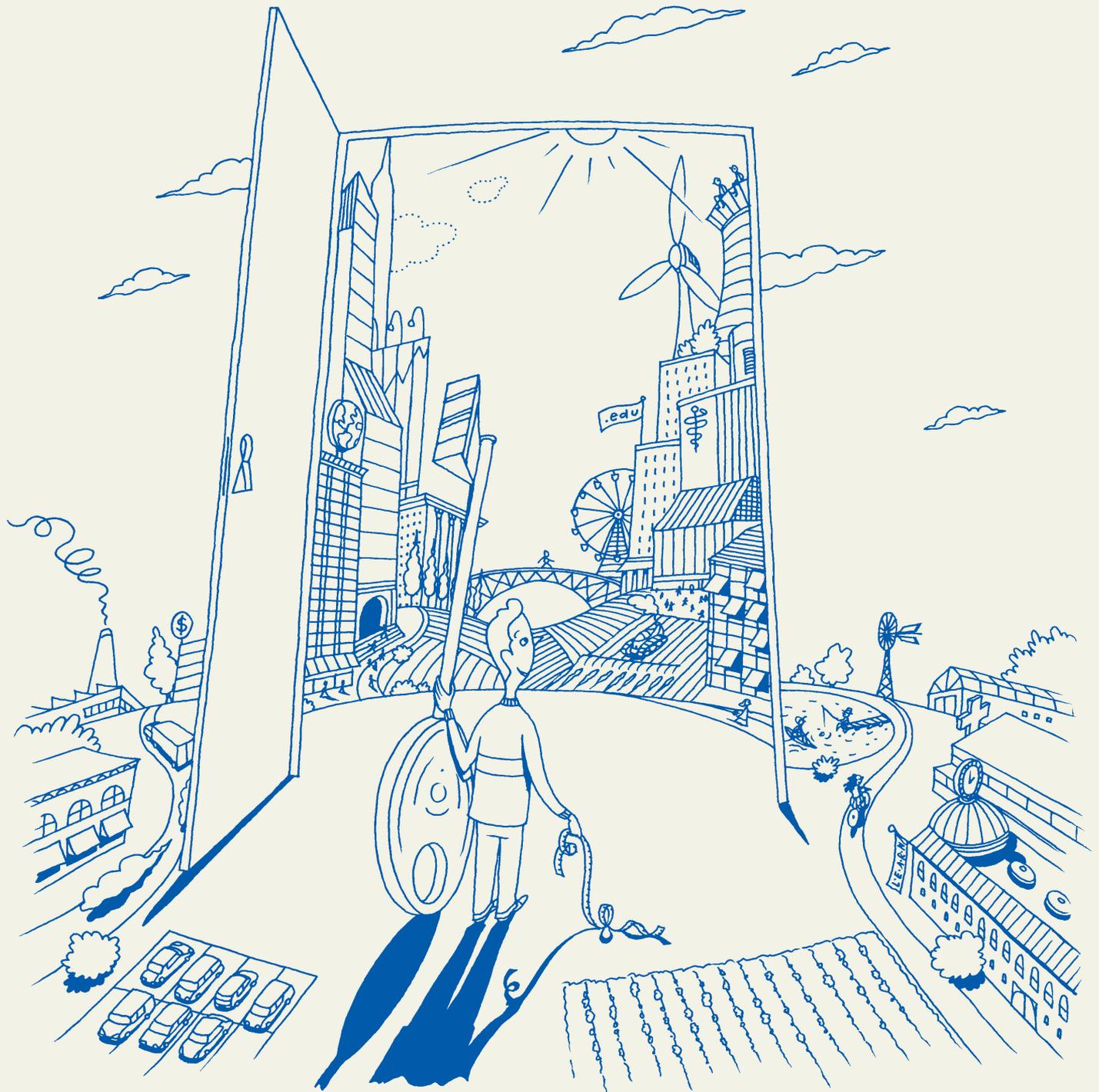


# Measuring Shared Value

How to Unlock Value by Linking Social and Business Results



Michael E. Porter, Greg Hills, Marc Pfitzer, Sonja Patscheke, and Elizabeth Hawkins

## ABOUT THIS REPORT

The genesis of this article occurred at the FSG-hosted Shared Value Summit in Cambridge, Massachusetts in June 2011 where sixty company representatives and co-authors of the *Harvard Business Review* article “Creating Shared Value,” Michael E. Porter and Mark Kramer, identified measurement as a key driver of shared value adoption. Nestlé, Intel, InterContinental Hotels Group, and the Rockefeller Foundation committed to work with and support FSG in developing this article on measuring shared value. Insights were drawn from a systematic literature review, in-depth interviews with featured companies, and FSG’s work on shared value with dozens of corporations.

