

# Innovating for Shared Value

Companies that deliver both social benefit and business value rely on five mutually reinforcing elements.

*by Marc Pfitzer, Valerie Bockstette, and Mike Stamp*



ILLUSTRATION: GENTLEMAN DRAUGHTSMAN

**S**ince their launch, in 2005, Nexera canola and sunflower seeds, used for making cooking oils, have become one of Dow Chemical's best-selling product lines. The seeds and the oils offer many advantages: The seeds yield more than twice as

much oil per hectare as soybeans, making them an attractive crop for farmers. The oils' longer shelf and "fry" lives lower the operating costs of food manufacturers and food service companies. And, last but not least, the oils have lower levels of saturated fat than competing products and contain no trans fats.

Dow's breakthrough shows business at its best: innovating to meet society's needs *and* build a profitable enterprise. In "Creating Shared Value" (HBR January–February 2011), our FSG colleagues Michael Porter and Mark Kramer argue that achieving those twin goals represents the next competitive frontier for companies.

Corporate leaders have awakened to that fact. They realize that social problems present both daunting constraints to their operations and vast opportunities for growth. But many are struggling to implement the shared value concept. To assist them, we have studied more than 30 companies that, like Dow, innovate to create scalable models

for delivering social benefits and business value (see the exhibit “Who’s Creating Shared Value”). We have found that these companies consistently rely on five mutually reinforcing elements, whose optimal form and balance depend on a firm’s culture, context, and strategy.

**Embedding a Social Purpose**

Leaders of companies that are making significant progress in building large-scale social enterprises consider solving major social problems in profitable ways to be *a*, if not *the*, *raison d’être*. Food companies such as Nestlé, Unilever, and Danone are repositioning themselves as nutrition and health companies. Carmakers such as Nissan and Toyota are redefining their purpose as providing low-emissions mobility. And technology and telecommunications firms such as IBM, Intel, and Verizon have made improving education and health care and making cities more livable their central missions. (Many of the companies discussed in this article are FSG clients or have financially supported FSG’s research.)

Creating shared value entails embedding a social mission in the corporate culture and channeling resources to the development of innovations that can help solve social problems. In some cases, this is a matter of reemphasizing a firm’s founding social mission. That is what Franck Riboud, Danone’s CEO, did in 2000, when he realized that the company had drifted away from its origins as a manufacturer of healthful food. Recognizing that stakeholders were increasingly concerned about nutrition, he stressed four themes (innovation, people, nature, and “Danone for All”); sold off Danone’s beer, meat, and cheese units; refocused on other dairy products and water; and acquired baby food and medical nutrition businesses.

In other cases, a leader can draw on a different legacy to direct the organization toward a social purpose. Dow’s launch of canola and sunflower seeds didn’t emerge by chance from a rogue R&D initiative. It came from the combination of a strong tradition of innovation and leaders’ recognition that many global social issues represent technological challenges as well as market opportunities. What ensued was the Breakthroughs to World Challenges program, a bid to business units to propose solutions to a range of global problems related to the UN’s Millennium Development Goals.

Occasionally, purpose emerges from within organizations, when managers spot and then champion opportunities for social innovation. In 1988 a team at Becton Dickinson developed the world’s first syringe engineered to protect health workers from needlestick injuries, which spread HIV and other infections. Buoyed by its success, BD devoted resources to driving further innovations in this area. Today needleless injection systems are a \$2 billion business for BD, accounting for 25% of the company’s revenue.

Turning the pursuit of shared value opportunities into a regular activity requires defining a clear social purpose, publicizing it internally and externally, and embedding it in core processes such as strategic planning and budgeting. This establishes a culture that unleashes the best in employees and helps mobilize external partners that have similar goals.

To reinforce the social purpose of the company, leaders should relentlessly describe and quantify the business threats and opportunities inherent in global challenges. Peter Brabeck-Letmathe, the chairman of Nestlé, spent two decades hammering away internally and externally at the profound link between the company’s long-term prospects and the health of rural agricultural communities (the source of many commodities used in the company’s products), water resources (essential to maintaining global food security), and consumers. Today every country manager is expected to craft a business plan that delivers progress on those issues as well as profits for shareholders.

**Defining the Social Need**

Many firms recognize the importance of gaining insight into the needs they seek to address, but some go deeper in order to understand the underlying social conditions and how best to change them. They conduct extensive research to develop a comprehensive view of the



**The chairman of Nestlé spent two decades reinforcing the link between long-term business prospects and the health of agricultural communities.**

**Idea in Brief****THE PROBLEM**

Company leaders recognize that social problems present daunting constraints to their operations and vast opportunities for growth. But many are struggling to design and implement initiatives that deliver both social and business benefits.

