

Chapter 21

Business Initiatives That Overcome Rural Poverty and Marginality Through Creating Shared Value

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Abstract This chapter examines the Creating Shared Value (CSV) approach to reach the poor through integrated social and business goals. CSV simply means that when making business decisions on future plans and investments, companies simultaneously consider what long-term value can be created both for society and for shareholders. The chapter describes how the approach has been applied in Nestlé's international dairy programs and identifies three major results: including more small farmers in supply chains, reducing their poverty, and increasing the local availability of dietary calories, protein, calcium, and various micronutrients.

Keywords Private sector • Shared value • Poverty reduction • Dairy sector

21.1 Introduction

Addressing world poverty and hunger must begin with world's 1.2 billion subsistence farmers, many of whom are economically, socially, and/or geographically marginalized. Unfortunately global economic winds are blowing against this imperative for poverty reduction, resulting from the world-wide financial turmoil that began in 2008, the continued global economic problems, and increasing food prices. It is estimated that in 2011, 64 million additional persons were added to the ranks of extreme poverty, defined as living daily on US\$1.25 or less per capita. While much progress has been made in recent years in reducing both urban and rural poverty, particularly in India, China, and other key countries, at this point in time the world faces a reversal of the progress that has been made over the past two decades in reducing poverty and malnutrition.

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In this economic context and after disappointing results from many well-intentioned but unsuccessful development projects based on donations, leaders are searching for new models of development that are economically sustainable, have sufficient scale to make a difference for large numbers of people, and that are based on economic foundations that are both self-sustaining and allow growth. One approach that is gaining interest involving business is called “Creating Shared Value” (CSV). CSV simply means that in making business decisions on future plans and investments, companies simultaneously consider what long-term value can be created both for society and for shareholders. This requires a long-term business perspective and is based on the assumption that chances for sustainable business success are increased when a company, as appropriate within the business strategy, invests in social aspects that improve business conditions. CSV also implies a process wherein a company assesses its value chain and identifies those primary points of intersection between the company and society where social investments can improve the chances of business success.

I coined and defined the term CSV in 2005 while serving as vice-president of public affairs at Nestlé and it was shortly thereafter approved by the Nestlé Executive Committee to describe the Nestlé approach (Nestlé 2009; Bockstette and Stamp 2011). It has since been adopted by other authors and by other companies and organizations (Porter and Kramer 2011). While the term is relatively new, the general idea is not, and many companies began with a single person identifying a societal need and fulfilling it with a very long-term vision. However, as these companies have grown, the long-term vision of the corporation’s social function has often been lost due to the day-to-day competitive pressures for survival in the marketplace, and investor markets that disproportionately reward high short-term rates of return. Other related terms which carry a meaning similar to CSV include: “Creative Capitalism” (Bill Gates), “Business with a Purpose” (Pepsico), and “Ecoimagination” (General Electric). What these terms share is the idea of building societal goals into the core business strategies and operations of a company. The shared aim of these approaches is to leverage the power of a company’s core business for health, social and economic progress, and to do so with a very long-term perspective.

21.2 Contrasts with Other Business Models

The CSV approach contrasts with alternative business strategies focused on minimizing current costs and maximizing short-term profit. Buying raw materials on an opportunistic basis by jumping in and out of the market, development of low-cost production facilities or outsourcing manufacturing to low-cost suppliers, and offering the lowest cost products with minimal value-added features characterize these latter business approaches. CSV companies, which also have short-term profit goals, require a much longer term perspective and definition of success, with the aim of establishing a strong market position in the long term. Among consumer goods companies the aims are to secure a trusted brand reputation

among consumers for high-quality products, to build a reputation of trust with suppliers by helping them become successful, and to secure a highly competent and loyal work force by investing in long-term relationships with employees and suppliers through training and advancement incentives. As a consequence those companies that follow a CSV strategy generally have greater potential for positive impact on society than those companies tied to a short-term view, and have higher potential for consistent and reliable creation of long-term shareholder value and rates of return to their investors.

