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## SHARED VALUE IN EMERGING MARKETS

How Multinational Corporations  
Are Redefining Business Strategies  
to Reach Poor or Vulnerable Populations

September 2012

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## Disclaimer

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.

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## Foreword

In 2008, the Rockefeller Foundation launched its program initiative on impact investing with an important premise in mind: that the resources of government and philanthropy alone are insufficient to address the world's biggest challenges. Over the past four years, we have sought to help build the emerging industry of impact investing as well as to hold it accountable for its social and environmental impact goals. Since then, the concept and the practice of impact investing—placing capital with the intent to generate positive social impact beyond financial return—have grown and matured significantly. As our initiative has progressed considerably, we are now taking the opportunity to contribute further to the acceleration of impact investing from new perspectives and with complementary strategies.

In parallel with advancements in impact investing, there have been significant developments in the area of creating shared value. Shared value strategies drive large companies to undertake work that combines the pursuit of profit with the pursuit of positive social and environmental impact; in that way, it is analogous to the way impact investors deploy capital. As part of the development of a strategy designed to help foster the “demand-side” of socially- and/or environmentally-focused capital, the Foundation has recently worked with FSG to understand how large companies, through their business operations and practices, can make strong positive impacts on underserved communities. These impacts can be direct, such as through delivery of products and services or through employment of people who traditionally face substantial labor market barriers. They can also be indirect, as when large companies partner with smaller, dedicated “impact enterprises.”

This publication represents an important contribution to a larger body of work, including research conducted by multiple partners, through which we hope to better understand how the potential scale and impact of impact enterprises—from large multinationals to small and microenterprises—vary by sector, region, and business model. Over the next several months, we will continue to partner with others to build our knowledge and understanding of this space.

We look forward to sharing the lessons we learn along the way as the Foundation's exploration into impact enterprise models evolves.

Margot Brandenburg and Justina Lai, The Rockefeller Foundation

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## Executive Summary

The Rockefeller Foundation funded FSG, a nonprofit consulting firm, to study the ways in which large corporations create positive change for poor or vulnerable populations around the world. The following report explores how companies are redefining business strategies to create shared value across five sectors: food, beverages, and agriculture; health care; financial services; extractives and natural resources; and housing and construction. It highlights more than thirty company case studies and provides perspectives on a range of geographies, with a particular focus on the BRICS countries (Brazil, Russia, India, China, and South Africa). Guided by key learning questions identified by the Rockefeller Foundation, this paper provides stories and frameworks to inspire and inform the strategies of multinationals and their partners as they seek to create shared value at the base of the pyramid.

### The status quo is not working for billions of poor or vulnerable people around the world.

The world today is grappling with enormous social, economic, and environmental challenges. Organizations across sectors—public, nonprofit, multilateral, and private—are working to address issues ranging from poverty and malnutrition to social inequality and climate change. Yet social problems remain on a massive scale, particularly for the four billion around the world with incomes well below the Western poverty line. The challenges facing poor or vulnerable populations require innovative, sustainable, and large-scale solutions.

### Multinational corporations can behave as impact enterprises, driving progress at scale.

Large companies are uniquely positioned to leverage their size and business models to address social problems sustainably and at scale. Corporations can serve as impact enterprises by creating *shared value*, using their core businesses to generate economic value through social progress.

Companies create shared value in three ways:



By **reconceiving products and markets**, or improving access to products and services that meet pressing societal needs and thereby create new market and revenue opportunities



By **enhancing productivity in the value chain**, or improving company operations to enhance quality, improve efficiency, or decrease risk while addressing a social issue


























By **building clusters and framework conditions** to improve the operating environment affecting business and alleviate social problems


### Using rigorous analysis of the intersection of social issues and business strategy, companies can consider a range of leverage points for shared value creation.


To make choices about where to launch a shared value strategy, companies apply a social impact lens to considerations of traditional factors such as market size, revenue potential, business constraints, etc. Across the five sectors explored in this research, multiple promising points of leverage exist that can provide a roadmap as companies consider potential shared value approaches (see below).

## Selected Points of Leverage for Corporations across Sectors to Create Shared Value\*

| Sector                                                                                                                          | Shared Value Approach                                                               | Point of Leverage                                                                                                                                                         |
|---------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <br><b>Food, Beverages, and Agriculture</b>    |    | Addressing nutritional deficiency through additives to low-cost, staple products                                                                                          |
|                                                                                                                                 |    | Improving smallholder farmers' access to information, inputs, and technical assistance to create a more reliable and higher-quality supply of inputs                      |
|                                                                                                                                 |    | Supporting infrastructure development, increased access to financing, and improved knowledge/skills of consumers, retailers, and suppliers to enhance competitive context |
| <br><b>Health Care</b>                         |    | Developing new products or refining existing products to respond to local health needs                                                                                    |
|                                                                                                                                 |    | Innovating within distribution channels to ensure that quality products reach underserved patients                                                                        |
|                                                                                                                                 |    | Investing resources to create health-seeking behavior among poor or vulnerable populations                                                                                |
| <br><b>Financial Services</b>                  |    | Creating financial products that address specific needs of poor or vulnerable populations and providing education programs to improve individuals' financial capabilities |
|                                                                                                                                 |    | Proactively offering financial services to companies in non-financial sectors so those companies can better serve low-income populations                                  |
|                                                                                                                                 |    | Transforming service delivery to increase financial access, e.g., through mobile banks                                                                                    |
| <br><b>Extractives and Natural Resources</b> |  | Using byproducts from production to expand the scope of the business                                                                                                      |
|                                                                                                                                 |  | Addressing social needs in communities surrounding extraction sites to enhance the competitive context of these geographies                                               |
|                                                                                                                                 |  | Cultivating local workforces and supplier networks to support operations in developing nations                                                                            |
|                                                                                                                                 |  | Working with suppliers to maximize output of renewable natural resources                                                                                                  |
| <br><b>Housing and Construction</b>          |  | Improving supply of affordable housing by developing creative business models that lower the cost of housing units                                                        |
|                                                                                                                                 |  | Providing appropriate financing to qualified low-income individuals for new homes                                                                                         |
|                                                                                                                                 |  | Providing self-builders with complementary value-added services along with construction materials                                                                         |
|                                                                                                                                 |  | Developing technical and life skills of low-income, unskilled populations and equipping them to be employed by the construction industry                                  |

 Reconceiving products and markets

 Enhancing productivity in the value chain

 Enabling local cluster development

\*The figure highlights promising shared value opportunities as identified through case study research. The points of leverage are intended to be illustrative, not comprehensive.

To design and execute effective shared value strategies, business leaders should *be intentional* about what they hope to achieve, *seek significant business contribution*, and *use a portfolio approach* when considering investments and opportunity costs.

To maximize the level of shared value created, business leaders develop strategies that accomplish the following:

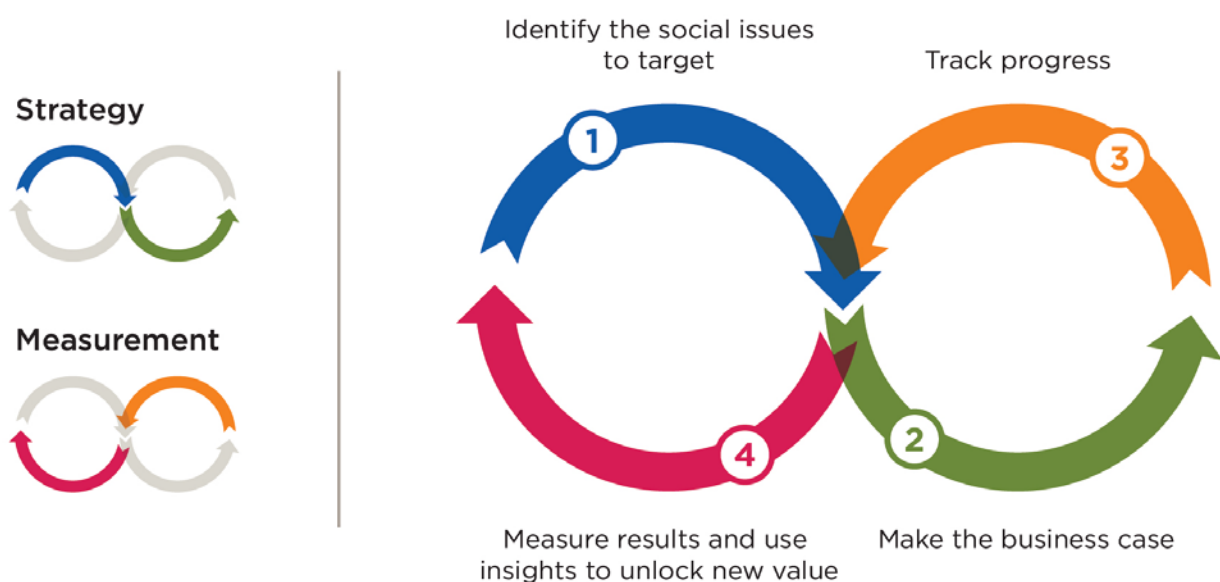
- Reflect thoughtful decisions about expected business and social goals, resulting in aligned resources, more effective operations, and reduced likelihood of unintended consequences of activities.
- Make a substantial business contribution, commanding more managerial attention and resources than small or sub-scale programs.
- Constitute one component of a diversified business portfolio that delivers various rates of return over different time horizons, giving companies greater flexibility when considering potential activities.

### Linking measurement to decision making unlocks greater shared value.

In order to effectively deliver on shared value strategies, companies need shared value measurement tools that track progress, analyze results, and yield actionable data and insights. However, today's companies lack the systems and tools to adequately gather such data and therefore make decisions without critical information, leaving significant value on the table. While companies currently report on a range of financial, social, and environmental results, they rarely make explicit linkages between social and environmental efforts and related financial impact.

Shared value measurement must be anchored in an explicit shared value strategy. It requires an iterative process with measurement guided by strategy and with findings from measurement feeding back into ongoing shared value strategy development. Bringing shared value strategy and measurement together involves four key steps—two related to strategy and two regarding measurement (see below).

#### Integrating Shared Value Strategy and Measurement



Before implementing a shared value strategy, businesses should understand which data related to key activities and outcomes are most likely to optimize the strategy's effectiveness over time. Given that the strategy must be customized to each company's unique context, intended results (both financial and economic) will vary from business to business. Thus it is important to determine which metrics are most useful to support ongoing strategy refinement and to collect specific data in a targeted manner.

Results of targeted measurement will begin to provide investors with a direct line of sight from a company's engagement with societal issues to economic returns to the business. Such visibility can help investors understand the real gains created by shared value strategies and can reduce skepticism regarding whether companies should engage with societal issues. Data and insights from shared value measurement can therefore increase ongoing support from investors and other key external stakeholders.

For further details regarding the ways companies can use measurement to increase shared value creation, please see the FSG report "[Measuring Shared Value](#)."<sup>i</sup>

### Social sector actors such as the Rockefeller Foundation can catalyze shared value through a range of complementary efforts.

Stakeholders within government, civil society, philanthropic organizations, and private businesses can catalyze shared value by:

1. **Setting context:** Shaping the environment within which companies conduct business.
2. **Providing information and insight:** Conducting market research or offering expertise on populations, sectors, or issues where companies may have limited experience.
3. **Supporting implementation:** Directly supporting the development or execution of shared value strategies and helping to fill gaps in a company's implementation capabilities.
4. **Providing funding and other incentives:** Providing resources to incubate, launch, or scale shared value strategies and foster measurement approaches that facilitate accountability for achieving shared value goals.

By improving the productivity of smallholder farmers, training low-income workers, and creating new medicines that address neglected diseases in developing countries, companies are improving millions of lives and gaining competitive advantage. We hope this report provides useful examples, ideas, and guidance to inspire more companies, and their partners, to pursue shared value opportunities at the base of the pyramid.

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<sup>i</sup> This report will be published in October, 2012.



## 1. Introduction

### Large corporations are uniquely positioned to meet key social needs of poor or vulnerable populations through financially sustainable business models.

Development professionals have long recognized that poor or vulnerable populations, particularly in developing countries, face many social problems including low and under-employment, low education levels, and health issues such as maternal and child mortality and malnutrition. A number of actors—governments, civil society organizations, multilaterals, and private companies—have worked to develop solutions to these challenges through philanthropy and programmatic dollars. Today, companies increasingly recognize that addressing the needs of poor or vulnerable populations can bring new opportunities for businesses to increase their competitive advantage. Companies are finding these opportunities by engaging vulnerable individuals as consumers, employees, and partners (producers, suppliers, distributors, retailers, and entrepreneurs).<sup>1</sup> For example, health care businesses are innovatively modifying their distribution networks to facilitate increased sales of medicine to previously underserved consumers. Companies create shared value—value that benefits both the company and society—by connecting business success with efforts to solve social problems.

### The Rockefeller Foundation is exploring the ways in which multinational corporations can create shared value.

Since 1913, the Rockefeller Foundation has worked to promote the well-being of people throughout the world. Recently, the Foundation has made significant contributions to the development of impact investing, which the Foundation and JP Morgan defined in 2010 as “investments intended to create positive impact beyond financial return.”<sup>2</sup> The Foundation’s main contributions have concentrated on building the impact investing field’s infrastructure, processes, and systems, as well as seeding new elements of the sector. For example, the Foundation supported the development of multiple institutions that have played key roles in accelerating the field. These include the Global Impact Investing Network (GIIN), the Global Impact Investing Rating System (GIIRS), and a number of catalytic intermediaries, such as Acumen Capital Markets, Root Capital, and IGNIA.<sup>3</sup>

The Foundation funded FSG to study the ways in which impact enterprises create positive change for poor or vulnerable populations.<sup>ii</sup> The term “impact enterprise” encompasses a range of organization types, including social businesses (businesses designed to cover costs yet not generate a profit), social enterprises (start-up businesses entirely focused on creating social impact while generating financial returns), and for-profit, large-scale businesses. While all forms of business have a role to play in creating shared value, large corporations have significant scale and resources with which to effect change. Such corporations are the focus of the case studies presented in this paper.

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<sup>ii</sup> An “impact enterprise” is defined as a financially sustainable and scalable venture that actively works to produce significant net positive changes in well-being among underserved individuals, their communities, and the broader environment. For further detail regarding the definition of impact enterprises, refer to Appendix A.

**Primary research topics:**

- **Identifying promising points of leverage:** Within multinational corporations, what promising points of leverage exist to create shared value? How does geography or sector influence a company's shared value approach?
- **Designing effective shared value strategies:** To what degree do intentionality and materiality contribute to the success of shared value strategies? What opportunity costs are associated with shared value strategies?
- **Using shared value measurement to improve practice:** How can companies use measurement practices to enhance shared value strategies and demonstrate financial and social results?

To address these questions, we assessed the role of businesses in meeting the needs of the poor or vulnerable. This work is distinct from other research that examines how businesses solve social problems in three key ways:

1. This paper is focused on multinational corporations. The paper does not focus explicitly on the role of small and medium enterprises, social enterprises, or start-ups that have social impacts.
2. This paper focuses on organizations that successfully create social impact through core business strategies rather than through philanthropic initiatives that are not linked to the primary drivers of the company's competitiveness.
3. The case studies presented here are based on examples where target populations are poor, vulnerable, low-income, or living at the base of the pyramid (BoP). Rather than defining "poor" as below a specific threshold, such as \$1 to \$2 per day, we adopt the World Resources Institute's assertion that "a much larger segment of the low-income population—the 4 billion people with incomes well below any Western poverty line—both deserves attention and is the appropriate focus of a market-oriented approach."<sup>4</sup>

**This paper addresses the ways in which multinationals create shared value by describing and synthesizing case studies across five sectors and multiple geographies.**

**Chapter 2** provides a further explanation of shared value to anchor the remainder of the paper. **Chapter 3** uses case studies across five sectors and multiple geographies to illuminate the ways in which large multinationals deliver financial and social impact. We examine the following five sectors:

- Food, Beverages, and Agriculture
- Health Care
- Financial Services
- Extractives and Natural Resources
- Housing and Construction

*Note that because this white paper is anchored in case study research, this section is particularly expansive. We suggest that readers review one or two sectors of particular interest and then proceed to Chapter 4.*

**Chapter 4** examines the importance of intentionality and materiality in making strategic decisions, discusses opportunity costs that companies face when pursuing shared value, and examines the importance of measurement in shaping ongoing strategy development and implementation. **Chapter 5** focuses on the ways in which measurement can delineate whether a strategy is delivering meaningful value to both the business and to society and suggests guidelines for how to measure progress. Lastly, **Chapter 6** offers preliminary recommendations for how external stakeholders (including government, civil society, and other private-sector partners) can serve as catalysts in launching and supporting shared value projects.

We hope the research and insights provided here will inform more robust business strategies that achieve sustainable solutions at scale for millions of poor or vulnerable people around the world.

## 2. Shared Value: Competitive Advantage from Solving Social Problems

Shared value is about creating *new economic and social value for business and society*.

Michael Porter, professor at the Harvard Business School, and Mark Kramer, managing director at FSG, introduced the concept of “creating shared value” in 2006. The authors (and co-founders of FSG) more recently expanded on this idea in a January 2011 *Harvard Business Review* article entitled “Creating Shared Value.” Creating shared value means closely examining economic and social linkages in order to create *new* economic and social benefit (rather than redistributing existing value). It starts from a different worldview than corporate philanthropy; rather than considering how a portion of their profits can be used to address social issues, shared value business leaders ask how they can use business strategies to find solutions to social problems that, if successful, will simultaneously advance their economic interests.

Porter and Kramer suggest that companies can create shared value in three primary ways:



**Reconceiving products and markets:** Better serving existing markets, accessing new ones, or developing innovative products and services that meet social needs



**Redefining productivity in the value chain:** Improving the quality, quantity, cost, and reliability of inputs, production processes, and distribution systems, while simultaneously acting as a steward for natural resources



**Enabling local cluster development:** Working in concert with others to create a stronger competitive context, including reliable local suppliers, functioning infrastructure, access to talent, and an effective legal system

Creating shared value requires companies to intentionally and directly link business success to social impact. A high degree of intentionality strengthens management focus on both business and social goals, ensuring that social implications are not an afterthought. By tying company success to specific social results, leaders are more likely to invest in shared value strategies at scale in a sustained manner. A focus on results profoundly affects the way a company addresses social problems with its core business.

