. CEMEX also provides storage space and serves as an intermediary for distributors of other building materials, ensuring a fixed cost of materials over the course of the work. The program became profitable four years after inception and now operates in over 100 offices in Mexico, Colombia, Costa Rica, Nicaragua, and the Dominican Republic. Since 2000, this program has provided affordable home improvement to more than one million low-income customers in Latin America and encouraged over 350,000 people to build their own homes.

As seen in the case of CEMEX, understanding shared value opportunities requires multiple steps, starting with identifying the high level opportunity (e.g., construction materials for a low-income segment), and continuing with assessing the social need and determining how the company can build a viable business from addressing the social problem. It is critical for companies to maintain a long-term view to maximize value creation for business and society.
Government can play five key roles in accelerating the adoption and implementation of shared value (see sidebar and Appendix for more details and examples):

1. Acting as a knowledge broker
2. Convening key players
3. Serving as an operating partner
4. Changing the risk/reward profile
5. Creating a supportive regulatory environment

The Chilean government misses out on an opportunity to leverage the resources and creativity of the business sector when it does not actively encourage shared value investments that align with its development agenda. Multilateral organizations can take on similar roles to support private sector efforts to put shared value at the heart of a country’s development.

**Convening key players**

A valuable first step for government in encouraging the identification and development of shared value opportunities is to convene key players. Even when a company has identified a potential shared value opportunity, it may lack the necessary contacts or networks for effective implementation. Some social sector players may be wary of partnering with corporations, fearing that the profit-driven mentality of the private sector cannot be aligned with creating social change. Companies may also fear breaching anti-trust laws, or be disinclined to be associated with their competitors in a shared value initiative. Governments can help bridge this gap by providing a neutral site to convene interested stakeholders around similar social and business goals. Some strategies could include:

- **Assembling key players within a specific industry**
  The Australian national government has created and funded eleven non-profit Industry Skills Councils (ISCs) to convene key players in specific industries. Together, these actors are able to discuss the critical challenges facing their industry and how the nation’s Vocational Education and Training (VET) system can support the workforce development goals of both government and industry. These skills councils provide industry-related advice to the Australian Workforce and Productivity Agency, allowing the national government to support industry training programs through links with private enterprise and employment service providers. The ISCs have mapped out the key competencies and career paths to meet the existing and emerging skill needs of their industries. Each ISC produces a Continuous Improvement Plan to ensure industry, education institutions, and public authorities are able to plan and respond accordingly to evolving needs.

- **Convening cross-sectoral actors focused on the same goal**
  The Danish Government initiated the Global Green Growth Forum (3GF) in collaboration with the governments of China, Kenya, Mexico, Qatar, and the Republic of Korea in an effort to catalyze green growth. The 3GF convenes an annual summit of high-level green growth leaders from governments, the corporate sector, and international organizations to explore new avenues for scaling green growth. The
3GF has developed a methodological tool for green growth partnerships to help actors identify barriers, design partnerships to overcome those barriers, and determine how to achieve meaningful global scale. One example of a public-private partnership with significant social impact potential that has evolved out of 3GF is LAUNCH, a partnership between Nike, USAID, NASA and the U.S. Department of State to drive radical innovation in materials to increase resource efficiency, reduce waste, and increase overall sustainability. By assembling 150 people that represent every part of the materials value chain, LAUNCH has convened a stakeholder group that can create scalable, systems-level change.

Civil society will also lose the opportunity to work with a critical strategic partner if it permits its mistrust of the private sector to get in the way of constructive dialogue. Civil society organizations can be a key partner to help the private sector understand the nuances of social challenges, but only if they can accept the companies’ legitimate business imperatives.

The Chilean private sector is facing a critical challenge. Its legitimacy is being questioned by a large segment of the Chilean population. Significant social problems in education, health, social inequity and other areas are generating social conflict. Chilean companies have a great opportunity to increase their competitiveness and decrease social tensions by developing shared value strategies. Conflict between the private sector and broader society is not inevitable and companies do not need to choose between maximizing profits and helping to solve social problems. By developing shared value strategies, the private sector can usher in a new age in Chile—an age where companies recognize that helping to solve social problems can be part of an effective business strategy; an age where government achieves its development objectives more rapidly by helping companies maximize the impact of their shared value strategies. Putting shared value at the center of Chile’s development plans does not require companies to abandon business as usual or government to forgo systemic reforms. Capturing opportunities such as those described above, however, will require both the private and the public sector to set aside dogma and recognize the interdependence between business and society and be willing to explore new approaches to business strategy and public policy.
Appendix A – Steps in the Shared Value Journey

Shared Value is an emerging discipline that presents an opportunity to rethink the role of business in society. Yet companies are not used to viewing social challenges as business opportunities. Successful shared value strategies require companies to make a paradigm shift—to be willing to move beyond traditional methods of identifying business opportunities and to commit to a comprehensive effort across the entire organization. Although each firm’s approach to shared value is unique, companies face similar challenges in translating shared value concepts into action.

1. Identify opportunities
2. Build the case
3. Measure outcomes
4. Engage senior leadership
5. Organize for shared value
6. Nurture effective partnerships

1. Identify opportunities

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2. **Build the case**

Shared value is at its essence a business strategy. Therefore, building a strong social and business case is a critical prerequisite to mobilizing resources. A clearly articulated social and business case with expected outcomes and returns, costs, risks, and options for implementation makes explicit how the company will pursue the shared value opportunity and will help bring more skeptical members of the senior leadership onboard.

Shared value strategies often explore uncharted territory; consequently, when starting, companies will likely have several unanswered questions about how to develop a successful business strategy. Shifting from a mindset of ‘Can we do this?’ to ‘How can we do this?’ is a simple yet powerful tip for teams building the case for a shared value investment. When considering how to maximize revenue, accelerate implementation, or reduce up-front investment costs, companies can use practical approaches such as running pilot studies, developing partnerships to access new expertise, resources, and markets, and going through structured innovation processes to generate new business models.

Vodafone used a pilot study to clarify revenue flow and social impact for a potential shared value opportunity to use mobile technology to increase access to financial services in developing economies. To overcome initial skepticism among leadership, using a grant from the British Department for International Development (DFID) to cover initial research and development, the venture was kept separate from other Vodafone businesses for two years. Once the initiative (known as *M-Pesa*) had demonstrated its commercial viability, local units of an established business financed its scale-up. Today, *M-Pesa* is managed by Vodafone’s national subsidiaries and is one of the company’s most important offerings, accounting for 18% of the revenue of Safaricom, Vodafone’s Kenyan subsidiary. Over two-thirds of Kenya’s adult population now subscribes to *M-Pesa*, and approximately a quarter of the nation’s economy flows through the mobile money service.

