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RESEARCH ARTICLE

CORPORATE SOCIAL RESPONSIBILITY THROUGH CREATING SHARED VALUE

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ABSTRACT

The concept of shared value can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. This concept was first introduced in Harvard Business Review article Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility and further expanded in the January 2011 follow-up piece entitled Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society. The central premise behind creating shared value is that the competitiveness of a company and the health of the communities around it are mutually dependent. CSV acknowledges trade-offs between short-term profitability and social or environmental goals, but focuses more on the opportunities for competitive advantage from building a social value proposition into corporate strategy. The concept of shared value—which focuses on the connections between societal and economic progress—has the power to unleash the next wave of global growth. An increasing number of companies known for their hard-nosed approach to business—such as Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever, and Wal-Mart—have begun to embark on important shared value initiatives. But our understanding of the potential of shared value is just beginning. The concept of shared value blurs the line between for-profit and nonprofit organizations. New kinds of hybrid enterprises are rapidly appearing. For example, Water Health International, a fast-growing for-profit, uses innovative water purification techniques to distribute clean water at minimal cost to more than one million people in rural India, Ghana, and the Philippines. Its investors include not only the socially focused Acumen Fund and the International Finance Corporation of the World Bank but also Dow Chemical's venture fund. Revolution Foods, a four-year-old venture-capital-backed U.S. start-up, provides 60,000 fresh, healthful, and nutritious meals to students daily—and does so at a higher gross margin than traditional competitors. So Companies must take the lead in bringing business and society back together. The recognition is there among sophisticated business and thought leaders, and promising elements of a new model are emerging. The solution lies in the principle of shared value, which involves creating economic value in a way that *also* creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress. Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center. We believe that it can give rise to the next major transformation of business thinking. This paper seeks to examine the concept of shared value with respect to societal and economic progress. An effort is also made to suggest the ways to increase shared value.

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INTRODUCTION

The concept of shared value can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. shared value creation focuses on identifying and expanding the connections between societal and economic progress. The concept rests on the premise that both economic and social progress must be addressed using value principles.

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Value is defined as benefits relative to costs, not just benefits alone. Value creation is an idea that has long been recognized in business, where profit is revenues earned from customers minus the costs incurred. However, businesses have rarely approached societal issues from a value perspective but have treated them as peripheral matters. This has obscured the connections between economic and social concerns. In the social sector, thinking in value terms is even less common social organizations and government entities often see success solely in terms of the benefits achieved or the money expended. In recent years business increasingly has been viewed as a major cause of social, environmental, and economic problems. Even worse, the more business has begun to embrace corporate responsibility, the more it has been blamed for society's failures. A big part of the problem lies with companies themselves, which remain trapped in an outdated approach to value creation that has emerged over the past few decades. They continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success. Companies must take the lead in bringing business and society back together. The solution lies in the principle of shared value, which involves creating economic value in a way that *also* creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress. Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. A growing number of companies known for their hard-nosed approach to business—such as GE, Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever, and Wal-Mart—have already embarked on important efforts to create shared value by reconceiving the intersection between society and corporate performance. Capitalism is an unparalleled vehicle for meeting human needs, improving efficiency, creating jobs and building wealth. But a narrow conception of capitalism has prevented business from harnessing key its full potential to meet society's broader challenges. The purpose of the corporation must be redefined as creating shared value, not just profit perse. Business and society have been pitted against each other for too long. That is in part because economists have legitimized the idea that to provide societal benefits, companies must temper their economic success.

Concept

Idea in Brief the concept of shared value— look at which focuses on the connections between societal and economic progress—has the power to unleash the next wave of global growth. There are three key ways that companies can create shared value opportunities:

- By reconceiving products and markets
- By redefining productivity in the value chain
- By enabling local cluster development

The concept of shared value, also recognizes that social harms or weaknesses frequently create *internal* costs for firms—such as wasted energy or raw materials, costly accidents, and the need for remedial training to compensate for inadequacies in education. And addressing societal harms and constraints does not necessarily raise costs for firms, because they can innovate through using new technologies, operating methods, and management approaches—and as a result, increase their productivity and expand their markets. This leads to a bigger pie of revenue and profits that benefits both farmers and the companies that buy from them. Early studies of cocoa farmers in the Côte d'Ivoire, for instance, suggest that while fair trade can increase farmers' incomes by 10% to 20%, shared value investments can raise their incomes by more than 300%. Initial investment and time may be required to implement new procurement practices and develop the supporting cluster, but the return will be greater economic value and broader strategic benefits for all participants.