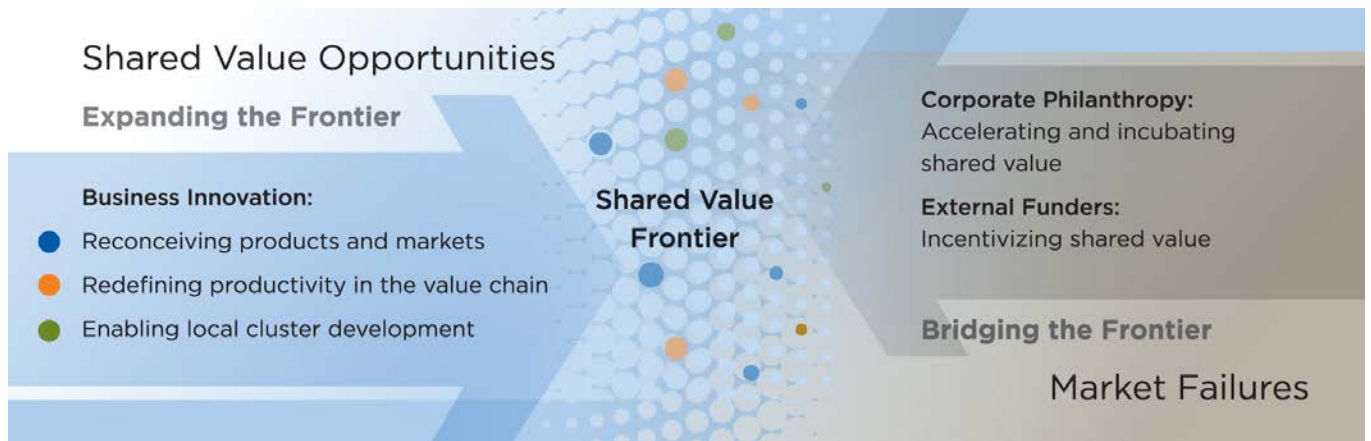
### Creating large-scale social impact through improved competitive positioning:

Hindustan Unilever (HUL) demonstrates the ways that companies that *explicitly* seek to solve social problems using their core businesses can create impact beyond what is possible through philanthropy alone. HUL recognized that by reconceiving the market for its hygiene products, it could reduce the national incidence of diarrhea, which kills more than 500,000 Indian children every year. In 2002, the company partnered with local government leaders to launch the Lifebuoy Swasthya Chetna program, a widespread campaign to promote improved hygiene and reduce diarrhea-related deaths in rural India.<sup>5</sup> The campaign was instrumental in increasing awareness about the importance of hand washing among the rural poor and has reached 135 million Indians to date.<sup>6,7</sup> The effort has also had a tremendous economic effect, helping the Lifebuoy brand secure an 18.4 percent share of the Indian soap market and earning a place as one of the country’s most trusted brands.<sup>8</sup>

**External stakeholders can encourage companies to view specific opportunities as viable strategic business options.**

Traditional market assessments may not always accurately reflect the potential for profitably offering solutions to social problems. Businesses may perceive opportunities to create shared value as economically unviable in the near term. The inability to accurately predict future returns can lead to market failures, where companies opt to forego strategies that could create economic value. Failures might be due to unclear expectations around the likely return on investment or might occur because the level of innovation required exceeds a company’s risk tolerance. Shared value opportunities may represent significant long-term potential, but may also be viewed as unviable until further exploration takes place. The area that borders market failure represents the shared value frontier, where companies facing uncertainty may turn away from profit-generating opportunities that can create social impact (Figure 1).<sup>9</sup>

**Figure 1. The Shared Value Frontier**



Philanthropists and government stakeholders can play a catalytic role in such cases. Just as early-stage investing can jump-start innovation in emerging areas, philanthropists and government can provide grants or zero or low-interest sources of capital to support R&D. Alternatively, they can invest in improving the competitiveness of an entire industry in order to develop companies’ ability and interest in making shared value investments. Outside stakeholders can also provide support through incentives, such as guaranteed purchase commitments, tax incentives, or access to manufacturing or other in-kind resources. Large multinationals may also view shared value opportunities as more viable if they are able to partner with other businesses to reduce risk or gain access to specific innovations. By serving as suppliers, distributors, or partners, smaller enterprises may enable large companies to pursue social innovations and bring them to scale.

## 3. Identifying Promising Points of Leverage

To get started on a shared value journey, business leaders identify promising points of leverage for creating shared value. This chapter explores specific points of leverage across each of the three shared value approaches (reconceiving products and markets, redefining productivity in the value chain, and enabling local cluster development) to hone in on strategic options that companies may wish to pursue.

**Key research questions:** Within multinational corporations, what promising points of leverage exist to create shared value? How does geography or sector influence a company's shared value approach?

### Companies begin their shared value journey with rigorous analysis of the intersection of social issues and business strategy.

The first step in creating a shared value strategy involves identifying and prioritizing social issues that affect a company's core business. Managers who closely review sourcing, operations, and distribution processes and map these against needs within the localities where they are performed may surface ideas that can create both social and economic benefits.

Guangsha Construction, a Chinese construction management group, recognized that on-site accidents negatively affected the company's business and determined that those accidents were due to low levels of education and training among the company's migrant and temporary workers. That realization pointed to an area where business and social opportunities came together—where skills development could improve outcomes for the company and for low-income workers who lacked access to convenient and affordable training programs. Through its innovative and large-scale training program, Guangsha Construction developed a pipeline of talent to meet the needs of its construction sites while enabling workers to earn more stable employment opportunities over time. (See page 39 for details on Guangsha Construction's efforts.)

Some companies may choose a particular social issue that they wish to affect and then begin their strategy development process. Others may choose to begin their shared value journey by looking for significant business opportunities and then consider how to bring a social lens to bear. As with the development of any business strategy, the context within which a company operates drives the specific opportunities available and resulting strategic choices. Geography and sector each play a role in shaping shared value strategies, and we examine both in turn below.

### How Geography Influences Points of Leverage to Create Shared Value

Points of leverage with which companies create shared value differ dramatically by geography. Business constraints, social challenges, customer needs, and potential opportunities all change from region to region and even village to village.

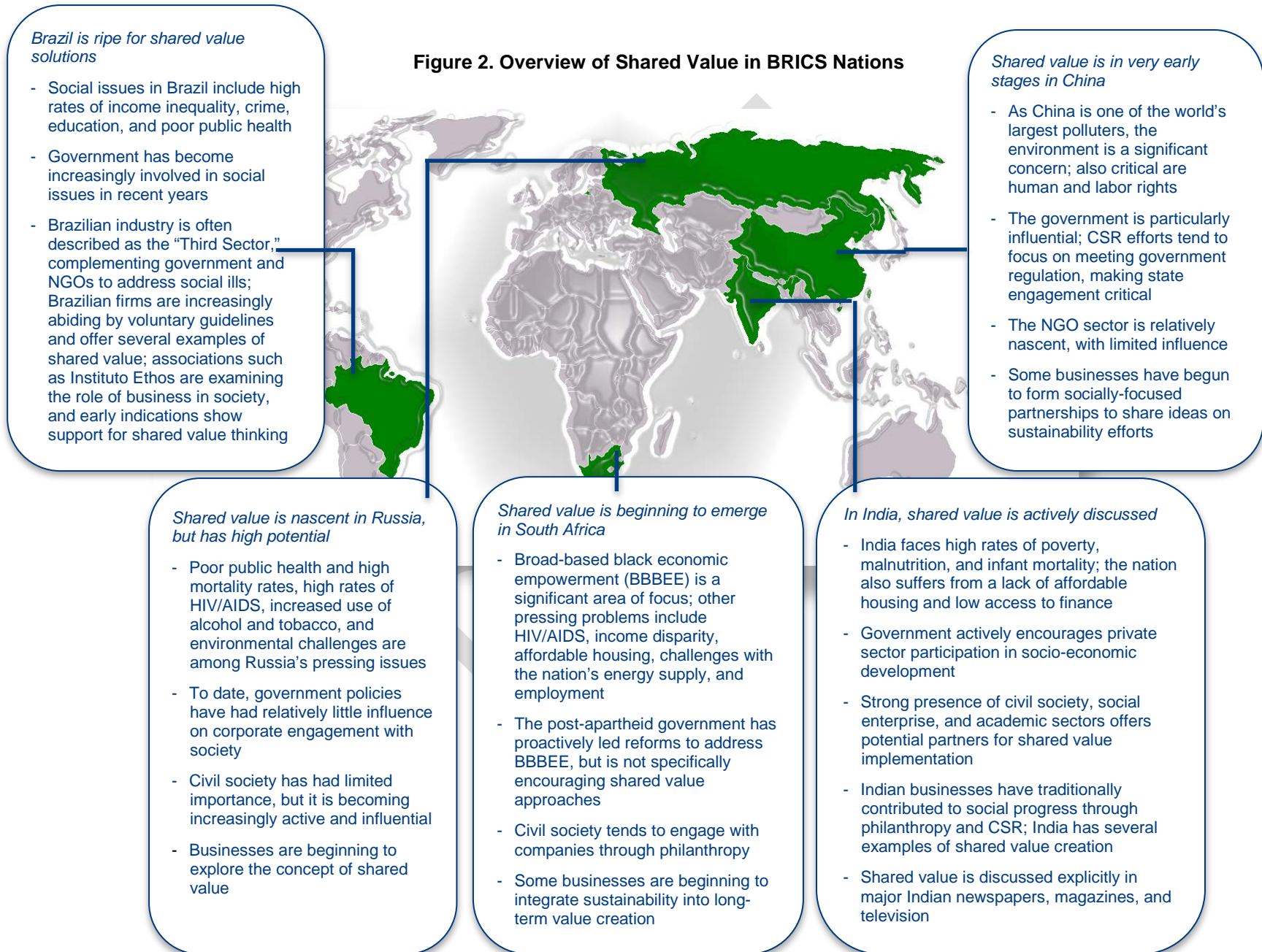
**Determining where to launch a shared value strategy requires adding a social lens to factors commonly considered with any corporate expansion effort.** Business leaders consider factors such as market potential and political and regulatory context when making decisions about where to get started. To drive toward shared value, leaders also consider how social issues can affect the company's

revenue or cost structure. For example, in 2011, Eli Lilly and Company (Lilly) explored a shared value approach to expand its insulin business while improving diabetes diagnosis rates. Lilly's managers added some fundamentally new elements to their typical growth strategy discussions: assessments of social needs and how Lilly might meaningfully address those issues. Lilly launched The Lilly Non-Communicable Diseases (NCD) Partnership, committing \$30 million over five years. Focused on Brazil, India, Mexico, and South Africa—countries that bear a large NCD burden—the partnership seeks to develop effective, efficient, and sustainable programs to upgrade the capabilities of local health workers, increase demand for treatment, and improve national care guidelines.<sup>10,11</sup> Lilly first examined macroeconomic considerations across several countries. The factors it considered included total population size, gross domestic product growth, diabetes incidence rate, and government investment in health care per capita. The company then examined short-listed countries, reviewing factors such as the strength of local partners, the business and regulatory context, and the level of interest and alignment of the program with country-affiliate priorities. After visiting sites, conducting due diligence with potential partners, and rigorously assessing the country context, Lilly leadership decided to move forward with investments in the four countries.<sup>12</sup>

**Partnering with external stakeholders can enable companies to gain local knowledge and leverage resources.** Corporations that seek to solve complex social problems through shared value can benefit from working with local actors to better understand the landscape and to explore opportunities for partnership. For example, a credible civil society organization can provide in-depth information about the needs of poor or vulnerable populations within specific localities. In Brazil, Lilly has partnered with Hospital Israelita Albert Einstein (AEH) due to the hospital's proven medical, measurement, and evaluation capabilities and its commitment to diabetes care and philanthropy. AEH is one of the leading teaching and research hospitals in Brazil and is involved in a wide range of projects to improve health care in the country, including partnerships to strengthen the government's basic health clinics.<sup>13</sup> For further details about external conditions that can help shared value succeed, refer to Appendix B.

**The BRICS countries are each at different stages of supporting shared value efforts, and Brazil and India represent relatively attractive markets.** An overview of conditions in the BRICS countries (Brazil, Russia, India, China, and South Africa) may serve as a starting point for stakeholders considering activities in developing countries (see Figure 2). Among the BRICS, Brazil and India represent attractive countries for shared value innovation. Brazil offers a ripe environment; companies there address social needs through new business models and increased alignment with voluntary guidelines established by NGOs. India also shows promise, boasting early evidence of successful shared value examples and civil society, government, and business leaders who explicitly discuss shared value. Russia, China, and South Africa are more nascent markets for creating shared value. In Russia, civil society and government policies have a relatively weak influence on the role of business in society, and corporations play a more traditional role. Chinese companies' engagement with society appears to be driven largely by government regulation. Although some businesses have formed associations to share ideas on sustainability and going "green," shared value approaches in China appear relatively limited. Similarly, the notion of shared value is beginning to emerge in South Africa, where some companies are beginning to build sustainability into their core business strategies. Further detail on each of the BRICS countries, along with suggested resources, is available in Appendix C.

**Figure 2. Overview of Shared Value in BRICS Nations**





## How *Sector* Influences Points of Leverage to Create Shared Value

**Companies within the same sector are likely to share similar business goals and social challenges.** A sector lens can illuminate promising opportunities for companies to engage poor or vulnerable individuals as consumers, employees, producers, suppliers, distributors, retailers, or entrepreneurs.


























For example, extractives companies often face challenges such as displacement of indigenous people and poor health conditions among workers. A shared value strategy for an oil and gas company might address these issues. To integrate business success with societal improvement, companies across sectors may consider how to leverage their core competencies to serve new needs, gain efficiency, create differentiation, and expand markets.

We examine five sectors:

- Food, Beverages, and Agriculture
- Health Care
- Financial Services
- Extractives and Natural Resources
- Housing and Construction

Within these five industries, several points of leverage represent promising opportunities for companies to engage in shared value creation. Points of leverage were identified relative to the sector in which they appeared most promising based on case study research drawn from a range of geographies. Some points of leverage are not necessarily unique to a given sector and may be applicable to other sectors. Figure 3 summarizes these points of leverage and demonstrates how these opportunities align against the three primary approaches to shared value. The pages that follow then use the case studies to describe each of these leverage points in further detail.

Figure 3.

| Selected Points of Leverage for Corporations across Sectors to Create Shared Value*                                          |                                                                                                |                                                                                                                                                                                                                                                                           |
|------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sector                                                                                                                       | Shared Value Approach                                                                          | Point of Leverage (Case Examples)                                                                                                                                                                                                                                         |
|  <b>Food, Beverages, and Agriculture</b>    |  <b>New</b>   | Addressing nutritional deficiency through additives to low-cost, staple products ( <a href="#">Britannia</a> , <a href="#">Nestlé</a> )                                                                                                                                   |
|                                                                                                                              |               | Improving smallholder farmers' access to information, inputs, and technical assistance to create a more reliable and higher-quality supply of inputs ( <a href="#">Cargill</a> , <a href="#">Coca-Cola</a> )                                                              |
|                                                                                                                              |               | Supporting infrastructure development, increased access to financing, and improved knowledge/skills of consumers, retailers, and suppliers to enhance competitive context ( <a href="#">Coca-Cola</a> , <a href="#">Yara</a> , <a href="#">IFFCO Kisan Sanchar Ltd.</a> ) |
|  <b>Health Care</b>                         |  <b>New</b>   | Developing new products or refining existing products to respond to local health needs ( <a href="#">GlaxoSmithKline</a> , <a href="#">Novo Nordisk</a> )                                                                                                                 |
|                                                                                                                              |               | Innovating within distribution channels to ensure that quality products reach underserved patients ( <a href="#">Novartis</a> , <a href="#">Sproxil</a> )                                                                                                                 |
|                                                                                                                              |               | Investing resources to create health-seeking behavior among poor or vulnerable populations ( <a href="#">Novo Nordisk</a> , <a href="#">Novartis</a> , <a href="#">Pfizer</a> )                                                                                           |
|  <b>Financial Services</b>                 |  <b>New</b>   | Creating financial products that address specific needs of poor or vulnerable populations and providing education programs to improve individuals' financial capabilities ( <a href="#">ICICI Lombard</a> , <a href="#">Standard Chartered</a> )                          |
|                                                                                                                              |  <b>New</b>  | Proactively offering financial services to companies in non-financial sectors so those companies can better serve low-income populations ( <a href="#">Grupo Martins</a> )                                                                                                |
|                                                                                                                              |             | Transforming service delivery to increase financial access, e.g., through mobile banks ( <a href="#">Equity Bank</a> , <a href="#">M-PESA</a> )                                                                                                                           |
|  <b>Extractives and Natural Resources</b> |  <b>New</b> | Using by-products from production to expand the scope of the business ( <a href="#">Arauco</a> )                                                                                                                                                                          |
|                                                                                                                              |             | Addressing social needs in communities surrounding extraction sites to enhance the competitive context of these geographies ( <a href="#">Marathon Oil</a> , <a href="#">Anglo American</a> , <a href="#">De Beers</a> )                                                  |
|                                                                                                                              |             | Cultivating local workforces and supplier networks to support operations in developing nations ( <a href="#">British Petroleum</a> , <a href="#">Statoil</a> , <a href="#">Anglo American</a> )                                                                           |
|  <b>Housing and Construction</b>          |             | Working with suppliers to maximize output of renewable natural resources ( <a href="#">Salala Rubber Corporation</a> , <a href="#">Fibria</a> )                                                                                                                           |
|                                                                                                                              |  <b>New</b> | Improving supply of affordable housing by developing creative business models that lower the cost of housing units ( <a href="#">Moladi</a> , <a href="#">Tata Housing</a> )                                                                                              |
|                                                                                                                              |  <b>New</b> | Providing appropriate financing to qualified low-income individuals for new homes ( <a href="#">Micro Housing Finance Corporation</a> )                                                                                                                                   |
|                                                                                                                              |  <b>New</b> | Providing self-builders with complementary value-added services along with construction materials ( <a href="#">Holcim Apasco</a> , <a href="#">CEMEX</a> )                                                                                                               |
|                                                                                                                              |             | Developing technical and life skills of low-income, unskilled populations and equipping them to be employed by the construction industry ( <a href="#">Guangsha Construction</a> , <a href="#">Larsen &amp; Toubro</a> )                                                  |
|  <b>New</b>                               | Reconceiving products and markets                                                              |  Enhancing productivity in the value chain                                                                                                                                             |
|                                                                                                                              |                                                                                                |  Enabling local cluster development                                                                                                                                                  |

\*The figure highlights promising shared value opportunities as identified through case study research. The points of leverage are intended to be illustrative, not comprehensive. Company names in parentheses reflect case studies described within this paper. Further detail regarding each point of leverage appears in the following sections by sector.