3. **Measure outcomes**

One of the most important tools in driving shared value is defining how to measure social and business outcomes. Without tracking the interdependency between social and business results, companies...
are liable to miss significant opportunities. Existing social performance measurement practices cover sustainability, social and economic development impact, reputation, and compliance, but typically fail to link these measures to the value or cost to the business. Effective shared value measurement builds on existing social performance measurement practices, but requires an iterative process that is integrated with business strategy. The strategic priorities of the business inform the focus and extent of shared value measurement, and the resulting data and insights inform refinement of the shared value strategy.162

One example of using effective shared value measurement is in Intel's development of its *Education Transformation* strategy. As only 5% of students worldwide have access to a PC or the internet at school, and teachers often lack training and resources to effectively integrate technology into the classroom, Intel saw an opportunity to increase sales of classroom technologies while also improving education outcomes. In implementing this strategy, Intel supports government efforts to improve the quality of their education efforts with a holistic model for education transformation that combines advocacy, curriculum standards, professional development of teachers, deployment of information and communication technologies (ICT), and support for research and evaluation. Key to Intel's business success is to understand “what works” for students and teachers and incorporate that knowledge into new product design. Consequently, Intel tracks product performance on a number of criteria relevant to classroom usage, such as ruggedness, water resistance, and battery life, as well as levels of teacher engagement and student performance. Better understanding of educational needs and the impact of Intel's education technology improves the product and overall sales, but linking educational outcomes to the effective application of technology and other elements of the educational transformational model can help school systems understand the importance of ICT in education, driving further adoption. This focus on continuous product improvement based on insights from measurement has allowed Intel to achieve market leadership in the growing education technology market, improving student outcomes in emerging economies while simultaneously increasing its market share.163

4. Engage senior leadership

The pursuit of shared value typically requires an explicit strategic commitment by corporate leaders. CEO leadership is critical for aligning resources and changing the ethos of company. Unilever’s CEO Paul Polman, for example, has demonstrated both public and internal commitment in creating the space and momentum for the company's *Sustainable Living Plan*: "I don't think our fiduciary duty is to put shareholders first. What we firmly believe is that if we focus our company on improving the lives of the world’s citizens and come up with genuine, sustainable solutions, we are more in sync with consumers and society, and ultimately this will result in good shareholder returns."164 Unilever’s ambitious 10-year *Sustainable Living Plan* sets clear long-term goals to double sales and halve the environmental impact of the company's products, improve the nutritional quality of food products, and link over half a million smallholder famers and small scale distributors in developing countries to its supply chain.165

A shared understanding of the shared value opportunity among the executive management team is also critical. It is not uncommon to find different levels of understanding of shared value within a company, due to varying priorities by department and role. Without a shared commitment across the executive team, companies will have difficulty marshaling the resources, focus, and long-term thinking to make a meaningful impact.

Developing this shared understanding is a process. Champions of shared value within the company may need to work individually with members of the management team, generating curiosity and interest to
overcome a lack of awareness of shared value. Some executives may understand the link between social and business opportunities intuitively; others will require exposure to examples within their industries, or results from pilot projects, before coming on board. In order to convince senior leadership, a range of options is available, including sharing examples from the field, meeting and learning from other companies, or running workshops and executive education training programs.

BD (Becton, Dickinson and Co), a leading medical technology company that develops, manufactures, and sells medical devices, instrument systems, and reagents, is a great example of how the commitment of senior leaders, combined with the success of an initial shared value initiative, can lead to the institution of shared value within the company's long-term strategy. BD first engaged in shared value creation in the 1990s, partnering across sectors to create devices that would protect caregivers from needlestick injuries. BD has now developed a $2 billion business out of its shared value safety syringe idea.166

To ensure that BD’s global executive leadership could incorporate shared value into their day-to-day practice and decision-making, the company offers three-day, comprehensive trainings for senior executives and rising stars at their company headquarters. The goals of these trainings are to increase the understanding and excitement about shared value among key executives, to learn from shared value successes and failures at BD and other organizations, to stimulate new initiatives that drive profit while addressing underserved populations, and to prioritize initiatives and operational change needed to move the company along their shared value journey. CEO Vince Forlenza attends the trainings, demonstrating his commitment to the concept. Each course concludes with participants committing to specific actions that will help the company advance shared value. Based on the success of these training sessions, BD is now rolling out regional trainings to executives in different geographies who will implement the company’s shared value efforts at a global scale.167

5. Organize for shared value

Internal structure plays a significant role in successfully implementing shared value. The optimal organizational design for shared value will vary by company and evolve over time, depending on the current business structure, level of commitment to shared value, and the overall shared value strategy. While such structures are unable to singlehandedly transform a company into an engine for shared value creation, they can help create the right motivation for maximizing social and business returns. In addition, it is critical to ensure the right mix of talent in championing a shared value initiative, to successfully align employee incentive structures with shared value creation, and to balance corporate strategic alignment with the flexibility to adapt to individual markets.

ACQUIRING SKILLS AND OWNERSHIP FROM MULTIPLE BUSINESS UNITS

As alluded to in ‘Identifying Opportunities’, a mixture of skills is needed to fully understand and capitalize on shared value. Consequently, it is critical to champion initiatives with staff that understand the social landscape and the business opportunity. Eli Lilly, for example, launched the Lilly NCD Partnership through its Corporate Affairs department to strengthen local clusters and drive business returns by improving diabetes care in key middle-income countries. In developing the initiative, however, Lilly staff faced a significant challenge: the initiative was at odds with the company’s entrenched view that social and business engagement with society should be separated. Although the idea of a more aligned approach to business and social value creation gained traction as senior leaders in the company developed a deeper understanding of shared value, it took significant leadership from the heads of corporate affairs, and the diabetes and emerging markets business units, as well as the CEO, to achieve this shift. Based on
the learning from the *NCD Partnership*, the ensuing shared value strategy to increase access to diabetes care in India was co-staffed by members across business units and the Corporate Affairs team, and effectively integrated expertise from both groups.

