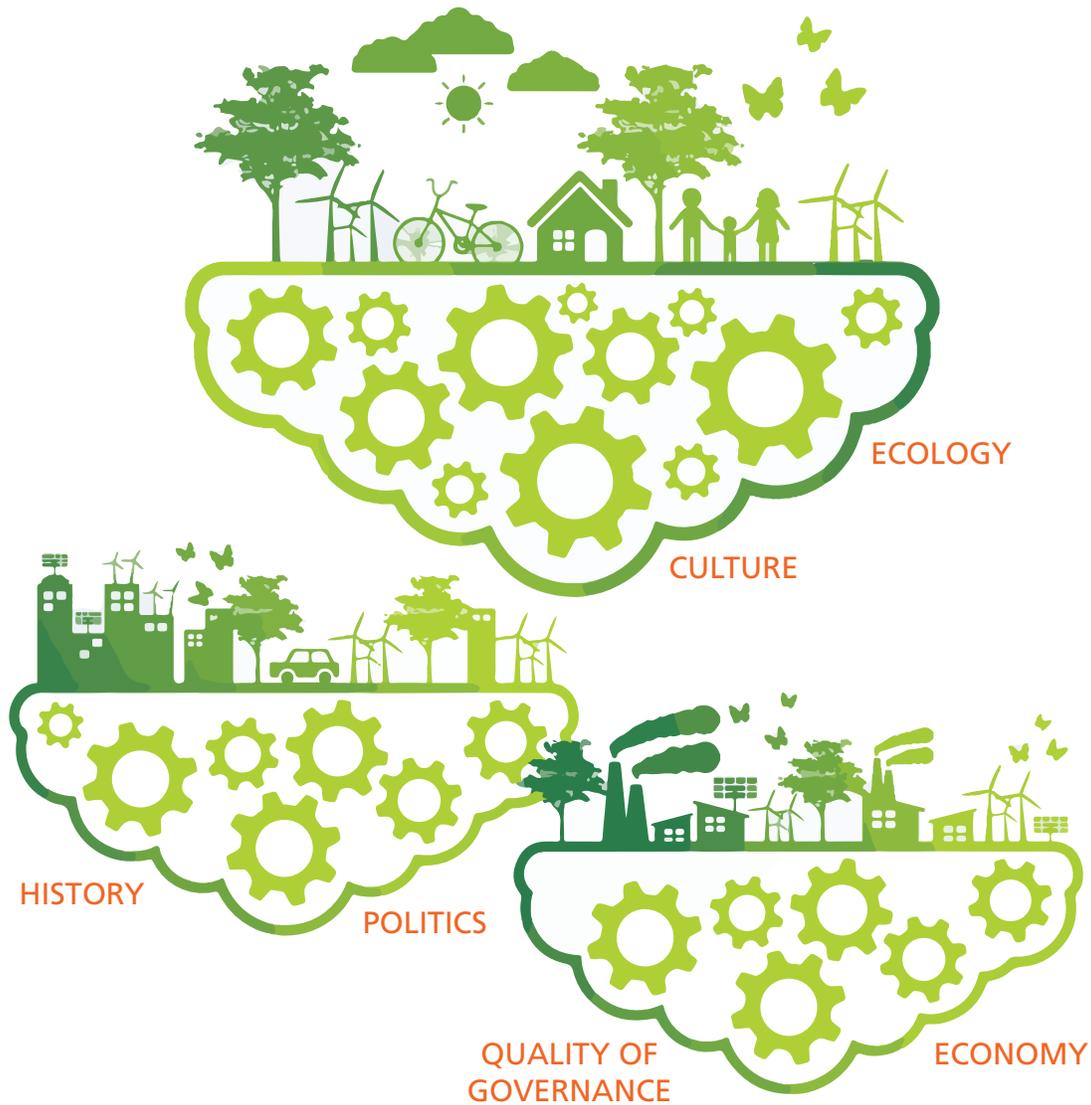




REIMAGINING SOCIAL CHANGE



The Social Ecosystem Dilemma — And How to Fix It

A How to Guide for Corporations

INTRODUCTION

In today's complex world, companies everywhere are confronting long-entrenched social or environmental problems that have major financial consequences for the company and its shareholders yet cannot be addressed by normal business practices. Poor diet and insufficient exercise lead to increased health care costs and diminished employee productivity; inadequate recycling systems are increasing raw materials scarcity and prices; weak infrastructure and government corruption limit entry into emerging markets; low productivity of smallholder farmers leads to poverty, deforestation, and unreliable sourcing; and ineffective educational systems increase employee training and turnover costs.