The roots of shared value

A business needs a successful community, not only to create demand for its products but also to provide critical public assets and a supportive environment. A community needs successful businesses to provide jobs and wealth creation opportunities for its citizens. This interdependence means that public policies that undermine the productivity and competitiveness of businesses are self-defeating, especially in a global economy where facilities and jobs can easily move elsewhere. In the old, narrow view of capitalism, business contributes to society by making a profit, which supports employment, wages, purchases, investments and taxes. Facing growing competition and shorter term performance pressures from shareholders managers resorted to waves of restructuring, personnel reductions, and relocation to lower-cost regions, while leveraging balance sheets to return capital to investors. The results were often commoditization, price competition, little true innovation, slow organic growth, and no clear competitive advantage. In this kind of competition, the communities in which companies operate perceive little benefit even as profits rise. Instead, they perceive that profits come at their expense, an impression that has become even stronger in the current economic recovery, in which rising earnings have done little to offset high unemployment, local business distress and severe pressures on community services. It was not always this way. The best companies once took on a broad range of roles in meeting the needs of workers, communities, and supporting businesses. As other social institutions appeared on the scene, however, these roles fell away or were delegated.

These transformations drove major progress in economic efficiency. However something profoundly important was lost in the process, as more fundamental opportunities for value creation were missed. The scope of strategic thinking contracted. Strategy theory holds that to be successful, a company must create a distinctive value proposition that meets the needs of a chosen set of customers. The firm gains competitive advantage from how it configures the value chain, or the set of activities involved in creating, producing, selling, delivering, and supporting its products or services. For decades businesspeople have studied positioning and the best ways to design activities and integrate them. However, companies have overlooked opportunities to meet fundamental societal needs and misunderstood how societal harms and weaknesses affect value chains.

Why shared value creation

Shared Value Creation can, for example, yield:

- Big cost savings, as in the $250 million savings (a $2.71 return on every dollar it spent on these programs from 2002 through 2008) that Johnson & Johnson attributed to its employee wellness programs (not to speak of demonstrated improvements in employee attendance and productivity);
- Big revenue gains, as in the $18 billion that General Electric derived from the sale of Ecomagination products in 2009, a category of offerings that is

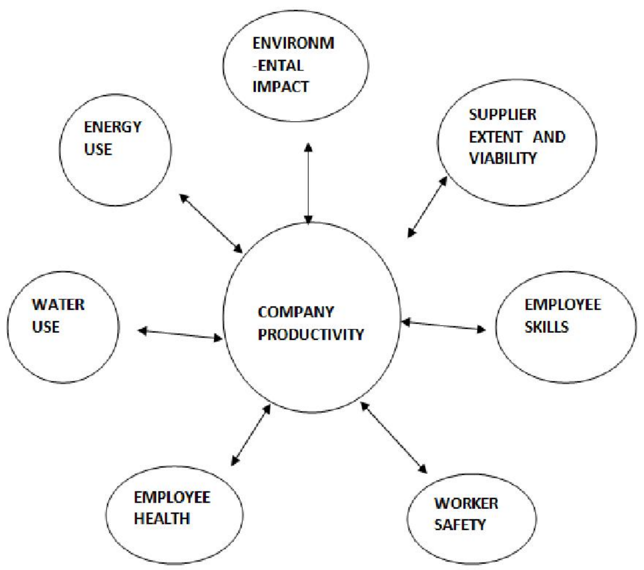
expected to grow at twice the rate of total company revenues over the next five years; and

- Big improvements to employee leadership development and retention, as with IBM's Corporate Service which deploys teams of high-potential employees on 30-day projects to help emerging countries address some of their most pressing societal needs. A rapidly growing number of very large, and very influential corporations (including virtually all of the largest technology companies) have instituted large Corporate social responsibility (CSR) and corporate philanthropy (CP) programs and most have conceived and are managing these programs in way that is intended to create shared value. And this does not include the hundreds of small companies that have built their entire business models around addressing societal needs or the growing number of social entrepreneurs who are creating hybrid organizations that blur the line between for-profit and non-profit organizations.