**ALIGNING SHORT AND LONG-TERM STRATEGY**

Another critical element lies in linking shared value to corporate strategy, both at a global and regional level. Companies that are interested in shared value creation as a business goal should consider modifying strategic plans and employee incentive structures to encourage thinking about social and business returns simultaneously. Such thinking is particularly relevant for companies that must consider how variations in consumer attitudes affect purchase behavior. GE, for example, recognized that rising energy prices and increasing environmental awareness would likely shift consumer preferences towards energy-efficient appliances. Capitalizing on its position as a market leader in a wide range of sectors, GE leveraged its R&D capacity to reengineer thousands of its products to increase revenue and reduce environmental impact through its *Ecomagination* strategy.\(^\text{168}\) Pursuing shared value at such an ambitious, long-term scale, and setting specific, actionable short-term and long-term goals for employees in research, product development and operations, has been instrumental in the success of this strategy, allowing GE to generate more than $17 billion in revenues in 2008.

**BALANCING STRATEGIC ALIGNMENT WITH THE FLEXIBILITY TO ADAPT TO INDIVIDUAL MARKETS**

Although drawing the link between shared value and corporate strategy is important, overly centralized corporate structures can inadvertently limit opportunities to pursue shared value by creating bureaucratic and administrative hurdles. Setting a target at the corporate level, but allowing individual country offices to choose their own strategies for meeting the target, can help spur innovation while allowing for location-specific nuances that can maximize overall outcomes. Key elements of successful pilot projects can also be replicated at country, regional, or global levels. One example of how setting a corporate target helped stimulate internal innovation is Danone. In 2010, the CEO of Danone made a public commitment to reduce the company’s carbon footprint by 30% by January 2012. Although the company at the time lacked a clear idea how this could be achieved, the public commitment required each country business unit to “invent, re-design, create and dare” in order to achieve the goal. Danone UK, for example, worked in partnership with ARLA, a large retailer, to explore the potential to reduce CO2 emissions and costs by distributing Danone products together with various other products to the same clients. Once the project was implemented and its impacts on CO2 emissions were evident, the project was extended to other countries in Europe in partnership with other large corporations.\(^\text{169}\)

6. **Nurture effective partnerships**

The challenges addressed by shared value are complex, and companies will seldom have all of the necessary resources, experience, or capability needed to implement their initiatives successfully. Hence, partnerships with nonprofits, the public sector, and even other companies can be critical to drive shared value creation. Mars, for example, in their efforts to revitalize cocoa production in West Africa, partnered with IBM and the U.S. Department of Agriculture to sequence the cacao genome, allowing for greater productivity through improved plant-breeding techniques. Similarly, Britannia, noting a unique opportunity to produce a fortified food product to tackle childhood anemia in India, worked in partnership with the Naandi Foundation and the Global Alliance for Improved Nutrition (GAIN), to develop a fortified biscuit and conduct pilot tests through Naandi’s school-feeding programs.\(^\text{170}\)
There are many different types of productive partnerships. Pre-competitive partnerships bring competitors together to work toward a common goal. These partnerships, like the Mining Skills Council outlined earlier, can help lower costs and create spillover benefits by allowing companies to innovate together to help address social and environmental challenges. Pre-competitive partnerships are particularly critical when:

- A **common challenge** exists for multiple actors that would require a large investment to address
- Solutions would have **limited traction** unless achieved at scale
- There is an **opportunity to learn from others** to improve internal processes

Cross-sector partnerships, such as the Mars example above, allow for the expertise of different types of actors to be applied to complex, multi-faceted problems. In addition, partnering with a trusted intermediary, such as a local government or nonprofit institution, can help create the necessary relationships to effectively carry out a shared value initiative. In China, for example, when Novo Nordisk initiated a long-term growth strategy centered on improving patient care, partnerships with the local Ministry of Health, media, and Chinese physicians were critical to educating the public about diabetes prevention and treatment, and to earn the trust of local communities. The combined skills and assets of all these organizations and institutions not only helped China become the third largest diabetes care market for Novo Nordisk, but also allowed for the training of 55,000 local physicians and an estimated 140,000+ life years saved through diabetes care.171

In Canada, oil sands producers were facing strong backlash due to poor environmental performance. This pressure was felt by all members of the industry, yet the environmental impacts were both extremely complex and expensive to address. By creating Canada's Oil Sands Innovation Alliance (COSIA), oil sands producers were able to work together with government, academia, and the wider public to improve measurement, accountability, and environmental performance. Since its inception, COSIA has shared 446 distinct technologies and innovations that cost over $700 million to develop. This open-source approach to environmental innovation has increased the environmental performance of all the associated companies; in addition, the companies receive a proprietary interest in all the innovations that come out of the collaboration.

Despite the potential benefits, many companies are reluctant to consider partnerships. Often they prioritize reputational benefits and are disinclined to share the credit for positive results. Sometimes, cultural and organizational differences between potential partners can make it difficult to collaborate and agree on shared measures for success. Companies can be averse to sharing their resources and expertise with their competitors, and legitimately concerned that collaboration can be perceived as a violation of anti-trust laws. Finally, civil society can also be an impediment to successful partnerships due to skepticism or lack of trust associated with profit-seeking shared value investments, despite the positive potential social outcomes. To overcome these concerns in circumstances where partnerships are essential to creating a sustainable solution, partnerships should include the following characteristics:

- A **shared sense of urgency**, prompting actors to work together
- **Leadership commitment** from each partner organization
- **Common goals**, and a willingness to re-align individual objectives for shared success
- **Effective governance**, with up-front definition of roles and responsibilities
- **Operational proficiency**, with the combined skills of partners sufficient to ensure success
In addition, all partnerships must have tangible, positive benefits for all members and clear consequences for members who do not fulfill their responsibilities.

**Lessons learned**

In its most successful incarnations, shared value requires a mindset shift, where corporate leadership, strategy, and structure are reformed to combine business and social value creation in a manner that is integral to the growth and positioning of the company. The table below outlines some lessons learned and tips that companies have gleaned along their shared value journey.