Faced with these dilemmas, companies have typically responded by joining global industry coalitions and donating to social sector organizations. These broad and well-intentioned efforts, however, have done little to overcome the bottom-line impact of such challenges in companies' key markets. An entirely new approach is needed if companies are to capture the many important opportunities for growth and profitability that are blocked by today's societal failings. Fortunately, a handful of pioneering companies have already demonstrated how to identify, manage, and overcome these ecosystem barriers.

For example, when Novo Nordisk, a leading provider of insulin to treat diabetes, entered the Indonesian market in 2003, it was stymied for a decade by the lack of health care infrastructure, inadequate training of health care providers, and limited patient awareness of the disease. By 2013, only 3 million of an estimated 7.6 million Indonesian diabetics received any treatment at all, and fewer than 50,000 patients actually adhered to the appropriate regimen and achieved their treatment targets.¹ Socioeconomic indicators suggested that diabetes would become more prevalent over time. Improved diagnosis and patient adherence could increase the current insulin market fourfold by 2020, saving 4.6 million life-years,^a reducing government health care costs by \$5.8 billion, and increasing the country's GDP by \$2.14 trillion. Yet neither the government nor social sector organizations were making much progress. Neither were global anti-diabetes coalitions likely to address the specific treatment obstacles in Indonesia.

Novo estimated that the company could capture up to half the market increase and determined that the potential sales justified an eight-figure investment to launch a public-private partnership. Working with the Ministry of Health, the Indonesian Society of Endocrinology, and the Indonesian Diabetes Association, Novo's leadership and funding catalyzed a new level of cross-sector engagement and alignment that has begun to improve patient care and awareness. Diagnostic rates have already improved by 10%, generating increased sales for the company as well as improved health for tens of thousands of Indonesians.

a. Life-years (LY) gained is a measure in health economics. It expresses the additional number of years of life that a person lives as a result of receiving a treatment.

This guide is based on such examples and FSG’s analysis of a dozen corporations that are leading change in the social ecosystems that matter most to their business. Their success is based on five key steps, which we describe in greater detail in the main text, and illustrate through a selection of stories.

GUIDANCE SUMMARY

- First, the company reviewed its global portfolio and **identified local social ecosystems** where intervention would be economically and strategically important to the company.
- Second, a **cross-functional local team was assembled** to assess the conditions for change and empowered with the resources necessary to lead the intervention.
- Third, the team **identified and motivated other key actors** by mapping the ecosystem and calculating the potential benefits for all concerned.
- Fourth, the company **led a collaborative planning process** to develop a blueprint for change that included a plan of action for each key actor.
- Fifth, the company **funded an independent governance structure** that kept all partners aligned and offered a forum for tracking progress and making ongoing course corrections.

These steps are deceptively simple. In reality, they require significant changes in the ways companies typically operate. Corporate executives have little experience in developing the business case for changing social conditions, and they have been understandably skittish about tackling large, amorphous social problems outside of their areas of expertise. Executives know well how to manage their corporate ecosystem of suppliers, distributors, and related businesses, but those approaches do not work for the social ecosystem where they must deal with governments, NGOs, and local communities, over which the company has little control.

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Most corporations have no position designated with the responsibility for evaluating and improving their social ecosystem. Corporate affairs departments are charged with promoting favorable government policies, corporate foundations make grants to support NGOs, and public relations

departments work with media, but these efforts have limited budgets, are far removed from corporate strategy and operations, and rarely result in material changes to the social factors that constrain the business in the affected regions.

At the same time, it is becoming increasingly clear that major new business opportunities can be unlocked by solving societal challenges through strategies that create shared value, as described in Porter & Kramer's 2011 article [Creating Shared Value](#).² For many companies, the \$12 trillion in

market opportunities embedded within the Sustainable Development Goals (SDGs) serve as a guide.³ The Dutch chemical company DSM, for example, has dedicated 100% of its research and new product development efforts to innovations that advance progress toward the SDGs. Companies such as these are uncovering new sources of growth, profit, and competi-

Companies are uncovering new sources of growth, profit, and competitive advantage by building an intentional social impact into their strategy and operations.

tive advantage by building an intentional social impact into their strategy and operations. And they too are finding that shared value at every level depends not only on the company's own actions, but on the broader social ecosystem in which it operates. (See sidebar: *How the Social Ecosystem Limits Shared Value Creation*.)

Shared value companies are a step ahead in confronting the social ecosystem dilemma, as they have already developed the capacity to deliver and assess social impact through their core strategy and operations, but even these companies struggle to find the formula for ecosystem change. It is therefore worth taking a closer look at how these five steps can be implemented successfully.