In other words, regardless of whether you consider social value creation to be a new generation of capitalism, or just a new generation of corporate social responsibility, one thing is clear. More and more companies—and especially technology companies—are becoming convinced that they can, do quote another well-known economic philosopher, Benjamin Franklin, "do well by doing good."

The connection between competitive advantage and social issues

There are numerous ways in which addressing societal concerns can yield productivity benefits to a firm. Consider, for example, what happens when a firm invests in a wellness program. Society benefits because employees and their families become healthier, and the firm minimizes employee absences and lost productivity. The graphic below depicts some areas where the connections are strongest.



Equal or greater opportunities arise from serving disadvantaged communities and developing countries. Today attention is riveted on India, China, and increasingly, Brazil, which offer firms the prospect of reaching billions of new customers at the bottom of the pyramid—a notion persuasively articulated by C.K. Prahalad. Similar opportunities await in nontraditional communities in advanced countries. We have learned, for example, that poor urban areas are America's most underserved market; their substantial concentrated purchasing power has often been overlooked. The societal benefits of providing appropriate products to lower-income and disadvantaged consumers can be profound, while the profits for companies can be substantial. For example, low-priced cell phones that provide mobile banking services are helping the poor save money securely and transforming the ability of small farmers to produce and market their crops. In Kenya, Vodafone's M-PESA mobile banking service signed up 10 million customers in three years; the funds it handles now represent 11% of that country's GDP. In India, Thomson Reuters has developed a promising monthly service for farmers who earn an average of $2,000 a year. For a fee of $5 a quarter, it provides weather and crop pricing information and agricultural advice. The service reaches an estimated 2 million farmers, and early research indicates that it has helped increase the incomes of more than 60% of them—in some cases even tripling incomes. As capitalism begins to work in poorer communities, new opportunities for economic development and social progress increase exponentially.

For a company, the starting point for creating this kind of shared value is to identify all the societal needs, benefits, and harms that are or could be embodied in the firm's products. The opportunities are not static; they change constantly as technology evolves, economies develop, and societal priorities shift. An ongoing exploration of societal needs will lead companies to discover new opportunities for differentiation and repositioning in traditional markets, and to recognize the potential of new markets they previously overlooked. Meeting needs in underserved markets often requires redesigned products or different distribution methods. These requirements can trigger fundamental innovations that also have application in traditional markets. Microfinance, for example, was invented to serve unmet financing needs in developing countries. Now it is growing rapidly in the United States, where it is filling an important gap that was unrecognized. A company's value chain inevitably affects—and is affected by—numerous societal issues, such as natural resource and water use, health and safety, working conditions, and equal treatment in the workplace. Opportunities to create shared value arise because societal problems can create economic costs in the firm's value chain. Many so-called externalities actually inflict internal costs on the firm, even in the absence of regulation or resource taxes. Excess packaging of products and greenhouse gases are not just costly to the environment but costly to the business. Wal-Mart, for example, was able to address both issues by reducing its packaging and rerouting its trucks to cut 100 million miles from its delivery routes in 2009, saving $200 million even as it shipped more products. Innovation in disposing of plastic used in stores has saved millions in lower disposal costs to landfills. The new thinking reveals that the congruence between societal progress and productivity in the value chain is far greater than traditionally believed. The synergy increases when firms approach societal issues from a shared value perspective and invent new ways of operating to address them. Efforts to minimize pollution were once thought to inevitably increase business costs—and to occur only because of regulation and taxes. Today there is a growing consensus that major improvements in environmental performance can often be achieved with better technology at nominal incremental cost and can even yield net cost savings through enhanced resource utilization, process efficiency, and quality.

