



RIO+20
United Nations Conference
on Sustainable Development

INSTITUTO TECNOLÓGICO VALE





Environment
MIND
Society Economy

Munasinghe Institute for Development
making development more sustainable (MDMS)

Symposium on **Sustainable Development:** **New Dimensions for Society & Business**

Espaço Tom Jobim, Jardim Botânico, Rio de Janeiro, 18 June 2012



FSG Social Impact Consultants

Discovering better ways
to solve social problems

Creating Shared Value

Mark Kramer
Founder & Managing Director, FSG
Senior Fellow, CSR Initiative, Harvard Kennedy School of Government

prepared for:
Vale
18 June 2012

Boston | Geneva | San Francisco | Seattle | Washington, DC

fsg.org

FSG.ORG

The Changing Role of a Company in Its Communities

Philanthropy

➔

Corporate Social Responsibility (CSR)

➔

Creating Shared Value (CSV)

- Donations to worthy social causes
- Volunteering

- Compliance with community standards
- Good corporate citizenship
- "Sustainability"

- Integrating societal improvement into **economic value creation** itself

This shift moves companies from "buying a license to operate" to "building a strong economic cluster"

3 © 2010 FSG

FSG.ORG

The "Externalities" We Have Ignored Have Substantial Internal Effects

4 © 2010 FSG

FSG.ORG

Societal and Corporate Success are Inextricably Linked

- **The long-term competitiveness of companies depends on social conditions**
 - An educated and skilled workforce
 - Safe working conditions
 - Sustainable use of natural resources
 - A flourishing local economy
- **Business has an essential role to play in solving social problems**
 - Only companies can create prosperity that funds government and civil society
 - Companies can create sustainable and scalable solutions to many social problems in ways that governments and NGOs cannot
 - Competitions fuels innovation and efficiency
 - For-profit models are the most scalable and sustainable
 - Businesses can overcome constraints that limit their growth

Incorporating societal issues into strategy and operations is the next major transformation in management thinking

5 © 2010 FSG

FSG.ORG

Shared Value is:

*Policies and practices that **enhance the competitiveness** of a company while simultaneously **advancing the economic and social conditions** in the communities in which it operates.*

<ul style="list-style-type: none"> • Shared Value IS: <ul style="list-style-type: none"> - Creating economic value by creating societal value - Using capitalism to address social problems 	<ul style="list-style-type: none"> • Shared Value is NOT: <ul style="list-style-type: none"> - Sharing the value already created (philanthropy) - Personal values - Balancing stakeholder interests
---	--



- All profit is **not equal**. Profit involving shared value enables society to advance and companies to grow faster
- Incorporating societal issues into strategy and operations is **the next major transformation** in management thinking
- Shared value thinking represents the next evolution of **capitalism itself**

6 © 2010 FSG

FSG.ORG

A Shift from 'What's Good for Business is Good for Society' to 'What's Good for Society is Good for Business'

<div style="background-color: #4F7942; color: white; padding: 10px; margin-bottom: 10px; font-weight: bold; font-size: 1.2em;">CSR</div> <ol style="list-style-type: none"> 1. Create social benefit by redistributing some of the value created by business 2. Doing good is integral to a successful risk management strategy 3. Businesses help solve social problems because it is their responsibility to 'give back' 4. All profit is equal <div style="border: 1px solid #ccc; border-radius: 10px; background-color: #E6F0D9; padding: 5px; margin-top: 10px; text-align: center;"> <p><i>Example</i></p> <ul style="list-style-type: none"> • Fair trade purchasing </div>	 	<div style="background-color: #0056B3; color: white; padding: 10px; margin-bottom: 10px; font-weight: bold; font-size: 1.2em;">Creating Shared Value</div> <ol style="list-style-type: none"> 1. Create social <u>and</u> business benefit by "increasing the size of the pie" 2. Doing good is integral to a successful innovation strategy 3. Businesses help solve social problems because they make it their purpose and a source of competitive advantage 4. Not all profit is equal: profit that is good for society is more sustainable <div style="border: 1px solid #ccc; border-radius: 10px; background-color: #D9E6F0; padding: 5px; margin-top: 10px; text-align: center;"> <p><i>Example</i></p> <ul style="list-style-type: none"> • Transforming sourcing to increase quality and yield </div>
--	--------------------------	--