<table>
<thead>
<tr>
<th>Step</th>
<th>Potential Strategies and Next Steps</th>
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</table>
| **1. Identify opportunities** | - **Conduct a systematic review** of social issues that affect the business as part of conversations with internal staff, clients, and shareholders  
- **Create hybrid teams** blending CSR divisions with business units to fully leverage internal assets in identifying critical gaps  
- **Initiate discussions with external stakeholders**, including NGOs, governments, and competitors for big-picture understanding |
| **2. Build the case** | - **Identify and quantify estimated business** outcomes (e.g., lower cost from efficiency and productivity gains, decreased risk, increased revenue from new markets and/or products)  
- **Develop metrics for social outcomes** (such as changes in health behaviors) and define connection with business outcomes  
- Consider **incubating the initiative** within a philanthropic or social responsibility arm of the company or **working in partnership** with other corporations, non-profit, or government organizations to **ascertain commercial viability** |
| **3. Measure outcomes** | - Create **iterative measurement processes** that integrate social performance measurement with business strategy to maximize value creation |
| **4. Engage senior leadership** | - **Leverage the CEO’s influence** in setting public and internal shared value goals  
- **Share examples from the field** to create awareness of shared value  
- **Meet with other companies pursuing shared value** to ask questions and better understand the benefits and inherent challenges  
- **Conduct workshops or executive education programs** to train senior leadership in thinking about shared value for their own business units |
<table>
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<tr>
<th>Step</th>
<th>Potential Strategies and Next Steps</th>
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| 5. Organize for shared value | • Generate **ownership and collaboration across all business units and functions** with the required resources and expertise to achieve shared value goals  
  • Align business incentives with short and long-term **shared value objectives**  
  • Balance **corporate strategic alignment** with the **flexibility to innovate** at country and business unit levels to maximize overall outcomes |
| 6. Nurture effective partnerships | • **Identify other stakeholders** with a vested interest in the relevant social and/or business challenge (including NGOs, public sector organizations, and even competitors) when considering implementation, and **analyze whether their assets could amplify the impact of your efforts**  
  • **Understand regulatory frameworks governing collaboration** in each market, to confirm that your collaborative efforts do not cross the line towards collusive practices  
  • Ensure a **shared sense of urgency** and **leadership commitment** from each partner; establish **common, aligned goals**, and **effective governance structures** to drive **operational effectiveness**, while ensuring **tangible, positive benefits for all partners** |
Appendix B – The Role of Government in Creating Shared Value

Governments frequently attempt to address social problems without considering how the involvement of the private sector might make their efforts more successful. Accustomed to the fact that many companies ignore the link between their businesses and social problems, governments tend to focus their efforts either on requiring companies to help fund government programs through tax or royalty payments, or by imposing strict regulations. Yet governments that focus solely on these approaches may overlook opportunities to harness the creativity, perseverance, and resources of the private sector to advance their social goals.

Shared value is primarily a business strategy, however governments that wish to engage the private sector in their development agenda can accelerate the adoption and implementation of shared value strategies by playing five key roles.

1. Act as a knowledge broker
2. Convene key players
3. Serve as an operating partner
4. Change the risk/reward profile
5. Create a supportive regulatory environment

Act as a knowledge broker

On their own, companies may find it challenging to fully grasp the multiple dimensions and drivers of social problems, and may find it difficult to recognize how social challenges can present business opportunities. With more information at their disposal and more experience tackling social problems directly, governments can work with the private sector to discover overlaps between business and social challenges. Governments can function as knowledge brokers in several different ways:

- Conducting or strengthening technical research that complements companies’ efforts in critical areas. In Oman, for example, the government noted that companies were interested in developing renewable energy technology to reduce reliance on fossil fuels. As this technology could be useful in tackling the social problem of increasing energy access in remote rural areas, the Omani government invested in strengthening local research support mechanisms, building links to international databases, and encouraging local public universities and colleges to conduct research and development projects that would complement private sector R&D in this area.\(^{172}\)

- Investing in social research that permits a more nuanced understanding of different aspects of socio-economic challenges. Some examples could include:
  - Evaluating needs, challenges, and patterns of vulnerable populations (e.g., access to services, income fluctuations, ability to pay for goods and services, health outcomes)
  - Population mapping efforts via censuses, phone surveys, door-to-door visits, and geospatial technology tools
  - Analyzing best practices for solving social problems
  - Developing/Tracking nuanced progress indicators that will help both private sector and civil society actors understand the effectiveness of their programs
Governments also act as a knowledge broker when they can build familiarity with shared value concepts and encourage the emergence of a shared value culture. Recognizing examples of best practice and spearheading communication campaigns can encourage the private sector to see the relevance of shared value to their business strategy.

**Convene key players**

Even when a company has identified a potential shared value opportunity, it may lack the necessary contacts or networks for effective implementation. Some social sector players may be wary of partnering with corporations, fearing that the profit-driven mentality of the private sector cannot be aligned with creating social change. Companies may also fear breaching anti-trust laws, or be disinclined to be associated with their competitors in a shared value initiative. Governments can help bridge this gap by providing a neutral site to convene interested stakeholders around similar social and business goals. Some strategies could include:

- **Assembling key players within a specific industry**
  The Australian national government has created and funded eleven non-profit Industry Skills Councils (ISCs) to convene key players in specific industries. Together, these actors are able to discuss the critical challenges facing their industry and how the nation’s Vocational Education and Training (VET) system can support the workforce development goals of both government and industry. These skills councils provide industry-related advice to the Australian Workforce and Productivity Agency, allowing the national government to support industry training programs through links with private enterprise and employment service providers.\(^{173}\) The ISCs have mapped out the key competencies and career paths to meet the existing and emerging skill needs of their industries. Each ISC produces a Continuous Improvement Plan to ensure industry, education institutions, and public authorities are able to plan and respond accordingly to evolving needs.

- **Convening cross-sectoral actors focused on the same goal**
  The Danish Government initiated the Global Green Growth Forum (3GF) in collaboration with the governments of China, Kenya, Mexico, Qatar, and the Republic of Korea in an effort to catalyze green growth. The 3GF convenes an annual summit of high-level green growth leaders from governments, the corporate sector, and international organizations to explore new avenues for scaling green growth. The 3GF has developed a methodological tool for green growth partnerships to help actors identify barriers, design partnerships to overcome those barriers, and determine how to achieve meaningful global scale.\(^{174}\) One example of a public-private partnership with significant social impact potential that has evolved out of 3GF is LAUNCH, a partnership between Nike, USAID, NASA and the U.S. Department of State to drive radical innovation in materials to increase resource efficiency, reduce waste, and increase overall sustainability. By assembling 150 people that represent every part of the materials value chain, LAUNCH has convened a stakeholder group that can create scalable, systems-level change.\(^{175}\)

**Serve as an operating partner**

Shared value strategies address complex social and business challenges. Therefore, companies rarely have all the resources, expertise, knowledge, or reach to implement strategies on their own. Governments can create greater social value by partnering with companies in the implementation of shared value strategies. Specific partnering opportunities could include adjusting existing public programs to multiply the social
impact of shared value programs, coordinating programs from different government organizations to have a larger impact on relevant social issues, or prioritizing the roll-out of public programs in ways that allow them to harness greater shared value investment from the private sector.