HOW THE SOCIAL ECOSYSTEM LIMITS SHARED VALUE CREATION

Since the concept of creating shared value was introduced, many companies around the world have found new sources of growth and profitability through competitive strategies that improve social and environmental conditions. As Porter & Kramer wrote, shared value can be created at three levels: product and market innovations that serve unmet needs, productivity improvements in the value chain, and strengthening local communities or industry clusters. Our research has found that the social ecosystem dilemma affects shared value creation at all three levels. Consider the following examples:

New products and markets: Novo Nordisk's entry into a new market in Indonesia depended on a stronger health care system and greater awareness of diabetes diagnosis and treatment. Or consider Skanska, a multinational construction company based in Sweden that worked together with the global furniture company IKEA to design a fully furnished, sustainable, and affordable low-income housing solution called "BoKlok." In the UK, for example, the properties were sold with a 25-year mortgage at a price designed to be "affordable for a single parent," based on the average salary in the area of £25,500. This innovative shared value product has already sold over 12,000 units to date in Sweden, Norway, and Finland. Further expansion, however, depends on close collaboration with local municipalities and communities to access land at low cost, determine who may access the homes at cost (social housing), and the share that can be sold on the open market.

Value chain: CEMEX is a global industry leader in substituting fossil fuels in its cement production with alternative fuels derived from municipal and industrial waste. Increasing the use of alternative fuels

enables significant cost savings for CEMEX while reducing CO₂ emissions and diverting waste from landfills. CEMEX depends on the development of robust and sustainable local waste collection systems to provide alternative fuels; the absence of these enabling systems offers a clear example of the ways in which the ecosystem can constrain shared value innovation in a company's value chain. So too are Nestlé's efforts to increase dairy production around its plants in China by improving volume and quality of milk from local farms.

Community conditions: Although we often think of community conditions in purely social terms, they have a huge impact on the success of companies. Unless BHP is respectful of community needs and works collaboratively with the community and government to improve the local quality of life and standard of living, its mine is at risk of being closed down by protests, a hugely expensive disruption that can also damage the company's reputation and undermine its chances of winning mining contracts in other regions. For Humana, social determinants of health in the community are not a part of its normal value chain, but they do affect the insurer's medical costs. Reducing the number of unhealthy days per month improves community conditions and has a material effect on the company's bottom line.

In short, the social ecosystem acts as a constraint on every level of shared value creation. Shared value companies must recognize these dimensions as potential drivers or barriers to their success.

THE FIVE-STEP PROCESS TO ECOSYSTEM CHANGE

In a previous article, [The Ecosystem of Shared Value](#),⁴ we outlined a collective impact approach to managing the cross-sector collaborations needed for ecosystem change. (See sidebar: *The Collective Impact Process for Catalyzing Ecosystem Change*.) That framework has proven to be a highly effective guide, but it does not address the threshold question of where and when a company should take on the difficult and costly task of attempting to change external social conditions, nor did it cover the internal management challenges of leading ecosystem change effectively.

As a result, we and our colleagues at FSG set out to study a dozen examples of companies that have successfully led ecosystem change in different industries around the world, in order to understand the key steps that they had in common. (See *Figure 1 for the 12 companies and initiatives studied*.) These steps are described and illustrated through some of the most relevant actions undertaken by our case companies.

1. IDENTIFY YOUR TOP SOCIAL ECOSYSTEMS

The decision to attempt ecosystem change depends first on the importance of the ecosystem failing to support the strategy and financial performance of the company. Like Novo Nordisk in Indonesia, each of the companies we studied developed a rigorous business case for the potential economic benefit to the company from overcoming a key ecosystem constraint.

For example, CEMEX, a global building materials company, discovered that significant cost savings could be generated each year by co-processing biomass and non-recyclable industrial and household waste in the cement production instead of fossil fuels, which are highly carbon-intensive. On average, energy expenses are typically 30–40% of total cement production costs. In 2018, CEMEX was already using waste for 27.1% of their energy requirements, saving \$150 million in costs, contributing to the reduction of 7.9 million tons of CO₂ emissions since 1990 and diverting 3.3 million tons of waste away from landfill. Yet CEMEX plants around the world faced an ecosystem dilemma: most regions where the company operates lack efficient and large-scale waste collection and recycling systems. The company—and the world—would benefit tremendously if CEMEX could encourage local communities, municipalities, and waste management actors, both in the formal and informal sectors, to collect and transport waste to its sites. For CEMEX, the business case of accessing alternative fuels from better waste systems is clear.

It seems obvious to start with the business case, but whenever considering social and environmental challenges, most company leaders think first of the potential goodwill or reputational risk and often

overlook the bottom-line impact. After all, businesses have little experience in changing social conditions and conventional wisdom has long held that anything a company does to benefit society is a cost to the business and not a significant source of shareholder value. This is especially true when the challenge is foreign to the company's value chain; municipal waste collection is not a normal part of cement production.