**THE REASON**

Often companies have not been guided by a social mission and don't know how to research social problems at the level needed to drive change; CFOs lack experience in measuring and linking social and business results; and building networks of external stakeholders that include unfamiliar organizations can be challenging.

**THE SOLUTION**

To create profitable social enterprises, executives should apply a framework derived from a study of more than 30 exemplary companies. It consists of five mutually reinforcing elements: embedding a social purpose, rigorously defining the social need, measuring the social and business value, creating the optimal innovation structure, and co-creating with external stakeholders.

problem, the people affected and their numbers, the barriers to progress, the options for driving change, and the parties that can help. Such knowledge provides the basis for anticipating resource requirements, developing the business case, and identifying the necessary execution capabilities inside and outside the company.

Consider Nestlé's focus on malnutrition. Before the company launched Maggi Masala-ae-Magic, a micronutrient-reinforced spice product priced for low-income consumers in India at three rupees, researchers at the company studied the nutritional situation and the most prevalent micronutrient deficiencies in the country. They discovered that 70% of children under the age of three and 57% of women suffered from anemia. They then visited 1,500 poor households to understand cooking customs and diets, and realized that spices—the most commonly used item—offered an optimal vehicle for hiding the bad taste of crucial micronutrients: iron, iodine, and vitamin A. Following an intense period of development and the upgrading of manufacturing lines, Nestlé launched the product. In just three years, the company sold 138 million servings of Masala-ae-Magic, using both existing and new nonprofit distribution channels to reach the most remote and affected areas of India.

As was the case with Nestlé, a clearly defined need allows companies to design scale into the business model from the outset because they understand how many people are affected by the problem they seek to address and the economics and other issues involved in solving it—for example, the price constraints on a spice packet aimed at rural areas and the delivery innovations needed to reach target customers.

If a company doesn't devote time and resources to developing a deep understanding of a social problem, it risks pursuing ineffective solutions. Mars, for

example, has long connected the dire conditions in cocoa communities in West Africa with collapsing cocoa yields and looming global shortages. For years the company funded numerous community projects, building schools and training farmers. But through research and engagement with cross-sector stakeholders, Mars came to understand that these investments alone would not solve the region's development challenges. A collective effort to reform the entire cocoa sector was needed.

In Ivory Coast the company has committed itself to working with government, industry partners, and NGOs for 10 years to address the problem at scale. At the heart of the effort is the adoption of innovations developed by Mars scientists and agronomists: the first-ever grafting of superior cocoa clones in West Africa (which return old trees to full yields within four years) and a network of demonstration farms connected to entrepreneurial "cocoa doctors" who deliver training, grafting services, and fertilizer to farmers. By adapting those innovations to local circumstances, Mars and its partners built a scalable model.

**Measuring Shared Value**

Companies seeking to deliver scalable social and business benefits need to be able to monitor their progress. No universal system for doing this exists yet. The Sustainability Accounting Standards Board is trying to create industry-based standards that will allow investors and other stakeholders to compare firms' environmental and social impacts, but it remains to be seen whether those standards can also be tied to value creation. The International Integrated Reporting Council is developing a common framework for submitting integrated reports on financial, environmental, social, and governance performance. But it, too, remains very much a work in progress.

## Who's Creating Shared Value

### Dow Chemical

Removed 600 million tons of trans fats and saturated fats from the U.S. diet and created a major business with its Nexera sunflower and canola seeds

### Nestlé

Helped millions of malnourished families in India and other countries by providing inexpensive micronutrient-reinforced spices, which are a fast-growing, profitable business

### Novartis

Provided essential medicines and health services to 42 million people in 33,000 rural villages in India through a social business model that became profitable after 31 months

### Mars

Catalyzed a cross-sector coalition to transform farms and surrounding communities in Ivory Coast with the aim of avoiding looming cocoa shortages

### Intel

Trained more than 10 million teachers in the use of technology to improve educational outcomes, turning education into a profitable business for the company

SOURCE: FSG RESEARCH. NOTE: NESTLÉ, MARS, INTEL, AND BECTON DICKINSON (BD) ARE FSG CLIENTS. NOVARTIS HAS FINANCIALLY SUPPORTED FSG'S RESEARCH.

In the meantime, companies can use a straightforward process that we derived from studying more than a dozen major corporations, including Alcoa, Coca-Cola, Intel, InterContinental Hotels, Nestlé, Verizon, and Novo Nordisk. It involves the three steps set forth below. To illustrate them, we describe how Coca-Cola measures its Coletivo initiative in Brazil, which has the twin goals of increasing the employability of low-income youths and young adults and increasing sales by strengthening the company's distribution channels and raising brand awareness.