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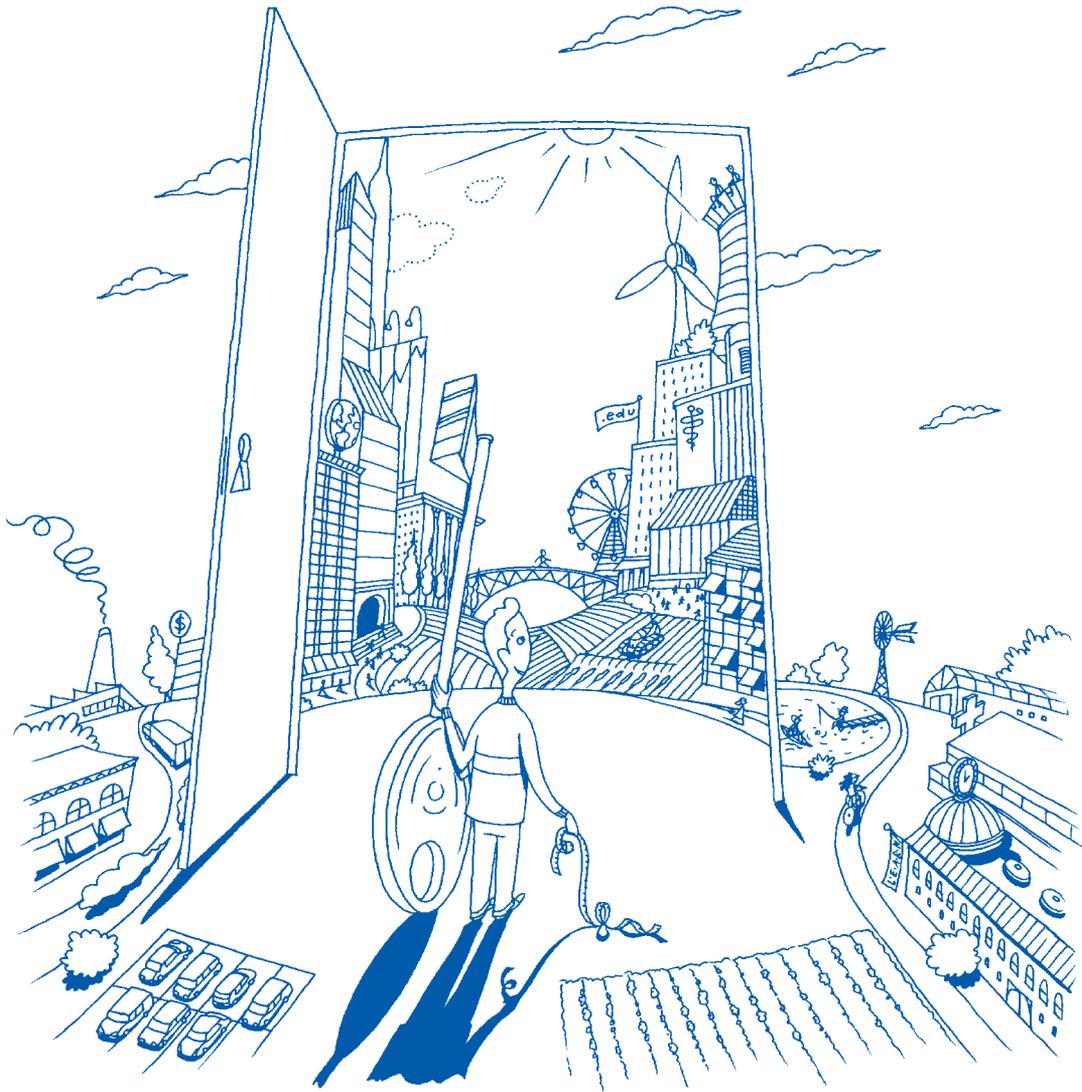
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## Measuring Shared Value

### How to Unlock Value by Linking Social and Business Results

**M**ore and more, companies are creating shared value by developing profitable business strategies that deliver tangible social benefits. This thinking is creating major new opportunities for profit and competitive advantage at the same time as it benefits society by unleashing the power of business to help solve fundamental global problems. Despite the widespread embrace of the shared value concept, however, the tools to put this concept into practice are still in their infancy. In particular, a new framework for measurement that focuses on the interaction between business and social results is among the most important tools to drive shared value in practice.

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Even the companies that are most advanced in pursuing shared value today lack the data they need to optimize its results. Companies cannot know the extent to which they are creating shared value if they do not measure their progress on social objectives and, importantly, the degree to which social performance improves economic value for the business. When companies do not understand or rigorously track the interdependency between social and business results, they miss important opportunities for innovation, growth, and social impact at scale.

Companies today track and report myriad financial, social, and environmental metrics, drawing in part on efforts by the social sector to develop more sophisticated methods for evaluating social impact. There is also a nascent integrated reporting movement that aims to add sustainability measures

**When companies do not understand or rigorously track the interdependency between social and business results, they miss important opportunities for innovation, growth, and sustainable social impact at scale**

to financial statements. Still missing, however, is a framework to link social progress directly to business success, and vice versa. Efforts to understand the link between business performance and social value creation are just beginning.

Measurement approaches that link social and business results are vital to unlocking shared value for companies and scalable solutions to social problems. Effectively measuring shared value starts with a well-developed shared value strategy. To develop such a strategy, companies must identify key social issues to focus on, plan the relevant business activities involved, and model anticipated business and social benefits relative to projected costs. Shared value measurement, in turn, assesses progress and results, generating actionable data and insights to refine shared value strategies.

Data and insights from measuring shared value enable companies to scale shared value initiatives while also providing an indispensable basis for effective communication with the investment community. By illuminating the direct connection between tackling social issues and achieving economic value creation, shared value measurement will diminish investor skepticism and ultimately transform how the investment community rewards companies that create shared value. In other words, measurement makes shared value strategies tangible for investors.

In preparing this report, we examined emerging measurement practices in more than a dozen leading companies that are pursuing shared value strategies. The process included in-depth research at Nestlé, Intel, and InterContinental Hotels Group (IHG). Each of these organizations opened its doors and provided information on existing systems and approaches to inform this work. Our research revealed that shared value measurement is distinct from other existing measurement approaches, is practical and achievable, and powerfully informs improvement and innovation in shared value strategies.

## Anchoring Shared Value Measurement in Strategy

### Companies Pursue Shared Value at Three Levels

Much like any business strategy, shared value strategies are unique and tailored to an individual company. As the *Harvard Business Review* article “Creating Shared Value” explains, companies can pursue shared value opportunities on three levels: reconceiving products and markets, redefining productivity in the value chain, and enabling cluster development. The shared value opportunities at each level will differ by industry, company, and geography, depending on how a company’s particular business and strategy intersect with social issues.

Creating shared value from **reconceiving products and markets** focuses on revenue growth, market share, and profitability that arise from the environmental, social, or economic development benefits delivered by a company’s products and services.

Creating shared value from **redefining productivity in the value chain** focuses on improvements in internal operations that improve cost, input access, quality, and productivity achieved through environmental improvements, better resource utilization, investment in employees, supplier capability, and other areas.

Creating shared value from **enabling local cluster development** derives from improving the external environment for the company through community investments and strengthening local suppliers, local institutions, and local infrastructure in ways that also enhance business productivity.