**Pursuing multiple shared value approaches can magnify results.** The three approaches to shared value need not be implemented in isolation. Leading firms have designed multi-pronged approaches to provide holistic solutions to social and business problems. In 1994, for example, Novo Nordisk, a leader in diabetes care, became one of the first Western firms to enter the Chinese insulin market. Novo Nordisk applied all three approaches to creating shared value in targeting the Chinese insulin market:

1. *Enabling local cluster development:* Novo Nordisk strengthened its competitive context by funding the creation of the World Diabetes Foundation to increase diabetes awareness and worked with the Chinese government to develop national standard treatment guidelines. The company found that diabetes often went undiagnosed, and only 1 in 10 diagnosed patients successfully managed the condition. In response, Novo Nordisk provided training on diabetes to physicians and patients.
2. *Redefining productivity in the value chain:* Novo Nordisk opened a local production facility in Tianjin, allowing the company to gain production efficiencies and respond more quickly to market demands.
3. *Reconceiving products and markets:* Finally, the company adapted insulin products for Chinese patients by establishing a Chinese research and development center and leveraging the knowledge of local scientists.

By implementing these mutually-reinforcing points of leverage, Novo Nordisk has achieved a more than 60 percent share in the Chinese insulin market. Further details about Novo Nordisk's shared value strategy are described on page 25.

**Some points of leverage may be relevant across sectors.** Social issues define the opportunities available for companies to create shared value. Therefore, business leaders may be able to adapt strategies used by firms in other sectors to create shared value. For example, telecommunications technology is used across a variety of sectors to increase access to products and information. Financial services companies leverage mobile phone technology to provide products to previously inaccessible rural markets through mobile banking. Similarly, pharmaceutical companies leverage the penetration of mobile phones to protect consumers from counterfeit drugs. The agricultural sector uses mobile technology to provide weather reports and technical assistance to rural farmers. Business leaders, therefore, should consider trends in other industries to determine whether promising points of leverage may be adapted for their own context. As companies increasingly engage in shared value implementation, opportunities to share lessons across sectors will increase accordingly.

***In the following pages, case studies across five sectors and several countries illustrate the ways in which large multinational companies create shared value.***



## Food, Beverages, and Agriculture

Food, beverages, and agriculture are among the most relevant industries in addressing the needs of poor or vulnerable populations. These industries are the largest employers in much of the developing world. For instance, agriculture employs 65 percent of workers throughout Africa.<sup>14</sup> In addition to providing employment, these industries are a source of sustenance and nutrition for vulnerable populations. Meeting food demand, however, is often a challenge; the Food and Agriculture Organization of the United Nations estimated that, in 2010, 925 million people were chronically undernourished.<sup>15</sup>

The world's population is projected to grow to 9 billion by 2050. Unfortunately, growth in crop yields is declining, from roughly 3 percent per year in the 1960s to about 1 percent per year today. Many underdeveloped areas suffer from lack of infrastructure, such as roads, irrigation, and electricity, leading to barriers in accessing inputs, challenges in reaching markets, and difficulties in leveraging technology to raise yields. Problems with undernourishment are likely to persist, if not worsen, without investments to reduce the impact of these barriers on productivity.

For decades, food, beverages, and agricultural companies have played an important role in providing employment and addressing nutritional issues in the developing world. Nestlé, for example, has been working for 40 years to increase the output of Indian dairy farmers supplying its business. This work improves the livelihoods of rural farmers, while enhancing quality and stability in Nestlé's supply chain. Yet further work can be done to encourage a greater number of companies to embed a shared value lens into their business strategies, increase the scale and reach of such efforts, and develop more effective measurement tools to inform ongoing decisions about where and how to invest.

### Activities in the food, beverages, and agriculture industries point to three promising points of leverage for the creation of shared value:

1. Addressing nutritional deficiency through additives to low-cost, staple products
2. Improving smallholder farmers' access to information, inputs, and technical assistance to create a more reliable and higher-quality supply of inputs for food and beverage products
3. Supporting infrastructure development, increased access to financing, and improved knowledge/skills of consumers, retailers, and suppliers to enhance competitive context

#### #1: Addressing nutritional deficiency through additives to low-cost, staple products

Food and beverage companies can create competitive advantage by fortifying their staple products with vitamins and minerals. Companies using this approach differentiate themselves from competitors by marketing their products' health benefits. These solutions also create social benefits, as they address the nutritional needs of low-income populations. In order to maximize both the business and social benefit created by fortified products, many companies tailor the additives included in their products by geography to address the specific nutritional deficiencies present in the region to which they are selling. Companies also customize their sales, marketing, and distribution strategies for these products, helping them better reach their target customer segment.



### Case Example: Britannia Industries' Tiger Biscuits in India

**Situation:** Britannia, an Indian manufacturer of biscuits and other food products, estimates that nearly two out of every three Indian children suffer from anemia, diminishing their energy and limiting their ability to focus in school. Because iron deficiency is not a visible ailment, parents and educators are often unaware of the problem, enabling it to persist undiagnosed and untreated.

**Approach:** To address this health issue, Britannia created its Tiger product line. Tiger biscuits are low-cost, designed to appeal to children, and fortified with iron. Britannia complements the product line with advertising and public health campaigns to improve awareness and increase the social and business performance of Tiger products. Rural villages often lack access to mass media, so Britannia supports local efforts to educate rural populations on childhood iron deficiency. Additionally, Britannia's mass-media advertising is more weighted toward issue awareness than brand promotion.

**Results:** Tiger has been Britannia's largest product line since 1997, and it is India's second most popular biscuit brand. Although Tiger products yield lower margins than other Britannia offerings, they are profitable and high-volume. Britannia accepts lower margins to achieve higher volume, increase access to Tiger products, and enhance its market penetration. During a 2009 pilot study in North Delhi, Britannia and the Navjyoti India Foundation found that consumption of fortified Tiger biscuits, in conjunction with treatment for hookworms, raised the iron levels of more than 300 anemic children by an average of more than 25 percent in 90 days.

## #2: Improving smallholder farmers' access to information, inputs, and technical assistance to create a more reliable and higher quality supply of inputs

Businesses in the food and beverages industry can create shared value by working with supplier smallholder farmers to improve yields and outputs. Companies improve the practice of smallholder suppliers using a number of different approaches, which vary in scale and level of engagement with each supplier. Such efforts range from sharing best practices through lectures and dissemination of literature, which may reach hundreds of suppliers, to providing key suppliers with hands-on training and access to inputs (e.g., fertilizer, plant stock) to improve their productivity. These strategies often maximize effectiveness when practitioners use multiple approaches in unison. For example, both agronomical training and access to fertilizers may increase output in isolation, but combining these approaches with the same population may compound productivity gains.

Improving smallholder farmers' ability to access information, inputs, and technical assistance creates value for companies by improving the quality and quantity of inputs needed for processing. It also creates social benefits by enabling smallholder farmers to produce a greater quantity of crops, increasing their incomes. Both the business and social benefits created by this approach are maximized when the strategy customizes the delivery mechanism, information, and inputs to targeted geographies and crops.

### Case Example: Cargill Project Phoenix in Brazil

**Situation:** The rise of witch's broom, a fungal disease that spread throughout the cocoa trees of Southern Bahia during the late 1980s, caused annual cocoa production in Brazil to drop from a high of more than 400,000 tons to a low of 130,000 tons during the 1990s. This decline in production resulted in an



inadequate supply of domestic raw material to support the Brazilian cocoa processing industry's installed capacity. Efforts led by the Brazilian government to improve production were unsuccessful, and production remained depressed. Through its Buffer Stock Fund, the Ministry of Agriculture in Holland offered philanthropic funding to revitalize the Brazilian cocoa crop. In response, Cargill and other Brazilian cocoa processors, acting through the Brazilian Industry Association of Cocoa Processers (AIPC), evaluated the best way to leverage this funding to improve domestic cocoa production.

**Approach:** AIPC developed an initiative called Project Phoenix, hiring a team with technical expertise in cocoa farming to work closely with 25 cocoa suppliers affected by the fungus. These experts provided farmers with technical assistance and subsidized inputs, enabling them to improve their output and productivity. The team of experts also assisted farmers with grafting, pruning, and weeding, taught them shadow-management techniques, and, where needed, provided fertilizer and additional cocoa trees to increase the number of trees per hectare to an optimal level.

**Results:** Project Phoenix has improved cocoa output of farmers benefitting from the work by approximately 200 percent, thereby enhancing their incomes. While the project has been relatively small in scale to date, it has demonstrated that the techniques it utilizes are effective in combatting the witch's broom fungus and improving output. Cargill and the other members of AIPC are currently devising a way to scale the solution to a greater number of farmers, as they believe that the widespread adoption of the methods developed through Project Phoenix will help reduce the domestic cocoa bean deficit in Brazil. Reducing the domestic cocoa bean deficit would enable Brazilian cocoa processors to save on import tariffs and freight costs.

### #3: Supporting infrastructure development, increased access to financing, and improved knowledge/skills to enhance competitive context

Food, beverages, and agriculture companies can also enhance their competitive context by improving the infrastructure surrounding their operations, ensuring that their customers have access to financing, and building the knowledge and skills of their suppliers, retailers, and consumers. Such improvements enable companies to extend their presence in markets where they already have distribution and can help open new markets for expansion. For example, improved quality of local roads can speed up distribution and reduce spoilage of fruits and vegetables heading out for processing. Enhancements to competitive context can be magnified when companies partner with NGOs and government agencies. These actors often have deeper connections to and knowledge of geographies where companies operate, helping companies build an understanding of local needs and even co-creating potential solutions.

#### Case Example: The Coca-Cola Company *Coletivo* in Brazil

**Situation:** The Coca-Cola Company has a strong brand in Brazil, and four years ago it began looking for opportunities to better serve its low-income customers. The company's growth in this market segment was limited by the effectiveness of retailers in Brazilian *favelas*, poor areas on the outskirts of major cities. Coca-Cola recognized that by improving the skills of retailers in these areas, it could grow its volume while promoting economic development and employment in some of the poorest areas of Brazil.

**Approach:** The *Coletivo* program was developed to improve the level of customer service offered by retailers in *favelas* and prepare youth living in these Brazilian slums to succeed in entry-level jobs. The



program enrolls youth in courses teaching retailing techniques and includes modules on behavioral training. Students of the program provide consulting to retailers in their local communities, increasing sales of fast-moving consumer products (including, but not limited to, Coca-Cola products). Upon completion of the *Coletivo* program, students are placed in entry-level jobs outside of the retail sector. Coca-Cola now operates more than 120 *Coletivos* in approximately 69 Brazilian cities and trains more than 50,000 people per year.

**Results:** Coca-Cola carefully measures both social and business value created by the program. Pilot tests and evaluations have shown that Coca-Cola brand relevance in areas targeted by the *Coletivo* program was more than twice as high as in control areas, leading to revenue growth. Additionally, Coca-Cola believes that the program helps improve its long-term competitive positioning. The program has also led to increases in employment, earnings, and well-being for graduates. Graduates of the program increase their family income by an average of approximately 50 percent and demonstrate greater self-esteem and optimism than their peers.

#### Shared value learning questions—areas for further exploration in this sector:

- What approaches can companies take to tailor nutrient delivery channels for, and build nutritional awareness among, specific consumer groups?
- What strategies for working with smallholder farmers create the most value for businesses and communities? How can companies quickly and accurately identify the most impactful approach for improving output of a particular geography or crop?
- What are the most significant constraints to food production and distribution by region, and which regions appear to have the highest-potential for making gains against these constraints?



## Health Care

Pharmaceutical and medical device companies have historically concentrated their efforts in affluent markets where the market can bear the price of drugs and devices. The result: compared to the developed world, the underserved in low- and middle-income countries are left with significant unmet health needs. For example:

- In high-income countries, more than 66 percent of all people live beyond the age of 70; in middle-income countries, nearly 50 percent of all people live to the age of 70; in low-income countries, only 20 percent of all people reach the age of 70.<sup>16</sup>
- Just 5 percent of global spending on cancer occurs in low- and middle-income countries, even though those countries account for almost 80 percent of the cancer burden in terms of life-years lost.<sup>17</sup>
- More than 1 billion people are affected by Neglected Tropical Diseases, a group of 17 diseases that includes leprosy, guinea worm, elephantiasis, etc. These diseases disproportionately affect those living in poverty.<sup>18</sup>

Health care companies have traditionally hesitated to serve poor or vulnerable populations in developing nations because of several barriers, including insufficient health-seeking behavior, limited market information, inability of patients to pay, inefficient regulation, and inadequate health systems (e.g., poor health facilities, lack of insurance and payment systems, etc.). These conditions vary significantly across and within countries. Each market differs not only on the basis of the conditions mentioned above, but also on the basis of the disease burden and demographics.

These challenges represent a significant opportunity for pharmaceutical and medical device companies to establish competitive advantages in challenging but rapidly growing markets. Across 73 developing countries, average health expenditure per capita—from both public and private sources—grew 13.9 percent per year from 2005 to 2009, outpacing GDP growth.<sup>19</sup> Non-traditional pharmaceutical markets, which include emerging countries such as Brazil, Russia, India, China, South Korea, Mexico, and Turkey, are expected to make up 75 percent of industry growth over the next decade.<sup>20</sup> Brazil, Russia, India, and China are expected to more than double their pharmaceutical spending, which will rise from \$90 billion in 2010 to \$194 billion in 2015.<sup>21</sup> To position themselves for the future, health care companies are beginning to develop innovative ways to engage these markets.

### Health care companies can create shared value through three distinct points of leverage:

1. Developing new products or refining existing products to respond to local health needs
2. Innovating within distribution channels to ensure that quality products reach underserved patients
3. Investing resources to create health-seeking behavior among poor or vulnerable populations

#### #1: Developing new products or refining existing products to respond to the local health needs of poor or vulnerable populations

Low-income markets need health products that are affordable, accessible, and adapted to their unique local conditions. Pharmaceutical companies can develop such customized products by investing in R&D





toward diagnosis, prevention, or treatment of diseases; reengineering or reformulating existing products to lower costs or improve functionality; adapting packaging to reduce costs or improve safety; and designing tiered pricing. By redefining their product portfolios, companies can not only increase access to health care, but also expand their market share and position themselves for long-term success.

### Case Example: GlaxoSmithKline (GSK) in Least Developed Countries

**Situation:** GlaxoSmithKline, one of the world’s leading research-based pharmaceutical and health care companies, recognized that the urgent need for quality health care, the difficulty people face in paying for medicine, and limited existing global health efforts in developing countries were areas where the company could make a difference. Since health spending in these countries was growing faster than GDP, GSK’s leadership determined that early movers would likely win advantages in brand recognition. CEO Sir Andrew Witty determined that it was time for GSK to move beyond “white pills in Western markets.”<sup>22</sup>

**Approach:** In August 2010, GSK established the Developing Countries and Market Access Unit (DCMA), which covers 50 countries, 49 of which are defined by the World Health Organization as the world’s Least Developed Countries (LDCs).<sup>iii</sup> The unit aims to increase access to GSK medicines and vaccines for the 800 million people living in the 49 poorest nations on earth, helping the company build a sustainable

Figure 4. DCMA Focus Countries



business in the developing world. Instead of making £1 million profit by supplying 100,000 patients, GSK wants to make £1 million profit by supplying 1,000,000 patients. In these markets, GSK prices its medicines at a level that reflects the country’s economic status, demography, health care infrastructure, and pricing regulations, as well as patient affordability. The unit reports to the Emerging Markets Asia Pacific group, and DCMA’s 650 employees are tasked with increasing five-fold the volume of medicines and vaccines supplied to these countries during the next five years. GSK notes that pursuing these goals demands a new and innovative approach to its

business model. Its focus is on maximizing access to its vaccines, broadening its portfolio of medicines registered in these countries, supporting healthcare infrastructure, and investing in the development of employees who ultimately drive this strategy. GSK’s innovative business model for developing countries provides incentives for sales teams based on volume growth rather than profit, caps prices of patented medicines at no more than 25 percent of the UK price, and re-invests 20 percent of profits back into the respective country’s health care infrastructure.

DCMA has a dual focus on social impact and sustainable long-term financial growth. The company judges the unit’s success not only on volume growth, but also on its contribution to increasing access to medicines, and the unit plans to significantly increase the volume of doses sold between 2011 and 2015. Typically, country affiliates are asked to provide a return on investment quickly and to maintain specific operating margin targets. By contrast, GSK asks DCMA to provide a return on investment within a longer timeframe, and targets. Although vaccines are the primary driver of growth, GSK is also working on accelerating local approval for products already on sale in other markets.<sup>23</sup>

<sup>iii</sup> Note—the DCMA unit focuses on the 50 LDCs, which do not include the BRICS nations. BRICS countries are headed by separate country affiliates and report to the same leadership as DCMA.



GSK also has an Emerging Markets R&D unit that creates strategies for BRICS countries and other emerging markets. The team leverages existing research and understanding of medical compounds to create reformulated products to address neglected diseases and other specific needs of local populations.

**Results:** GSK's flexible approach to pricing its medicines and vaccines has increased the demand for the company's products in emerging economies, leading to positive outcomes for patients, governments, and shareholders. In East Africa, for example, GSK's decision to reduce prices for its patented brands by approximately 69 percent in 2009 led to a 320 percent increase in the sales of packs by end of 2010.<sup>24</sup> Vaccines, one of DCMA's primary focus areas, represent 15 percent of GSK's global revenues, and the company includes its vaccines in immunization campaigns in 182 countries worldwide. In 2010, GSK delivered 1.4 billion vaccine doses, nearly 70 percent of which went to developing countries.<sup>25,26</sup> Today, GSK has emerged as one of the market leaders in the high-growth vaccine market and believes that, as low-income economies develop, increased access to medicines and sales will yield greater health effects and business results.

## #2: Innovating within distribution channels to ensure that quality products reach underserved patients

Sales and distribution processes are critical to improving consumer access and ensuring that products purchased are sufficiently efficacious. For example, moving products from factory to warehouse to distributor to retailer to patient can be challenging and involve high transaction costs, particularly in remote or hard-to-serve areas. Distribution challenges create the risk of stock-outs, which erode trust and reduce patients' willingness to travel for health care. Companies are finding new and locally appropriate ways to improve the sales and distribution process, such as hiring representatives who speak local dialects and can work closely with practitioners and consumers; such innovations improve companies' competitive positioning for future revenue opportunities.