CSV
7
© 2010 FSG

FSG.ORG

Companies Can Create Shared Value at Three Levels

Reconceiving Products and Markets

Redefining Productivity in the Value Chain

Enabling Local Cluster Development

8
© 2010 FSG

FSG.ORG



Dow's Shared Value Product Innovations

- **Solar Shingles** to provide clean energy with lower installation costs
 - Developed markets
- **Organic pesticides**, using 1/10,000th the amount of product traditionally applied
 - Developed & emerging markets
- Investing in **WaterHealth International** to provide clean, affordable water to 10 million people living on <\$2/day
 - Emerging markets





9

© 2010 FSG

FSG.ORG



The Fibria Pulp Value Chain

- Fibria is a Brazilian subsidiary of Votorantim that is one of the world's largest manufacturer of pulp for paper
- All production is based on planted eucalyptus
 - **No use** of tropical native trees
 - Mosaics of native reserves within forests to insure **biodiversity**
- Uses advanced soil science, forestry management and state-of-the-art technologies for pollution control in the mills
- Small-scale farmers are permitted to grow maize, beans and manioc in areas belonging to the company to increase biodiversity



- 170,000 hectares of **preserved native reserves** interspersed with 286,000 hectares of eucalyptus plantations (more than 37% of its planted areas)
- ~4,000 households currently obtain income from eucalyptus production by selling wood to Fibria under a forest partnership program
- Fibria benefits as well since 1 hectare of planted eucalyptus can produce about the **same volume** of wood as 30 hectare of native forest

10

© 2010 FSG

FSG.ORG

Coca Cola Brasil Has Developed *Collectivos* to Create Retail Employment Opportunities for Youth in the Favelas

- 8 Week classes that teach merchandising and build self esteem
 - Managed by local NGOs
 - Taught by local youth
- Graduates gain employment that raises household income an average of 50%
 - Collectivos introduce youth to the idea of a “career”
- Increases retail outlets and sales for Coca Cola
 - Also Increases brand loyalty and awareness
- After a pilot in 2009, Coca Cola has now established 160 Collectivos training 65,000 youth per year

Coca Cola tracks both social and business impacts monthly and continually improves the program based on the results