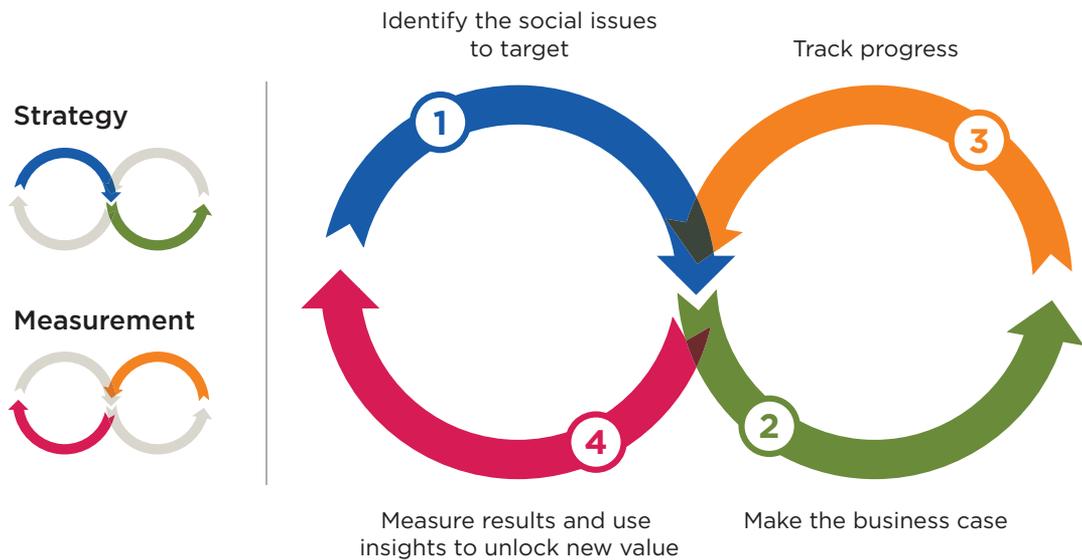
Measuring shared value aims to track the progress and results of tailored shared value strategies. For each shared value opportunity, companies identify and track both social and business results; their parallel goals are to address a social problem and improve business performance (see Table 1).

LEVELS OF SHARED VALUE	BUSINESS RESULTS	SOCIAL RESULTS
<b>Reconceiving product and markets:</b> How targeting unmet needs drives incremental revenue and profits	<ul style="list-style-type: none"> <li>• Increased revenue</li> <li>• Increased market share</li> <li>• Increased market growth</li> <li>• Improved profitability</li> </ul>	<ul style="list-style-type: none"> <li>• Improved patient care</li> <li>• Reduced carbon footprint</li> <li>• Improved nutrition</li> <li>• Improved education</li> </ul>
<b>Redefining productivity in the value chain:</b> How better management of internal operations increases productivity and reduces risks	<ul style="list-style-type: none"> <li>• Improved productivity</li> <li>• Reduced logistical and operating costs</li> <li>• Secured supply</li> <li>• Improved quality</li> <li>• Improved profitability</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced energy use</li> <li>• Reduced water use</li> <li>• Reduced raw materials</li> <li>• Improved job skills</li> <li>• Improved employee incomes</li> </ul>
<b>Enabling cluster development:</b> How changing societal conditions outside the company unleashes new growth and productivity gains	<ul style="list-style-type: none"> <li>• Reduced costs</li> <li>• Secured supply</li> <li>• Improved distribution infrastructure</li> <li>• Improved workforce access</li> <li>• Improved profitability</li> </ul>	<ul style="list-style-type: none"> <li>• Improved education</li> <li>• Increased job creation</li> <li>• Improved health</li> <li>• Improved incomes</li> </ul>

**TABLE 1:**  
**Illustrative Business and Social Results by Level of Shared Value**

**FIGURE 1:**

**Integrating Shared Value Strategy and Measurement**



**The Shared Value Measurement Process**

Shared value measurement requires an iterative process that is integrated with business strategy, not a one-time or periodic effort separate from measuring business performance. An integrated shared value strategy and measurement process includes four steps (see Figure 1). Strategic priorities inform the focus and extent of shared value measurement; the data and insights from shared value measurement inform refinement of the shared value strategy. This ongoing feedback loop is one of shared value measurement’s central benefits—providing a roadmap for understanding and unlocking further shared value creation.

**Step 1: Identify the social issues to target.** The starting point for shared value is identifying and prioritizing specific social issues that represent opportunities to increase revenue or reduce costs. This requires a systematic screening of unmet social needs and gaps and an analysis of how they overlap with the business across the three levels of shared value. The result of this step is a list of prioritized social issues that a shared value strategy can target.

**Step 2: Make the business case.** After identifying potential social impact at one or more of the three levels, the next step is to develop a solid business case based on research and analysis of how social improvement will directly improve business performance. This step includes identifying the targets and specifying the activities and costs involved for each shared value opportunity, modeling the potential business and social results relative to the costs (i.e., value creation potential), and making a go/no-go decision.

**Step 3: Track progress.** Using the business case as a roadmap, companies then track progress against the desired targets, as with any performance improvement process. This step includes tracking inputs and business activities, outputs, and financial performance (revenues and costs) relative to projections.

**Step 4: Measure results and use insights to unlock new value.** The final step focuses on validating the anticipated link between social and business results and determining whether the outlay of corporate resources and efforts produced a good joint return. Insights and lessons from this analysis will inform opportunities to unlock

further value creation through refining the shared value strategy and execution.

While some companies track progress on social and business results separately, few companies yet understand how the linkage of social and business results can create new opportunities for value creation. Unlocking shared value through measurement requires understanding the social results from business investments and analyzing and improving the business result from social outcomes. For example, if a company's community jobs skills program results in simultaneous job creation and expansion of its market, it should

ask how it could expand those strong program elements to further benefit the company and other communities. If a pharmaceutical company's training of health professionals yields inconsistent health worker capacity across locations, and thus inconsistent drug sales, it should ask what changes it needs to make to optimize health outcomes and business results. If a company works successfully to improve a farmer's yield and therefore increases the company's raw material supply, it should consider ways to transfer that successful approach to other farmers in the same crop or in other crops.

## Unlocking New Value from Measurement

While shared value measurement is still in its infancy, leading companies are employing each of these four steps to unlock new value from measurement. They are also piloting a range of shared value measurement approaches.

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Coca-Cola's Coletivo initiative in Brazil creates shared value by increasing the employability of low income youth while strengthening the company's retail distribution channels and brand strength to increase local product sales. Coca-Cola has integrated shared value strategy and measurement steps and uses data and insights to unlock new value creation.

### 1. Identify the social issues to target

In 2008, 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. While the Brazilian government was rather successful at providing primary education for all kids, most young people at low income levels had little or no opportunity to find jobs due to their lack of relevant skills and limited employment opportunities in their communities.