### Case Example: Novartis in India

**Situation:** About 75 percent of health infrastructure, medical workforce, and other health resources in India are concentrated in urban areas where only 27 percent of the population resides.<sup>27</sup> Infectious diseases such as diarrhea, typhoid, measles, malaria, tuberculosis, whooping cough, pneumonia, and reproductive tract infections are significant causes of morbidity, especially in rural areas. Leaders at Novartis saw an opportunity in the lack of health care services available to rural Indians and grew determined to find a viable solution.

**Approach:** In 2007, Novartis launched Arogya Parivar (Hindi for "Healthy Family") to increase access to medicine in rural India. The program's portfolio includes a range of health products, from low-cost generics to branded drugs that are repackaged into smaller doses to make purchases more affordable for patients with low and irregular incomes. Novartis also established new distribution networks to facilitate product delivery to remote locations, developing a network of local sales teams to uncover market insights and gain consumer trust. The company found partnering with the Indian health system to be particularly critical to getting products into patients' hands. To bridge the infrastructure gap in the short term, Arogya Parivar organized frequent health camps to bring physicians into rural areas. In addition to



expanding health care access, these camps provide an additional sales channel for Arogya Parivar's portfolio of products (doctors retain a choice of medicines and are not limited to Novartis products), as well as a small source of income for the doctors who participate.

**Results:** As of 2011, the Arogya Parivar product portfolio offered 79 products in 12 therapeutic areas, and Novartis planned to add more health products to its line. From 2007 to 2011, the program doubled in size, improving access to health education and medicine for 42 million patients in 28,000 villages. Rural patients, who might otherwise have delayed or discontinued treatment, received access to complete treatment at an affordable, fixed price through a dependable network of health service providers. Arogya Parivar broke even in its 31<sup>st</sup> month of operations and is now generating profits. Novartis's leaders are planning to expand the program to cover 100 million rural Indians who earn \$1 to \$5 per day and are considering expanding into other developing countries as well.

### #3: Investing resources to create health-seeking behavior among poor or vulnerable populations

In many poor areas, primary health care providers are pharmacists or community health workers with limited training. Even formally trained doctors and nurses may struggle to continue their education and keep up with changes in their fields. Unsurprisingly, therefore, market failures sometimes occur when providers and consumers are not sufficiently aware of or concerned about health risks. Forward-thinking businesses are finding that behavior-change campaigns can help overcome such failures by increasing the sophistication of healthcare demand.

#### Case Example: Novo Nordisk in China

**Situation:** The increase in GDP per capita in China has unfortunately brought about an increase in lifestyle-related chronic disease. In 2010, the incidence rate for Type 2 diabetes was estimated at 40 million people and experts expected that number to double over the following 15 years.<sup>28</sup> Novo Nordisk suspected that patient diagnoses were lower in second- and third-tier cities, where sales volumes had traditionally been much lower.

**Approach:** Careful market research confirmed that inaccurate diagnoses were indeed a problem in those cities. One hypothesis suggested that continuing education was more readily available in bigger cities due to higher concentrations of pharmaceutical representatives. Novo Nordisk thus invested in improving diabetes awareness among local Chinese communities (including patients, physicians, and public officials). The company partnered with the World Diabetes Foundation and the Chinese Ministry of Health to develop and update national standard treatment guidelines for diabetes care. Novo Nordisk also engaged in a physician training program to improve diagnosis rates and conducted a broad-based behavior change campaign to increase consumer awareness, encourage health-seeking behaviors, and improve patient management.

**Results:** Today, Novo Nordisk's share of the Chinese insulin market exceeds 60 percent. The disproportionate driver of the company's tremendous growth has been new patients who otherwise may have remained unaware of their treatment needs and options. The company also discovered that training physicians in small cities had a 9 percent greater effect on treatment management than training their counterparts in larger cities. Novo Nordisk has estimated the value of better disease management in



diabetic patients for both its company and Chinese society. The company calculates that improving patient control over diabetes—through better diagnosis, appropriate treatment, and ongoing disease management—creates a value to Chinese society of \$2,350 per patient.<sup>iv</sup> Novo Nordisk has also determined that increased sales are worth approximately \$3,400 per patient to the company. The company estimates that if the nearly 16 million people with diabetes in large urban centers are able to exercise greater control over their disease, the resulting value could be worth \$37 billion to China. And if Novo Nordisk maintains a 60 percent market share, the net present value to its business of such an improvement could reach as high as \$30 billion.

### Shared value learning questions—areas for further exploration in this sector

- What new forms of market research can shift the focus to underserved patients, identify barriers to treatment, reveal unmet needs, and determine local partners with whom to collaborate on new shared value interventions?
- How can companies focus on health outcomes (Daily Adjusted Life Years) to better direct their investments, track their progress, and compete?
- How do incentives change when deploying shared value initiatives? How can companies move to longer-term mindsets that focus on volumes over margins without harming traditional areas of business that focus on wealthier patients?
- What changes to internal organizational structure might a company make to enable initiatives with lower and immediate return on investment (e.g., distribution of medicines to rural areas) to compete with investments that generate higher return over a longer time horizon (e.g., marketing efforts targeting more affluent patients)?
- How can funders—whether private, bilateral, or government—support less profitable shared value opportunities, such as subsidized delivery of necessary health products and devices?

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<sup>iv</sup> In urban areas.



## Financial Services

Financial services enable poor or vulnerable individuals to save, build their assets, invest in education, and improve their livelihoods.<sup>29</sup> Access to financial services also allows consumers to smooth their consumption and protect themselves against economic vulnerability they may face from illness, accidents, or unemployment. Financial services are particularly useful in supporting agriculture-related activities, such as input supply, wholesaling, processing, marketing, and trade. Financial services also play a significant role in supporting small and medium enterprises (SMEs), especially when taking into account the informal sector. SMEs account for about 90 percent of businesses and more than 50 percent of employment worldwide.<sup>30</sup>

However, inclusive financial systems where all working adults can access formal service providers are lacking.<sup>v,31</sup> Approximately 2.7 billion adults—almost 70 percent of the population in developing countries—have no access to formal financial services.<sup>32</sup> In addition to financially excluded populations, a large percentage of the world is under-banked, especially in developing countries. The largest share of unbanked populations is found in sub-Saharan Africa, where only 12 percent of people use banks, and South Asia, where only 24 percent do.<sup>33</sup> Studies have shown that financial inclusion varies not only according to a country's GDP, but also according to individual characteristics such as gender, education level, age, and rural or urban residence.

Large financial institutions traditionally have refrained from serving poor populations due to several barriers: available products often fail to meet the financial needs of poor customers; institutional risks associated with serving the poor can be difficult to manage; serving poor rural areas where populations are less dense entails higher transaction costs per customer; and poor customers often lack the necessary documentation and knowledge to open and operate accounts. Such challenges have caused large banks to view low-income consumers as economically unviable.

Yet demand for financial services among low-income populations is increasing. Total worldwide remittances, now at \$350 billion, have doubled from 1999 to 2004.<sup>34</sup> During the 2008 financial crisis, while the value of deposits decreased, the number of accounts increased. The use of financial services was found to be inelastic with respect to macroeconomic conditions, demonstrating that access to financial services is a basic need in the globalized world.<sup>35</sup>

### Promising points of leverage for companies to create shared value in the financial services sector include:

1. Creating financial products that address the specific needs of poor or vulnerable populations, and providing product-linked or mass education programs to improve individuals' financial capability
2. Transforming service delivery to increase financial access

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<sup>v</sup> Financial inclusion is defined here as a “state in which all people of working age have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients.” See related endnote for source.



3. Proactively offering financial services to companies in non-financial sectors so that those companies can better serve low-income populations

### #1: Creating financial products that address specific needs of poor or vulnerable populations and providing product-linked or mass education programs to improve individuals' financial capability

Financial services companies can develop products and services that enable poor or vulnerable clients to *manage and protect* their existing wealth and assets. Such products and services could include savings accounts, remittance products, and micro-insurance. For example, ICICI Lombard provides products that are customized to suit the specific needs of rain-dependent farmers in India, helping protect their livelihoods in the event of a drought.

Companies can also go further to help poor or vulnerable individuals *increase* their wealth, by offering credit or investment services. In addition to developing products that fit the needs of low-income populations, companies also recognize the need to improve levels of financial capability. Financial capability is defined as the ability to make informed judgments and effective decisions about the use and management of one's money; full financial inclusion requires both financial capability and access to finance.<sup>36</sup> Companies can provide product-linked financial education or mass education programs to ensure that consumers have sufficient information to receive full value from the products and services offered.

#### Case Example: ICICI Lombard's Weather-Based Insurance in India<sup>37</sup>

**Situation:** India's sizable agriculture sector comprises smallholder farmers who depend heavily on rainfall and face significant economic strain due to variability in weather. Poor households that face this risk often lack access to credit, savings, or insurance. In order to manage financial shocks, poor individuals often turn to moneylenders that charge annual rates of 200 percent or more, putting the borrower in a permanent cycle of debt.<sup>38</sup> ICICI Lombard, an Indian general insurance company, saw an opportunity to use its assets to enter a new market while solving that problem for smallholder farmers.

**Approach:** ICICI developed weather-based insurance to protect farmers against financial losses arising from adverse weather conditions. Under ICICI Lombard's system, farmers do not file claims. Rather, payments are triggered by deviations from normal conditions as measured by certified weather data collected from independent third parties (such as the Indian Meteorological Department).

**Results:** Between 2003 and 2010, ICICI implemented a weather-based insurance model in 14 Indian states, comprising 64 districts and covering 26 crop varieties. Weather insurance has a multiplier effect on the economy, because protection offered through the insurance enhances the risk-taking capacity of farmers, banks, micro-finance lenders, and agro-based industries. Greater risk taking in turn boosts the entire regional economy.<sup>39</sup> The Indian government now pays ICICI Lombard to expand services to new customers. As of 2011, ICICI Lombard served 2.2 million farmers across 7.6 million acres of land with weather-based crop insurance; weather-based products contributed to \$72 million, or 7.8 percent of the company's direct business.<sup>40</sup>



## #2: Transforming service delivery to increase financial access

Innovations in service delivery create more touch points between banks and customers, improving financial access. For example, several financial institutions use retail stores as new distribution channels to reach poor or vulnerable consumers. These stores serve as platforms for conducting basic transactions, as well as for providing customer service. The penetration of mobile technology in the developing world has also created an attractive platform with which financial institutions make their services more accessible to the poor. Mobile and internet banking not only bridge physical distances, but also help reduce transaction costs.

### Case Example: Equity Bank in Kenya

**Situation:** The vast majority of Kenyans had historically been excluded from formal sources of capital, such as banks and other regulated financial institutions. Equity Bank, a commercial bank in Kenya, identified several rural locations with low-income populations who could benefit from financial services. However, Equity Bank also recognized that starting a branch in these locations would not be economically viable, as they would not have enough foot traffic.<sup>41</sup>

**Approach:** The Bank devised a strategy targeting low-income clients in underserved territories through mobile banking units. Branded, armored trucks are affiliated with existing branches and provide customers with the same financial services found in normal branches, including deposits and savings, money transfers, remittance processing, and loans. This service helps to reduce congestion in Equity's existing branches and increases the bank's penetration without the added cost of a brick and mortar solution.

**Results:** Financial inclusion levels in Kenya were visibly higher due to Equity Bank's efforts. The number of Equity Bank's branches increased from 44 to 112 between 2006 and 2009, representing an expansion of 155 percent. By 2011, Equity Bank had more than 7.15 million customers—nearly half of all bank accounts in Kenya.<sup>42</sup> The business also saw phenomenal results; between 2006 and 2010, the assets of Equity Bank increased seven-fold while its customers and customer deposits increased by a factor of six.

## #3: Proactively offering financial services to companies in non-financial sectors so those companies can better serve low-income populations

Companies across sectors, such as retail, health care, and construction materials, frequently interact with a variety of unbanked or under-banked stakeholders. Consumers' lack of access to finance hinders the growth of these companies, as consumers may not be able to afford purchases. For example, a family adding a room to its home may not be able to pay for a cement purchase in a single transaction. Small and medium retailers in rural areas often lack access to credit, inhibiting them from improving their stores or purchasing stock. Financial services institutions can therefore create shared value by partnering with such companies to help them fill those gaps.

### Case Example: Grupo Martins in Brazil<sup>43</sup>

**Situation:** Grupo Martins, Brazil's largest wholesaler, distributes food, electronics, home improvement supplies, and pet food to more than 300,000 micro, small, and medium enterprises (MSMEs) in Brazil. As



large foreign retailers began entering the Brazilian market and taking share away from domestic retailers, the company realized that it needed a new strategy to maintain its market position. Grupo Martins recognized that its customers needed financial support in order to compete with new entrants. Grupo Martins did not see itself solely as a traditional distribution company, but rather as a logistics company in the business of helping its customers become more competitive.

**Approach:** Driven by the philosophy that its customers' growth would drive its own growth, Grupo Martins created a bank—Tribanco—to provide financial and management solutions to its MSME retail clients. Tribanco provides credit and non-credit services to Grupo Martins' MSME retailers, who use the service for purchases and store renovations. Tribanco also provides Tricard, a credit card for MSMEs to offer their customers, thus enabling low-income individuals to smooth their consumption. Finally, Tribanco trains MSMEs on how to check the credit worthiness of customers. Today, MSME retailers view Tribanco not merely as a traditional bank, but as an important "partner" in the success of their businesses.

**Results:** By offering credit services and training to retailers through Tribanco, Grupo Martins helped its customers remain profitable and in many cases, expand. Over half of Grupo Martins' MSME retailers reported increases in store invoicing because of Tribanco's services. Tribanco has issued approximately four million Tricard credit cards to shoppers, most of whom are first time credit card users. Grupo Martins has maintained its own growth and market presence as the distributor to these retailers. Further, Grupo Martins has also strengthened its brand loyalty because of the value-added services it offers.

#### Shared value learning questions—areas for further exploration in this sector

- How can companies sustainably develop products to help poor or vulnerable clients with low or unpredictable incomes *manage* their wealth and assets? Additionally, in what ways can companies help these individuals *increase* their wealth?
- What are some of the most effective and financially viable methods for providing financial education to poor populations? How does this vary by geography and livelihood?
- What process and technological innovations have large financial companies effectively leveraged to cover the last mile and provide access to financial services in inaccessible regions? What types of partners are best suited to provide support (e.g., NGOs, telecommunications companies, etc.)?
- What countries are technologically ripe for driving financial inclusion? What existing mobile technology and regulations in those regions can be effectively leveraged to improve financial access and financial literacy?
- Which industries (such as housing, retail, pharmaceutical, etc.) engage significantly with poor or vulnerable individuals as consumers, employees, or business partners? How can financial services companies partner with others in these industries to provide financial products to their poor or vulnerable stakeholders (for example, providing housing credit to low-income customers of housing companies)?





## Extractives and Natural Resources

The extractives and natural resources industries include oil and gas, mining, and renewable natural resources. Their scale of operations affords such companies tremendous influence, particularly in developing countries, where they often establish significant operational footprints. For example, extractives generate 40 percent of Nigeria's GDP and 80 percent of the government's revenue.<sup>44</sup>

Extractives and natural resources companies are often the largest employer, if not the largest organized entity, in areas surrounding their operations. Unfortunately, extractives firms are also frequently associated with challenges in labor relations, relocation of indigenous populations, negative environmental impacts, and other social ills. Because their operations are often located in poor areas, social issues can hinder these companies' productivity and have a material impact on operations. For example, lack of access to a healthy, well-educated workforce inhibits productivity. Labor issues can lead to strikes, violence, and closure of mining facilities, causing significant human and financial losses. The size of these enterprises, the prevalence of social issues in the areas where they operate, and the need to minimize risk due to local unrest make extractives and natural resources industries particularly ripe for shared value solutions.

Shared value is in a nascent stage within extractives and natural resources industries. To date, companies in these sectors have primarily engaged with society through charitable giving and risk mitigation programs. Many of these initiatives are designed to help companies earn a literal and figurative "license to operate" in developing areas. These efforts can create social benefits, but frequently fail to create measurable change; industry executives note that the hospitals and schools they build often lie "abandoned and unused."<sup>45</sup>

Some of the significant challenges facing companies in these industries are basic community needs, including sanitation, health care, education, and infrastructure. These issues may seem straightforward, but they are highly challenging in parts of the world where governments and other actors often struggle to create impact. By developing shared value solutions, companies in these industries can create transformative social effects while enhancing their performance and financial returns.

### Extractives and natural resources companies can leverage the size of their operations and relative importance to surrounding communities to create shared value using four distinct points of leverage:

1. Addressing social needs in communities surrounding extraction sites to enhance the competitive context of these geographies (e.g., contributing to solving a public health issue that limits the efficacy of company operations)
2. Cultivating local workforces and supplier networks to support operations in developing nations
3. Working with suppliers to maximize the output of renewable natural resources
4. Using byproducts from production to expand the scope of the business



## #1: Addressing social needs in communities surrounding extraction sites

Extractives and natural resources businesses can leverage their scale and influence in the developing world to increase the productivity of their operations. Companies that aim to improve their competitive environment develop targeted solutions to address the social problems that hinder their financial returns.

### Case Example: Marathon Oil in Equatorial Guinea

**Situation:** Marathon Oil acquired an oilfield near Bioko Island in Equatorial Guinea in 2002. After establishing its operation near Bioko Island, Marathon became the largest employer in the country. A significant challenge to Marathon's operation near Bioko Island was maintaining a healthy labor force in an area endemic with malaria.

**Approach:** Marathon worked with other stakeholders, including other companies with operations on Bioko Island and the government of Equatorial Guinea, to eradicate the burden of malaria on the island. The initiative provides indoor insecticide spraying, anti-malarial drugs, and materials to educate health providers and patients to improve the diagnosis of malaria.

**Results:** Marathon engages in rigorous evaluation of the initiative and estimates that the work provides a \$4 combined return to Marathon and the surrounding community for every \$1 invested.<sup>46</sup> As a result, Marathon has demonstrated reduced absenteeism and increased employee productivity. The work has also created substantial benefits for islanders. In only five years, mosquitos carrying malarial protozoan parasites were virtually eliminated. Furthermore, the infection rate of children under 15 dropped by 42 percent, greatly reducing the incidence of malaria on the island.<sup>47</sup>

## #2: Cultivating local workforces and supplier networks to support operations in developing nations

Extractives and natural resources companies also create shared value by developing local workforces and networks of suppliers to support their operations. Local economies benefit from the employment opportunities and from supplying extractive operations. Companies that use this strategy increase the number of skilled workers and high-quality suppliers available to support large-scale extractive operations.