**Estimate the business and social value.** This step involves anticipating how a degree of change in a social condition will drive profits, through either incremental sales or reduced costs, and linking those benefits to the resources needed to achieve them. It is an iterative process that considers how much social change is needed to unlock business value, strategies for achieving that change, and the possibility of getting others to invest in the initiative.

In 2008 Coca-Cola Brazil spent six months making the case for its Coletivo initiative. The business plan called for working with local NGOs to create programs to train young people for two months in retailing, business development, and entrepreneurship, and then pairing them with local retailers to tackle specific improvement projects. The premise was that in addition to increasing the skills of the young people and giving them practical experience, the program would significantly improve the retailers' operations in areas such as stocking, promotions, merchandising, and pricing—increasing sales of Coca-Cola products, especially in the emerging lower-middle-class segment. Coca-Cola anticipated that incremental sales from stronger retail channels and brand recognition in the targeted communities would far outweigh the investments needed to achieve a measurable change in youth skills and employability in the retail sector. The rigorous busi-

ness plan persuaded Coca-Cola Brazil's management to give the first pilot initiatives the green light. They were launched in 2009.

**Establish intermediate measures and track progress.** The business plan can be used as a road map to monitor the initiative's progress in achieving the targeted social and business benefits. The goal is to validate (or invalidate) the anticipated link between social and business results, see which approaches do and don't work, and refine the initiative accordingly. But because benefits may take time to materialize, a firm may have to install metrics for monitoring intermediate progress—as Coca-Cola did.

As soon as Coletivo got under way, the company asked its NGO partners to track the number of participating young people and retailers and the retailers' performance. By comparing those intermediate results across regions, it could identify and disseminate the best approaches. For example, it revised the training program to emphasize soft skills, including leadership and self-confidence, instead of only technical merchandising skills.

**Assess the shared value produced.** Measuring the ultimate social and business benefits helps firms expand to new areas and justify additional investment.

Coca-Cola Brazil uses four measures to assess Coletivo's impact: the number of youths and young adults placed in jobs, improvement in participants' self-esteem (an external research firm interviews them), increased sales, and greater brand awareness in the targeted communities. Since its launch, the initiative has trained more than 50,000 young people in retailing, business operations, and basic entrepreneurship concepts. Approximately 30% have landed their first job with Coca-Cola or one of its retail partners (small shops as well as large companies such as McDonald's and Walmart). And more than 10% have set up their own businesses with

**Becton Dickinson**

Protected millions of health workers by creating needleless injection systems, which are now a \$2 billion business for BD, accounting for 25% of the company's revenue

**Vodafone**

Extended mobile banking services to 14 million people in East Africa through M-Pesa, one of the company's most important offerings



microcredit support from the company. By tracking sales, profit margins, and investments, Coca-Cola determined that an investment in a Coletivo community effort is profitable in only two years. The results have encouraged the company to expand the program to more than 150 low-income communities across Brazil.

### Creating the Optimal Innovation Structure

Everyone knows that the riskiness of new projects and the degree to which they depart from or threaten a firm's established businesses must be taken into account when deciding issues of financing, governance, management systems, and location. The same applies to shared value initiatives. The options for structuring initiatives include the following:

**Integrate with a legacy business.** A core business should develop and launch the initiative if the firm already has a clear social purpose, deeply understands the targeted social problems, possesses the competencies to solve them, and can build a strong business case for the social enterprise (including the likelihood that it will meet or come close to achieving the firm's normal ROI targets).

Those criteria led Finland's Kemira to adopt this model in 2008, when the diversified producer of chemicals decided to leverage its expertise in water chemistry to tackle the challenge of making water-intensive industries more efficient in their use of water and energy. The company restructured its R&D organization and forged alliances with universities and research institutions, government agencies, other companies, and customers to better understand customer needs and generate and pursue ideas for new water-treatment solutions. Proposals that got the go-ahead were carried out by Kemira's core business functions and managed with the company's normal business processes.

**Create a semiautonomous unit.** When a new social venture meets all the criteria outlined above but isn't likely to satisfy the company's normal financial requirements (for example, it may take longer to become solidly profitable), it should be shielded from the established businesses.