### 2. Make the business case

To improve the skills and employability of these young people, Coca-Cola sought to use the company's value chain. The Coletivo initiative, in partnership with local NGOs, trains local youth for two months in retailing, business development, and entrepreneurship while also pairing youth with a local retailer to get their first job experience and recommend ideas for improvement. Coca-Cola hypothesized that the small retailers could significantly improve their operations with trainee assistance, resulting in increased sales of Coca-Cola products and higher penetration of consumers among the emerging lower middle class segment.

### 3. Track progress

Coletivo supervisors in each community measure and report progress on a monthly basis, tracking

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## Coca-Cola and Youth Employment

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the number of youth participating, the number of retailers involved, and the performance of retailers over time. The company also closely monitors the costs associated with the effort to ensure its cost effectiveness and efficiency. Since launching the initiative in 2009, Coca-Cola has trained thousands of youth in retailing, business operations, and basic entrepreneurship concepts. The company now operates 135 Coletivos across Brazil, each with an average of 500 students, and plans to be running 170 by the end of 2012. In 2012, the program's budget was several millions of dollars.

#### 4. Measure results and use insights to unlock new value

Coca-Cola measures results using four key indicators: 1) youth job placement; 2) youth self-esteem; 3) company sales; and 4) brand connection.

The Coletivo Initiative has been highly successful so far. Approximately 30 percent of the young people trained immediately land their first job with Coca-Cola or one of its partners, and at least 10 percent set up their own business with micro-credit support from the company. From a business perspective, an investment in a Coletivo site is profitable in only two years.

Coca-Cola's rigorous measurement by region, community, and model during the pilot phase allowed the company to identify and focus on the most effective approaches and interventions—ways to unlock new value. For example, in the first year, Coca-Cola focused its training sessions on the technical aspects of retailing, such as merchandising or stock management. Based on measurement data, however, the managers realized that the students faced significant self-esteem challenges that prevented them from finding a job and being effective workers. In response, Coca-Cola revised the content of the training program to put more emphasis on soft skills, including leadership and presence.

Measurement data also revealed that a key success factor was the strength of the local NGO that acted as an implementing partner. The company modified its approach to bolster the NGO partners' management and leadership capabilities, and helped them build sustainable sources of funding. This support led to better retailer performance and a stronger Coca-Cola brand connection across the community, both of which improved product sales.

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### Novo Nordisk and Diabetes Care

Novo Nordisk, a global healthcare company with 88 years of leadership in diabetes care, has demonstrated the power of measuring shared value through its long-term growth strategy in the Chinese insulin market.

#### 1. Identify the social issues to target

With China's urbanization, fast-growing economy, and increasing affluence, residents are increasingly prone to chronic disease such as diabetes. In 2010, an estimated 40 million people in China had type-2 diabetes, and that number was projected to double to 80 million over the next 15 years.

As a global leader in insulin medications, Novo Nordisk identified improving the health system and diabetes care in China as a core social issue for its business.

#### 2. Make the business case

Two decades ago, Novo Nordisk initiated a long-term China market growth strategy centered on improving diabetes care. Its shared value strategy was clear: by investing in physician training, patient education, and local production, the company believed it would dramatically improve the diagnosis of diabetes, a disease that was often

unrecognized, and increase the demand for its insulin products. Helping to improve diabetes diagnosis, care, and treatment would not only improve the lives of millions of Chinese citizens but would also improve the company's bottom line.

### 3. Track progress

Novo Nordisk tracks several key indicators, such as the number of physicians trained and patients educated. To date, Novo Nordisk's programs have facilitated more than 220,000 physician training sessions for more than 55,000 physicians who treat, on average, 230 patients annually. Since 2008, Novo Nordisk's Changing Diabetes® World Tour has visited more than 100 cities in China and attracted over 60,000 patients for diabetes screening and free education sessions.

### 4. Measure results and use insights to unlock new value

Over the last decade, Novo Nordisk's "Blueprint for China" shared value strategy has resulted in

an estimated 80 percent improvement in total patient life years<sup>1</sup> because of improved products and services, while increasing the company's market share from below 40% to 63% in the second largest insulin market in the world. Surveys indicate significantly increased diabetes control rates, which reduce overall health system costs. At the same time overall insulin sales increased, providing direct business benefits to Novo Nordisk.

Through robust measurement, Novo Nordisk has also identified ways to unlock additional shared value by refining its physician training approach. Analysis revealed that training physicians in smaller cities is more effective in improving patient outcomes than training them in big cities. The company consequently rechanneled a greater portion of its physician training toward second and third tier cities, unlocking incremental shared value.

**Measuring by Level of Shared Value:** Measurement considerations differ at each level of creating shared value, requiring different approaches to understand how to unlock greater value, as indicated in the following examples.

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#### Intel's Education Transformation strategy focuses on improving student outcomes while also increasing sales of classroom technology.

Technology has great potential to improve education results, provided it is integrated in a holistic manner. Yet only five percent of the approximately one billion students worldwide currently have access to a PC or the Internet at school and teachers lack professional development, curricula, and assessment approaches to integrate technology into the classroom.

As one of the leading technology companies in the world, Intel launched the Education Transformation strategy to help close this gap while simultaneously growing business opportunities for the entire global information and communications technology (ICT) ecosystem. Intel supports government efforts to improve the quality of their education systems with a holistic model for education transformation. The model combines advocacy for policy reform and leadership, curriculum standards and assessment, sustained professional development of teachers, ICT deployment, and

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#### Reconceiving Products and Markets: Intel

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<sup>1</sup> Refers to Disability Adjusted Life Years (DALYs), a common measure in the global health field, which represents the sum of the years of potential life lost due to premature mortality and the years of productive life lost due to disability.

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support of research and evaluation. The ultimate goal is to improve students' learning and outcomes and the development of twenty-first century skills. The model also offers business opportunities for the entire ICT ecosystem by increasing sales of classroom technology and, in the long term, helping to prepare the future workforce.

**“What we found at Intel was just because you have the data, it isn't everything. It's more about how you're using that data and how you're changing your decision making with that data.”**

**Shelly Esque, Intel**

To inform this strategy, Intel researchers studied how students and teachers interact to understand how a technology solution could support and optimize the learning experience and outcomes. Together with governments, education institutions, and regional training agencies, Intel teams designed and implemented teacher professional development programs, including the Intel® Teach program, which through mid-2012 had trained more than 10 million teachers worldwide. Intel also engaged national governments and educators to develop tailored solutions, such as the Intel®-powered classmate PC and the broader Intel® Learning Series family of products, including infrastructure, software, content, and services such as training and support in addition to hardware. These innovations were designed to meet the country's education needs, to support the growth of the local ecosystem, and to grow Intel's own business.