In 2003 and 2004, the U.S. Environmental Protection Agency (EPA) and the Department of Commerce (DOC) were managing the Green Suppliers Network to help manufacturers and supply chains across the nation reduce costs, enhance competitiveness, and improve performance. Through this process, the government realized that 70-90% of corporate environmental impact was coming from supply chains. There was a clear opportunity to help companies identify process improvements that had both business and environmental benefits. With companies needing assistance in energy efficiency, worker training, and access to capital, the EPA helped align the funding, programs, and overarching goals of four additional U.S. government agencies\(^*\) to create \textit{E3: Economy—Energy—Environment}.\(^{176}\) By combining the technical assistance coming from multiple federal agencies and regional public and private sector organizations, \textit{E3} is able to present a more comprehensive set of services to small and medium-sized manufacturers and work with communities to support the health and development of local companies.

In southwest Virginia, the Manufacturing Technology Center (MTC) joined forces with statewide partners to launch an \textit{E3} initiative in 2012 that supports sustainable manufacturing in 17 counties in southwest Virginia. The MTC provides manufacturers with assessments of production processes to help reduce energy consumption, minimize carbon footprints, prevent pollution, increase productivity, drive innovation, and comply with environmental regulations. With the support of more than 27 public and private sector organizations including five federal government agencies, \textit{E3} Southwest Virginia’s efforts have enabled shared value creation for 12 companies through increased worker productivity and water and energy savings. First year savings identified for these manufacturers included over $2.5 million in inventory reduction, reduced labor, and increased efficiency opportunities, $234,000 in energy conservation opportunities, and $261,000 in water savings.\(^{177}\)

\textit{Change the risk/reward profile}

Shared value forces companies to innovate and consider revenue opportunities, costs, and risks in a different way. Preliminary assessments of shared value opportunities may suggest to the companies that the returns do not justify the investment. Price points may be perceived as too low, uncertainty too high, customer segments may be too small, distribution costs may be too high, or investment risks may appear too uncertain for a company to feel comfortable pursuing its shared value opportunities.

When government can clearly see how a shared value strategy will further the government’s development objectives, they should consider using different tools (e.g., loans, tax breaks, subsidies, guaranteeing markets) to improve the risk/reward profile and address both supply- and demand-side concerns.

\textit{ADDRESSING SUPPLY-SIDE CONCERNS}

In cases where a market exists for a new solution but the required investment is perceived to exceed potential business returns, governments can help offset initial research and development by providing capital through grants, loans, tax incentives or rebates that enable companies to take on risky, long-term innovation projects. Given that such financial incentives require substantial investment of public resources, it is essential that governments assess the potential for significant shared value creation.

\(^*\) Agencies involved in \textit{E3} include the Department of Labor, the Department of Commerce, the Small Business Association, the Department of Energy, and the Department of Agriculture.
Investments should be directed toward critical areas where corporate innovation would not occur without financial support.

The U.S. government recognized that innovation for shared value creation in renewable energy and energy efficiency was being stymied by high up-front investment costs. Consequently, the government chose to invest over $100 billion in grants for R&D and loans for scaling production to balance the companies’ risk/reward profile. Tesla, for example, a manufacturer of high-performance electric cars, received a loan of $465 million dollars in 2010 to take its all-electric vehicle prototype into production. This loan was scheduled to be repaid over a 10-year period, but the resulting Model S vehicle has received such a positive response that Tesla was able to pay the entirety of the loan within 6 months of commencing payments. The program has been very successful. Losses in the loan program represent only about 2% of the $34 billion portfolio.

**ADDRESSING DEMAND-SIDE CONCERNS**

In circumstances where the barriers in addressing a social problem are related to the size of the customer base, governments can help ensure a market.

In India, for example, the rural economy faces significant economic strain due to the variability in agriculture production. Weather insurance can protect farmers against the financial losses that can arise from adverse conditions, yet many poor people are unable to save enough money to purchase insurance. The Indian government modified its existing agricultural insurance scheme to integrate approved private sector insurance companies, effectively subsidizing the cost of private insurance to help insulate farming communities against agricultural risks, and allowing insurance companies to make their products available to a broader range of customers.

As a result, ICICI Lombard, the nation’s largest private general insurance company launched a weather-based crop insurance program in Uttarakhand during the 2011-2012 farming season. Farmers only paid a nominal fee to receive this insurance, as their premiums were subsidized by both state and central governments. Of the 2.2 million farmers across 12 states that ICICI Lombard insured in the 2011-2012 farming season, nearly 100,000 were covered under the Modified National Insurance Scheme.

**Create a supportive regulatory environment**

Regulation can have a significant influence on companies’ investment decisions and behavior. Traditionally, regulators have focused on compliance to minimize negative externalities and anti-trust regulations as a means of preventing collusion. More nuanced regulations are necessary to ensure that regulatory frameworks do not limit the potential for shared value creation (e.g., by limiting opportunities for pre-competitive collaboration). Legislating or requiring investment in social programs may also have different results than intended.

Peru, for example, has attempted to address the rise in public unrest around extractives operations by requiring different forms of community investment by extractives companies in their areas of influence. Examples include the creation of a community fund or the investment of a percentage of profits in the local community. Unfortunately, these required investments have not had the intended results; instead, they have driven up costs for extractives companies while local conflict has steadily increased.
Without effective oversight from the government and a framework for implementation, such regulations can hinder rather than encourage shared value. They encourage companies to ‘check the box’ on social investment rather than to consider how to maximize social and business value creation. More nuanced regulatory frameworks, by contrast, can help stimulate shared value creation by recognizing and highlighting societal objectives and offering the time and space necessary for companies to consider long-term social and business value creation.

In India, for example, despite widespread agreement that financial inclusion is critical to future development, millions of people have remained unbanked. Indian law mandates that only approved banking institutions can hold money in the form of savings in order to protect consumers; however, many financial products are not tied to savings deposits, (e.g., remittances, insurance, and loans). Changes in the regulatory environment have been critical in allowing the private sector to respond to the demand for improved services by the unbanked population. The institution of the Payment and Settlement Systems Act in 2007, for example, opened up payment services for non-bank service providers, allowing companies such as PayMate, ICICI Lombard, and various microfinance providers to reconceive their products and compete to bring non-banking products to large numbers of consumers. As a result of this reform, in 2009, PayMate launched a financial inclusion initiative that helps migrant workers remit funds securely by using mobile phones.