Novartis adopted this approach in 2006, when it founded Arogya Parivar ("healthy family" in Hindi) to try to reach millions of people in poor and emerging markets who couldn't afford or gain access to health care. Starting with rural India, the company selected drugs in 11 disease areas from its portfolio. It then devised a plan for making those drugs more affordable (for example, by offering smaller packs with fewer pills), established a network of local distributors to ensure dependable supplies, and enlisted hundreds of local educators to teach people how to improve their health and refer them to physicians for treatment.

Given the large investments that were required and the low prices that could be charged, the company estimated that the business would take longer to break even than Novartis typically demanded of new ventures and that its ultimate profit margins would be lower than those expected of other businesses. For those reasons, Novartis placed Arogya Parivar in its social business group, which operates with seed funds from corporate and has its own management team and processes.

The venture became profitable after 31 months, more quickly than anticipated. It is now serving 42 million people in 33,000 rural villages in India, and the company is rolling it out in Indonesia, Kenya, and Vietnam.

**Obtain philanthropic or government support.** When a company sees an opportunity to address social needs but the path to profitability isn't clear, philanthropic or government funding can help test the waters. Such support allows internal

champions to take risks without jeopardizing their careers or other business prospects. Initially, the social enterprise should be shielded from the rest of the organization. But once it finds a viable business model and proves it can succeed, it can be gradually integrated into an established business.

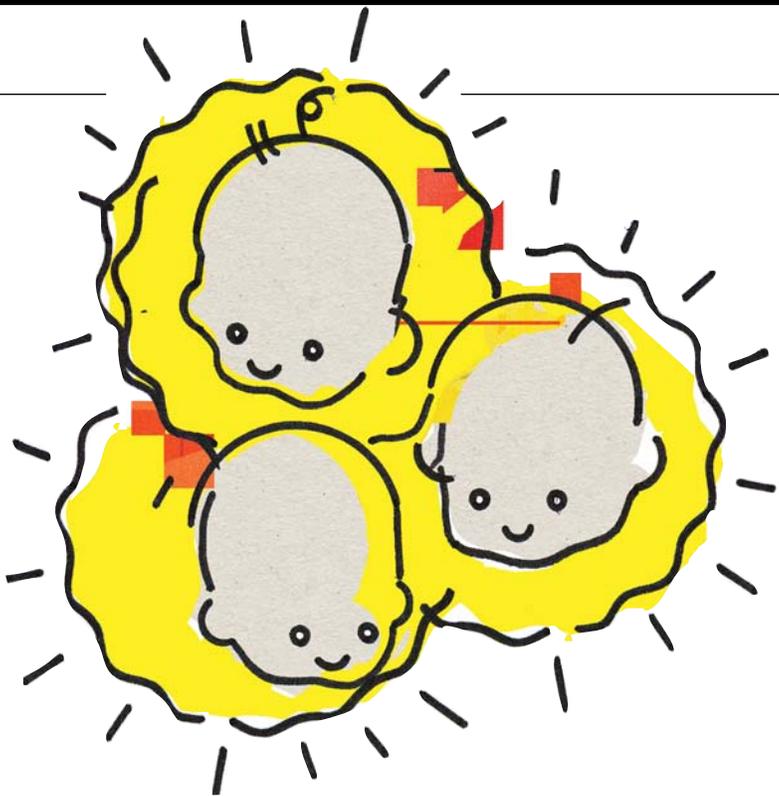
Vodafone's M-Pesa mobile banking service started this way. A member of the company's external affairs team thought that mobile technology could give people in less developed countries access to financial services, but others in the company were skeptical and opposed investing in the concept. So Vodafone obtained a grant from the British government's Department for International Development to cover initial research and development and to overcome internal skepticism. The venture, which was kept separate from other Vodafone businesses, spent two years on in-market experiments.

Once M-Pesa had demonstrated its commercial viability, local units of an established business financed its scale-up. Today M-Pesa (or M-Paisa, as it's called in some countries) is managed by Vodafone's national subsidiaries and is one of the company's most important offerings: It accounted for 18% of the revenue of Safaricom, Vodafone's Kenyan subsidiary, in which Vodafone holds a minority stake. The experience encouraged Vodafone to link up with philanthropies and government agencies to experiment in other areas, such as agricultural information services and applications to remotely monitor and manage home energy consumption.

**Finance external entrepreneurs.** If a company lacks the expertise to develop an in-depth understanding of and a cost-effective solution to a social problem of interest, it can fund independent entrepreneurs to tackle the challenge. The company can then learn from their efforts and acquire their solutions.

Boehringer Ingelheim has taken this route. Through its Making More Health program, the pharmaceutical company has funded efforts by social entrepreneurs to revolutionize access to primary health care in 32 low-income countries. The company is now using the insights it has gained from these experiences to consider its approaches both to corporate social responsibility and to generating business value.