Taking this approach requires four things. First, it requires a willingness to assume long-term risk and strong financial management to permit making major investments that may not pay off for 10 years. This is particularly true when entering areas that are populated by the marginalized poor and that lack the basic infrastructure, educated work force, communications, and reliable business suppliers necessary to serve the company's manufacturing or raw material needs. Second, it requires an understanding of what will benefit society in the long term, and where those potential benefits intersect with a company's business interests. Third, it requires a planning process and mindset that translates the interests of shareholders and the interests of society into concrete business plans. Fourth, this approach requires patience and persistence aligned to a common value set and continuity in personnel, as well as not being dependent on that significant segment of the investor community that only pursues short-term results (for example Nestlé S. A. refuses to be listed on any stock exchange that requires reporting of quarterly results).

21.3 What CSV Is Not

CSV means creating profit for shareholders and improvement in the standard of living or the quality of life of suppliers, employees, and/or customers. It is profit based and thus does not include social enterprises that do not have profit built into their model and that are dependent on financial support from free capital or other sources. These activities may be laudable and can be appropriate for some enterprises, but generally lack the potential for large-scale expansion of profit-based models. Nor does CSV signify investing in activities that are not related to the company's value chain or that do not have a business rationale. Such activities have a lower chance of long-term sustainability, as the fundamental reason for a company to engage in them can be lost. CSV also does not mean philanthropy, although companies may decide to make philanthropic contributions to outside organizations as a part of being an active participant in the community and/or for maintaining a license to operate. The impacts of a company's donations to social enterprises or philanthropic activities, even if substantial, pale in comparison with the positive impacts of a company's basic business investments if those are made properly through the CSV approach.

CSV is also not simply business as usual or identifying customer needs and trying to fulfill them. It implies a much longer business perspective, analyzing value chains

and developing a focus on where societal needs and a company's business needs and abilities to make a difference intersect. CSV means going beyond business as usual. In summary, by building societal goals into the basic business strategy and operations, the potential for long-term sustainability is greatly enhanced. If an action is part of a business plan and is tied to the long-term enhancement of corporate profit, it will endure over time because its financial support is not tied to the largesse of the company, but to a self-sustaining financial model. The potential for impact on a massive scale is therefore also greatly enhanced because it is a part of core business activities rather than something that is an additional activity to the main business.

21.4 Marginalized Rural Poor—Five Ways to Escape Poverty

Reaching the marginalized rural poor is particularly difficult where the lack of agricultural knowledge, infrastructure to reach markets, reliable access to water, and access to credit and alternative work opportunities all present major obstacles and result in low agricultural productivity and poverty. Robert Thompson (2011), has laid out the following five primary ways for subsistence farmers to escape poverty:

1. To increase productivity of current crops
2. To change to (or add) higher value crops
3. To gain ownership or access to more land or livestock
4. To obtain farm income through home manufacture of products or part-time work in nonagricultural employment
5. To change to nonagricultural employment locally if opportunities exist, or by moving to other (primarily urban) areas

In spite of the obstacles that face rural development among marginalized rural people, some far-sighted organizations are having significant success in the reduction of poverty and malnutrition through investments that help increase food production and allow farmers to climb out of poverty through one or more of these five ways, without the necessity of migrating to urban areas. These organizations include private businesses, cooperatives, foundations, and intergovernmental agencies. They are working separately and/or jointly to make long-term investments in remote rural areas including: manufacturing facilities, infrastructure development, education of farmers for improved productivity, training of local suppliers, creation of a skilled industrial labor force, and investments in the health of the population in a way that has a dramatic impact on the poor, including the most marginalized. For food companies, progress is being made through developing local production and manufacturing of food products in remote rural areas to meet the rising demand in emerging markets. Pioneering examples of this include the efforts of Nestlé in the

area of dairy product manufacturing (Goldberg and Herman 2006), as well as in coffee, cocoa, grain, rice, legume, vegetable, nut, and spice farming.