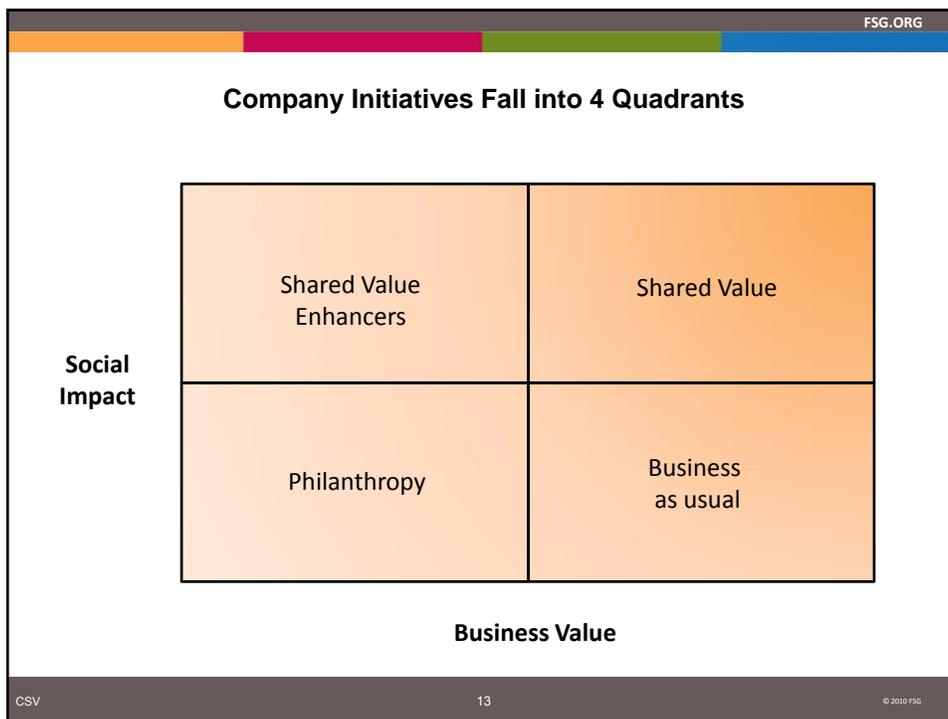
11 © 2010 FSG

FSG.ORG

Health Companies Are Shifting from Product Donations to Cluster Building: Novartis Arogya Parivar

Products	Services	Results & next steps
<ul style="list-style-type: none"> ▪ Portfolio: <ul style="list-style-type: none"> • 79 pharmaceutical products in 12 therapeutic areas ▪ Affordable: <ul style="list-style-type: none"> • Sandoz generics • Over-the-counter (OTC) medications & nutrients • Custom small packs branded in local dialect 	<ul style="list-style-type: none"> ▪ Community health education: <ul style="list-style-type: none"> • ~300 health educators • Focus on prevention, child & maternal health, symptom awareness ▪ Healthcare provider education: <ul style="list-style-type: none"> • Address low level of medical training ▪ Supply chain management: <ul style="list-style-type: none"> • Ensure continuity of supply in village pharmacies 	<ul style="list-style-type: none"> ▪ Improved access to health education and medicines for 42 million patients in 28,000 villages ▪ Partnering with ~50 000 pharmacists and clinics ▪ Portfolio expansion in 2011: vaccines, generics, diagnostics and more ▪ Will pilot in Indonesia, Vietnam and Kenya (2011) ▪ Partnering to expand access to health infrastructure financing

12 © 2010 FSG



FSG.ORG

Shared Value is Transforming Business Strategy: Shifting Stakeholder Roles and Relationships

- Shared value thinking is driving **new relationships** between **companies, philanthropists, NGOs,** and **government** and the **roles** that they are playing in addressing social issues

<u>New Roles</u>	
Companies	<ul style="list-style-type: none"> Initiate and drive shared value programs
Philanthropists	
NGOs	
Governments	
	<ul style="list-style-type: none"> Partner with companies and NGOs to drive shared value initiatives Enable implementation of new shared value business models in their fields Partner with companies and NGOs to enable and support shared value strategies

14 © 2010 FSG

FSG.ORG

Shared Value is Transforming Business Strategy: Incorporating Shared Value in Investing

Traditional Investor Perspective

➔

Emerging Investor Perspective

- Many investors are **skeptical** of increasing corporate commitment to social and community impact
- See social impact activities as **unrelated** to core business activities
- Selected investors are focusing on **sustainability**, but primarily for **harm reduction** and **risk mitigation**

➔

- **New dialog** on shared value opportunities
 - e.g., UBS Sustainable Innovation Conference
- Shared value opens up a **new** and **far broader opportunity**
- Companies that create shared value will gain **competitive advantages** and **superior investor returns**

- **Investor interest** will motivate companies to drive shared value creation at scale
- Better measurement of shared value is a **key enabler** of changing investor perceptions

15 © 2010 FSG

FSG.ORG

Mining Companies Typically Encounter Similar Social Challenges

<u>Issue</u>	<u>Traditional Response</u>	<u>Shared Value</u>
• Worker Productivity	• High absenteeism and turnover leads to heavy recruiting costs	• Create training institute to build skills of local workforce
• Local Supply Chain	• Import goods and services from outside the region	• Provide training, financing, and equipment to create local suppliers
• Civil Unrest	• Donate to community projects	• Create a prosperous economic cluster

Shared Value requires more strategic and intentional investment, but leads to sustainable competitive advantages

16 © 2010 FSG