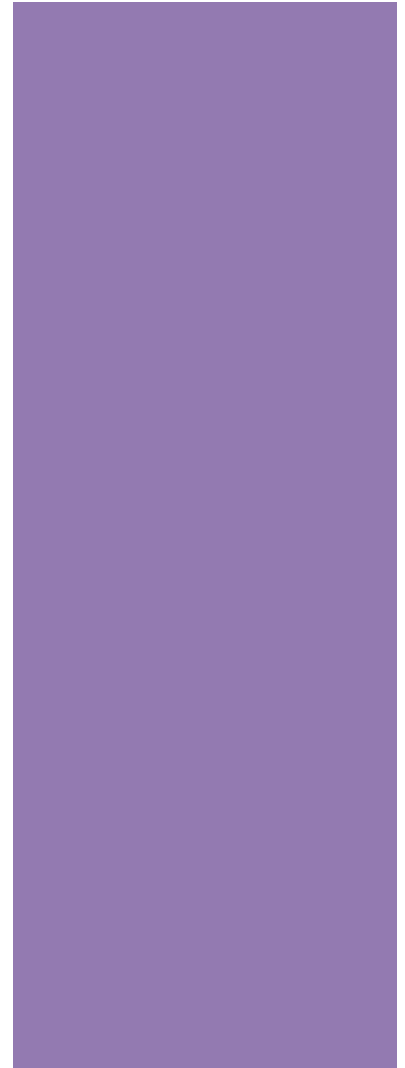




Oslo May 15
2014

The new imperative –
Creating shared value



“To embed shared value, the first step is to make sure that your company is very open to engagement and working with civil society organizations”

Business for Peace Roundtable

100 top leaders representing the ownership in companies with more than 2 million jobs participated in the roundtable discussions.

This document summarizes the discussions and gives selected quotes from the Business for Peace Roundtable in Oslo May 15, 2014.

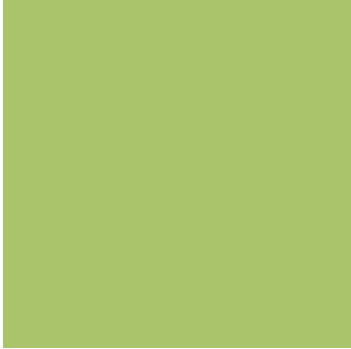
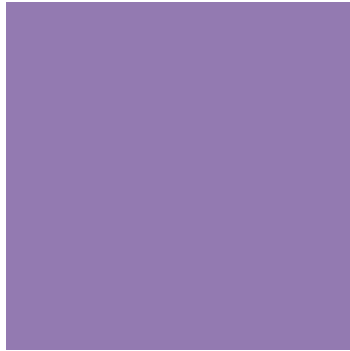
Its aim is to ensure that insight and quotes are captured and, most importantly, to trigger action.



*“Business
cannot succeed
in societies that
fail”*

Key insights:

- Shared value must be part of the core business model to create growth and prosperity
- Responsible businesses can't say that “this is not our problem,” we must engage with governments and civil society
- Despite progress, democracy and capitalism need a reset because these systems are currently not fulfilling our expectations
- Innovation on collaboration and partnership is needed, not just on technology
- Realising the benefits of shared value requires defining the fundamental social purpose of the company – what challenge are we solving?
- Partner with the “enemy”; Business, civil society and governments must cooperate to solve the challenges we are facing
- We need standards supported by sustainable business and reinforced by consumers and civil society.
- A gloomy macro level picture (such as the lack of a global price on carbon) should not deter us from driving positive micro level developments – smart decisions by individual countries and companies
- To move into a low-carbon economy we need: 1) to use existing technology to do the good things we already know how to do, 2) new technology, and 3) that each one of us takes the small, simple steps in the right direction



Part 1: Setting the scene

What differentiates shared value from “business as usual” and has anything fundamentally changed?

Shared value, triple bottom line, corporate social responsibility and sustainability – four terms describing the same idea: take the world’s toughest challenges, solving them in a non-harmful way, and in doing so - make a profit.

A prerequisite for doing this is that shared value is part of, and fully embedded in core business. We cannot be successful and realise true growth and prosperity without thinking shared value.

Is shared value a new paradigm? It is hard to say since there has always been companies contributing to society and understanding shared value – and companies who do not

care. It is hard to imagine a world where legislation is not needed and companies do everything on their own.

Business and civil society are, to a larger extent than before, cooperating to solve problems in areas where governments have failed. Examples are: EITI, UN Voluntary Principles on Security and human rights, and sustainable fisheries. We need standards supported by sustainable business, reinforced by consumers and civil society. Partnering with authorities can be beneficial and in some cases necessary.

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“Shared value enables us to think more about why we are in business, and can give a real purpose to the people involved.”