21.5 The CSV Approach: The Nestlé Dairy Case

Nestlé currently operates about 450 food processing factories globally, of which about 200 are in the developing world. About 150 of these are located in rural areas. Nestlé first began its manufacturing operations in a developing country in 1920 in Brazil, where it started its long history of going to remote rural areas in Latin America, Asia, and some parts of Africa, and investing in poor marginalized farmers in order to create a local dairy industry. These investments in farmers were made in order to build a reliable source of high quality milk to supply new, large scale milk-processing and manufacturing facilities that were built in these rural areas. Initially Latin America (including Brazil, Mexico, Colombia, Chile, Venezuela, Argentina, and parts of Central America) was the focus of these activities in the early decades, but in the latter part of the twentieth century investment in rural development in Asia became widespread, including parts of India, Pakistan, Sri Lanka, China, and Indonesia. Investments in the dairy industry in rural areas extend today to over 30 countries (Nestlé 2010).

This approach has yielded three major results. First, Nestlé has become the world's largest manufacturer of dairy products (in terms of sales). Second, millions of farmers have climbed out of poverty in the process. Third, the availability of calories, protein, calcium, and various micronutrients has increased significantly in these countries as the result of increased food production and availability.

21.5.1 The Dairy Farmer Development Process

Taking a system of organization and management of milk districts that was first developed in Switzerland in the late 1800s and adapting it to each specific country in emerging markets, potential dairy farmers are contacted among existing subsistence crop farmers or farmers who already have one or two dairy cows for household needs. They are offered free education on raising dairy cattle, including how to feed them for higher productivity and nutritional value, and how to maintain hygiene standards necessary to maintain bacterial levels within safe levels. The productivity of local dairy cattle is improved through free artificial insemination from modern dairy breeds and free veterinary services are provided to help keep animals healthy. Financial aid is provided at no cost to farmers that want to increase their herds and/or improve their production facilities. Lastly Nestlé agrees to buy all of the milk they can produce even though the farmers are free to sell their milk to whomever they want.

21.5.2 Impact of Rural Factories in Marginalized Areas

The factories themselves have a major impact on poverty reduction, above and beyond providing a guaranteed market for local dairy farmers. First, unskilled rural workers are trained and transformed into skilled industrial workers with higher paying jobs. Second, local industrial suppliers are educated in how to provide needed goods and services to the factory that meet high standards of quality and hygiene brought from Switzerland, as well as given training on small business management. Third, a skilled local factory management is developed and most expatriates initially brought in for training and start up purposes are replaced with local hires as quickly as is feasible. Fourth, the region acquires a new tax base from the factory, leading to local improvements in infrastructure, schools, and medical facilities. Fifth, new standards of doing business are introduced, including environmental standards regarding maintaining the water, land, and air, along with honest business practices that help build trust in the brand.

As a result of the establishment of these new industrial complexes in rural areas, towns grow into cities. This creates new employment opportunities for those who have no future on the land and reduces the need to migrate to distant urban areas to find acceptable work. In this way entire regions begin to rise out of poverty, including the marginalized poor residents.

21.5.3 Nestlé Milk Districts in the Punjab: India and Pakistan

One example of the CSV approach is the Nestlé milk district network in the Punjab region of India and Pakistan. While Nestlé started its milk district approach in Brazil in the 1920s, work in India started much later with the building of the Nestlé Moga milk factory in the Punjab region in 1961. While the Punjab traditionally has been a major agricultural area, the production of milk products on an industrial scale was not present in this region before the Moga factory was built. Today Moga is a huge factory complex, employing 1,400 full-time staff and supporting jobs for over 5,000 people who work for suppliers.

21.5.3.1 Sourcing Milk in the Moga Region

In 1961 there were virtually no commercial dairy farmers in the Moga region. Nestlé started the Moga factory with 180 farmers who produced 511 kg of milk per day. Today about 85,000 farmers sell an average total of 837 tons of milk to the Nestlé Moga factory every day, primarily in quantities of 5–10 l each. One of the first obstacles to creating a dairy industry in the Moga was that the idea of producing milk for sale was not in the local farming culture. Locals typically kept one or two cows in the yard of their village home for household dairy needs, but the idea of selling milk from a cow or buffalo was initially met with suspicion. However,

the pragmatic farmers of Moga, nearly all of whom are Sikhs, soon realized the advantages of diversifying their farm income and having a cash income every day of the year rather than only when cash field crops could be harvested and sold.