The role of governments is limited by the cyclical nature of public appointments and often challenged by limited capacity (particularly at a local or regional level). Governments will be most effective when they utilize all of the tools at their disposal to encourage and accelerate shared value, and recognize that supporting the private sector in its pursuits in this arena will not only allow for more effective and efficient use of public resources, but also helps leverage private sector resources and creativity in addressing those social and economic challenges that cannot be addressed by governments alone.
Appendix C – Additional Case Studies

Increasing MSME Competitiveness

INCREASING THE COMPETITIVENESS OF MSMEs IN THE VALUE SYSTEM

Strengthening supply chain capacity: Gerdau’s Supplier Development Program

Gerdau, the principal producer of steel from scrap metal in Chile, supplies its operations through a network of scrap metal collectors, many of which are MSMEs that lack effective management, appropriate legal and safety practices, and proper equipment. To improve and secure the quantity and quality of scrap metal in its supply chain, Gerdau partnered with FUNDES and CORFO to strengthen the management practices of its suppliers. Over the course of a three-year program, suppliers received training in management, human resources, production, finances, and responsible business practices.

The program was completed by 51 direct suppliers, and was followed by an effort to strengthen the network of primary scrap collectors who provide metal to those suppliers. The quality of production at Gerdau’s suppliers increased significantly as a result of the program, resulting in lower processing costs and decreased waste production for Gerdau. The company also began to capture a greater portion of the scrap metal collected in certain regions. Gerdau’s CEO in Chile stated that, “the collaborative work with our scrap metal providers not only has brought the benefit of having a reliable source of primary material, but also of reducing environmental impacts like the carbon footprint, improving working conditions in small and medium supplier companies and having the preference of our [suppliers].”

In the first year, direct supplier participants saw a 24% increase in sales, and there was a significant increase in profit after three years as well. On average, suppliers participating in the program were better able to weather the global economic slowdown in 2009, which caused a decline in demand for steel production. In 2010, when scrap metal sales rebounded by 22% in Chile, the sales of program participants grew by 38%.

Management capacity building to strengthen the distribution chain: SABMiller’s 4e: Camino al Progreso

SABMiller, the world’s second largest brewer and one of the largest bottlers of Coca-Cola products, understands that its long-term success in Latin America depends on the success of the hundreds of “tenderos”—small store owners, over half of whom live in poverty—that account for 60% of its sales. Consequently, the company launched 4e: Camino al Progreso, to strengthen tenderos’ management skills through one-on-one consulting and classes on microentrepreneurship, and to facilitate access to micro-credit.

In El Salvador, where 75% of tenderos are women, nearly 700 business owners had participated in the program as of July 2013, generating an average sales increase of 35% at their stores. In addition to strengthening SABMiller’s distribution chain, the program aims to improve the tenderos’ quality of life and to build their leadership skills for the benefit of their communities. The program’s impact to date has been enabled to a large extent by the strategic and long-term partnerships that SAB Miller has created with FUNDES, a non-profit specializing in MSME development, as well as the IDB, the Multilateral Investment Fund, Banco Agrícola, and Bancolombia, to facilitate increased access to financing for MSMEs. The program is now active in six countries in Latin America and aims to reach 40,000 people in 4 years.

Text from several of these supplemental case studies has been taken directly from the following FSG authored publications, as cited within each case study:

In a similar fashion, Abastible, the largest producer of liquid gas for residential use in Chile launched a program in 2011 to improve the management and administrative practices of its distributors. The program targeted the competencies needed to meet Abastible’s service standards. Manuel Jara, a program participant, said “they are giving me the opportunity to grow and improve my business.”

Claudio del Campo, General Manager of FUNDES, which worked with Abastible, pointed out that “when a large company thinks about . . . small [distributors] as [critical] links of a relevant value chain, it will construct mutually beneficial relationships and better results will be achieved.”

**CREATING NEW PRODUCTS AND SERVICES TO ADDRESS UNMET MSME NEEDS**

*Micro-irrigation systems to increase smallholder farmers’ water efficiency: Jain Irrigation Systems Ltd.*

Jain Irrigation Systems Ltd. (JISL) is the largest manufacturer of efficient irrigation systems worldwide and a leading processor of fruits and vegetables. In 1989, JISL recognized small land-holding farmers’ need for efficient irrigation systems in India. The company developed micro-irrigation systems that reduced water usage significantly, using only 30% as much water as flood irrigation systems. To make its products affordable for farmers, JISL partnered with banks to provide low interest rate loans and the Indian government to provide subsidies.

By creating a new product for an underserved market, the company’s micro-irrigation division grew at a compounded annual growth rate of 72% over a five-year period, with its turnover exceeding US$400 million in 2010. The International Finance Corporation praised the company for promoting the use of drip irrigation, which has “led to efficiency gains that have raised annual incomes for small farmers by up to [US]$1,000.” JISL’s systems have also generated water savings equal to the annual water consumption of more than 10 million households.

**MSMES PLAY AN IMPORTANT ROLE IN DEVELOPING SUSTAINABLE AND SCALABLE MARKET-DRIVEN SOLUTIONS TO SOCIAL PROBLEMS**

*Using mobile and SMS technology to improve market transparency in smallholder agriculture: eFarm*

In India, rural farmers often lack access to markets and pricing information, affecting their ability to make educated choices about which crops will offer higher financial returns. This lack of information often constrains a farmer’s ability to earn a living above subsistence. Fortunately, private companies are developing innovative models to improve efficiencies in the agricultural supply chain by increasing connectivity between farmers and the marketplace. One such company is eFarm, created in 2009, which uses mobile and SMS technology to share supply and demand data, improving farmers’ and buyers’ planning abilities. In addition to creating value for farmers by improving market transparency, eFarm improves productivity in the value chain by introducing simple standardized processes such as weighing machines. eFarm is also improving the competitive context and strength of the local agricultural cluster through consulting services and training workshops.

*Innovative credit scoring mechanism to expand financial access: Entrepreneurial Finance Lab*

In the developing world, the lack of traditional credit scoring mechanisms makes it difficult for SMEs to get credit. Entrepreneurial Finance Lab (EFL), a small company launched by a recent Harvard graduate and his professor, developed new technologies for assessing credit risk among SMEs by considering the psychometric qualities associated with successful entrepreneurs.

Linking EFL’s know-how with banks’ distribution networks is critical to making the shared value strategy a success. The company is now partnering with Standard Bank in South Africa, BBVA Bancomer in Mexico,
and Banco Interamericano de Finanzas (BIF) in Peru to expand financial access for thousands of new SMEs. At BIF, repayment rates during 2012-2013 on loans made under the EFL model were similar to those that used a traditional assessment. The difference, however, was that borrowers with limited credit history assessed under the traditional model paid about 60% interest. Those borrowers now qualify for rates that are 50% lower, and small-business loans have increased by about 50% at the bank.