### Case Example: British Petroleum in Trinidad and Tobago

**Situation:** British Petroleum (BP) has had recent and well-documented challenges regarding its societal and environmental stewardship. However, some of the company's efforts appear to be creating sustainable and positive benefits for society. For the first 40 years that BP operated in Trinidad and Tobago, the company extracted oil using offshore platforms manufactured in Louisiana, which were then shipped more than 2000 miles. BP saw an opportunity to reduce costs and spur the development of Trinidad and Tobago by manufacturing platforms in that country; the first local platform was built in 2001.

**Approach:** BP encouraged the development of two joint ventures between U.S.-based companies and companies in Trinidad and Tobago. One joint venture provided engineering and construction management services, while the other fabricated the platforms. The creation of these joint ventures



ensured that the companies that designed and fabricated the platforms possessed both the technical expertise and the deep knowledge of the country needed to produce the platforms locally.

**Results:** The first platform BP produced in Trinidad and Tobago cost nearly \$10 million more than it would have had it been produced in Louisiana. However, BP recouped this investment with the second and third locally produced platforms. BP expects its ability to source platforms in Trinidad and Tobago to generate continued cost savings over the next two decades, and the company's investments have produced positive social results as well. The fabrication facility spurred economic development in the La Brea region of Trinidad as local entrepreneurs created small businesses to serve the facility and its employees, resulting in lower regional unemployment.<sup>48</sup>

### #3: Working with suppliers to maximize output of renewable natural resources

Companies that process renewable natural resources may enhance their access to such resources by providing their suppliers with technical assistance, inputs, and financing to improve yields and outputs. These efforts can create business value for processing companies by enhancing the quality and quantity of the inputs they are able to purchase. They also create social value by increasing the incomes of supplier farmers, who, in the developing world, are often smallholders.

#### Case Example: Salala Rubber Corporation in Liberia

**Situation:** Salala, a Liberian company that grows and processes rubber, received a \$10 million loan from the International Finance Corporation (IFC) to expand its processing capacity to ten times what Salala could grow itself. While this expansion provided Salala with an opportunity to expand its business, it also made the company more dependent on third-party suppliers of raw materials.

**Approach:** To ensure access to a reliable supply of rubber, Salala partners with smallholder rubber farmers in Liberia, providing them with technical assistance and inputs to improve the quality and quantity of their rubber output. Salala also provides these farmers with credit to help them expand their operations.

**Results:** Salala's efforts provide financial support to an estimated 1,800 smallholder farmers, 4,000 farm workers, and more than 20,000 dependents and family members. By working with smallholder rubber farmers, Salala improves the supply of its most critical raw material while enabling smallholder farmers to increase their output and, as a result, their incomes.<sup>49</sup>

### #4: Using byproducts from production to expand the scope of the business

Companies can use byproducts from the extraction or processing of natural resources to expand the scope of their business or to create new products while minimizing the environmental impact of their operations. Extraction and processing frequently generate byproducts that can be expensive to dispose of in ways that meet increasingly stringent environmental standards. Companies can save on disposal costs, become environmental stewards, and create new business opportunities by using those byproducts to create economic value. Although environmental/energy initiatives may not specifically target or exclusively benefit poor or vulnerable populations, minimizing the negative impact of production benefits poor or vulnerable populations, particularly when such initiatives primarily affect local residents.



While this practice is fairly nascent, technological advances, strengthening of environmental standards, and enhanced interest in shared value may lead more companies to adopt this practice.

### Case Example: Arauco in Chile

**Situation:** Arauco, a Chilean forestry, pulp, and wood products company, generates a substantial amount of forest residue and byproducts by processing timber. Additionally, Arauco's operations are very energy intensive. In 2010, Arauco would have consumed more than 4 percent of the energy flowing through Chile's grid had it not generated its own power.<sup>50</sup> The company sought to develop a way to convert forest residue and byproducts into electricity, saving on both disposal and electrical costs.

**Approach:** Arauco uses forest biomass, a renewable source of energy generated from the company's forestry, pulp, and wood products operations, to produce steam and electrical power. The company is self-sufficient with regard to electricity and sells excess electricity back to the Chilean power grid.

**Results:** Arauco did not pay for electricity in 2010 and actually generated revenue by selling enough surplus electricity back to the grid to supply 500,000 residential users.<sup>51</sup> Arauco considers energy to be an important extension of its business beyond forestry, pulp, and wood products, and it has diversified its business by creating a unit dedicated to energy. This business unit explores opportunities to expand the company's energy production and is beginning to develop wind farms on company-owned land.<sup>52</sup>

### Shared value learning questions—areas for further exploration in this sector

- How can a company with a long history of local philanthropy educate stakeholders about the long-term advantages of shifting toward shared value solutions?
- How can governments of nations housing large-scale extractives and natural resources operations most effectively encourage companies to adopt shared value solutions (e.g., through incentives, financing, or other means)?
- How can extractives and natural resources companies strengthen local infrastructure (e.g., health and education) in ways that are sustainable over the long term and do not require perpetual investment? When and how can companies transition financial and managerial responsibility for those efforts to municipalities or government agencies?
- In isolated localities, where an extractives or natural resources company may be the only major actor in the area, how can such companies break through the expectations that they must resolve social challenges on their own? What is the best way for companies to cultivate independent community-based organizations that can accelerate regional development? How can companies most effectively partner with international aid organizations and development banks to address social problems?
- How can companies in the oil and gas, mining, and natural resources industries develop additional methods for using the byproducts created by their operations to generate economic and social or environmental value?
- In what regions would working with suppliers of renewable natural resources to improve their productivity create the greatest impact? What factors inhibit production in each of these areas, and how can these most effectively be addressed?



## Housing and Construction

### Housing

A home, particularly for low-income populations, represents much more than a roof overhead. A physical and stable address influences a household's access to sanitation and safety, as well as access to finance, social stature, and the upward mobility of future generations.<sup>53</sup> Additionally, owning a home can be a productive wealth-building asset. However, availability of affordable housing at scale remains a challenge, particularly in developing countries. Barriers to affordable housing include the following.

- *Lack of affordable housing supply.* Due to rapid urbanization, half the world's population is now living in urban areas.<sup>54</sup> However, many cities are ill-prepared to address the increase in housing demand, causing housing deficits. The supply-demand mismatch has led to higher prices that push low-income residents out of the housing market. Additionally, high-quality and affordable rental options are limited, forcing low-income residents to live in slums or tenements (semi-formal rentals that are essentially vertical slums), which have poor sanitary conditions and unsafe structures.
- *Lack of financing options for low-income housing.* Historically, the vast majority of housing finance activity has focused on the middle- and high-income segments of the formal market, since low-income and especially informal sector households are deemed high risk and too expensive to serve.<sup>55</sup>
- *Lack of training and affordable construction materials for the self-building market.* One of the consequences of being ignored by large real estate companies and financial institutions is that 80 percent of affordable housing is self-built and self-financed. Poor or marginalized communities that address their own housing needs through self-building or incremental-building have to deal with high costs of key inputs, particularly land and construction materials. They also lack formal training in construction, which makes self-building unsafe and more expensive.

In spite of these barriers, the affordable housing market has significant business potential. Total spending on housing (which includes rent, mortgage payments or imputed rents, repairs, and other services) by consumers living at the base of the pyramid in Asia, Africa, Eastern Europe and Latin America was \$332 billion as of 2005.<sup>56</sup>

### Construction

Emerging economies such as China, Brazil, and India are seeing growth in construction output and employment. Construction is one industry where job opportunities are available for those with little education or skill.<sup>vi</sup> In developing countries, construction workers typically belong to disadvantaged sections of society. Currently, there is a growing shortage of laborers available to undertake vocational trades and other physical jobs. The cyclical pattern of construction outputs adds to the problem—few companies want to invest in training during a recession, yet few have time to train during a boom.<sup>57</sup> Governments often do not fill this void because they lack resources and proper vocational training facilities. Additionally, these jobs are sometimes perceived as less privileged and therefore do not garner

<sup>vi</sup> This paper defines construction as residential/non-residential building as well as civil or heavy engineering construction.



respect. Lack of skilled workers makes it difficult for companies to deliver quality products in a timely and efficient manner, and increases the probability of accidents at construction sites.

**Companies in the housing and construction sector can create value for both business and society by addressing these barriers. Some of the most promising points of leverage to create shared value include:**

1. Improving the supply of affordable housing by developing creative business models that lower the cost of housing units
2. Providing appropriate financing to qualified low-income individuals for new homes by innovating customer risk assessment processes, distribution models, and collection mechanisms
3. Providing complementary value-added services along with construction materials (e.g., cement) to self-builders; examples of such value-added services are access to credit, training on product use, and home delivery of products
4. Developing the technical and life skills among low-income, unskilled populations and equipping such people to be employed by the construction industry

### **#1: Improving the supply of affordable housing by developing creative business models that lower the cost of housing units**

Real estate developers and housing construction companies can lower the cost of housing units by using alternative materials and construction techniques. Creating affordable housing is not a simple question of downsizing a model targeted at middle-income populations. Rather, it requires a deep understanding of the target market's preferences and creativity to identify possible ways to reduce costs.<sup>58</sup> For example, companies can reduce land costs by finding a partner who can contribute land as equity or by partnering with government to obtain land at a concessionary rate. They can reduce labor costs by hiring locally. Companies are expanding their presence in new markets while providing access to housing for low-income populations.

#### **Case Example: Moladi in South Africa<sup>59,60</sup>**

**Situation:** Moladi, a South African family-owned business, identified affordable housing challenges when serving the poor, including lack of resources, lack of skilled labor, time constraints, and insufficient waste management. Moladi developed a new building material technology to alleviate the cumbersome and costly aspects associated with conventional construction methods without compromising structural quality or integrity.

**Approach:** Moladi designed an alternative construction material and technology that offers affordable housing to poor or vulnerable consumers in South Africa and other developing countries. The company developed a removable, reusable, recyclable, and lightweight plastic formwork mold, which is filled with aerated mortar and can form the wall structure of a house in as little as one day. Each set of Moladi formwork panels can be reused 50 times, making the technology cost effective and reducing the cost of construction and transportation significantly. These molds can be transported to any part of the world, and



building them does not require electricity. The Moladi construction method was designed to allow for an unskilled team of people to follow Moladi's optimized, repetitive, and sequential process of building.

**Results:** Although Moladi is a family-owned business and does not disclose financial information, this building material is Moladi's primary product and the core source of economic value for the company. Moladi is also expanding its formwork mold in several countries. Approximately 95 percent of its sales are exports to other developing countries, including Ghana, Sierra Leone, Nigeria, Mexico, and Tanzania. In addition to providing access to affordable housing, Moladi's unique construction process creates employment opportunities for unskilled laborers, who make up more than 90 percent of the construction team on a Moladi housing site.

## #2: Providing appropriate finance to qualified low-income individuals for acquiring new homes by innovating customer risk assessment processes, distribution models, and collection mechanisms

Companies can sustainably provide housing finance to low-income populations by improving efficiencies in their processes and delivery mechanisms. Housing finance companies can partner with organizations that provide access to large volumes of clients to reach out to potential low-income customers. For example, member-based organizations such as microfinance institutions or driver labor unions can provide access to large numbers of low-income clients. Housing-finance companies can become more efficient by leveraging the large number of similar clients to standardize their processes.

### Case Example: Micro Housing Finance Corporation (MHFC) in India

**Situation:** Informal workers in India, such as barbers and housemaids, often earn relatively sizable incomes yet live in slums or illegal tenements. Such individuals may have bank accounts, but often they do not have any consistent proof of income such as salary slips. Since documentation has traditionally been a prerequisite for mortgage lending, informal workers largely have been excluded by finance companies and, ultimately, from the housing market. MHFC was started with the belief that mortgage finance to the poor can be commercially viable.

**Approach:** MHFC provides micro-mortgages to the urban poor, specifically those employed in the informal sector. By developing a credit model that is capable of assessing their incomes and understanding the risks associated with lending to this segment, MHFC is able to offer a high quality, competitive mortgage loan product to the unorganized sector. MHFC's loan officers spend time with each individual customer to assess their ability to meet monthly mortgage payments and to verify specific information. This helps MHFC better understand and evaluate risk. MHFC also has flexible documentation requirements, and partners with self-help groups to reach potential customers. MHFC has also partnered with developers such as Tata Housing, who have a shared vision of providing high-quality, low-cost homes at affordable and competitive prices to low-income families in urban India.

**Results:** MHFC provides loans to low-income, urban families who have been traditionally excluded from the mainstream banking sector. MHFC's customers include self-employed micro-entrepreneurs (e.g., vegetable vendors, barbers) and other informal sector workers (e.g., drivers, housemaids), earning combined household incomes of \$150 to \$450 per month. Since MHFC is a relatively new start-up, it has



yet to demonstrate profitability. However, its loan portfolio has increased from approximately INR 4 crore (\$800,000) in 2010 to INR 29 crore (\$5.8 million) in 2011.<sup>61</sup> MHFC's business model is designed to achieve business and social impact at a large scale.

### #3: Providing complementary value-added services along with construction materials (e.g., cement) to self-builders; examples of such value-added services are access to credit, training on product use, and home delivery of products

Complementary services can make construction material more affordable and accessible for low-income consumers. Providing complementary services can also serve as a unique differentiator and allow companies to gain market share in low-income markets. The needs and circumstances of self-builders may differ from region to region, and it is important for construction material companies to invest time and resources to understand these unique needs. Employees of companies that have successfully created shared value through this strategy have conducted research by interacting directly with self-builders or even living in poor neighborhoods to understand distinct local needs.

#### Case Example: Holcim Apasco in Mexico

**Situation:** Holcim Apasco, a cement manufacturer in Mexico, was looking for a way to differentiate itself in the cement business. At the same time, Holcim recognized that approximately 36 million people in Mexico experienced housing problems that ranged from overcrowded homes to houses built with poor construction materials, such as cardboard roofs. Holcim noted that 60 percent of the cement produced in Mexico was used to build houses and that the majority of all houses were built by a household member. Holcim specifically designed the Mi Casa program to capture the low-income self-builder segment.

**Approach:** With support from top management, Holcim Apasco conducted a pilot study and concluded that the self-builder market primarily comprised people with informal jobs earning irregular wages. This segment would often develop houses in a progressive manner, repairing or adding one room at a time. Holcim found that consumer needs went beyond cement and included easy access to materials at affordable rates and knowledge of how to build a safe and comfortable house. Holcim Apasco identified local distributors to become Mi Casa retailers. Since these retailers were physically close to low-income self-builders, the company bypassed two to three distributors and kept the prices more affordable. Holcim partnered with a local bank to provide micro-credit to the self-builders. Holcim also trained its Mi Casa retailers to give advice to self-builders on home building techniques and developed software to support structural design. Mi Casa retailers use the software to provide customers with a computerized blueprint of the house along with a list of materials required. Holcim also created awareness campaigns on topics such as "how to build a room." Finally, Holcim Apasco invested in training small retailers on inventory management, finance, and other business techniques to elevate their business skills.

**Results:** Holcim Apasco has a retail network of 3,000 retailers in Mexico, of which 1,100 participate in Mi Casa. Because of this strategy, Mi Casa retailers today represent 70 percent of Holcim Apasco's retail sales.<sup>62</sup> The company has provided over 275,000 technical consulting services for self-builders during the last four years, contributing to the construction of more than 110,000 houses.<sup>63</sup> Mi Casa retailers also benefit because of the training provided. For example, during the economic crisis, retailers not affiliated with Mi Casa saw their business decline by 15 percent. Mi Casa retailers, however, lost only 1 to 2





percent of their business. Holcim considers Mi Casa to be an integral part of its core business, and it plans to expand the program to all its retail outlets. Through Mi Casa, Holcim is leveraging its brand and innovation in service delivery to better serve poor or vulnerable customers and improve standards of living.

#### #4: Developing the technical and life skills of low-income, unskilled populations and equipping them to be employed by the construction industry

Construction companies can create shared value by providing skills development programs to help unskilled low-income populations join the sector's formal workforce. Companies that use this strategy successfully incorporate incentives that encourage trainees to complete the training and establish a career in the construction industry. Such an investment in the value chain enables companies to plug current and future shortages of skilled labor and gain a long-term competitive edge. Sample skills include:

1. **Technical skills**, i.e., skills that are specifically required while working at construction sites, such as carpentry, drilling, welding, assembly, and other vocational skills
2. **Life skills**, i.e., skills that help prepare trainees for employment, such as professionalism, communication, etc.

#### Case Example: Guangsha Construction in China<sup>64,65</sup>

**Situation:** Guangsha, the largest non-state-owned construction company in China, began exploring the possibility of training its migrant workers. This initiative was precipitated by an increase in on-site accidents that largely occurred because of workers' technical ignorance and lack of training.

**Approach:** In 2000, Guangsha invested RMB 30 billion (\$3.65 billion at the time) to establish its own tuition-free schools. The scale of investment is noteworthy, as most construction firms do not maintain long-term relationships with their primarily informal sector workers and have little incentive to invest directly in their skills. Guangsha Construction engages rural migrants in China as semi-permanent day laborers, on a project-by-project basis, and grants contracts to those who receive training. To be awarded a certificate and gain a contract, workers must pass four exams that focus on legal, technical, and safety topics. Similarly, workers who stay with Guangsha are able to progress up the skills ladder on a project-by-project basis as they receive successively higher levels of training.

**Results:** In its first five years of operation, Guangsha put more than 750,000 workers through its schools. The company retraines these employees annually or when they start new contracts, and employees have the opportunity to earn permanent, full-time positions—a level of stability usually reserved for higher-level jobs such as project managers. Since Guangsha's training program is driven by labor needs at the company's construction sites, the high volume of graduates demonstrates that this program is filling a critical need for Guangsha's growing demand for skilled labor.



### Shared value learning questions—areas for further exploration in this sector

- What alternative technologies and business models are large housing companies pursuing to sustainably provide affordable housing to low-income segments?
- What criteria are most effective in assessing the credit worthiness of low-income individuals to ensure that they are not overstretched to repay housing loans?
- What new credit products can housing-finance companies create for low-income home buyers?
- How can large companies better equip self-builders to create structurally sound and financially feasible homes (e.g., providing easy access to credit, delivering construction material, providing technical training, etc.)?
- What effective and financially sustainable business models can construction companies leverage to develop low-income individuals' skills at scale?
- Beyond skills development, what other social issues are construction companies most effectively positioned to address through their business strategies (e.g., urban or rural infrastructure development)?