Energy use and logistics: The use of energy throughout the value chain is being reexamined, whether it be in processes, transportation, buildings, supply chains, distribution channels, or support services. Triggered by energy price spikes and a new awareness of opportunities for energy efficiency this reexamination was under way even before carbon emissions became a global focus. The result has been striking improvements in energy utilization through better technology, recycling, cogeneration and numerous other practices—all of which create shared value. We are learning that shipping is expensive, not just because of energy costs and emissions but because it adds time, complexity, inventory costs, and management costs. Logistical systems are beginning to be redesigned to reduce shipping distances, streamline handling, improve vehicle routing, and the like. All of these steps create shared value. The British retailer Marks & Spencer's ambitious over haul of its supply chain, for example, which involves steps as simple as stopping the purchase of supplies from one hemisphere to ship to another, is expected to save the retailer £175 million annually by fiscal 2016, while hugely reducing carbon emissions. In the process of reexamining logistics, thinking about outsourcing and location will also be revised.

Resource use: Heightened environmental awareness and advances in technology are catalyzing new approaches in areas such as utilization of water, raw materials, and packaging, as well as expanding recycling and reuse. Better resource utilization—enabled by improving technology—will permeate all parts of the value chain and will spread to suppliers and channels. For example, Coca-Cola has already reduced its worldwide water consumption by 9% from a 2004 baseline—nearly half way to its goal of a 20% reduction by 2012. Dow Chemical managed to reduce consumption of fresh water at its largest production site by one billion gallons—enough water to supply nearly 40,000 people in the U.S. for a year—result ing in savings of $4 million. The demand for water saving technology has allowed India's Jain Irrigation, a leading global manufacturer of complete drip irrigation systems for water conservation, to achieve a 41% compound annual growth rate in revenue over the past five years.

Procurement: The traditional playbook calls for companies to commoditize and exert maximum bar gaining power on suppliers to drive down prices even when purchasing from small businesses or subsistence-level farmers. More recently, firms have been rapidly outsourcing to suppliers in lower-wage locations. Today some companies are beginning to understand that marginalized suppliers cannot remain much less improve, their premium for better beans quality. By increasing access to inputs, sharing technology, and providing financing, companies can improve supplier quality and productivity while ensuring access to growing volume. Improving productivity will often trump lower prices. As suppliers get stronger, their environmental impact often falls dramatically, which further improves their efficiency. Shared value is created. Good example of such new procurement thinking can be found at Nespresso, one of Nestlé's fastest growing divisions, which has enjoyed annual growth of 30% since 2000. Nespresso combines a sophisticated espresso machine with single-cup aluminum capsules containing ground coffees from around the world.

Offering quality and convenience, Nespresso has expanded the market for premium coffee. Obtaining a reliable supply of specialized coffees is extremely challenging, however. Most coffees are grown by small farmers in impoverished rural areas of Africa and Latin America, who are trapped in a cycle of low productivity, poor quality, and environmental degradation that limits production volume. To address these issues, Nestlé redesigned procurement. It worked intensively with its growers, providing advice on farming practices, guaranteeing bank loans, and helping secure inputs such as plant stock, pesticides, and fertilizers. Nestlé established local facilities to measure the quality of the coffee at the point of purchase, which allowed it to pay a premium for better beans directly to the growers and thus improve their incentives. Greater yield perhectare and higher production quality increased growers' incomes, and the environmental impact of - farms shrank. Meanwhile, Nestlé's reliable supply of good coffee grew significantly. Shared value was created.

Distribution: Companies are beginning to reexamine distribution practices from a shared value perspective. As iTunes, Kindle, and Google Scholar demonstrate, profitable new distribution models can also dramatically reduce paper and plastic usage. Similarly, microfinance has created a cost-efficient new model of distributing financial services to small businesses. Opportunities for new distribution models can be even greater in nontraditional markets. For example, Hindustan Unilever is creating a new direct to-home distribution system, run by underprivileged female entrepreneurs, in Indian villages of fewer than 2,000 people. Unilever provides micro credit and training and now has more than 45,000 entrepreneurs covering some 100,000 villages across 15 Indian states. Project Shakti, as this distribution system is called, benefits communities not only by giving women skills that often double their household income but also by reducing the spread of communicable diseases through increased access to hygiene products. This is a good example of how the unique ability of business to market to hard to-reach consumers can benefit society by getting life-altering products into the hands of people that need them. Project Shakti now accounts for 5% of Unilever's total revenues in India and has extended the company's reach into rural areas and built its brand in media-dark regions, creating major economic value for the company.