**Insights from measuring technology effectiveness in the classroom are informing Intel's product and program improvements, resulting in better learning and increased business.**

For Intel, shared value measurement is an essential component of its product/solutions development and sales process. A key to business success is to understand “what works” for students and teachers and to incorporate that knowledge into product design and deployment. Intel tracks product performance on characteristics important to kids' classroom usage, such as ruggedness, water resistance, and battery life, as well as levels of teacher engagement and student performance.

Post-sales measurement creates a virtuous cycle of innovation; better understanding of educational needs and the impact of Intel's education technology solutions improves the product, ultimately leading to additional sales and greater market share for Intel.

For instance, teachers in Pirai, Brazil, using the Intel®-powered classmate PC, scored above the national average for quality of lesson plans and delivery of materials for the three years measured after implementation of the pilot. In Portugal, where a national project was launched in 2007 to provide every primary school student with a classmate PC for home and school, PISA (Program for International Student Assessment) scores rose by approximately 20 points in all three subjects tested (reading, science, and math) between 2006 and 2009.

Linking educational outcomes to the effective application of technology and other elements of the education transformation model can help school systems understand the importance of the integration of ICT in education. This can lead to further adoption of new technology in the classroom, thus driving Intel's business. The strong focus on continuous product improvement based on the insights from measurement has also led the company to achieve market leadership in the growing global education technology market with an increased market share.

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**InterContinental Hotels Group tested dozens of options for reducing energy, water, and waste to lower its environmental footprint while also driving down hotel operating costs.**

InterContinental Hotels Group (IHG), the largest hotel company in the world, launched its Green Engage program when the company assessed its environmental footprint and realized that energy represented its second largest cost. IHG also identified water and waste as environmental and social issues with significant shared value potential. Green Engage started in 2009 by testing dozens of options for reducing energy use, water consumption, and waste disposal in pilot hotels. These included new cooling/warming systems, solar panels, and automatic computer shutdown applications. The objective was to provide a detailed ranking of all possible shared value opportunities in terms of returns to IHG as well as its franchises. Areas with high environmental impact and return were clearly distinguishable from other areas popular with the general public, such as solar energy, which yielded fewer reductions in emissions or economic value.

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**Nestlé trains and assists smallholder farmers to foster rural development while ensuring a reliable supply of high quality raw materials.**

As the world's largest food and beverage company, Nestlé depends on a reliable supply of good quality raw materials, which in some cases are produced by smallholder farmers in low-income communities. Many decades ago, Nestlé started to implement a rural development strategy, recognizing that farmers earning decent incomes in thriving communities would be able to supply more and better agricultural goods. Nestlé employs over 1,100 agricultural staff and works with an additional

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**Insights from measurement drive ongoing improvements.**

Shared value measurement has been instrumental in driving Green Engage to achieve resource efficiencies and cost reductions across hundreds of hotels. Through measurement, IHG gained a rich understanding of the relative shared value potential of a wide range of practices. Green Engage was rolled out to more than 1,900 hotels using an online tool that continues to update actual shared value returns based on the ever-growing base of program adopters. The program has helped to create substantial reductions in hotel operating costs, including energy savings of up to 25 percent at individual sites.

**“When measurement is done right, you can start to develop theories around how these targets impact your business. Measurement leads to real refinements not only of the things you measure, but even in how you run your business.”**

**David Jerome, IHG**

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10,600 support staff across the world to train farmers, provide them with better technology, and assist farm communities in local development projects.

**Insights and data from shared value measurement have helped identify where and how Nestlé's agronomists should focus their time to optimize farmer yields, quality, and quantity.**

Measurement has allowed Nestlé to validate the link between farm improvements and increased supply of milk in India, for example. Since 2008, the company has invested in the development of

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**Redefining Productivity in the Value Chain: InterContinental Hotels Group**

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**Enabling Cluster Development: Nestlé**

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a new milk district in Rajasthan to satisfy the increasing demand for milk. This initiative builds on the company’s long history of helping Indian dairy farmers increase the productivity of their cattle, starting with the establishment of the first

**“Improving farmers’ lives is only possible when measuring progress at a farm and rural community level.”**

**Janet Voûte, Nestlé**

many of whom depend on milk production for their living—and supports their development through the establishment of collection and chilling centers,

milk district in Moga in 1961 and later in the state of Haryana. Today, Nestlé assures purchase at declared prices to more than 110,000 farmers—

free agricultural advice, veterinary services, and other essential infrastructure.

To date, Nestlé has worked directly with more than 8,000 farmers in Rajasthan. The company’s rural officers monitor progress through regular farm visits and they track specific indicators such as herd size and cattle health. Nestlé also measures the increased volume of milk it sources, which in this region has grown 13 percent per year since 2008.

As Nestlé’s agronomists gain a deeper understanding of the performance of individual farmers, they are able to better allocate their efforts to those farmers who have the most improvement potential and can therefore increase the shared value created.

## Existing Social Impact Measurement Approaches Serve Different Purposes

With a plethora of sophisticated sustainability reporting and impact measurement techniques, how is shared value measurement different? In what ways does shared value measurement overlap with or complement existing practices?

Companies face challenges from the proliferation of externally specified measures, yet they do not have full clarity about the purpose they serve or how they relate to each other. Many companies have begun to measure their social and environmental performance without regard for the business benefits and continue to measure their financial results without regard for social impact. Shared value measurement builds upon these existing measurement systems and approaches but focuses on the *intersection* of business and social value creation.

Existing social performance measurement practices cover sustainability, social and economic development impact, reputation, and compliance. All these practices address important management questions, but their aim is to demonstrate a company’s progress in managing its social impact regardless of the value or cost to the business (see Table 2). What companies measure to demonstrate impact can inform—but is distinct from—what they should measure to capture value creation.

**Sustainability** indicators have proliferated globally. More than 3,500 organizations in more than 60 countries, for example, use the Global Reporting Initiative’s (GRI) voluntary sustainability standards to report on their environmental, social, and governance (ESG) performance. Sustainability and related certification standards have met important needs. They have heightened corporations’ awareness of their impact on society and triggered

meaningful improvements in social and environmental performance. Their emphasis, however, has been on comprehensiveness (covering all possible impacts) and on demonstrating progress against these issues to stakeholders.