Some of the initiatives GE has undertaken as part of its Healthymagination program to develop affordable products that address severe health issues have also involved alliances with social enterprises.



**To help tackle infant mortality in India, GE partnered with Embrace, a social enterprise that had created a \$200 incubator—a better fit than GE's \$2,000 model.**

One problem GE decided to tackle was India's high infant mortality, which is due in part to the lack of incubators for premature infants. GE's R&D engineers spent months reinventing their incubator and dramatically reducing its cost but calculated that GE would still have to charge \$2,000 for the product—far too much for Indian hospitals and clinics. GE then learned of Embrace, a social enterprise that had created a \$200 incubator that could keep a baby warm for up to six hours by combining a sleeping bag with pads that could be heated in water. GE partnered with Embrace to distribute the product in India.

**Co-Creating with External Stakeholders**

Deeply involving stakeholders in identifying all the dimensions of a problem and designing and implementing solutions—or *co-creation*—is an approach that has been spreading throughout the business world (see “Building the Co-Creative Enterprise,” HBR October 2010, and “Community-Powered Prob-

lem Solving,” HBR April 2013). The effective social innovators in the corporations we studied were taking the same path. They deliberately enlisted external stakeholders in their efforts to understand the social needs they were targeting and to execute their strategies. Here are two practices they followed:

**Enlist a wide range of stakeholders.** These stakeholders may include governments, foundations, universities, NGOs, and other companies. The firms we studied funded stakeholders’ research, persuaded their leaders to serve as advisers or consultants, and hired people with experience in both business and the social sector to lead the programs. In addition, they were candid with stakeholders about the goal to create business as well as social value.

A Hewlett-Packard machine that can scan, print, and transmit data quickly and easily over cellular networks arose from collaboration among several HP units, the Clinton Health Access Initiative, and Kenya’s Ministry of Health to speed up the diagnosis and treatment of young children with HIV in Kenya. HP had been working to develop and build an IT infrastructure that would allow national reference laboratories to receive, process, and send HIV test data reliably and efficiently. As the project advanced, the need to better integrate paper-based records into the digital system became evident. (Most medical information has been on paper—in some cases, because of government mandates.) HP estimates demand for the machine from the public health sector of developing countries alone to be as much as 1.5 million units. Other applications—for example, in education—are being explored.

Similarly, Mars mobilized two dozen organizations—government and international-development agencies, NGOs, universities, and multinational companies—in its work to reform cocoa farming in Ivory Coast. It is funding research to develop higher-yield and disease-resistant plant material at the country’s national center for agricultural research and at several international universities. It secured the expertise of the World Agroforestry Centre to deliver those innovations to farmers and hired expert staffers from the World Bank to lead the initiative. Throughout the process, the company has been relentless in linking its interest in raising cocoa yields and global supplies with government’s prospects for increased tax revenue from the crop and, most important, farmers’ potential gains from tripling yields on their cocoa plots.

**Leverage others’ capabilities.** The companies we studied tapped partners for their delivery capabilities. Nestlé, for example, discovered that the Drishtee Foundation, which strives to foster the social and economic development of communities in rural India through the use of information and communication technology, had established a distribution system for supplying remote retail shops in Uttar Pradesh, one of the regions most affected by micronutrient deficiencies. Rather than reinventing the wheel, it engaged Drishtee to help distribute its Masala-ae-Magic spices.

Novartis’s Arogya Parivar unit recognized that a lack of financing in rural areas prevented doctors and pharmacists from purchasing diagnostic equipment and stocking essential medicines. Since Novartis didn’t consider financing to be a core competence, its team decided to partner with a local microfinance enterprise.

**TO CREATE** social and business value, all five ingredients—social purpose, a defined need, measurement, the right innovation structure, and co-creation—are essential. Indeed, they reinforce one another. Social purpose helps a firm identify the needs it might want to address, but the reverse is also true: As a company understands social problems more thoroughly, employees’ commitment to its social purpose will increase. A deeply held social purpose is also important for co-creation, forming the basis for trusted relationships. Understanding a region’s particular needs helps define what can be improved and by how much, and the value of that change to the business. The degree to which the potential for shared value can be anticipated and aligned with the company’s financial criteria determines the optimal innovation structure for the social venture. And the requirements for delivering both business and social value, in turn, establish which capabilities are needed from new hires or external partners.

Many leading companies are succeeding in creating shared value by consciously applying the five ingredients. The specific paths they are taking may differ, but they can all lead to social progress and a stronger, more profitable company. ♥

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