Employee productivity

The focus on holding down wage levels, reducing benefits, and off shoring is beginning to give way to an awareness of the positive effects that a living wage, safety, wellness, training, and opportunities for advancement for employees have on productivity. Many companies for example, traditionally sought to minimize the cost of "expensive" employee health care coverage or even eliminate health coverage altogether. Today leading companies have learned that because of lost work days and diminished employee productivity poor health costs them more than health benefits do. Take Johnson & Johnson. By helping employees stop smoking (a two-thirds reduction in the past 15 years) and implementing numerous other well ness programs, the company has saved $250 million on health care costs, a return of $2.71 for every dollar spent on wellness from 2002 to 2008. Moreover, Johnson & Johnson has benefited from a more present and productive workforce. If labor unions focused more on shared value, too, these kinds of employee approaches would spread even faster.

Location: Business thinking has embraced the myth that location no longer matters, because logistics are inexpensive, information flows rapidly, and markets are global. The cheaper the location, then the better. Concern about the local communities in which a company operates has faded. That oversimplified thinking is now being challenged, partly by the rising costs of energy and carbon emissions but also by a greater recognition of the productivity cost of highly dispersed production systems and the hidden costs of distant procurement. Wal-Mart, for example, is increasingly sourcing produce for its food sections from local farms near its warehouses. It has discovered that the savings on transportation costs and the ability to restock in smaller quantities more than offset the lower prices of industrial farms farther away. Nestlé is establishing smaller plants closer to its markets and stepping up efforts to maximize the use of locally available materials. Olam International, a leading cashew producer, traditionally shipped its nuts from Africa to Asia for processing at facilities staffed by productive Asian workers. But by opening local processing plants and training workers in Tanzania, Mozambique, Nigeria, and Côte d'Ivoire, Olam has cut processing and shipping costs by as much as25%—not to mention, greatly reduced carbon emissions. In making this move, Olam also built preferred relationships with local farmers. And it has provided direct employment to 17,000 people—95% of whom are women—and indirect employment to an equal number of people, in rural areas where jobs otherwise were not available. These trends may well lead companies to remake their value.

Government regulation and shared value

Regulation is necessary for well functioning markets, something that became abundantly clear during the recent financial crisis. However, the ways in which regulations are designed and implemented determine whether they benefit society or work against it. Regulations that enhance shared value setgoals and stimulate innovation. They highlight a societal objective and create a level playing field to encourage companies to invest in shared value rather than maximize short-term profit. Such regulations have a number of characteristics. First, they set clear and measurable social goals whether they involve energy use, health matters, or safety. Second they set performance standards but do not prescribe the methods to achieve them—those are left to companies. Third they define phase-in periods for meeting standards, which reflect the investment or new-product cycle in the industry. phase in periods give companies time to develop and introduce new products and processes in a way consistent with the economics of their business. Fourth, they put in place universal measurement and performance reporting systems, with government investing in infrastructure for collecting reliable benchmarking data (such as nutritional deficiencies in each community). This motivates and enables continual improvement beyond current targets. Finally appropriate regulations require efficient and timely reporting of results, which can then be audited by the government as necessary, rather than impose detailed and expensive compliance processes on everyone. To be sure, companies locked into the old mind-set will resist even well constructed regulation. Finally, regulation will be needed to limit the pursuit of exploitative, unfair, or deceptive practices in which companies benefit at the expense of society. Strict antitrust policy, for example, is essential to ensure that the benefits of company success flow to customers, suppliers, and workers. A good example of a company working to improve framework conditions in its cluster is Yara, the world's largest mineral fertilizer company. Yara realized that the lack of logistical infrastructure in many parts of Africa was preventing farmers from gaining efficient access to fertilizers and other essential agricultural inputs, and from transporting their crops efficiently to market. Yara is tackling this problem through a $60 million investment in a program to improve ports and roads, which is designed to create agricultural growth corridors in Mozambique and Tanzania. The company is working on this initiative with local governments and support from the Norwegian government. In Mozambique alone, the corridor is expected to benefit more than 200,000 small farmers and create 350,000 new jobs. The improvements will help Yara grow its business but will support the whole agricultural cluster, creating huge multiplier effects. The benefits of cluster building apply not only in emerging economies but also in advanced countries. North Carolina's Research Triangle is a notable example of public and private collaboration that has created shared value by developing clusters in such areas as information technology and life sciences.