A subset of sustainability measures, such as tracking the reduction of water or energy use, for example, can form the basis for shared value measurement in businesses where these areas are material to the company's financials. Which areas to measure for shared value, however, depend on the industry and the company's strategy and business model.

**Impact Assessments** are conducted by companies to demonstrate to stakeholders that their operations or philanthropic investments have created positive benefits for communities. Such studies focus on social, environmental, or economic development impacts and changes over time. They are often retrospective or based on complex (and costly) evaluation methodologies such as randomized control trials, and they typically contain little or no connection between the studied impacts and company performance. Impact assessments can contribute to shared value measurement when the demonstration of impact informs a shared value strategy. For example, a detailed study on the health impact of micronutrient products in diets can be used to anticipate the shared value potential of a new product designed to meet micronutrient deficiencies.

**Reputation** measurement differs fundamentally from shared value measurement. Many companies use perception surveys and reputation metrics to consider how their philanthropic and social responsibility efforts improve their reputation and brand. While brand value does influence business value, such approaches capture the overall perception of a company on multiple dimensions,

some of which may be influenced by a company's specific societal engagement activities. However, a range of other factors also influence reputation, such as product quality, marketing, and executive leadership. Attributing an overall reputation rating to any single company action is challenging, so it remains difficult to ascribe a direct linkage between social responsibility efforts and business value accrued from reputation enhancements. Shared value measurement, in contrast, focuses on measuring how social outcomes directly drive tangible business value creation.

The positive perception of a successful shared value strategy can amplify the overall business value created. In the case of Coca-Cola's Coletivo program in Brazil, for example, engaging trainers and trainees in improving the performance of retailers directly affects Coca-Cola sales. In addition, however, Coca-Cola's brand perception and consumer engagement improves markedly in the Coletivo communities, contributing to sales increases. Similarly, in IHG's Green Engage program, the direct business value of the energy cost savings is supplemented by enhanced customer engagement. For example, some corporate customers sign exclusive deals with IHG because of its environmental track record; such business flows directly from the Green Engage shared value program.

**Compliance** measurements indicate how well companies meet laws, standards, and policies throughout the world, and many companies have well-established systems and externally validated measures to track compliance. The primary purpose of such compliance activities is to maintain a license to operate. Nonetheless, companies rarely seek to quantify the potential business value of avoiding adverse events.

**TABLE 2:**  
**Understanding  
the Purpose of  
Measurement**

<b>MEASUREMENT FOCUS</b>	<b>WHAT TO MEASURE?</b>	<b>WHY MEASURE?</b>	<b>FOR WHOM?</b>
<b>Shared Value</b>	Joint business and social value creation	<ul style="list-style-type: none"> <li>• Grow the total shared value created</li> </ul>	<ul style="list-style-type: none"> <li>• Primarily for management</li> <li>• Targeted communication to external stakeholders</li> </ul>
<b>Sustainability</b>	Efficiency in the use of input factors (e.g., natural resources and labor) and improved product and community impacts	<ul style="list-style-type: none"> <li>• Minimize negative externalities and augment positive impacts</li> <li>• Maintain a license to operate</li> </ul>	<ul style="list-style-type: none"> <li>• Management</li> <li>• Communication to external stakeholders</li> </ul>
<b>Impact Assessment</b>	The long term social and economic development impacts of operations and/or philanthropy	<ul style="list-style-type: none"> <li>• Track progress on social and economic development impact</li> <li>• Maintain a license to operate</li> </ul>	<ul style="list-style-type: none"> <li>• Communication to external stakeholders</li> </ul>
<b>Reputation</b>	How societal impacts contribute to company reputation	<ul style="list-style-type: none"> <li>• Manage reputation</li> </ul>	<ul style="list-style-type: none"> <li>• Primarily for management</li> </ul>
<b>Compliance</b>	Compliance with laws and voluntary policies, standards, and codes	<ul style="list-style-type: none"> <li>• Ensure adoption and compliance</li> <li>• Maintain a license to operate</li> </ul>	<ul style="list-style-type: none"> <li>• Management</li> <li>• Communication to external stakeholders</li> </ul>

Shared value measurement should not displace current measurement approaches. Companies will continue to audit their compliance with established laws or voluntary policies, report on the ESG factors that stakeholders expect, conduct impact assessments to demonstrate their positive impact on society, and track perceptions of the company’s brand.

While companies are understandably hesitant about adding yet another measurement system, current measurement is insufficient to inform

shared value strategies. The current emphasis on comparability across companies, comprehensiveness across issues, and corporate social responsibility will not replace the need for tailored measurement of the connection between business and social value that promises to shift the fundamental connection between business and social progress.

## Shared Value Measurement and Investors

Investors remain skeptical about the connection between a company's performance on social issues and the creation of economic value. To date, efforts to prove such linkages have failed to provide conclusive evidence. Results of recent studies offer contradictory findings, and even studies that find a positive correlation face the recurrent challenge of identifying causality. Shared value measurement, however, through directly linking social and business results, provides investors a direct line of sight between achieving social results and business performance.

How does shared value measurement fit into the broader movement to increase investor awareness of the importance of social issues to the bottom line? An international effort toward "integrated reporting," spearheaded by the International Integrated Reporting Committee (IIRC), is currently underway to establish standards for linking a company's social and environmental impact to its financials. In general, recent debate and activity reveal three different approaches to integrating social and business results.

The first approach seeks a correlation between good performance on ESG indicators and company value. Bloomberg, for example, has captured sustainability indicators reported by thousands of companies together with their financials, allowing analysts to explore correlations between these two data sets.

The second approach seeks to monetize the positive or negative social and environmental impacts of companies and to incorporate these impacts into notional company financials. This approach estimates and assigns a monetary value to the social or environmental gains/losses triggered

by company activities; that value is then added to or subtracted from actual company financials.

Shared value measurement is a third approach that does not rely on statistical correlations or estimated monetary values of environmental and social outcomes. Instead, the aim is to establish a direct linkage between social outcomes and actual financial results.