## 4. Designing Effective Shared Value Strategies

Finding a suitable business solution to a social problem is not enough to ensure a successful shared value strategy. This chapter explores the key factors that help set up strategies for success.

**Key research questions:** To what degree do intentionality and materiality contribute to the success of shared value strategies? What opportunity costs are associated with shared value strategies?

Shared value strategies are most effective when leaders define precise goals intended to create meaningful returns to the business. Companies must weigh the opportunity costs of allocating resources to shared value strategies and evaluate these solutions against other possibilities.

### High levels of intentionality are essential to defining successful shared value strategies

Shared value solutions are intentional when company or business unit leaders set specific goals for the social and financial benefits to be achieved in pursuing a given strategy. As with any business strategy, strong intentionality ensures that key internal and external stakeholders share common visions for success and have clear guidelines that can guide resource allocation decisions along the way. Marathon Oil's effort to eliminate malaria on Bioko Island shows the importance of intentionality to shared value solutions. Marathon and the other stakeholders have a clearly defined goal—eradicating the burden of malaria on Bioko Island. The clarity of this goal has provided guidance for the initiative's strategy and actions, which have greatly reduced the incidence of malaria on the island. See page 32 for additional details regarding Marathon's work on Bioko Island.

**Carefully defined goals drive greater business and social results.** In some cases, good intentions may not always result in good practice. Often, poorly designed goals can encourage behavior that leads to unintended consequences.

Companies and their NGO, private, and public sector partners must define "success" in terms of societal value creation very carefully and develop hypotheses about how their investments will create different outcomes. For example, the microcredit industry was a compelling shared value industry in theory, creating benefits for both credit institutions (microfinance institutions and banks) and society (borrowers). Yet in multiple cases, microcredit destroyed value and livelihoods. The social problem that microcredit actors targeted was, in retrospect, not always defined appropriately. Often, the problem was defined as "not enough poor people have access to credit." This inherently meant that success could be defined by the number and value of loans distributed, but those metrics reflected high-level outputs and not necessarily a desired social impact. Had companies defined the problem as "not enough entrepreneurs have access to appropriate growth capital," they would have defined success as borrowers' ability to expand their enterprises (e.g., microenterprises or farms), increase their revenues, and potentially enhance their standards of living. In this case, appropriate credit would have gone only to enterprises that could effectively apply it to building sustainable growth. Success measures would have included the increase in assets or cash flow generated by borrowers, not the number of borrowers reached or value of loans disbursed.

**Several conditions enable companies to successfully create and implement shared value strategies.**<sup>66,67</sup>

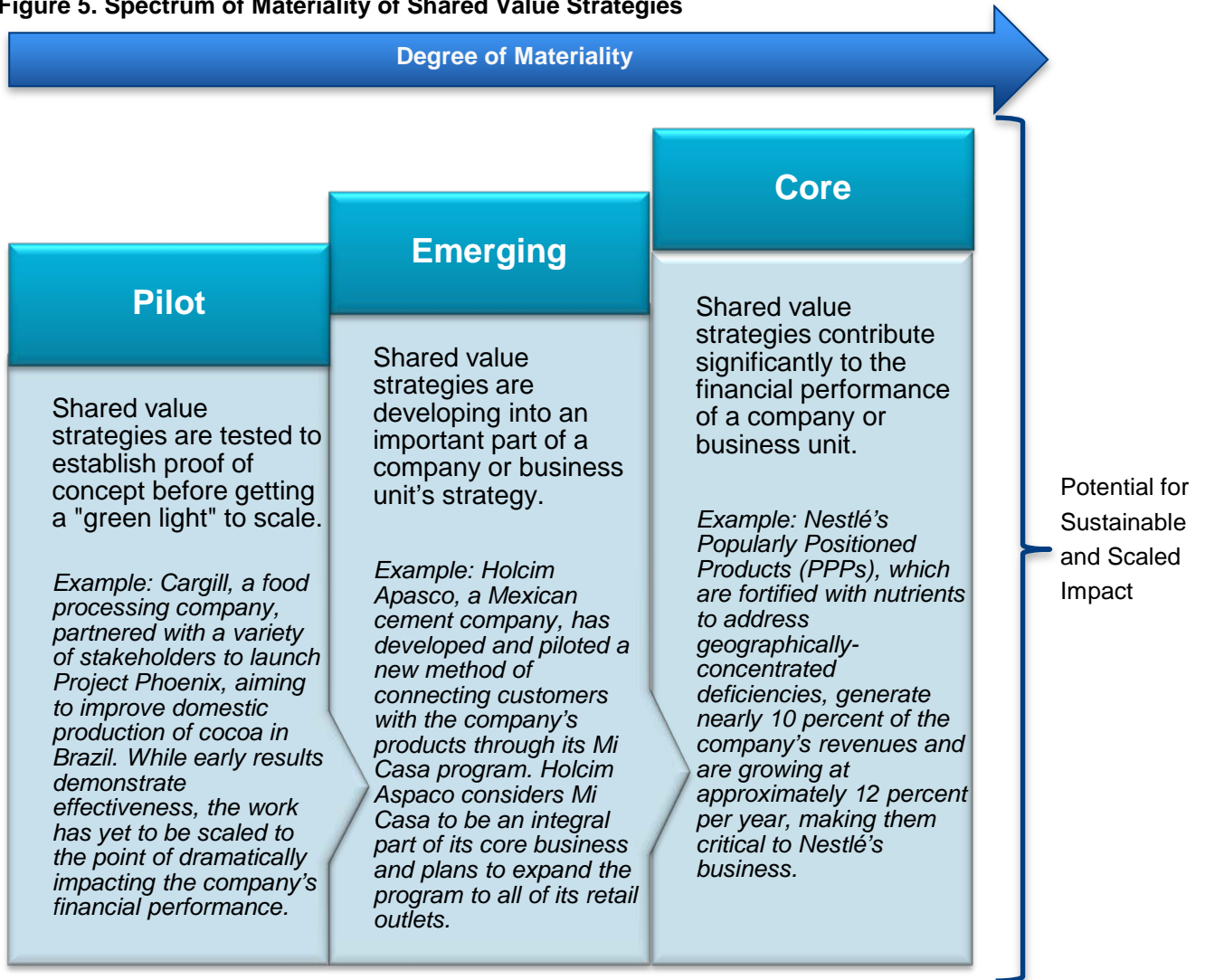
- ✓ **Culture of innovation:** A corporate culture that is conducive to seeding new ideas will encourage employees across departments to experiment with new strategies for growth.
- ✓ **Supportive top management:** Senior leaders, particularly the CEO, are critical to encouraging shared value thinking, setting the tone, and unleashing the energy and creativity of the entire firm.
- ✓ **Engaged local management:** Strong buy-in and leadership are essential at the business unit and country affiliate levels, as they often execute shared value strategies and best understand local conditions.
- ✓ **Cross-department buy-in:** Shared value strategies require support from all relevant company departments to truly integrate the work into day-to-day operations (e.g., into product development, sales, and marketing).
- ✓ **Focus on long term success:** Leaders who take a “long view” with shared value strategies have the patience to see beyond short term challenges and embrace the possibility of longer-term benefits.

### A high degree of materiality increases the likelihood that management will provide ongoing support for a shared value strategy over time

Materiality represents the extent to which a particular strategy is central to the financial performance of a business unit or company; shared value strategies become more material as their contribution to a company’s overall performance grows. Strategies material to the business often command more managerial attention and resources than small or sub-scale programs, making them more likely to succeed over the long term.

The materiality of a given shared value strategy can be considered as following a continuous spectrum from pilot to emerging to core (see Figure 5). As shared value strategies grow in size, they become increasingly important to the overall business, increasing the likelihood that the strategies will be scaled and sustained over time. The greater the materiality, the more thought leadership and resources will be allocated to the shared value strategy. A higher level of materiality also increases the likelihood that a given strategy will be maintained after changes in leadership or shifts within a company’s social responsibility portfolio.

Figure 5. Spectrum of Materiality of Shared Value Strategies



For further information on Cargill's Project Phoenix work, Holcim Apasco's Mi Casa program, or Nestlé's PPPs, refer to pages 19, 38, and 59, respectively.

### As with other business decision-making efforts, corporate leaders must consider the opportunity costs associated with shared value investments

Opportunity costs are not unique to shared value initiatives; indeed, companies must always make trade-offs when making strategic decisions and allocating resources.

**A portfolio approach can enable companies to absorb opportunity costs commonly associated with shared value efforts.** Many business leaders make choices about opportunity costs within the context of a complementary set of strategies. Some components of the portfolio will have higher risk profiles than others, each representing different strategic motivations (e.g., desire to move into a new market or increase market share in a current market). By adopting a portfolio management approach, companies are able to address opportunity costs commonly associated with shared value strategies.

- **Higher-volume products and services may offset lower-margin strategies:** As with the development of any business strategy, a company may pursue a shared value strategy that falls below a standard minimum rate of return in the short term if leaders believe that volumes will compensate or that margins generated by the strategy will likely increase over time. Britannia's Tiger product line, which is formulated to address childhood anemia, returns a lower margin than the rest of the company's products but has been the company's largest product line by volume for nearly 15 years. These strategies can be especially effective when used in conjunction with other strategies designed to generate lower volumes but higher margins. Such an approach enables companies to capture greater market share and potentially protect the business from economic volatility.
- **Companies may balance heavy up-front investments against other strategies that return short-term gains:** Shared value solutions, particularly those that improve a company's competitive context, can be expensive to develop. These solutions may require several years to generate significant economic value. As with lower-margin solutions, shared value strategies with a long-term orientation are an important component of a balanced strategic portfolio. Companies can offset strategies with long payback periods with other strategies that capitalize on more immediate opportunities, positioning the company for both short-term and long-term success.

Companies can leverage philanthropy or other external sources of funding to reduce the opportunity cost of strategies that push the boundaries of the "shared value frontier" (see page 11 for additional discussion of the shared value frontier). For example, Yara has worked with an array of stakeholders to develop agricultural corridors in Africa, including securing \$200 million of targeted financing from Norfund, the African Development Bank, the World Bank, and other sources to support agricultural growth corridors in Africa.

A level of uncertainty and risk is always present whenever business leaders create new approaches and develop projections for future financial impact (with or without shared value strategies). However, over time, these strategic initiatives may represent smart competition. In some cases, accepting lower margins in the near term may help companies diversify away from highly competitive and maturing markets and toward emerging markets. For example, GlaxoSmithKline has made expanding its sales volume and market share in developing countries a priority. Although sales in such nations are lower margin than sales in the developed world, the potential for increased volumes and margins as these companies develop could pay off significantly in the long run. While its competitors may be competing with one another to achieve short-term results in today's more profitable markets, GSK is fortifying its position to compete in emergent markets over the long term.

High levels of intentionality and materiality are the cornerstones to a strong shared value strategy, and balanced portfolios can enable companies to view these strategies as viable when opportunity costs arise. Careful consideration of the problem, potential interventions, and anticipated outcomes, when coupled with resources and leadership, can position companies for long-term success.

## 5. Unlocking Greater Shared Value Through Measurement

Regularly collecting and analyzing targeted data can help business leaders identify ways to further refine their shared value efforts, driving greater social and financial returns.

**Key research questions:** How can companies use measurement practices to enhance shared value strategies and demonstrate financial and social results?

Just as developing a shared value strategy is specific to the context of a given company, choices regarding how to measure progress and results will be driven by the particular leverage points the company decides to pursue.

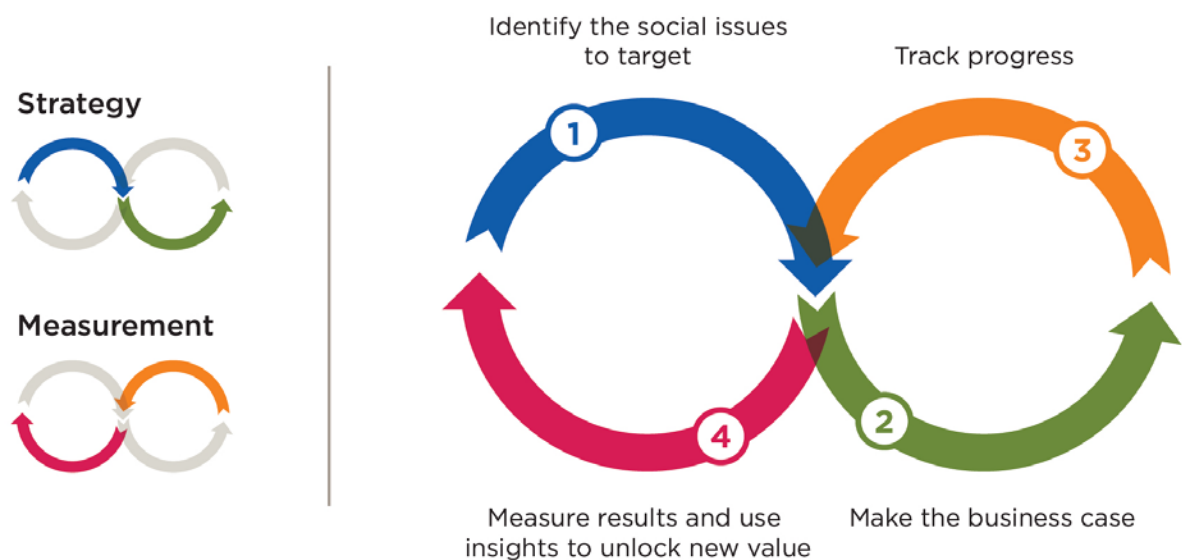
**To maximize shared value, measurement must focus on the *interaction* between business and social results**

To effectively deliver on shared value strategies, companies need shared value measurement tools that track progress, analyze results, and yield actionable data and insights. However, today's companies lack the systems and tools to adequately gather such data and therefore make decisions without critical information—leaving significant value on the table.

While companies currently report on a range of financial, social, and environmental results, they rarely analyze the explicit linkages between social and environmental efforts and related financial impact. This prevents companies from realizing the full potential of a shared value strategy—understanding how progress on social results drives business results and, in turn, unlocking additional value creation.

**Effective use of data requires an iterative process integrating business strategy with measurement.** Creating an ongoing feedback loop generates insights that companies can apply to their shared value strategies. An iterative process includes two strategy steps and two measurement steps.

**Figure 6. Integrating Shared Value Strategy and Measurement**



The case studies in this paper presented several examples of the ways in which companies move through the first three steps—identifying social issues to target, making the business case, and tracking progress. Companies unlock new value from insights when their leaders seek to understand return by examining how well the outlay of corporate resources and activities leads to changes in social outcomes and business performance. Identifying direct linkages between social and business results means identifying the key activities that drive social and financial success, and determining how to expand them to further benefit the company and its beneficiaries. While many companies adeptly track progress against desired goals and targets (Step 3), few companies truly validate the link between social and business results (Step 4).

Coca-Cola's Coletivo effort offers a strong example of how measurement can maximize the potential of a shared value strategy.

### Integrated Shared Value Process Steps and Coca-Cola's Approach to Coletivo

| Integrated Process Step                                                                                                                                                                                                                                                                                                                                     | Coca-Cola Approach                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Step 1: Identify the social issues to target.</b> The starting point for shared value is identifying and prioritizing specific social issues that represent opportunities to increase revenue or reduce costs.</p>                                                                                                                                    | <p>After six months of studying the needs of Brazil's growing lower middle class population, Coca-Cola identified skills development among low-income youth as a core social issue for strategic focus.</p>                                                                                                                                                                                                                                           |
| <p><b>Step 2: Make the business case.</b> The next strategy step is to develop a solid business case based on research and analysis of the social issue(s) and to identify goals and targets.</p>                                                                                                                                                           | <p>The Coletivo initiative partners with local NGOs to train youth for two months in retailing, business development, and entrepreneurship. Coca-Cola hypothesized that small retailers could significantly improve their operations with trainee assistance, resulting in increased sales of Coke products.</p>                                                                                                                                      |
| <p><b>Step 3: Track progress.</b> Using the business case as a roadmap, companies then track progress against the desired goals and targets.</p>                                                                                                                                                                                                            | <p>Supervisors in Coletivo communities measure and report progress on a monthly basis and the company closely monitors expenditures to drive efficiency within the program.</p>                                                                                                                                                                                                                                                                       |
| <p><b>Step 4: Measure results and use insights to unlock new value.</b> The final step focuses on validating the achievement of, and link between, anticipated social and business results. It also focuses on understanding return—how well the outlay of corporate resources and activities creates desired social outcomes and business performance.</p> | <p>Coca-Cola uses the data tracked against four key indicators to assess overall results: 1) youth job placement; 2) youth self-esteem; 3) company sales; and 4) brand connection. Measurement by region, community, and model has allowed Coca-Cola's managers to identify and focus on the most effective approaches and interventions, including adding training on "soft" skills of youth and increasing leadership capacity of NGO partners.</p> |



As Coca-Cola developed the Coletivo program, data suggested that self-esteem challenges prevented technically capable students from finding jobs and being effective workers. Coca-Cola therefore modified its training content to include a greater emphasis on soft skills such as leadership and presence. Measurement data also revealed that the strength of the local NGO acting as an implementing partner was critical to success. As a result, the company helped NGO partners build sustainable sources of funding and strengthen leadership and management capabilities. This resulted in improved retailer performance and bolstered Coca-Cola's brand connection across Coletivo communities, ultimately leading to higher product sales.<sup>68</sup> For further details regarding the Coletivo program, see page 20.

### Results of shared value measurement can help managers optimize shared value created and can provide a direct line of sight for investors

More is not necessarily better when it comes to collecting and analyzing shared value data. Before implementing a shared value strategy, businesses should understand what information related to key activities and outcomes is most likely to optimize the strategy's effectiveness. Depending on the company's unique shared value approach, intended business results may range from increases in sales to changes in the cost of operations. Social results will also vary depending on the shared value strategy that companies employ. For example, Novo Nordisk used data on diabetes diagnosis rates and product sales to refine its physician training programs in China and generate incremental value. Companies that seek to improve access to quality inputs, such as Cargill and its support of Project Phoenix, might examine factors such as increases in farmer yields and livelihoods and related prices, volume, and quality of inputs to determine what elements contribute most to success.