Bridging Skill Gaps

BUILDING A COMPETITIVE WORKFORCE BY EQUIPPING CURRENT AND FUTURE WORKERS WITH THE SKILLS NEEDED TO MAINTAIN AND GROW A THRIVING BUSINESS

Addressing local skills gaps by training at-risk youth: Southwire’s 12 for Life

In the 1980s, Southwire, a United States copper wire and cable company, declared that all future hires would need to have high school diplomas. “As the process of manufacturing wire and cable changed from simple to sophisticated, we knew we needed better educated employees,” said Mike Wiggins, Executive Vice President for Human Resources at the company. However, Southwire faced a serious problem. According to CEO Stu Thorn, “nearly a third of the students in the local Carroll County school system weren’t graduating. And many who did graduate weren’t well prepared for the workplace . . . We had to do something different or soon we wouldn’t have the workforce we needed.” The high dropout rate was a major issue in the Carroll County community as well. Nationally, in 2011, the average high school dropout earned $8,000 less a year than high school graduates, and the unemployment rate for those without a high school diploma was three times higher than for those with a college degree.

To address the shortage of qualified labor, Southwire looked to an unconventional source—at-risk youth. In 2007, in partnership with the Carroll County School System, Southwire started 12 for Life, an innovative program seeking to place at-risk students in real jobs at Southwire. Most students attend class in a traditional setting for part of the day and work a four-hour shift in the plant, allowing them to earn wages while also earning credit toward a diploma. The aim of this approach is for students to apply the knowledge they gain in the classroom in a real work setting. It also provides for a smooth transition into the workforce or to college or technical school. Unlike many vocational or technical training programs, graduates of 12 for Life receive a normal high school diploma, in addition to training in technical, career, and life skills, while standout graduates may be eligible for permanent employment at Southwire.

12 for Life’s results have been impressive. Matt Plemmon, the former plant manager at the 12 for Life facility, stated “when we opened, we felt that 12 for Life would be a win-win if it broke even after five years. In fact, three months after opening, we were already making money.” The Carroll County facility, which costs just under $700,000 to operate annually, generated over $1.7 million in 2013 alone. In addition, there have been positive spillovers from the 12 for Life program into Southwire’s traditional factories, with students discovering quality and operational improvements. Furthermore, the average 12 for Life student is 30-40% more productive than the companywide average.

12 for Life has reached a scale that allows it to have a meaningful impact in the Carroll County community. By 2013, the program there had grown to serve over 200 students. From 2007 to 2013, the graduation rate of economically disadvantaged students soared from 55% to 78%.

On-site coaching to increase retention and accelerate promotion: Verizon

With 80% of its workforce in customer-facing roles, Verizon is highly dependent on the ability of its staff to deliver outstanding customer service. Like most companies, it also struggles with the costs of
employee turnover. To address these challenges, Verizon partnered with a United States university to build an employee tuition assistance program that delivers career coaching, tutoring, blended courses, and customized degrees and certifications on site for its employees. Over the last decade, results from the program have been remarkable. Employees pursuing a degree or certificate through the program are twice as likely to remain with the company and twice as likely to receive vertical or horizontal promotions with their newly-acquired skills. For Verizon, the program drastically reduces costs. Today, one in five employees in the United States participates in the program. Verizon has changed the way it develops its current workforce. In doing so, it has changed employee training from a cost center to a center of significant savings for the business.

Providing new career training to fill a costly skills shortage: Good Samaritan Hospital Medical Center
In the face of a severe nursing shortage, Good Samaritan Hospital Medical Center in West Islip, New York, began offering nursing training to clerical workers, nurse assistants, and licensed practical nurses, creating new career opportunities as nurses for these workers. The hospital was able to fill its nurse vacancies, saving approximately US$3 million in staffing costs, while the nurses benefited from wage gains between 22% and 100% compared to their previous roles.211

TRANSFORMING WORKFORCE DEVELOPMENT AT THE INDUSTRY LEVEL
Addressing common skills gaps across industries: New Employment Opportunities Initiative212
In 2012, the Inter-American Development Bank (IDB) and the International Youth Foundation (IYF) launched the New Employment Opportunities (NEO) Initiative in partnership with five of Latin America’s largest employers—Wal-Mart, Caterpillar, Microsoft, CEMEX, and McDonald’s—to meet pervasive regional gaps in technical and soft skills. Each of the five founding companies has committed to advising service providers on industry workforce needs, convening more partners to the initiative, and providing funding, internships and entry-level jobs for graduates. At the same time, IDB and IYF are working closely with governments and local providers to evaluate, refine, and scale high-quality job training models to increase the initiative’s impact. They have been key brokers of the initiative, working with companies to define common job competencies and engaging more than 300 training partners. By 2022, the NEO Initiative will equip one million new young people with technical and soft skills that meet employers’ needs. In return, these companies will have access to a stronger talent pool equipped to fill jobs across a range of industries.

Providing resources to STEM educators to strengthen the talent pipeline and foster innovation: Intel213
Intel Corporation’s ability to deliver innovative computing solutions to billions of customers worldwide relies on a highly skilled workforce. 80% of Intel’s more than 100,000 employees globally are in technical roles, many of which require advanced education in the STEM fields. With the majority of these technical positions based in the United States and a chronic shortage of U.S. STEM-trained technical workers, Intel saw a company-wide strategic imperative for securing the pipeline of U.S. STEM talent. And because Intel’s products are highly integrated into those of technology companies, Intel knew it needed to increase the capacity of its partners as well. In response, Intel brought together its philanthropic, human resources, and core business teams to launch a cross-company effort to build a future talent pipeline for the technology industry by strengthening the U.S. STEM education system.

Today, Intel invests over $100 million annually worldwide in programs and partnerships that strengthen STEM curricula and standards across the education pipeline. Through programs like Intel Math and Intel Teach, the company has delivered instructional materials, online resources, and professional
development tools for hundreds of thousands of educators in the U.S. to enhance students’ STEM and other 21st century skills, including critical thinking with data and scientific inquiry. By analyzing its own workforce needs, Intel has uncovered particular skill gaps in areas like technology and engineering, and so the company has focused its investments accordingly. For example, Intel has created higher education curricula in high-demand areas like microelectronics, nanotechnology, security systems, and entrepreneurship.

Intel complements its shared value efforts with philanthropic investments by offering university students internships and scholarships to conduct cutting-edge research and introducing high school students to research practices through workshops, competitions, and conferences. Outside the classroom, Intel has developed a STEM policy toolkit and leverages its lobbying capabilities to encourage policies that promote a globally competitive 21st century education in the U.S.