### Correlating ESG (Environmental, Social, and Governance) Performance to Market Value

Numerous studies have sought, and some have found, a positive correlation between sustainability indicators or ESG performance and overall stock performance. These studies find a correlation between a company's overall sustainability performance across a range of ESG factors and the company's overall financial performance. Yet they cannot specify which social or environmental issues are most important in driving business performance. Unsurprisingly, therefore, investment funds that select companies on the basis of ESG performance still represent less than 10 percent of total global investments.<sup>2</sup> As long as companies fail to link their sustainability activities to core business metrics such as revenue growth, cost reduction, and profitability, they are unlikely to have the full value of their actions recognized by more mainstream investment professionals. Some of the most advanced practitioners seeking ESG correlation, such as Corporate Knights in Canada, have begun to address this weakness. By running thousands of correlations between sustainability indicators and stock performance, they have demonstrated that specific indicators do in fact correlate with stock performance for specific

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<sup>2</sup> While precise global data on socially responsible investment (SRI) are not available, this figure represents an assumption based on publicly available estimates for SRI in the United States, Europe, and Canada.

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industries. For example, they have statistically demonstrated that in *redefining productivity in the value chain*, specific issues such as carbon and water use do indeed matter most to specific industries and companies.

### Monetizing ESG Performance and Creating Notional Financial Statements

Some companies have sought to estimate the cost of externalities and incorporate them into shadow profit and loss statements. Puma, for example, has created an “environmental P&L,” which includes a notional cost for its greenhouse gas emissions or water use in its supply chain, thus integrating lost “environmental capital” into its financials. The objective is to encourage more companies to adopt such measures. Eventually, governments could tax these externalities and therefore trigger greater efforts by companies to better manage these costs. While understandable, this approach faces considerable hurdles. It requires assigning a value to environmental and social capital, for which consensus will be hard to achieve. Also, financial officers and investors are not prone to taking fictitious costs seriously. Puma, in fact, continues to publish its conventional financials for investors.

The concept of SROI (social return on investment) has emerged as another way of considering the total value of investing in social or environmental outcomes. By estimating and assigning a financial value to social or environmental outcomes, and then adding that estimated value to actual economic value, SROI creates a “total” economic value. The SROI methodology is problematic for the investor community because it combines notional and actual economic value and hinges on a subjective estimate of the monetary value of social change—one extreme example of such difficulty is the challenge of assigning a monetary

value to a human life. In contrast, shared value measurement looks at the actual economic value accrued to the business from improving social outcomes, without making any assumptions about the economic value of the social change.

### Shared Value Measurement’s Role with Investors

Measuring shared value offers a *direct connection* between social and business results. It focuses on measuring those company activities and investments that drive social change and, through them, business results.

A way forward for integrated reporting should be to recognize the difference between what is measured to demonstrate impact and what is measured to capture value creation. Measuring compliance and progress across a number of important issues as captured by ESG indicators, where companies seek to improve their impacts on society at extra cost as a matter of responsibility, should be clearly distinct from shared value measurement, an approach to capture data and insights on strategies to deliver both social and business outcomes.

DSM, a diversified life sciences and material sciences company that releases an “Integrated Annual Report,” clearly makes this distinction in how it reports on its shared value creation from a specific product strategy compared to how it reports progress on key sustainability indicators, GRI results, and compliance. DSM’s integrated report includes its financials and links financial and social results where it intended to deliver such shared value; for instance, the same report discloses both the contribution to revenues of its ECO+ products and their impact on the environment. However, the company does not seek to assign a financial value to its progress on sustainability and compliance objectives.

## Pragmatic Approaches for Measuring Shared Value

Measuring shared value builds on well-established practices in business that connect strategy to execution and performance management. The need to capture social results and their impact on business results, however, adds new complications and challenges. Companies are finding pragmatic approaches to tackle these challenges. The following six measurement challenges illuminate some ways companies are innovating in their shared value measurement practices. As in any other area, resources committed to measuring shared value must yield a positive return.

### **Challenge #1: A Wide Range of Social Issues Could Be Addressed and Measured**

Identify and measure the few high-priority social results that the shared value strategy seeks to address

Companies can be overwhelmed by the range of potential social impacts of their activities that could be tracked and analyzed. They need to identify and prioritize the set of highest potential social results that they are targeting and resist measuring every possible benefit for every possible social dimension affected by their efforts. For example, Intel has outlined specific goals in the areas of teacher professional development and policy change to guide its Education Transformation strategy, and it links these goals to countries' socio-economic development outcomes. For over a decade, Intel engaged third-party research firms to evaluate the progress of Intel's education programs.

### **Challenge #2: Measuring Social Outcomes for Large Populations**

Determine social outcomes early in the product development process and select measurable outcomes

A long-standing measurement challenge is measuring social outcomes for large populations of people. For example, how does one measure the social impact of a healthier food product that

reaches millions of customers? What is the health impact of a new medicine for the population as a whole? Pharmaceutical companies use clinical studies to establish the efficacy and safety of new drugs, and physicians, in turn, expect those outcomes when they prescribe those products to patients. Health outcomes are extrapolated on a larger scale based on evidence of smaller scale impacts.

This same approach of smaller sample testing can be adapted to other social issues. Jain Irrigation Systems, for example, tests each irrigation technology prototype in the field to determine its impact on agricultural yields and water savings, and it only launches the product if the prototype adds value. Once it commercializes the product, Jain continues to collect specific data on the farm-level impact of its products and uses this to continuously improve the product through its R&D process.

In addition, selecting measurable outcomes helps companies assess progress against a shared value strategy when the social benefits accrue to a large number of people. Nestlé's fortified Maggi bouillons and seasonings and NIDO affordable milks are targeted at lower income consumers in Africa, Asia, and Latin America, to improve micronutrient consumption. Nestlé's measurement approach rests on the knowledge that clinical studies demonstrate the efficacy of fortification on health as well as

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on mapping consumer micronutrient deficiencies and tracking Nestlé fortification efforts relative to those gaps. In some cases, Nestlé uses targeted studies that track the specific nutritional and health impact of Nestlé fortified foods.

### **Challenge #3: Business Value Accrues on a Different Timeline Than Social Value**

Measure intermediate social outcomes

Effective shared value measurement must address the fact that business results and social results can have different time horizons. Measurement of intermediate outcomes allows early insights into social results to refine the strategy. While Intel can easily measure the short-term outcomes of its programs (such as number of teachers trained or students reached) and the sales of its technology, longer-term social results such as improved student achievement can take years to unfold. Intel has focused on short-term and intermediate social outcomes such as teacher and student engagement to gain insights into the effectiveness of its Education Transformation strategy.