The next obstacle was the bacteriological quality of the milk. For most farmers two or three additional cows were added to their herds and kept in paddocks next to the family home in the village. New practices of keeping the environment around the cows clean, milking the cows in a hygienic way, and keeping the cows healthy were all necessary to produce milk that is bacteriologically acceptable. Regular visits by the Nestlé veterinary staff to offer free animal husbandry advice helped solve this problem.

The milk needed to be received from the farmers in an accessible place where it could be tested and stored until it could be taken to the Moga factory for processing into milk products. For this purpose village cooling stations were set up in store fronts with refrigerated tanks, and provided with a scale to weigh the milk and testing equipment for purity. The staff at cooling stations also provides simple advice to the farmers, who typically bring their milk can to the cooling station by donkey cart or bicycle.

Increasing productivity per cow was also a necessity. Nestlé provided free artificial insemination of cows using superior dairy breeds to improve the milk producing capability of local cattle breeds and also provided access to financing a no cost for the acquisition of additional cows. Cost-effective feeding to produce higher quality milk was also necessary, so instruction was provided on what feed crops to grow and low-cost chopping machines to convert crops into animal feed were sold to the farmers. Those farmers who preferred to buy feed were offered commercial feed at reduced costs.

As the men spend most of their time during the day tending field crops, it is the women who take primary responsibility for care of the cows, and thus the women from participating families suddenly became cash income earners. This new found earning capacity helped to improve the social status of women across the Moga region. Farmers were paid in cash every day for the milk they brought to the cooling stations. Today with the advent of cell phones, cash payments are deposited directly into family bank accounts electronically.

Appropriate disposal of manure is also an environmental necessity for maintaining milk quality. Participating farmers were taught how to build brick-lined cisterns that function as biogas digesters, where manure is digested and the methane gas collected through the top of the structure. A pipe runs from the methane gas collector to the house to provide fuel for both cooking and heating the household.

Given the importance of the Moga village farmers as stable suppliers of high-quality milk for the Nestlé Moga milk factory, discussions were held between the Nestlé agricultural extension workers and village elders about what was most needed in the villages. Clean water was identified as a top priority. Drinking water wells and pumps were installed next to the school in each village, and the villagers and students were taught how to maintain the wells and pumps.

It was also discovered that attendance at schools by girls was low and that the underlying problem was a lack of private sanitary facilities for girls. In response,

toilets that assured privacy were installed next to the village schools. Furthermore, while the Punjab region is highly suited for agriculture, local nutritional knowledge was limited, particularly what should be fed to children, therefore nutritional education programs were introduced in the milk district villages. It was decided that educational efforts should focus on adolescent girls, as they are approaching the age at which they will marry and begin raising families. Thus they would learn about nutritional and dietary needs before and during pregnancy, and became better prepared to properly feed their children from their first days of life.

The benefits to the farm families from this system are clear. Farm incomes climbed significantly, women achieved a higher social status, households were more able to afford education costs, and conditions in the villages improved, especially for the children. The significance of these improvements to the villagers becomes evident when new drinking water sources are inaugurated and entire villages come together for a large celebration involving prayers, dancing, speeches, and a feast.

The benefit of these efforts for Nestlé is a large number of loyal and reliable providers of milk, who can be trusted to produce an expanding quantity of high-quality milk over the long term. The farmers are free to sell their milk to whomever they want, but they continue to sell to Nestlé as their preferred client because Nestlé is a reliable customer who will buy every day at stable prices. Even in times of milk scarcity when farmers could get more money selling to other buyers they continue to sell to Nestlé because of the bonds of trust that have been established.