Together, these investments help fuel Intel’s talent pipeline and innovations in science nationwide, providing a critical element to Intel’s long-term business growth.

Promoting Healthy Lifestyles to Decrease Obesity

DEVELOPING NEW PRODUCTS AND SERVICES TO RESPOND TO LOCAL HEALTH NEEDS

Innovation in food services to increase healthier options: Aramark

With the spread of fast food outlets and cafeterias to cater to the demands of students and a harried workforce, the offerings of food service providers can have a significant impact on health. Aramark provides food services to school districts, universities, and healthcare institutions. With obesity rates in the U.S. continuing to rise, Aramark sensed an opportunity to differentiate their market positioning by improving the nutritional value of its products and services.

In elementary and primary schools, for example, Aramark offers menu options that include more fruit, vegetables, whole grains, and low-fat dairy products. Aramark aims to double the amount of fresh produce offered in school meals over the next 10 years, and works with its suppliers to develop products with lower levels of salt, sugar, and fat. These product innovations are supported by comprehensive nutrition education programs that Aramark provides to school district partners, including communications for students and parents, and a complete nutrition and activity curriculum for teachers, to help ensure common understanding of nutrition challenges.

Aramark reported a 9% increase in sales volume between 2010 and 2012, and the company’s leadership in providing nutritious food and complementary education has allowed it to become a preferred provider for school districts looking to provide healthier options. Multiple elementary schools using Aramark’s dining services have experienced a 50% increase in fruit and vegetable consumption. Schools partnering with Aramark have boosted the popularity of cafeteria dining, increasing the likelihood of students’ consuming nutritionally sound options and securing increased federal aid for their food service programs.

ADJUSTING INTERNAL PRACTICES TO REACH AT-RISK POPULATIONS

Expanding product portfolios to meet local health needs: Walgreens

Retailers can identify local health needs and modify or expand their product offerings to meet those needs. In addition to increasing consumer access to healthy products, the broadened selection can attract more customers to a store, capture a greater share of consumers’ wallets, and increase consumer satisfaction.
Walgreens, for example, operates over 7,700 pharmacies across the U.S. and maintains 45% of its stores in areas that don’t have access to fresh foods. Currently, 23.5 million Americans live in low-income areas that lack stores likely to sell affordable and nutritious foods. Of these, 6.5 million are children. Based on the results of a 2006 study of urban food deserts in Chicago, Walgreens realized it was well positioned to provide more fresh food options. In 2010, the company conducted a pilot study by selling an expanded selection of foods, including fresh fruits and vegetables, at 10 locations located in food deserts in Chicago. These redesigned locations included more than 750 new food items (fresh fruit and vegetables, frozen meat and fish, pasta, rice, beans, and other healthy meal components) and boosted the food selection by as much as 60%. This expansion in product offering required Walgreens to reengineer their product sourcing and distribution systems to ensure the longevity of perishable items, and to adjust their business model to account for higher losses from unsold fresh food products.

Based on the success of their 10 pilot stores in Chicago, Walgreens committed to convert or open at least 1,000 stores as ‘food oasis’ stores by 2016, therefore increasing the number of healthy food choices for underserved communities in urban areas. “Our vision over the long-term is to provide holistic solutions for our customers’ health and wellness,” said Moe Alkemade, Merchandising Group Vice President at Walgreens. The total number of people served by Walgreens stores offering expanded fruits and vegetables now totals nearly 500,000.
### Appendix D – Interview List

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Appendix E – Purpose, Scope, and Methodology

Purpose and Scope
This paper Shared Value in Chile is primarily a call to action for Chilean companies to explore the opportunities that lie at the intersection of their knowledge and resources, their potential business opportunities, and the urgent social needs present in Chile. In doing so, companies can generate unprecedented success for their business and greater prosperity for society. For that reason, this paper is also a call to action for the Chilean public sector to adopt policies and practices that help accelerate the private sector’s adoption and implementation of shared value, in order to employ companies’ creativity, perseverance, and resources toward achieving social goals.

To illustrate how shared value can strengthen company competitiveness while addressing social problems, we identified specific shared value opportunities within three major challenges faced by Chilean society. We selected the three challenges—increasing MSME competitiveness, bridging skills gaps, and promoting healthy lifestyles to decrease obesity—based on the magnitude of each social problem, its link to company competitiveness, and its relevance to critical sectors of the Chilean economy. Additionally, we sought to illustrate the potential to create shared value in different social realms, including education, health, and poverty. While these challenges are useful to examine as examples, there are many others that companies can address through shared value, such as lowering the cost and increasing the sustainability of the energy supply; fostering responsible financial inclusion; or lowering the cost and improving the quality of healthcare; to name a few.

Within each of the three selected challenges and corresponding opportunities, we highlight case examples from Chile and around the world, with additional examples for several opportunities in Appendix C. The purpose of sharing these cases is threefold. First, they show how shared value looks in practice. Second, the Chile-specific examples demonstrate that a few Chilean companies are already starting to develop shared value strategies. Finally, these cases emphasize that shared value creation is becoming an increasingly necessary element of competitive business strategy.

Methodology
In formulating the conclusions laid out in this paper, FSG conducted a literature review encompassing more than 130 books, reports, and articles, and held interviews with over 100 Chilean industry leaders, academics, government and civil society representatives, and other important stakeholders.

Additionally, FSG conducted a survey of a small sample of Chilean business leaders, recording their perceptions and attitudes toward shared value and the three selected country challenges. Responses were collected between December 2013 and January 2014.
Quote Sources

b. Shared Value in Chile External Advisory Board meeting, January 22, 2014.
e. Felipe Lira, Tresmontes Lucchetti, Interview with FSG, January 20, 2014.
Endnotes


4 GDP per capita is measured in 2011 international dollars, adjusted for purchasing power parity (PPP). Ranking is among the following 17 major Latin American countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. Argentina’s GDP per capita is not included in the World Bank’s 2012 and 1990 data. However, Chile’s GDP per capita in current US$ was greater than Argentina’s in 2012, and less than Argentina’s in 1990, according to the World Bank. Source: World Bank website, accessed June 30, 2014, http://databank.worldbank.org/data.


10 Acción RSE, “Confianza Ciudadana.”

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53 In addition, there was no improvement between 1998 and 2013 in reading comprehension and quantitative abilities, although the lack of graphic literacy show a statistically significant decline from 49.0% to 42.0% in that period. Source: Centro Micro Datos, “Segundo Estudio de Competencias Básicas de la Población Adulta,” Centro Micro Datos (September 2013).


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