Creating shared value in practice

Profits involving a social purpose represent a higher form of capitalism—one that will enable society to advance more rapidly while allowing companies to grow even more. The result is a positive cycle of company and community prosperity, which leads to profits that endure. Creating shared value presumes compliance with the law and ethical standards, as well as mitigating any harm caused by the business, but goes far be yond that. The opportunity to create economic value through creating societal value will be one of the most powerful forces driving growth in the global economy. This thinking represents a new way of understanding customers, productivity, and the external influences on corporate success. It highlights the immense human needs to be met, the large new markets to serve, and the internal costs of social and community deficits—as well as the competitive advantages available from addressing them. Until recently, companies have simply not approached their businesses this way. Creating shared value will be more effective and far more sustainable than the majority of today's corporate efforts in the social arena. Companies will make real strides on the environment, for example when they treat it as a

productivity driver rather than a feel-good response to external pressure. Or consider access to housing. A shared value approach would have led financial services companies to create innovative products that prudently increased access to home ownership. This was recognized by the Mexican construction company Urbi, which pioneered a mortgage-financing “rent-to-own” plan. Major U.S banks, in contrast, promoted unsustainable financing vehicles that turned out to be socially and economcally devastating, while claiming they were socially responsible because they had charitable contribution programs.
Inevitably, the most fertile opportunities for creating shared value will be closely related to a company’s particular business, and in areas most important to the business. Here a company can benefit the most economically and hence sustain its commitment over time. Here is also where a company brings the most resources to bear, and where its scale and market presence equip it to have a meaningful impact on a societal problem.

Shared value is defining a whole new set of best practices that all companies must embrace. It will also become an integral part of strategy. The essence of strategy is choosing a unique positioning and a distinctive value chain to deliver on it. Shared value opens up many new needs to meet, new products to offer, new customers to serve, and new ways to configure the value chain. And the competitive advantages that arise from creating shared value will often be more sustainable than conventional cost and quality improvements. The cycle of imitation and zero-sum competition can be broken. The opportunities to create shared value are widespread and growing. Not every company will have them in every area, but our experience has been that companies discover more and more opportunities over time as their line operating units grasp this concept. It has taken a decade, but GE’s Ecomagination initiative, for example, is now producing a stream of fast-growing products and services across the company.

CSR Vs CSV

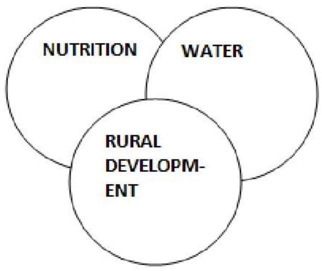
CSR (Corporate Social Responsibility)	CSV(creating shared value)
1.Value: doing good 2. Citizenship, philanthropy sustainability 3. Discretionary or in response to external pressure . 4. Separate from profit maximization. 5.Agenda is determined by external reporting and personal preferences. 6. Impact limited by corporate footprint and CSR budget Example: Fair trade purchasing	1.Value: economic and societal benefits relative to cost. 2. Joint company and community value creation. 3.Integral to competing 4.Integral to profit maximization 5. Agenda is company specific and internally generated. 6.Realigns the entire company budget Example: Transforming procurement to increase quality and yield

