



## 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

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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 9<sup>th</sup> 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,<sup>1</sup> despite the country accounting for less than 3% of the region's population.<sup>2</sup> 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.

## Executive Summary

### *Chile's high stakes opportunity*

Over the last few decades, Chile has experienced rapid and sustained economic, social, and institutional development. In 2012, Chilean GDP per capita, at over \$21,000, was the highest among 17 major Latin American economies, up from the 9th highest in 1990.<sup>3</sup> However, crucial challenges remain. Chile has the highest level of inequality in the OECD;<sup>4</sup> levels of mistrust and social unrest are high; and many Chileans suffer from a lack of opportunity.

The Chilean private sector is now at an inflection point. While the business community has contributed to, and benefited from, the growth and development of the last decades, social challenges pose a very real constraint on its growth potential. Chilean society views companies with suspicion. Only 21% of Chileans say they trust the private sector and just over one in ten Chileans trust large companies,<sup>5</sup> citing an underlying belief that profit-making activities amount to corporate greed. This dynamic is likely to worsen unless companies are able to find ways to authentically connect their business strategies with strengthening Chilean society. At the same time, if government and civil society dismiss the private sector's potential to contribute to the country's development strategy, Chile will squander an important engine for creating shared prosperity.

Shared value is an approach that leads companies to discover new business opportunities in helping to solve social problems, such as inequality, lack of economic opportunities, and weaknesses in the education and health systems. 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 the country's economic competitiveness. The public sector and civil society can help maximize the social impact of this effort by engaging the private sector in a productive dialogue about how companies can contribute to the country's prosperity.

### *Shared value presents an opportunity to foster widespread prosperity while strengthening corporate competitiveness*

Michael Porter and Mark Kramer introduced the concept of shared value in the 2006 *Harvard Business Review* article "Strategy and Society." Porter and Kramer argue that companies must move beyond perceived tradeoffs between addressing social issues and enhancing competitiveness. Instead, they should seek opportunities to unlock new business value by solving society's problems. The traditional approach for companies to engage with social problems has been through corporate social responsibility and philanthropy. While these efforts are important, they face limitations in the scale of the social and business impact they can achieve. Shared value, in contrast, can be integral to a company's profitability and competitive position. It leverages the unique resources and expertise of the company to create economic value by creating social value. Companies that are able to identify and pursue these opportunities will develop a competitive advantage over their industry peers.

Porter and Kramer highlight three main ways that companies can create shared value:

- **Reconceive products and markets:** Improve access to products and services that meet pressing societal needs and thereby create new market and revenue opportunities
- **Redefine productivity in the value chain:** Increase the productivity of the company by helping to solve social and environmental problems that constrain quality and efficiency in its operations

- **Enable local cluster development:** Improve the operating context affecting business, such as access to skilled labor and the vitality of supporting industries to unleash business growth

### *Shared value in action: Chilean companies are competing by solving social problems*

In addition to celebrated examples of multinational corporations, such as Nestlé, Coca-Cola, BHP Billiton, and General Electric (GE), developing shared value strategies,<sup>6</sup> a few Chilean companies have started recognizing the opportunities that shared value represents. Many possibilities exist in Chile. Three compelling opportunities are: a) increasing micro, small, and medium enterprise (MSME) competitiveness,<sup>7</sup> b) bridging the skills gap that Chilean companies face, and c) promoting healthy lifestyles to decrease obesity.