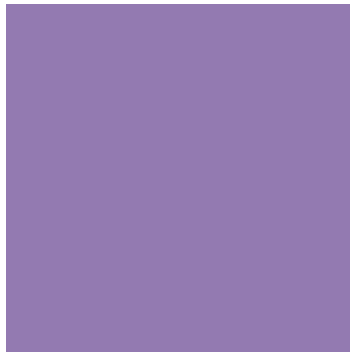
Business knows a lot about business, but people outside the organization can often ask difficult and relevant questions.

They can be a source of inspiration and innovation for our business.

Is the response to the required transformation sufficient? Clearly no – and a problem is that everyone is busy blaming someone else. Individual companies make progress, but transformation at a large scale is still lacking.



“You have to view your business in a larger context”



Part 2: Shared value in practice

What does shared value mean in practice? Is it just an exception from the norm or a new way of doing business?

The concept of shared value has exploded in popularity. Businesses are starting to embed purpose and they see the opportunities inherent in the challenges. There is still room for improvement in making social progress, measuring it and making fundamental decisions based on this. Businesses must document the value for the business and translate it to investors in order to explain the choices they make.

We heard strong examples of shared value in practice: How changing the hotel shampoo bottles led to a wider responsibility in relation to society, how

connecting the poor to the electricity grid can be a business opportunity, how to clean up an entire industry by setting an example, and how a small company can have large ambitions related to climate change. In these examples, purpose is embedded in the business model, they work with different players, and demonstrate results.

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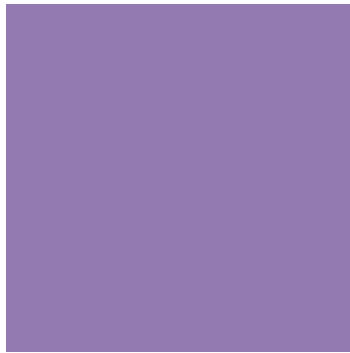
“Change from thinking that one needs to choose between profitability and wider responsibility to understanding that both can be achieved in conjunction”

We learned that:

- Engaging openly and constructively with civil society can build a consumer base.
- Making a business sustainable does not just happen because the CEO thinks it is a good idea – employees are key.
- Realising shared value requires understanding what challenges we are solving and what the fundamental social purpose of the company is.
- The commitment needs to come from owners and CEO - there is no other way for companies to embed a purpose-driven approach
- All industries can work towards being sustainable. And even a sustainable industry can operate in a non-sustainable way.
- Innovation in emerging markets can provide learning also for developed markets
- Every solution has to be unique. You cannot design a shared value strategy that fits every company – it depends on the nature of your company, your markets, supply chain and more.
- Shared value is a modern way of doing business and it is a journey



“The big problem is that the ones doing business as usual and short term are still making huge gains. Will the minority become successful enough and become respected enough to make up for the majority still destroying trust and public opinion?”



Part 3: Conversation on shared value

How can political and business leaders join forces on shared value?

Eradicating extreme poverty is not possible without the role of private sector and business. Governments must work together with businesses.

Incentives are key in reaching the UN Millennium Goals and the two-degree temperature target. A global carbon tax is needed, but the process does not have sufficient momentum. As a minimum, incentives for the reverse behaviour must be removed.

We are pessimists at the macro level – the global developments, but optimists at the micro level, where we see both

individual companies and countries moving in the right direction.

To move into a low-carbon economy we need: 1) to use existing technology to do the good things we already know how to do, 2) new technology, and 3) that each one of us takes the small, simple steps that move us in the right direction.

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“In order to reach the masses we need to rethink how we go about our business, with our current resources and business models we cannot scale to the next 4 billion. This transformation requires skills building.”

The problem is usually not business; it is *lack of* business (but not *any* business, it must act responsibly). Governments should encourage responsible business and that a country has structural or corruption problems does not mean that business should avoid it.

We are much more closely connected and dependent on each other than before. The political system has not changed, but the challenges have – they are large

and global. The global governance system is not up to date and hard to change. We need to redesign the political system to be fit for the challenges we are facing.



“If you are not at the table, you are on the menu.”



Part 4: Shareholders and shared value

How are investors approaching shared value and what are the limitations and benefits?