Results of shared value measurement can provide investors with a direct line of sight to business value, reducing skepticism about the economic value created by companies' engagement with social issues. While numerous studies have sought a positive correlation between sustainability efforts and stock price, research findings have been contradictory and the challenge of distinguishing causality from correlation remains. Measuring shared value reveals direct and tangible business value accrued to the company, sidestepping the indirect nature of statistical correlations that do not pinpoint specific activities that create value. Such data can help investors understand the real value being created for the company and society and increase ongoing support from this key set of external stakeholders.

For further details regarding the ways companies can use measurement to increase shared value creation, please see the upcoming FSG report, "[Measuring Shared Value](#)."<sup>vii</sup>

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<sup>vii</sup> This report will be published in October, 2012.

## 6. Catalyzing Shared Value

Multinational corporations have real opportunities to address social problems sustainably and at scale through their core operations. However, corporations need not try to catalyze change alone. This conclusion raises the question: “How might external stakeholders catalyze shared value strategies?”

### External stakeholders can play critical supporting roles in identifying and implementing shared value strategies.

External stakeholders can push the boundaries of the shared value frontier to encourage companies to act against specific market failures. Beyond receiving funds or other support through corporate philanthropy, outside actors can increase the scale and sustainability of social programs by co-creating shared value solutions alongside corporate partners. Stakeholders can catalyze shared value by:

1. **Setting context:** Stakeholders—including governments, industry associations, and advocacy organizations—can shape the environment within which companies conduct business. Influence may occur through refining regulation, guidelines, infrastructure, and/or cultural norms and expectations. As noted earlier, the Indian government helped make ICICI’s weather insurance business viable by paying ICICI to expand its services (see page 28 for more details on ICICI).
2. **Providing information and insight:** Local non-profits are well positioned to conduct market research or offer expertise on populations or issues where companies may have limited experience. When developing the Bioko Island Malaria Control Project, Marathon Oil partnered with Medical Care Development International (MCDI). Malaria treatment and control is a core intervention area for MCDI; through prior work in areas such as Belize, MCDI brought issue-specific knowledge to the Bioko Island effort (see page 32 for more details on Marathon Oil).<sup>69</sup>
3. **Supporting implementation:** Stakeholders may directly support the development or execution of shared value strategies, helping to fill gaps in a company’s implementation capabilities. For example, effectively reaching consumers in rural villages can be a significant hurdle for companies that lack a sufficient local presence. To improve the effectiveness of its Arogya Parivar effort, Novartis worked closely with village leaders and leveraged local NGOs to provide health education to village residents (see page 24 for more details regarding Novartis).
4. **Providing funding and other incentives:** Governments, philanthropic funders, and multilateral agencies can provide resources to launch and scale shared value strategies. Norfund, the African Development Bank, the World Bank, and other stakeholders played a significant role in collaborating with Yara to develop agricultural growth corridors in Africa, including providing approximately \$200 million (see page 60 for more details regarding Yara). Stakeholders can also foster measurement approaches that facilitate accountability for achieving shared value goals.

Stakeholders may play one or several of the roles noted above. Specific stakeholder roles will depend on the unique needs of shared value strategies and can be developed through transparent cross-stakeholder dialogue. The following questions can frame discussions on potential stakeholder roles.

*If you represent a...*

|                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Civil Society Organization, such as an NGO or Advocacy Group</b></p> | <ul style="list-style-type: none"> <li>• When thinking about critical issues facing our poor or vulnerable constituents, what opportunities exist to work with companies that are uniquely positioned to create large-scale impact? What information or insights could we provide?</li> <li>• Could we help a company with implementation, making it more likely that the company would be willing to engage on the issue?</li> <li>• Could our beneficiaries become productive members of a company's supply chain? What skills or resources could be honed to meet corporate demands at a competitive rate?</li> </ul>                                                                                          |
| <p><b>Foundation, International Aid Agency, or Social Investor</b></p>     | <ul style="list-style-type: none"> <li>• In the sectors and geographies where we focus, what market failures affect poor or vulnerable populations? Could we provide resources (funding, incentives, market insights, policy change) that might increase the likelihood that companies would take on these challenges?</li> <li>• How might we leverage our networks to bring appropriate partners to the table to support shared value efforts?</li> </ul>                                                                                                                                                                                                                                                       |
| <p><b>Public Sector or Government Agency</b></p>                           | <ul style="list-style-type: none"> <li>• What pressing social issues might companies be well positioned to tackle? How could we use public policy to spur activities in particular sectors or on specific social issues (e.g., tax breaks, regulations, etc.)?</li> <li>• How could our local, regional, state, and national ministries or departments tasked with addressing social problems develop explicit strategies for partnering with the private sector?</li> <li>• What government data on social issues could we share with corporations to inform their shared value strategies?</li> <li>• How could our public sector resources be used to scale up innovative shared value initiatives?</li> </ul> |
| <p><b>Social Enterprise or Other Private Sector Stakeholder</b></p>        | <ul style="list-style-type: none"> <li>• How could a large company scale up our innovative and effective products or services?</li> <li>• What companies might be a good match for increasing the scale of our work? How could we approach them to consider a partnership?</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                             |

**Asking these questions may require business leaders and external stakeholders to shift their mindsets about how they engage with each other.** For example, NGOs may offer deep on-the-ground understanding and abilities to support last-mile delivery. Business leaders could proactively identify potential nonprofit partners as part of a shared value strategy, while NGO leaders could reach out to relevant companies where mutual interests or expertise may be strongly aligned. Businesses, government, and civil society should work together to develop and implement innovative and practical private-sector solutions while ensuring a careful balance between economic and social benefits.

## Conclusion

Creating shared value is not a one-stop solution for all social challenges. However, it does present extraordinary opportunities for businesses to shift the paradigm through which they approach strategy, help alleviate social problems, and build long-term competitive advantage. Companies that have already embarked upon this journey have gained first-mover insights and benefits from their early engagement with low-income consumers, suppliers, and partners. External stakeholders have also found ways to make it more viable for companies to take on social issues that affect poor or vulnerable populations. We hope this paper inspires more companies and organizations to catalyze shared value efforts, and we invite readers to contribute to the ongoing dialogue by starting conversations with current colleagues and potential partners.

## Appendix A: Definition of Impact Enterprises

The William Davidson Institute, in conjunction with other grantees supporting Rockefeller's investigation into impact enterprises, developed a set of core elements to define what is meant by "impact enterprise."

Impact enterprises should demonstrate each of the following elements.<sup>70</sup>

- ✓ A clear *organization*, whether a business unit or an entire enterprise, should support a particular effort in order to drive accountability.
- ✓ The effort should demonstrate *intent* by clearly articulating the desired social goals; this requires identification of a clear *target population*.
- ✓ *Financial returns* resulting from transactions with the target population or their partners should at least cover operating costs (and these costs can be supported via grants or subsidies). The enterprise must also provide a *social return*, or overall net positive benefit with meaningful impact on the well-being of the target population.
- ✓ The enterprise should intend to *scale* its effort by expanding impacts within existing markets or entering into new markets.
- ✓ Understanding *causality*, or the specific ways in which the business strategy creates financial and social impact, is critical to fine-tuning a program and increasing success.

FSG selected and reviewed case examples with these elements in mind.

## Appendix B: External Conditions

### External conditions that enable shared value creation

A company's external environment can provide enabling conditions for shared value creation. These are described below.

**Favorable government programs that involve the private sector.** Governments that are open to private sector participation in socio-economic development create a platform for shared value. For example, the Reserve Bank of India's "priority lending" rule states that 40 percent of a private bank's net credit must be given to the sectors deemed high priority for development, including lending for agriculture, micro and small enterprises, micro-credit, education, and housing. For further resources related to policy design and analysis, see "[Impact Investing: A Framework for Policy Design and Analysis](#)," 2011.

**Presence of credible civil society organizations.** The presence of a strong and credible civil society sector can provide companies with insights about local community needs. Partnerships with grassroots organizations can lend credibility to the company, making it easier for the firm to engage with the community. For example, [Novartis](#) worked closely with village leaders and local NGOs to educate residents of rural communities about the benefits of healthy lifestyles, thereby raising awareness and simultaneously creating demand for effective medicine.

**Availability of commercial partners with a similar philosophy.** Shared value strategies to improve productivity in the value chain or build clusters often require external stakeholder participation. A successful partnership often depends on aligning the values of such commercial partners with those of the company. For example, while implementing Patrimonio Hoy, [CEMEX](#) partnered only with distributors who were willing to be patient with profits. Patrimonio Hoy distributors were aware that, although poor customers purchased smaller quantities of cement in a given transaction, they made substantial purchases over time.

**Availability of external funding.** Companies often need external funders to kick-start their shared value processes. The Department for International Development (DFID) played an instrumental role in the creation of [M-PESA](#) within Kenya by providing seed funding to Vodafone for early M-PESA trials.

**Penetration of information and communication technology (ICT).** The increased availability of low cost wireless networks and access devices enables companies across sectors to create shared value. The use of technology significantly lowers transactional costs and increases access to market information. In Kenya, Safaricom leveraged the presence of mobile phones to provide a money-transfer service through [M-PESA](#). Today, ICT bridges infrastructure gaps in rural areas, linking the informal economy to established markets and providing distribution channels and transaction platforms.

## Appendix C: Geographic Influences

### Geographic Influences on Points of Leverage

Several factors that affect potential points of leverage vary by geography, including social issues that poor or vulnerable populations face, drivers of economic growth, and external conditions such as regulatory policies, civil society support, and cultural context.

When developing a strategy, stakeholders will consider these factors differently. A *company* will likely consider its current or potential footprint. *Government stakeholders* will focus within the boundaries of the nation, state, or locality under their supervision. *Civil society actors* may use a global, national, or even village-level lens, depending on their objectives. The summaries below may serve as a starting point for stakeholders interested in the context across the BRICS nations.

#### Brazil

**Pressing social issues:** Despite economic progress over the past several decades, Brazil continues to suffer from great income disparity. In 2005, Brazil had one of the ten least equitable distributions of wealth globally. Many of the nation's poorest communities are located in inland, rural areas.

**Key drivers of economic growth:** Brazil has a strong agricultural sector and is a significant producer of coffee, rice, beans, wheat, cattle, and poultry. The nation has a strong extractives sector, is the world's largest producer of iron ore, and is an important provider to the global pulp and paper industry.

**External environment:** The government is increasingly engaging social issues. For example, Luiz Inácio Lula da Silva, the president of Brazil from 2003 to 2010, launched an initiative called Fome Zero (zero hunger), which aimed to alleviate food insecurity. Similarly, business—the “Third Sector” that complements the work of government and NGOs—is expected to contribute to solving social issues and many companies have joined associations to share best practices. These organizations include Instituto Ethos, which creates guidelines for businesses engagement with society, and the Brazilian Institute for Social and Economic Analysis, which encourages businesses to examine their social impact and adopt voluntary social guidelines. At Rio+20, the United Nations Conference on Sustainable Development in 2012, Instituto Ethos indicated support for shared value thinking.<sup>71</sup>

Shared value has tremendous potential in Brazil. The presence of agricultural and extractive companies in rural, low-income areas creates the potential for business operations to affect some of the country's most at-risk populations through shared value strategies.

Click on the page numbers below for examples of companies that engage in shared value in Brazil.

- Cargill Project Phoenix, page 19
- The Coca-Cola Company *Coletivo*, page 20
- Grupo Martins, page 29
- Fibria, page 65

For additional information on the Brazilian context, visit the following:

- [Instituto Ethos](#) (Portuguese)
- [Brazilian Institute of Social and Economic Analysis](#)

## Russia

**Pressing social issues:** Poor public health is one of the most pressing social issues in Russia; the country has faced growing alcohol and tobacco use since the breakup of the Soviet Union. Furthermore, the number of HIV-positive Russians more than doubled from 2001 to 2009, largely due to increases in intravenous drug use. Poor public health has hindered fertility and increased the nation's mortality rate, driving a decline in the national population. Environmental issues such as water quality and climate change are also prevalent.

**Key drivers of economic growth:** Russia has a thriving extractives sector and was the world's largest producer of oil in 2009. The country's financial services sector has grown, but it has yet to reach its potential to stimulate economic activity. As of 2007, capital markets financed less than 17 percent of the nation's fixed investments.<sup>72</sup> These industries have been, and are projected to remain, drivers of Russia's economic growth.

**External environment:** The Russian regulatory and cultural environment has done little to encourage businesses to create social change. Historically, enforcement of environmental policies has been weak and companies have little incentive to comply.<sup>73</sup> Additionally, the government has not created incentives or reward structures for corporations to solve social problems. Although Russian NGOs have had little influence historically, they are beginning to have more importance. For example, the Health and Development Foundation creates health advocacy and awareness campaigns, consults with Russian health organizations, and carries out health-focused sociological research.

Shared value is in a very nascent state in Russia, but it has high potential to create transformative impact. The scale of the nation's extractives sector and the role financial services can play in providing access to capital make these industries particularly relevant to shared value creation.

Click on the page number below for an example of a company that engages in shared value in Russia.

- Statoil, page 64

For additional information on the Russian context, visit the following:

- [The Health and Development Foundation](#)
- [Environmental Issues in Russia](#)
- [Public Spending in Russia for Health Care](#)



## India

**Pressing social issues:** Although India's annual GDP growth was approximately 8 percent during the last decade, this growth has not been inclusive.<sup>74</sup> More than 250 million people continue to live in poverty across the country. Malnutrition and hunger persist at high rates, and more than 40 percent of children under five are estimated to be underweight.<sup>75</sup> Despite agriculture's significant contribution to India's economy, 85 percent of farm households still earn less than \$1 per day per capita.<sup>76</sup> A majority of rural and urban poor Indians lack access to finance, and 41 percent of Indians are unbanked. Additionally, social and human rights issues such as corruption and child labor hinder inclusive growth.

**Key drivers of economic growth:** Agriculture is India's largest economic sector. It accounts for 16 percent of GDP and employs half the nation's workforce.<sup>77</sup> Although this sector faces a slight decline, it is still the single most important sector contributing to the country's socio-economic development. Other prominent industries in India include textile manufacturing, business process outsourcing and information technology, retail, manufacturing, mining, and banking and finance. India's 1.2 billion people represent a tremendous market; by 2050, India will account for approximately 40 percent of global middle class consumption.<sup>78</sup> Half of its population is under 25 years of age, representing a favorable demographic ready to enter the workforce.<sup>79</sup>

### External environment (see below):

**The Indian government:** The government has taken an active role in enabling private sector participation in socio-economic development. In 2011, the Ministry of Corporate Affairs endorsed the National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business, which provides specific guidance to Indian businesses on pursuing their work in an inclusive and sustainable manner.<sup>80</sup> Various arms of the government across industries can play an important role in incentivizing shared value. For example, the Reserve Bank of India has mandated that all banks develop a three-year financial inclusion strategy. India has been highly successful in fostering public-private partnerships (PPP), especially with regard to infrastructure projects, and the government plans to expand PPPs to other sectors.

**The business sector:** Private business has traditionally contributed to society through Corporate Social Responsibility (CSR) initiatives such as community development, employee volunteering, and philanthropy. Increased awareness about the role of business in society serves as a good starting point for encouraging corporations to undertake shared value initiatives.

**Industry associations:** Associations in India already encourage responsible business practices. For example, the Confederation of Indian Industry (CII), an industry-led organization with a direct membership of more than 7,000 private and public organizations, has created the CII-ITC Centre of Excellence for Sustainable Development.<sup>81</sup> CII-ITC's goal is to enable sustainable business while promoting thought leadership and capacity on CSR issues.<sup>82</sup> The Federation of Indian Chambers of Commerce and Industry (FICCI) is another membership-driven non-profit organization whose members include private and public companies that range from SMEs to multinational corporations. Since such organizations already claim sustainable economic development as their mission, shared value can be a pathway for implementation.

**Civil society:** India has a significant civil society presence in the form of social movements and voluntary organizations. NGOs work on various social issues, from poverty alleviation to human rights. While a large number of NGOs receive support from the private sector in the form of funding, others serve as watchdogs, placing pressure on private and public actors to behave responsibly. India has also experienced a rise in social entrepreneurship and innovators are experimenting with new approaches to solving social problems.

**Academic institutions and universities:** These Indian institutions already play a role in creating a cadre of management professionals who understand inclusive business practices. For example, the Indian Institute of Management (IIM) Bangalore offers courses in Inclusive Business and Sustainability as part of its Post-Graduate Program in Management. IIM Indore has a program for mid-level managers on strategies for engaging with people at the base of the socio-economic pyramid.

**Media:** Over the past few years, shared value has been discussed explicitly in major Indian newspapers and magazines, and on television. Media outlets welcome conversations that showcase companies that create shared value and highlight their unique business philosophies.<sup>83, 84, 85</sup>

Click on the page numbers below for examples of companies that engage in shared value in India.

- Britannia Industries' Tiger Biscuits, page 19
- Novartis' Arogya Parivar, page 24
- ICICI Lombard's Weather-Based Insurance, page 28
- Micro Housing Finance Corporation, page 37
- IFFCO Kisan Sanchar Limited, page 60
- Tata Housing, page 66
- Larsen & Toubro, page 67

For further information on the context in India, visit the following:

- [India: The Incredible Investment Destination](#)
- [Creating Shared Value in India](#)
- [National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business](#)

## China

**Pressing social issues:** As one of the world's largest polluters, China faces particular challenges with regard to the environment. Human and labor rights have also been an ongoing area of concern.

**Key drivers of economic growth:** The Chinese government has identified seven strategic emerging industries (SEIs) that will be the focus of capital investment and favorable public policies. These SEIs are: biotechnology, new energy, high-end equipment manufacturing, energy conservation and environmental protection, clean-energy vehicles, new materials, and next-generation information technology. The government will use preferential tax, fiscal, and procurement policies to develop these industries and seeks to expand the SEIs to 8 percent of GDP by 2015. Other drivers of growth in China are expected to include: 1) modernization of agriculture; 2) opening of professional services to greater foreign investment; 3) health care and geriatric care; 4) energy conservation and environmental protection, and 5) technology and R&D.<sup>86</sup>

**External environment:** The NGO sector is relatively nascent in China, and experts believe that NGOs have limited influence on companies' engagement with society. The government has been especially proactive in conversations about business's role since 2005, when the government announced a shift in focus from a drive for economic growth toward the creation of a "harmonious society" that balances economic expansion and social progress. President Hu Jintao publicly exhorted businesses to "incorporate social responsibility into their strategy."<sup>87</sup> Given the government's continued influence on the private sector, Chinese firms tend to focus CSR efforts on meeting regulations. Engaging with the government is thus key to supporting companies that may be considering shared value strategies. Some businesses have begun to organize around specific social issues; [The China Entrepreneurs Club](#) provides an example of private company CEOs coming together to guide businesses on social goals.