"In the drug industry, traditionally, CSR is giving free drugs to poor people. Now they have started to understand that they can't afford to donate drugs to all the people that need them in the world so now some of the best companies – and now thinking that how to distribute and package and market drugs to low income consumers."And by packaging them differently, by getting them to the marketplace differently, they actually created a business model. And now they can grow that and grow that and grow that, and it's not a matter of how much they allocate of their profit to donating drugs, it's how they rethink actually creating economic value at the same time as they're addressing this important social need."As to the novelty of CSV, and sticking to healthcare, think of Novo Nordisk co-evolving a global healthcare campaign with the World Health Organisation and Oxford and Yale universities to persuade consumers to improve their diets and exercise regimes – to avoid chronic diseases, including the diabetes wave from which the Danish company stood to profit from massively as the world's leading insulin producer. Why? Because Novo also saw the risk of the accumulating costs collapsing public health care systems. Or recall the initiative launched by GlaxoSmithKline's incoming chief executive Andrew Witty, where GSK slashed the cost of drugs to 49 of the world's poorest countries. CSR? Yes, but equally a cool-headed strategic decision based on a concern that there was a growing risk of poor countries breaking patent protection on key drugs their people desperately needed – encouraging local manufacturers of generic substitutes to compete.

CSV FOCUS AREAS

Creating Shared Value: Nestlé

Nestlé is committed to reporting its performance openly; reflecting those areas with a significant current or potential impact on the Company. These include areas that are of significant concern to stakeholders over which they have a reasonable degree of control. On the basis of nature of their business, they have identified nutrition, water and rural development as key global issues of concern to society. These three areas are core to their business strategy and competitive advantage, to driving growth in shareholder value and to meeting the needs of society, and were discussed at the first Creating Shared Value Global Forum in New York, in April 2009.



1) Nutrition: They believe that the future of their Company lies in helping people to eat a healthier diet, whether the problem is deficiency in vitamins and minerals at one end of the spectrum, or obesity at the other. The Key challenges include how to address those at the base of the income pyramid. Using science-based solutions, they seek to improve quality of life through food and diet, contributing to the health and wellbeing of consumers, including those with specific nutritional needs and those at the “base of the income pyramid” through products with higher nutritional value at lower prices. They also aim to generate greater awareness, knowledge and understanding among consumers through clear, responsible communication. To help guide Nestlé strategy in nutrition, the Nestlé Nutrition Council – a council of internationally recognised experts, chaired by Executive Vice President Werner Bauer – meets regularly with Nestlé management to consider key topics in nutrition relevant to Nestlé business interests. They invest in continuous development and improvement in the nutrition profile of products in all categories and in the strengthening of their recipe database management for finer nutrition analysis and tracking. They continue to reduce the salt, sugar, trans fatty acid, saturated fat and artificial colourings they contain, adding more nutritious ingredients and beneficial micronutrients, providing appropriate portion guidance, and making nutritious, high-quality food affordable and available to lower-income consumers.

CSV summary:

- **Value for Nestlé:** deeper understanding of nutrition and health issues as well as fruitful collaborations with various stakeholders, both informing our innovation and renovation efforts, brand awareness and recognition; consumer loyalty; long-term enhanced growth, market share and profitability.
- **Value for society:** greater access to safe, high-quality, responsibly produced, nutritious food; greater knowledge of health issues, better understanding of how to use Nestlé products as part of a healthy and enjoyable diet.

2. Water and environmental sustainability

Globally, the combination of population growth, increasing affluence and lifestyle patterns are outstripping the planet's ability to bear the effects of human activity. The food chain, from agriculture to manufacturing and consumption, contributes significantly to water quality and availability, climate change, energy use, biodiversity and soil quality, and air quality. At the same time, it is heavily dependent upon all these environmental resources. They have invested over Swiss Franc (CHF) 175 million in environmental sustainability programmes and initiatives during 2010. Moreover they continue to identify and implement projects to reduce Their use of water, non-renewable energy and other natural resources, to reduce emissions of greenhouse gases (GHGs), to eliminate waste and to improve the environmental performance of their packaging. They also work alongside their suppliers to promote more sustainable practices in their supply chain, including the promotion of water stewardship. In 2010, they carried out pilot Biodiversity Assessments in our Nestlé Waters Plant in Viladrau, Spain, which is located in a naturally protected environment as well as their confectionery plant in Fawdon, UK. With this action, they were among the first companies in Europe that engaged in such assessments on their premises. They continued to make improvements in their water consumption and CO2 emissions performance through reduced energy consumption following operational energy efficiency measures and a move towards renewable energy sources. More waste is being diverted from disposal to landfill and incinerators without energy recovery. Two additional manufacturing sites, in the UK, managed to find alternative uses for manufacturing by-products, thus diverting them from disposal to landfill or incineration without energy recovery. A continued focus on packaging optimisation remains a priority.
CSV summary

- **Value for Nestlé:** continuously improving environmental performance; efficient operations; reduced risks; resource and cost savings; long-term availability of raw materials and water; sustainable, profitable growth.
- **Value for society:** raising of environmental standards; higher incomes; better standards of living; improved food security.