21.5.3.2 Impacts of the Moga Factory on Job Training, Nonagricultural Employment, and Urban Development

When the Moga factory was started in 1961 there was no skilled factory work force available in Moga, so all of the current 1,400 factory employees had to be trained to perform the operations of each factory department. To accomplish this, an apprentice system developed in Switzerland and used in other countries where Nestlé operates was translated and adapted to the local setting. Thus a skilled workforce was developed in food processing technology that requires extremely high standards of hygiene and food safety. Trucks are not allowed onto the factory grounds, but must discharge milk and goods at loading docks at the exterior of the factory. Employees must put on laboratory coats, bonnets that cover their hair, and covers over their shoes. Hands must be washed at designated stations when entering each separate section of the factory. The grounds of the factory are kept in strict order to reduce the possibility of contamination from foreign objects. This not only has had an impact on the employees and their work standards, but also on the community as a whole. In one case a development minister of the Punjab told the author that she took hospital managers on tours of the Nestlé Moga factory so that they could better understand what measures a hospital should take to operate with proper regard to hygiene.

Local suppliers needed to be developed for the various needs of the factory, including such mundane operations as laundering the hygienic factory uniforms.

Classes in entrepreneurship were held to help develop successful local businessmen and women, as well as literacy classes as needed. It is estimated that four jobs are generated in the community outside the factory for every job in Nestlé's factory. This has led to the urban growth of Moga and to the availability of trained local business people capable of operating their own businesses. While the marginalized poor were not the only ones helped by this process of economic development, they have benefitted greatly through increased work opportunities both outside and inside the factory.

21.5.3.3 Environmental Impacts

In addition to teaching farmers how to collect biogas (methane) through home-collection systems, which reduces wood fuel consumption and greenhouse gas emissions, water management is a major focus of Nestlé's education efforts. Besides teaching farmers how to keep their sources of water clean, Nestlé has sponsored a major study to determine means of stopping the depletion of water resources in the Punjab. The repeated planting of water-intensive crops and virtually free electricity to run irrigation pumps on a continuous basis have seriously lowered water tables in the Punjab. Together with the International Water Management Institute, Nestlé undertook a study of the water intensities of millet, wheat, and rice production in the region. The result was a plan for a comprehensive response using best farming practices to make water sources more reliable and to ensure the future of farming in the region. Rice, which requires 1,034 m³ of water per ton to produce, is the most widely produced crop, whereas milk requires only 565 m³ of water per ton to produce. It was thus recommended that fodder area for dairy cattle be increased at the expense of rice cultivation areas, as well as the number of cows and the productivity of dairy cows. Research findings also suggested that improvements in rice cultivation using technologies developed in other regions could lead to lower demand on the water supply.

21.5.3.4 Development of the Dairy Industry in Pakistan

While Nestlé has been a supplier of milk products in Pakistan for many years, in 2007 Nestlé inaugurated its largest dairy product factory in the world in Kabirwala, Punjab, Pakistan. This large investment was made based on the belief that the production of milk by Pakistani farmers could be greatly increased. Approximately seven million of Pakistan's ten million farm families live in the Punjab, many of which are landless. A number of collaborative efforts were begun to convert marginalized subsistence farmers into successful dairy farmers.

Nestlé had previously adapted its milk district system to the Pakistani Punjab on a smaller scale and in 2006 joined forces with the United Nations Development Programme (UNDP) and Engro Foods to create the "Community Empowerment Through Livestock Development Program." Nestlé had developed a program to

train female livestock workers, and together with the UNDP, this program was adapted and expanded on a larger scale. The aim of the 3-year program was to develop women entrepreneurs who possessed skills in animal husbandry and dairy farming, and who could return to their villages and share their expertise with other local women. They are provided basic training in livestock management and also serve as a conduit for microfinance efforts.

So far over 4,000 women have successfully completed the program and returned to their villages. Once trained, they are provided with instructional materials and a veterinary kit to use in their villages that includes medical instruments, medicines, and vaccines. These livestock workers provide a vital service. While it is almost always the women that take care of the dairy cattle, they do not have access to knowledge about animal husbandry due to cultural barriers, as nearly all of the veterinarians are men. A woman veterinarian heads this training program and her knowledge about animal care is transferred first to the trainees in the program, and then to the village women who receive (and pay a nominal fee for) the advice given by the trainees.