### **Challenge #4: Measuring Business Value for Cluster Investments**

Use proxy indicators to track business results

Changes in external conditions in the communities in which a company operates can be difficult to measure because their impact on business value is indirect and can sometimes be slow to develop. Tracking proxy indicators can help companies assess whether the desired improvements in the cluster are progressing. When Nestlé works with milk producing communities in Rajasthan to ensure a steady flow of quality supply to its factories, for example, tracking the exact business value is difficult. Milk supplies and prices are subject to a multitude of market forces that

go beyond a single community, and tracing the value of milk used in different end products is a rough science. Instead, Nestlé tracks the overall volume of milk sourced and milk quality measures as pragmatic proxy indicators for business value.

### **Challenge #5: Determining a Company's Attribution When Strategies and Activities Require the Efforts of Many Partners**

Focus measurement of social results on contribution, not attribution

Measuring shared value should avoid the trap of trying to *attribute* social results solely to company actions; rather, it should focus on how company actions *contribute* to social progress. Social and environmental outcomes are rarely determined by one organization or one influence, making costly and time-consuming studies such as randomized control trials impractical. Alcoa, for example, has invested steadily to achieve its shared value goal of raising the aluminum recycling rate in the United States from about 50 percent in 2008 to 75 percent by 2015, and the company can measure the benefits of that shift on business performance. Despite being the market leader in aluminum products, however, the company is well aware that progress toward the target depends on the actions of a wide range of actors, including other companies, governments, communities, and NGOs. As a result, Alcoa works in partnership with important stakeholders and focuses on its contribution to the overall result.

### **Challenge #6: Management Desires an Aggregation of Social Impact Data**

Aggregate results selectively and only for the same social outcomes

Different social dimensions cannot be summed or aggregated (e.g., health and education outcomes are not additive). For a particular type

of outcome, however, programs or investments can be compared. For example, IHG's Green Engage program aggregates the total cost savings generated by resource use reductions (e.g., water, energy, and waste) of each participating hotel. IHG also compares whether carbon footprint reductions yielded greater financial returns than water savings. Yet IHG makes no effort to compare resource reductions with the workforce development outcomes of its IHG Academy program, although the company could compare the two programs' financial returns.

### Organizing for Shared Value Measurement

Measuring shared value must be embedded into existing management processes. Organizational implications include the following:

#### Increasing the role of business units in measuring social performance

Business units need to play a bigger role in driving shared value strategies and decisions. Corporate affairs and corporate social responsibility departments have historically managed performance measurement and reporting on social issues. With shared value measurement, these groups need to partner more closely with business units, corporate finance, and corporate strategy departments to better link business and social results. When IBM launched its Smarter Planet strategy in 2008, for example, the market development and insights organization embarked on a process to understand and define the "ROI of Smart," combining operational value with societal, brand, and strategic value. The resulting assessment tools were handed over to the business unit and are used to illustrate Smarter Planet's value proposition to customers.

#### Creating performance incentives aligned with shared value objectives

An increasing number of companies are beginning to integrate social performance metrics into senior management incentive structures—a useful first step. PepsiCo's "Performance with Purpose" agenda, for example, includes measurable, time-bound company goals across specific key performance indicators (KPIs), such as reducing the average amount of sodium per serving in key global food brands in key countries by 25 percent by 2015. As an indicator of senior-level alignment to these objectives, PepsiCo's CEO Indra Nooyi's performance evaluation includes accountability for progress against the short- and long-term performance of the company as well as "Performance with Purpose" KPIs.

#### Building cross-sector partnerships to execute and measure shared value strategies

Cross-sector partnerships are becoming increasingly important for executing and measuring shared value strategies. NGOs, governments, and foundations recognize that companies integrating social outcomes in their business models represent powerful allies in meeting their own aspirations for social change. In partnering with companies to achieve shared value objectives, they become co-creators of social and business value. Since cross-sector partners can execute key activities within the shared value strategy, they are well-positioned to track the intended outcomes and should be invited into the measurement design process early in the planning phases.

Third parties can also provide necessary technical expertise to assist companies in measuring the social results and the ultimate value creation from a particular investment. Working with external evaluation partners can bring relevant social

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sector expertise to the process and add credibility to the results. For example, GE works with Oxford Analytica, a global analysis and advisory firm, to measure the impact of Healthymagination, GE's business strategy to commercialize medical technologies that reach underserved and rural populations. Oxford Analytica supports GE in two ways: it conducts and/or validates upfront

assessment of products in the pipeline to ensure that they meet the social and business targets set by GE, especially for social value creation; and it conducts ongoing measurement of products on the market. On health access, for example, Oxford has created a formula that estimates how many patients per day use a specific product based on the number of units sold.

## The Future of Shared Value Measurement

Measuring shared value yields data and insights that offer significant opportunities across each level of shared value. Yet most companies around the world remain unaware of shared value improvement opportunities and are ill-prepared to capitalize on them when they materialize. Ignoring these opportunities limits a company's bottom line and shortchanges society of much needed innovation to solve social problems. We hope that more companies will follow the footsteps of companies like Coca-Cola, Novo Nordisk, Nestlé, Intel, and InterContinental Hotels Group and incorporate shared value measurement practices.

Despite its complexities, the pathway to shared value measurement is clear. First, companies must anchor shared value measurement in shared value strategy. An iterative and integrated shared value process provides focus to measurement activities and yields data that validates and improves shared value strategies. Second, shared value measurement must establish a direct link between meeting social needs and improving the business; understanding this linkage is the key to unlocking additional value creation. Third, measurement must assess the extent of value creation—tracking social and business results relative to the costs—in order to ensure the efficiency of current and future

efforts. Fourth, companies must clearly distinguish shared value measurement from other important forms of measurement, including compliance, sustainability, and impact assessments. Fifth, companies must adopt pragmatic approaches to navigate shared value measurement challenges.

Ultimately, shared value measurement will inspire and influence investors, not just CEOs and business unit managers. The investment community remains the ultimate lever for encouraging shared value adoption at scale. Shared value measurement concepts will reveal new and material data to investment analysts and leading investors. Isolating the business strategies that drive social results, and vice versa, will help create a new level of dialogue with investors. They will finally have evidence of direct economic value created from companies' investments in social issues and thus be better-informed in their capital allocation decisions across companies. Shared value measurement provides a roadmap for reaching the promise of shared value, which is a global imperative at a time when innovating to achieve sustainable, scalable solutions to the world's toughest problems requires the best business has to offer.

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