Click on the page numbers below for examples of companies that engage in shared value in China.

- Novo Nordisk, pages 25 and 61
- Guangsha Construction, page 39

For further information on the context in China, visit the following:

- [The 12<sup>th</sup> Five-Year Plan: China's Economic Transition](#)
- [Forces Driving China's Economic Growth in 2012](#)

## South Africa

**Pressing social issues:** Due to South Africa's history with apartheid and subsequent laws intended to promote equity, black economic empowerment is a significant area of focus within the country. The HIV/AIDS epidemic continues to affect all aspects of society, and prevalence rates have increased from 0.7 percent among 15 to 49 year olds in 1990 to 18 percent at the end of 2007.<sup>88</sup> The nation suffers from substantial income disparity, low access to affordable housing, and challenges with its energy supply. Skills development and job creation also present challenges; South Africa's official unemployment rate has been more than 20 percent since 1997, and the rate among young people is even higher.<sup>89</sup>

**Key drivers of economic growth:** Key sectors that contribute to GDP in South Africa include manufacturing, retail, financial services, communications, mining, agriculture, and tourism. Since the early 1990s, wholesale and retail trade, tourism, and communications have driven economic growth, although this pattern is shifting as South Africa increasingly becomes a knowledge-based economy. Nationally, the government is also promoting a focus on the green economy.<sup>90</sup>

**External environment:** The post-apartheid government has proactively set its agenda to create regulations and policies to address black economic empowerment. Historically, most corporate engagement with society has focused on local issues unrelated to companies' core businesses. Thus, civil society organizations tend to engage with companies through philanthropy, but they are less systematically engaged in partnerships with businesses to create shared value. The private sector is taking proactive steps toward greater engagement; in 2009, the National Business Initiative formed a Business in Society focus area with a goal of working to move sustainability into the mainstream as a long-term business approach to value creation.<sup>91</sup>

While companies in South Africa are beginning to experiment with shared value, shifting corporate engagement from pure philanthropy to integrating social impact and corporate strategy can accelerate progress.

Click on the page numbers below for examples of companies that engage in shared value in South Africa.

- Moladi, page 36
- Standard Chartered, page 63
- Anglo American, pages 64 and 65

For further information on the context in South Africa, visit:

- The [National Business Initiative](#) website
- [The World Guide to CSR: A Country-by-Country Analysis of Corporate Sustainability and Responsibility](#)



## Appendix D: Additional Examples in the Food, Beverages, and Agriculture Sector

### Point of Leverage #1: Addressing nutritional deficiency through additives to low-cost, staple products

#### Nestlé's Popularly Positioned Products across the globe<sup>92,93</sup>

In order to differentiate its staple products from those of competitors as well as help alleviate nutritional deficiencies, Nestlé has tailored its Popularly Positioned Products (PPPs) to address location-specific nutritional deficiencies. Nestlé's PPPs are fortified to address nutritional deficiencies by country and region. While the fortified product itself often remains constant, the nutrients added vary by geography. For example, while most Maggi bouillons are fortified with iodine, those in Central America are fortified with iron as well. Nestlé has created more than 300 low-cost PPPs, which it sells in 70 countries in both the developing and developed world. PPPs account for nearly 10 percent of Nestlé's sales and sales are growing at more than 12 percent per year.

### Point of Leverage #2: Improving smallholder farmers' access to information, inputs, and technical assistance

#### The Coca-Cola Company Project Nurture in Kenya and Uganda<sup>94</sup>

The Coca-Cola Company has a goal to triple its juice business by 2020. To meet this target, the company is seeking to increase fruit volumes while generating positive social, economic, and environmental impacts in fruit-growing communities worldwide. In partnership with the Bill & Melinda Gates Foundation, Coca-Cola has undertaken a four-year, \$11.5 million program to enable more than 50,000 smallholder mango and passion fruit farmers—many of them women—in Kenya and Uganda to double their income by 2014 by improving productivity and competitiveness and linking them to new markets as well as fresh fruit domestic and export markets. The program, which is implemented by TechnoServe, seeks to increase the local supply of juice and improve local processing infrastructure to allow for the development of Coca-Cola's local juice business (reducing the cost of juice inputs, which were previously imported), while also potentially providing surplus product to Coca-Cola's global system. Minute Maid Mango Nectar, launched in September 2010 in Kenya and May 2011 in Uganda, was the first product to use locally sourced juice (Mgowe mango variety) as a result of this project. In addition, more than 18,000 metric tons of fresh fruit from this project have been harvested and sold as a result of Project Nurture.



### Point of Leverage #3: Supporting infrastructure development, increased access to financing, and improved knowledge/skills of consumers, retailers, and suppliers to enhance competitive context

#### Yara in Africa<sup>95</sup>

In 2008, less than 10 percent of Yara's fertilizer sales took place in Africa. To strengthen African agronomy and enhance the continent's demand for fertilizer and other inputs, Yara partnered with government agencies and NGOs to develop two agricultural growth corridors in Southeast Africa. These corridors facilitate the flow of agricultural inputs and outputs through the region. Developing a corridor involves investing in port infrastructure, handling and storage facilities, and other physical assets. Yara also partners with financing organizations to provide farmers in regions affected by the corridors with access to credit. The enhanced agricultural outputs resulting from the corridors bolster the continent's food supply and enhance incomes of smallholder farmers. Yara views the initiative as an investment to create a tipping point from which sales volume in the region could increase significantly in the medium or long term. The company has invested in a \$20 million fertilizer facility in anticipation of the future business environment.

#### IFFCO Kisan Sanchar Limited in India<sup>96,97</sup>

Access to information can be an important challenge for farmers in India, who often live in rural areas with limited access to technology and media. To help solve this problem by leveraging cellular technology, the Indian Farmers Fertilizer Cooperative (IFFCO) and Bharti Airtel created a joint venture, the IFFCO Kisan Sanchar Limited, or IKSL. The company sells a "green" SIM card that provides five free daily voice messages that contain guidance on agriculture and related issues, including animal husbandry, agromarketing, dairy farming, poultry, and weather conditions. The venture has demonstrated positive financial and social results. IKSL's 2010 revenue was nearly \$37 million, and its profits exceeded \$4 million. IKSL has also documented increased crop yields resulting from use of the service; improvements ranged from 20 to 60 percent.



## Appendix E: Additional Examples in the Health Care Sector

### Point of Leverage #1: Developing new products or refining existing products to respond to local health needs

#### Novo Nordisk in China<sup>98</sup>

A leader in diabetes care, Novo Nordisk became one of the first Western firms to enter the Chinese insulin market in 1994. Leveraging local research and production facilities, Novo Nordisk tailored its products to suit the health conditions of local Chinese populations by reformulating insulin to suit Chinese physiognomy. This effort, coupled with the company's other shared value approaches (described on pages 17 and 24 of this paper), resulted in approximately 140,000 life-years saved between 2004 and 2010.<sup>99</sup> By the end of that period, Novo Nordisk attained a 63 percent market share—about 13 percentage points higher than its global share in what is now a \$1 billion market.

### Point of Leverage #2: Innovating within distribution channels to ensure that quality products reach underserved patients

#### Sproxil in various African nations

Sproxil, a social enterprise backed by Acumen Fund, has developed a mobile phone-based medicine verification application that can easily and effectively identify counterfeit drugs.<sup>100</sup> Using Sproxil's technology, customers can text message a unique item code and receive instant responses to confirm the product's authenticity. Sproxil sells its medicine verification application directly to pharmaceutical companies, drug manufacturers, and distributors.<sup>101</sup> While Sproxil is a relatively young social enterprise, its technology enables several larger impact enterprises that are engaged in health care services to create shared value. Using Sproxil, pharmaceutical companies such as GSK are able to reach less-developed markets and expand their businesses while simultaneously helping to ensure that patients receive authentic medication. Technology companies have participated as well. Hewlett-Packard developed the printing technology wherein Sproxil's unique pack code is printed underneath a scratch card.<sup>102</sup> Sproxil is also collaborating with IBM to analyze real-time consumer data and prevent drug counterfeiting.<sup>103</sup> Finally, Sproxil is partnering with telecommunications providers (Etisalat, Glo, MTN, and Zain) in Nigeria, creating the potential to reach 67 million users. Today, Sproxil has sold more than 5 million anti-counterfeit labels.<sup>104</sup>

### Point of Leverage #3: Investing resources to create health-seeking behavior among poor or vulnerable populations

#### Novartis in India<sup>105</sup>

To strengthen market dynamics in rural areas, Novartis "health educators" work closely with village leaders and local NGOs to educate rural community residents about the benefits of healthy lifestyles, simultaneously raising awareness of and creating demand for effective medicine.<sup>106</sup> Each health educator



engages with approximately 30 patients per month, and sells products worth approximately INR 15,000 (approximately \$270) per month. Health workers earn a commission of 10 percent on products sold, increasing their income by approximately INR 1500 (\$27) per month.<sup>107</sup> The enterprise's investments in awareness and training are funded through revenues from increased sales. To date, the initiative covers 42 million people in 33,000 villages across 10 Indian states. After the health camps arrived, the percentage of local residents in these villages who visited doctors increased from 9 to 23 percent.

### Pfizer in Venezuela<sup>108,109</sup>

Pfizer's Venezuela team created a sustainable development initiative in 2007 in order to better serve low-income communities, which accounted for 80 percent of Venezuela's population. Pfizer built the Comunidad más Saludable ("Healthier Community") program to target these communities and help increase its business presence through the following strategies: (1) Offering medical education to physicians and pharmacies; (2) educating community members on health care in emergency situations so they can give care until formal help is available; and (3) ensuring the local availability of medicines. Pfizer

*"We wanted to create a program that would enable us to help communities grow, and at the same time expand our business."*

*– Pfizer employee managing Comunidad más Saludable*

implements this program by hiring community representatives who visit health clinics in low-income neighborhoods to provide health training and promote Pfizer products. The local representative provides credibility, support, and safety for the Pfizer team when entering previously

unchartered territories. The program increases access to medicines for poor individuals by ensuring the availability of medicines in difficult-to-access areas, and it improves treatment compliance by enrolling patients in value-added disease management programs. Pfizer management decided to begin with a pilot in Petare, Venezuela's largest shantytown. Results from the pilot demonstrated that Pfizer's market share doubled in the program area from October 2007 to July 2008, enabling managers to make a strong business case for the program. Based on the results, Pfizer Venezuela has expanded Comunidad más Saludable to ten of the poorest districts in the country.





## Appendix F: Additional Examples in the Financial Services Sector

**Point of Leverage #1: Creating financial products that address specific needs of poor or vulnerable populations and providing product-linked or mass education programs to improve individuals' financial capability**

### Standard Chartered in South Africa<sup>110</sup>

Through its unique Input Financing Model, Standard Chartered Bank uses a farmer's commodity (maize, wheat, soya, rice, etc.) as collateral, rather than traditional fixed assets. This practice empowers farmers to increase their funding potential and frees up other physical assets, such as cattle and equipment, for additional ventures. The Bank's Africa Agrifinance Division, based in South Africa, plays a key role in managing the Bank's \$2 billion regional agricultural financing portfolio.

**Point of Leverage #2: Transforming service delivery to increase financial access**

### M-PESA in Kenya

M-PESA is an SMS-based money transfer system that allows people to deposit, send, and withdraw funds using their cellphones. M-PESA, conceived by Vodafone and developed by Safaricom, demonstrates that financial services institutions have an opportunity to proactively partner with telecommunications and other technology-based companies in order to reduce transaction costs and improve access and markets.<sup>111,112</sup> Since its launch in March 2007, the service has acquired more than 9 million customers—40 percent of Kenya's adult population.<sup>113</sup> As of June 2010, M-PESA customers could conduct transactions at approximately 17,900 retail outlets, more than half of them in rural areas.<sup>114</sup>



## Appendix G: Additional Examples in the Extractives and Natural Resources Sector

### Point of Leverage #1: Addressing social needs in communities surrounding extraction sites to enhance the competitive context of these geographies

#### Anglo American in South Africa<sup>115</sup>

HIV presents a threat to Anglo American's workforce productivity in Africa; the company estimates that 16.5 percent of the workforce at its southern African operations is HIV-positive. To maintain a productive workforce, Anglo American has taken a comprehensive approach that includes prevention campaigns, testing, counseling, and access to medicine. Since 2002, the company has provided antiretroviral treatment (ART) to all infected employees. By 2010, nearly 10,000 employees were using ART, and employee absenteeism and turnover dropped significantly.

#### De Beers in Botswana

De Beers extracts diamonds through joint ventures with governments in diamond-producing nations, ensuring much of the value created by diamonds is reinvested in national and local development. Approximately 50 percent of Botswana's revenue comes from its joint venture with De Beers, contributing to the country's rapid economic development. For instance, Botswana had fewer than 3 miles of roads when it achieved independence in 1966, but the UN rates it as a middle-income country today. De Beers' management believes that community development is one of the company's core business issues, as social improvements enhance the stability of the company's operating environment and help ensure that it maintains its license to operate.<sup>116</sup> De Beers has stated that such development is critical to maintaining "continued access to the raw material that is the basis and reason for our existence."<sup>117</sup> The company is working to develop systems to measure the social benefit it creates so that it can refine its efforts and maximize its impact.

### Point of Leverage #2: Cultivating local workforces and supplier networks to support operations in developing nations

#### Statoil in Russia<sup>118</sup>

After acquiring a stake in an undeveloped oil field in northwest Russia, Statoil developed initiatives to improve the quality of human capital and suppliers in the region. The company provided funding and technical assistance to develop a bachelor's degree in business administration focusing on petroleum management at Pomor State University. This program has enhanced the quality of talent available to Statoil's operations in northwest Russia and created social benefits by improving Russian higher education and the marketable skills of graduates. Statoil also provided training for its suppliers in the region and helped them establish a network for sharing best practices, encouraging economic development while enhancing the reliability of its network of suppliers.



### Anglo American in South Africa<sup>119</sup>

Anglo American has invested in the development of black-owned small and medium-sized suppliers to support its operations in South Africa. Through a designated fund, the company provides equity financing and loans to these suppliers as well as support in a variety of functional areas, including accounting and public relations. These efforts create value for Anglo American by enhancing the quality of its suppliers while improving the economic stability of areas surrounding the company's operations. In 2011, approximately half of Anglo American's procurement expenditures were with businesses owned by historically disadvantaged South Africans.

## Point of Leverage #3: Working with suppliers to maximize output of renewable natural resources

### Fibria in Brazil<sup>120</sup>

Fibria, a Brazilian pulp and paper company, sought a solution to enhance its access to raw materials that would not require investments in land and planting trees. As such, the company began working with its smallholder suppliers to enhance their output of raw materials. Through its forestry partnership program, Fibria provides local smallholder farmers who live near their production facilities with inputs, technical assistance, and funding to grow eucalyptus, which is used to produce pulp. Before farmers begin growing, Fibria enters contractual agreements stipulating that the company will purchase the crop, creating purchasing security for both the farmers and Fibria.



## Appendix H: Additional Examples in the Housing and Construction Sector

### Point of Leverage #1: Improving the supply of affordable housing by developing creative business models that lower the cost of housing units

#### Tata Housing in India<sup>121</sup>

Tata Housing Development Company, a fully-owned subsidiary of Tata Sons in India, pioneered the concept of low-cost housing aimed at economically weaker segments of society. The company's core team researched 100 low-income families in Mumbai to understand their housing needs and realized that the project would succeed only if the selling price of the houses was no more than approximately \$30 per square foot. The core team designing the units reassessed assumptions about land, design, construction, sales, and consumer finance to reduce costs, and customized the design to suit the needs of low-income individuals. For example, the company decided to build and sell housing units quickly before land prices appreciated significantly. Therefore, Tata Housing partnered with landowners on a revenue share basis—the company paid 10 to 15 percent of the cost of land up front, and paid the rest as a percentage of sales. This plan ensured that capital was not blocked and costs remained low. The company also learned that customization of homes was not as important for low-income consumers as it was for other customer segments. Use of a “cookie-cutter” design lowered costs by 3 percent. Finally, Tata partnered with financial institutions such as Micro Housing Finance Corporation and State Bank of India to help buyers with financing options. Today, 35 to 40 percent of buyers have no previous access to formal housing funds. In addition to selling the units to low-income consumers, Tata sold commercial units in the housing complexes at market rates. This allowed retail shops and doctors' clinics to open in the housing complexes—creating a community for low-income residents while also adding to Tata Housing's bottom line.

### Point of Leverage #3: Providing self-builders with complementary value-added services along with construction materials.

#### CEMEX in Mexico<sup>122,123</sup>

Through the Patrimonio Hoy program, CEMEX, a large cement manufacturer in Mexico, finances the cost of construction materials, provides technical assistance, and ensures the timely delivery of materials. Patrimonio Hoy has successfully helped reduce the time needed for construction by 60 percent and generates savings of 35 percent for the beneficiaries of the program.<sup>124</sup> In 2004, Patrimonio Hoy broke even, fulfilling its objective to be self-sustainable.<sup>125</sup>



## Point of Leverage #4: Developing the technical and life skills of low-income, unskilled populations and equipping them to be employed by the construction industry

### Larsen & Toubro in India<sup>126</sup>

Larsen & Toubro (L&T), a construction company in India, is increasing the quality of its own workforce by providing vocational training in seven areas—formwork carpentry, brick work, bar bending, plumbing and sanitary, trade assistants, welding, and electrical wiring. Courses are designed as short-term vocational training programs. The duration of the program varies from 200 hours spread over 1 month to 600 hours spread over 3 months, depending on the trade. The minimum eligibility requirement to enter most of the training programs is an ability to read and write, or education up to 5<sup>th</sup> grade. L&T provides training through L&T's Construction Skills Training Institute (CSTI) and provides a basic stipend as well as accommodation for trainees. After training, workers have the opportunity to lead a team of skilled workers. In fact, some of the workers who were trained at CSTI have now become supervisors at L&T. CSTIs train approximately 7,000 workers each year. With CSTIs spread across India, L&T is able to simultaneously expand its labor force to meet increased demand and impart technical skills that give workers higher and more stable incomes.<sup>127</sup>

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