A second partnership in Pakistan involving the Swiss Agency for Development and Cooperation is called “The Small Entrepreneur Development Project.” Livestock and dairy farmers who are already productive are given training to both enhance their skills as small business managers and to develop links to markets to improve milk and meat sales. To have appropriate facilities to instruct the farmers Nestlé is building two demonstration farms, the first to be completed being the 103 acre (41.7 ha) Sarsabz Demonstration and Training Farm. The Sarsabz farm houses about 250 cattle and includes animal sheds, milking machines, other necessary farm equipment, classrooms, and lodging facilities for visiting farmers. The instructors at the facility are drawn from the 75 professionals who make up the Nestlé Pakistan Agricultural Services division, and both basic and advanced farm management courses are offered. Selected farmers are given training kits and accessories for promoting good dairy farming practices and serving as trainers in their villages. Approximately 30,000 farmers per year receive training through this program in Pakistan. Of course the benefit of these activities for Nestlé is a reliable source of quality milk for the Kabirwala factory, while the farmers simultaneously emerge from poverty using the skills they have learned and the assistance they have received.

21.5.3.5 Impacts on Food Availability and Consumers

Milk is a particularly good source of protein and calcium, and can be an excellent carrier of micronutrients (vitamins, zinc, iron) when those are added through fortification. Milk and dairy products are important traditional sources of food in India and Pakistan, and there is a large-scale shortage of milk, particularly of milk of known nutritional value and safety. Most of the milk consumed locally is raw, unpasteurized milk that can pose significant health risks when transported or stored improperly, and liquid milk purchased through traditional channels is often adulterated in ways that decrease quality.

Nestlé has developed milk products that are particularly affordable to lower income groups using food technology to replace butter fat with lower cost fats and that are fortified with iron, zinc, and essential vitamins. The broad impacts of this fortification are only possible because milk processing has been introduced on a large industrial scale and because dairy farming has greatly increased production through the milk district system. Millions of tons of milk and milk products are added annually to Indian and Pakistani diets as a result of these investments and efforts. Virtually all of the milk products have been nutritionally enhanced through the addition of iron, vitamins, minerals, as well as prebiotics and probiotics aimed at improving resistance to infection.

21.6 Targeted Versus Community-Based Solutions to Lift the Rural, Marginalized Poor Out of Poverty

This CSV approach to poverty reduction is obviously a community-based approach and doesn't begin by exclusively targeting the marginalized poor. To make this development approach work, various levels of the community have to be involved and those who are helped economically aren't just the marginalized poor, but a broad spectrum of the population that makes up the community. The overall impacts on rural development include the construction of factories, the training of farmers, and the creation of new clusters of collaborating sectors that benefit the community as a whole, as does the local tax revenue and urban growth associated with this approach to business and development. Helping the marginalized poor is possible because of massive investments to produce products that are distributed to large urban markets through the distribution system of the company involved.

There are certainly other instances where the rural poor are too segregated for this approach to work, such as in refugee camps or areas where the geographic and climatic prerequisites for increased food production do not exist. The CSV approach does require preconditions that provide the potential for business creation. In the case of dairy products this potential requires adequate conditions for cattle raising such as water and grazing lands.

21.7 Conclusion

It is clear that substantial underinvestment in agriculture has been a major factor in maintaining the current states of poverty among the rural, marginalized poor. The CSV approach as illustrated by the Nestlé business model illustrates one seemingly important part of the solution to this problem, but each situation has its own characteristics and solutions. Significantly increased investment in agriculture from the public as well as the private sector, the application of modern science and technologies, the transfer of knowledge and skills, access to credit and markets, as well as a better

understanding of how the private and public sectors can work together, will be necessary if we are to significantly reduce the levels poverty and malnutrition currently experienced by over one billion people on our planet.

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