### *Increasing MSME competitiveness*

MSMEs are critical to business and national competitiveness, playing essential roles as suppliers, contractors, distributors, and retailers in many companies' value systems,<sup>1</sup> and as an important customer base. However, business executives ranked Chile 29th in supplier quality out of 34 OECD countries,<sup>8</sup> and over 87% of respondents to FSG's recent survey of Chilean business leaders agreed that increasing MSME competitiveness was an important challenge or opportunity for their company.<sup>9</sup> MSMEs also have an inherent social value in that they account for as many as 85% of Chilean jobs.<sup>10</sup> Chilean companies can increase their profitability and help address inequality in the country by increasing the competitiveness of MSMEs. There are two key opportunity areas for larger companies to create shared value by increasing MSME competitiveness:

#### **1. Increasing the competitiveness of MSMEs in the value system**

Large companies are affected by the MSMEs in their value system in several ways. MSMEs are often vital to companies' operational efficiency; they can contribute innovative solutions to business challenges; and they can facilitate access to inputs and markets that are out of reach to larger companies. **BHP Billiton** and **Codelco**,<sup>11</sup> two of the largest mining companies operating in Chile, are pursuing shared value strategies by fostering innovation in their supply chain through their World-Class Supplier Program. The program is increasing the competitiveness of small and medium local suppliers and had an estimated net present value of \$121 million in savings as of December 2012 for BHP Billiton alone.<sup>12</sup>

#### **2. Creating products and services to address unmet MSME needs**

MSMEs face various challenges, such as limited access to finance, technology, and markets; a lack of management, technical, and administrative skills; and limited innovative capacity. Some companies recognize that significant market opportunities are present in providing new and innovative solutions to these challenges, such as **Bci**, a major Chilean bank. Bci has modified credit evaluation criteria to expand financial access to entrepreneurs through its *Nace* business line. To enable its clients' success, the bank also offers access to expanded networks and support in business planning and other non-financial activities.<sup>13</sup> Bci estimates that over two thirds of *Nace's* clients would not have had access to credit if the program did not exist. Some 15,000 new jobs have been created through the program.

<sup>1</sup>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).

**MSMEs also play an important role in developing market-driven solutions to social problems.** They are well positioned to address social challenges given their agility and proximity to social problems. Smaller companies can address social challenges that larger companies overlook or perceive to be subscale. In the United States, **Revolution Foods** was founded with a mission to provide youth with healthy school meal options to counter rampant childhood obesity and related health problems. Revolution Foods serves one million healthy meals each week in nearly 1,000 U.S. schools.<sup>14</sup>

### *Bridging the skills gap*

In a global marketplace where fierce competition is driven by innovation and increased productivity, a company's success is often determined by the skills of its employees. Gaps between the supply and demand of skills in the Chilean labor market are a critical challenge facing the nation's companies, raising talent-related costs and limiting the quality, productivity, and innovation that companies need to succeed. Forty two percent of large and medium companies in Chile report challenges finding needed personnel,<sup>15</sup> and over 87% of respondents to FSG's survey of Chilean business leaders believe that addressing skills gaps is an important challenge or opportunity for their company.<sup>16</sup> At the same time, skills shortages limit the employability and earnings potential of a large segment of the Chilean population. Skills 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. Companies that want to be industry leaders cannot wait for the public or education sectors to provide skilled employees. Opportunities to create shared value by bridging skills gaps fall into three categories:

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

While internal initiatives to create a productive and innovative workforce are not uncommon among companies, those seeking to maximize the benefit of these efforts consider both their current and future needs as they actively build a talent pipeline. For example, two Chilean companies, **Arauco**, a forestry company, and the **Escondida Mine**, the world's largest single producer of copper,<sup>17</sup> are working to build talent pipelines for the future through local industry training centers. Arauco's initiative is under development, and the objective for both centers is to provide training that is aligned with industry needs and leverages industry expertise. These training centers open new career possibilities for vulnerable populations in regions where economic opportunities are limited.<sup>18,19</sup>

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

Recognizing that skill shortages in their value system also threaten their own competitiveness, some companies are addressing such shortages outside their own staff and operations. **Coca-Cola Brasil**, for example, is strengthening the value chain by building retail and merchandising, computer, and life skills among low-income youth through its *Coletivo Retail* initiative. As of January 2014, the program had reached 60,000 youth, increasing the family incomes of participants who found employment after the program by an average of 50%. The growth of company revenues in communities with *Coletivo* programs is several times greater than that of non-participating communities.<sup>20</sup>