3) Rural development

Nestlé has established world-class plant research facilities in France and Côte d'Ivoire, where higher yielding, disease-resistant varieties are being developed. The Company also runs field trials and employs a large number of agronomists who provide training and consultation on farming practices. Because rural credit markets are not always developed, and small farmers may have little or no collateral to pledge to get a loan, Nestlé has often acted as the provider of credit so that farmers could use improved technologies. The Company has also helped farmers to produce and sell higher-value products than they previously grew. In Yunnan Province, China, for example, Nestlé introduced the opportunity for farmers to produce coffee in an area with no previous history of coffee-growing. Nestlé buys over 40% of the milk it processes directly from farmers, and much of it from smallholders. This increases farmer income and improves the nutritional status of children in the household. Nestlé also has processing and packaging functions close to the point of raw material supply, improving food safety and reducing spoilage. These plants add to the local tax base, diversify the local economy and create non-farm employment opportunities close to farm households, an essential step towards eliminating rural poverty. Individuals' earning potential increases, and the area becomes more attractive to other employers, suppliers and service providers. Quality of life has improved in the rural communities where Nestlé has factories, with investments in infrastructure, education and safe drinking water. Its Popularly Positioned Product (PPP) programme also provides affordable sources of nutrition for lower-income consumers, often fortified with essential nutrients such as iodine, vitamin A, iron, and zinc to overcome deficiencies in the local diet .When the majority of the world's poor live in rural areas and most are farmers, focusing more attention on agricultural development and rural poverty reduction will both ensure a sustainable supply of raw materials for Nestlé's factories, and also accelerate poverty reduction and growth in demand for food products – truly an example of creating shared value.

CSV summary

Value for Nestlé: More secure supply of better-quality raw materials; lower procurement costs; consumer preference for our products; profitable growth.
Value for society: Advice and technical assistance; greater yields; higher-quality crops; lower resource use; increased income and reduced rural poverty; wider employment and

economic development opportunities; consumers aware our products are safe and of high quality

Nestle In India

Moga, in the Indian Punjab, is one of Nestlé's largest milk districts, from which they buy 1.25 million litres of milk a day from 100 000 farmers. However, local water resources are overexploited and the water table is falling by at least one metre a year, which could affect milk supply in the long term.
More water is needed to produce some products than it is to produce others, and it is not only inefficient to try to grow the most water-intensive products in water-scarce areas; it will contribute to an even greater water crisis in the future. Therefore, together with the International Water Management Institute (IWMI), Nestlé undertook a study of the water intensity of milk, wheat and rice production in the region. The study involved three different phases: measuring the water footprint of the entire farm system; assessing the sustainability of the water footprint of the different crops grown in the area; and developing a comprehensive response using best farming practice to make water use more sustainable and ensure the long-term supply of agricultural raw materials. To reduce water use in Moga, IWMI recommends intensifying milk production by increasing the fodder area, the number of lactating cows and increasing each cow's productivity. It also suggests improving the cultivation and irrigation practices of rice – a very water-intensive crop – to reduce its water footprint. To do so, technologies developed in other regions of the world could be adapted for rice and wheat farmers in Moga.

For example:

- delaying the transplanting of paddy fields reduces evaporation losses by 9%, 140 million m^3 of groundwater and 11.2 million kWh of energy to pump the water;
- laser-assisted land levelling can reduce groundwater pumping by one-third and improve rice and wheat yields;
- raising the height of retaining "bunds" by 22 cm helps to capture more than 95% of the monsoon rain that falls on rice fields

Hence finally we can say that not all societal problems can be solved through shared value solutions. But shared value offers corporations the opportunity to utilize their skills, resources, and management capability to lead social progress in ways that even the best-intentioned governmental and social sector organizations can rarely match. In the process, businesses can earn the respect of society again.

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