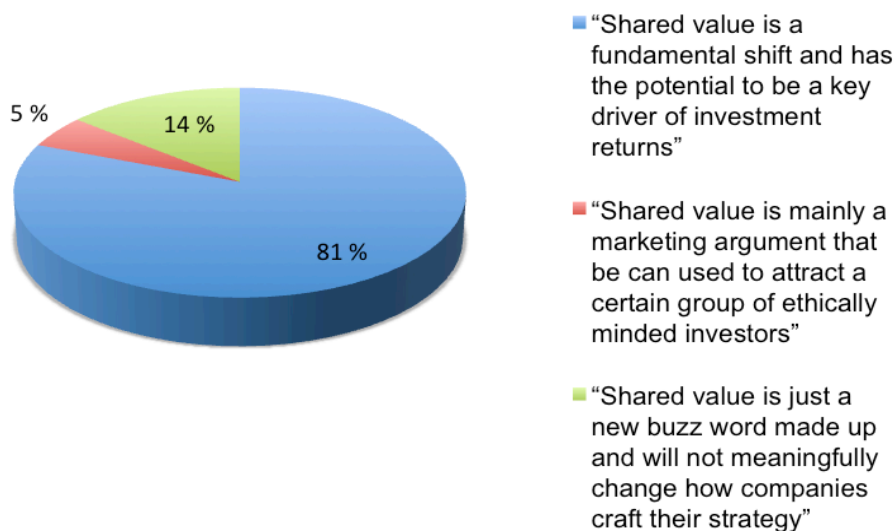
We need to ask ourselves the fundamental question of “why are we here?” Is it to enrich ourselves, or to build society? If you are not contributing to society, you should not be in business.

We learned that:

- The social contract between society and business is broken and needs fixing. We must go back to the roots, where business is an integrated part of society.
- Building and using indicators can be a powerful driver in realising shared value opportunities in private equity – but these are still early days
- There is a potential for a more strategic conversation on shared value between GPs and LPs – and using this as a competitive advantage for PE players

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Which statement do you support?



“If the required direction is going north, then heading south, a bit slower than the pack, is still going south”

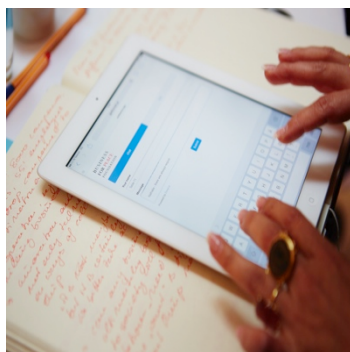
University of Cambridge
Programme for
Sustainability Leadership
(2013)

- Particularly in the short term, it is hard to tell the difference between lip service and the real thing on shared value – and there are still cowboys out there in the PE industry. In the longer term, it will be easier to see the difference.
- In the longer term, there are fewer dilemmas, as financial returns and shared value are more strongly connected. However, regardless of the returns

impact of shared value, we need to have a moral compass guiding our decisions

- All serious private equity firms have ESG in place but “true” shared value is still lacking for most.
- The cost of not taking on a responsibility is higher than before – the transparency created by social media can kill your company. Sustainability will not go away.

The roundtable discussions were followed by a vote where participants could choose between three statements describing shared value. The result (see the above chart) indicates that shared value does have the potential of being a fundamental shift and a driver of investment returns, but it still has the “ring” of being a buzz word not fully understood. Thus, it appears that the potential of shared value is much more in application and practice - and not in concept.



Part 5: Implications and reflections

What decisions do business leaders need to make going forward?

Sustainability is too important to be left in the hands of governments. We are in the middle of the greatest systemic change the world has ever seen. We are entering stakeholder capitalism, where business pays attention to all stakeholders - otherwise consumers will tear businesses apart, driven by transparency and social media.

Responsible businesses can no longer say that "this is not our problem," but must engage with governments and civil society. In spite of progress,

democracy and capitalism need a reset because they are not fulfilling our expectations. Businesses must step up to the challenge - we need leadership and courage. We have a license to operate in society and we better take good care of that license. We need action.

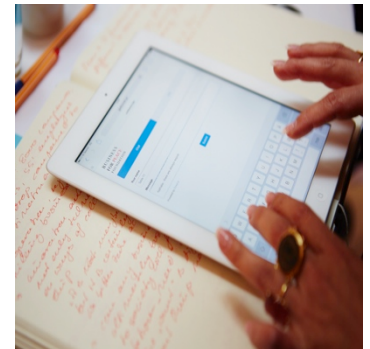
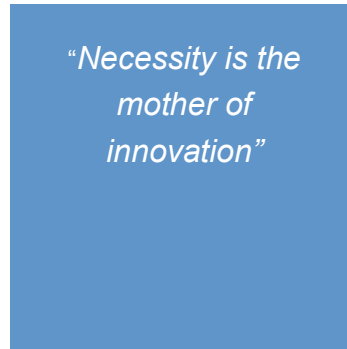
The participants agreed to a follow up and that a further developed event should take place next year.

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We have four desires for the near future.

- A world where **all stakeholders** are rewarded, not only shareholders
- Corporate foundations cease to exist as companies **embed shared value** into their business
- Impact investments gets superfluous – **all investments create impact**
- The invisible hand is replaced by the **visible heart**

We hope to report progress when we meet again next year



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