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

Companies can achieve the greatest scale and impact over the long-term when addressing industry-wide, skills gaps systemically and collaboratively. The **Mining Skills Council**, comprised by the large mining companies in Chile under the leadership of the organization that convenes them—the Mining Council—is fostering the creation of a skilled workforce that will meet the needs of the mining industry. The council, which brings together competing companies, researches specific skill gaps in the mining industry, creates skills-based career maps, and develops certification schemes based on skills-based curricula. These efforts strengthen the competitiveness of the participating companies and create new opportunities for workers to generate a high and rising standard of living.<sup>21</sup>

#### *Promoting healthy lifestyles to decrease obesity*

Chile has the 7<sup>th</sup> highest level of obesity among OECD nations.<sup>22</sup> Rapidly increasing obesity rates have important implications for the competitiveness of the Chilean private sector in the form of decreased productivity, higher costs, and increased reputational and regulatory risks. In Chile, the cost for an insurance company of a patient with obesity-related conditions, such as Type II diabetes, can be up to 37% higher than normal beneficiaries.<sup>23</sup> Furthermore, a study assessing the impact of obesity on the Chilean workforce showed that average sick days increased up to 57% for obese and morbidly obese mining workers.<sup>24</sup> In parallel, health and wellness retail sales, grew almost 15% between 2002 and 2012, nearly twice the rate of other retail sales, reflecting an attractive market opportunity.<sup>25</sup>

Promoting healthy lifestyles to decrease obesity represents an important business opportunity for visionary companies and can lead to significant improvements in individual health outcomes. Failing to consider the implications of obesity on consumer preferences and health could have drastic implications for business returns over time. To lower obesity rates and seize the associated market and productivity improvement opportunities, companies are pursuing three different shared value opportunities:

#### 1. Developing new products and services to respond to health needs

Opportunities to create products and services that promote healthy living are particularly prevalent in the health and food and beverage industries. In the health industry, insurers can enhance their product offerings to prevent or better manage chronic diseases, and healthcare providers can expand service offerings with early detection and case management services. For example, **Discovery Health**, a South African-based global insurance company, uses financial incentives to encourage healthy choices like exercise and healthy eating. Risk-adjusted hospital costs have been as much as 40% lower for participating patients.<sup>26</sup> Likewise, food and beverage companies are creating products that satisfy consumer preferences while ensuring their long-term health, such as **Nestlé's** reformulation of food products to improve nutrition. These products now account for 19% of sales in Chile, increasing the number of healthy options available to consumers with great potential to improve consumer health outcomes.<sup>27</sup>

#### 2. Adjusting internal practices to reach at-risk populations

In addition to creating new products, companies can modify their internal processes or distribution practices to better reach at-risk populations. Both health insurance companies and healthcare providers can modify disease management practices to target at-risk patients. Food and healthcare retailers, such as supermarkets and pharmacies, can improve distribution channels to target local health needs. **SulAmerica**, the largest independent insurance group in Brazil, has improved monitoring



services for patients at an elevated risk for different non-communicable diseases (NCDs) and other chronic conditions like obesity, thereby decreasing their costs and improving health outcomes for their patients.<sup>28</sup>

### 3. Creating an enabling environment for healthier lifestyles

Companies can increase the impact of their efforts to decrease obesity by building an environment that supports and fosters healthy lifestyles through education and advocacy. For example, **Discovery Health** is amplifying the impact of their healthy lifestyle incentives by advocating for urban environments that are conducive to active living. This effort simultaneously reinforces their healthy lifestyle business model while also making healthy living easier for millions of South Africans.<sup>29</sup>

#### *Taking action is an imperative, not a choice*

The private sector can and must play a unique role at this critical time in Chile's development. The aspirations of millions of Chileans for a future with greater prosperity and opportunities are at stake, and the opportunity for the private sector to accelerate growth and increase competitiveness by tackling relevant social problems is ripe. 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 opportunities where others have seen challenges or nothing at all.

As shared value is preeminently a business strategy, the private sector must take the lead in developing shared value opportunities. *Chilean companies should take the following steps to start or advance their shared value journey:*

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

To get started in the shared value journey, companies in Chile should consider the first two steps. **Finding attractive opportunities** requires a deep understanding of the social problems around the company, the identification of a link between social problems and business opportunities, and an ability to translate this knowledge into action in pursuit of the business opportunity. Creating teams that bring together business unit leaders with those responsible for social responsibility, and having discussions with external stakeholders, such as NGOs and government, are critical in this first step. As shared value is at its essence a business strategy, building a **strong business case** is a critical pre-requisite to mobilizing resources. A clearly articulated business case with expected social outcomes and financial returns, costs, risks, and options for implementation makes explicit how the company will pursue the shared value opportunity and will help convince skeptical senior leaders.

**Other actors have an important role to play as well.** *Government, in particular, can help accelerate the adoption and implementation of shared value 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

When it does not actively encourage shared value investments that align with its development agenda, government misses out on an opportunity to leverage the resources and creativity of the business sector. *Multilateral organizations* can take on similar roles to support private sector efforts to put shared value at the heart of a country's development. *Civil society* must put aside its traditional mistrust of the private sector and look for private sector partners with an authentic desire to create shared value. NGOs 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.

## Examples of Shared Value in Chile and Around the World

Company	Country	Shared Value Opportunity
<b>Country challenge: Increasing MSME competitiveness</b>		
BHP Billiton and Codelco	Chile	Increasing the competitiveness of MSMEs in the value system
Gerdau	Chile	Increasing the competitiveness of MSMEs in the value system
SABMiller	Latin America	Increasing the competitiveness of MSMEs in the value system
Bci	Chile	Creating products and services to address unmet MSME needs
Jain Irrigation Systems Ltd.	India	Creating products and services to address unmet MSME needs
Triciclos	Chile	MSMEs creating market-driven, scalable, and sustainable solutions to social challenges
Revolution Foods	USA	MSMEs creating market-driven, scalable, and sustainable solutions to social challenges
eFarm	India	MSMEs creating market-driven, scalable, and sustainable solutions to social challenges
Entrepreneurial Finance Lab	South Africa, Mexico, Peru	MSMEs creating market-driven, scalable, and sustainable solutions to social challenges
<b>Country challenge: Bridging the skills gap</b>		
Minera Escondida	Chile	Building a competitive workforce
Arauco	Chile	Building a competitive workforce
Southwire	USA	Building a competitive workforce
Verizon	USA	Building a competitive workforce

Company	Country	Shared Value Opportunity
Good Samaritan Hospital Medical Center	USA	Building a competitive workforce
Coca-Cola	Brazil	Strengthening the value system by enhancing the capabilities of supplier and retailer workforces
Mining Skills Council	Chile	Transforming workforce development at the industry level
New Employment Opportunities Initiative	Latin America	Transforming workforce development at the industry level
Intel	USA	Transforming workforce development at the industry level
<b><i>Country challenge: Promoting healthy lifestyles to decrease obesity</i></b>		
Discovery	South Africa	Developing new products and services to respond to health needs
Banmédica	Chile	Developing new products and services to respond to health needs
Nestlé	Global	Developing new products and services to respond to health needs
Aramark	USA	Developing new products and services to respond to health needs
SulAmerica	Brazil	Adjusting internal practices to reach at-risk populations
Walgreens	USA	Adjusting internal practices to reach at-risk populations
Discovery	South Africa	Creating an enabling environment for healthier lifestyles
Tresmontes Lucchetti	Chile	Creating an enabling environment for healthier lifestyles

## Endnotes

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## Disclaimers

All statements and conclusions, unless specifically attributed to another source, are those of the authors and do not necessarily reflect those of any individual interviewee, advisor, or sponsor.

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