To address the challenge, CEMEX developed a pilot strategy prioritizing across its global operations. The company selected locations based on three criteria: presence in high-growth markets, the cement plant's co-processing technical capabilities, and where local waste management systems are insufficient. For each plant, the potential change in alternative fuel ratios, combined with the plant's forecasted production volume and energy costs, yielded a global map of the regions with the highest economic value at stake.

Each company will need to develop its own criteria to determine its most valuable ecosystem "hotspots." Health insurer Humana, for example, considered the social determinants of health and disease burden in different U.S. cities where it had the highest proportion of the insured population. For mining company BHP, the forecasted production of its mines and the relationship with local communities were the key variables: up to one-third the value of a mine is determined by the security of its license to operate.⁵

Once a company has determined where an ecosystem investment is economically desirable, it will also need to estimate the costs involved in overcoming the ecosystem barriers. As with any business calculation, the potential benefit must justify the investment. Given the unpredictability of ecosystem change, however, the expected returns must be many times the expected cost; the normal corporate hurdle rate for capital investment is likely too low a bar.

THE COLLECTIVE IMPACT PROCESS FOR CATALYZING ECOSYSTEM CHANGE

In the [Ecosystem of Shared Value](#), we proposed that the [collective impact](#) framework could provide a simple but powerful model for cross-sector collaboration to address the social ecosystem dilemma. Collective impact brings together influential actors from across the entire system that shape a particular social issue in a specific region, including business, government, civil society, and representatives of the affected population. A central task force or secretariat oversees the effort, but most of the work is carried out by multiple working groups that address individual aspects of the problem in a coordinated manner.

Collective impact depends on **5 key elements**: agreeing on a **common agenda** and vision for change; developing a **shared measurement system** so that all parties measure progress in the same way; aligning the efforts of individual organizations and working groups in **mutually reinforcing ways**; maintaining **continuous communication** among all actors that influence the system; and finally having a **"backbone function"** in which one or more organizations are dedicated to managing and facilitating the initiative, tracking, and reporting on progress, and compensating for power imbalances to ensure that all voices are heard throughout the process. This backbone function orchestrates and prepares all the partner and community dialogues, helps identify new opportunities, and raises the necessary funding. Our research suggests that without a strong and well-funded backbone, collective impact efforts are unlikely to succeed. When the necessary elements are in place, however, the results can be remarkable.

FIGURE 1: DILEMMAS IN THE SOCIAL ECOSYSTEM



2. ASSEMBLE AND EMPOWER A LOCAL TEAM TO ASSESS FEASIBILITY

The economic value at stake must be adjusted by a realistic assessment of the feasibility of success, which can be determined by examining whether the situation is ripe for change given current circumstances in the region. The feasibility assessment—and leadership of the overall effort if it goes forward—will need to be conducted by a local team in the target region. (See sidebar: *How To Assemble the Right Cross-Functional Team.*) Deep local knowledge and presence are essential to an effective social ecosystem intervention. If a company is serious about gaining the prize, it must allocate sufficient resources to empower a local team to spend a significant amount of time in researching, launching, and leading the effort. The job is too big for this to be done “on the side.”

Assessing the readiness for change is a critical milestone. Social change is hard enough under the best of circumstances, and companies cannot afford to be naive about the challenges they face.

The change process is delicate and highly localized. It is influenced by the history and relationships among key actors, the structure of local institutions, and the circumstances and sentiments of the community. The local team will therefore need to assess a number of different factors: Are the political and economic situations favorable? Companies are unlikely to assemble successful cross-sector coalitions in times of political instability or economic crisis. Or is there a history of conflict among entities that would need to work together? How dramatically will local actors need to alter their current course? Is the company itself considered a reputable local actor or is there a stigma that will undercut its leadership efforts?

Favorable conditions can improve the odds. Are there effective efforts to address the problem already underway by other businesses or social and public actors? Is there a sense of urgency for change, municipal government support, and effective community leadership? If these conditions are not in place, and the local team cannot improve the situation through cross-sector dialogue, relationship-building, and government or community outreach, then the company will need to move on to other potential hotspots.

For example, Nestlé's decision to invest in improving the productivity of dairy farmers in China in 2008 was based not only on the size and growth of the regional market, but also on a recent crisis that created urgency for change. Fifty thousand babies had been hospitalized due to milk adulterated with melamine. As a result, the Chinese government stepped forward to invest in the industrialization of dairy production, the creation of large farms, upgraded collection infrastructure, and improved regulation. The crisis and the government's response accelerated Nestlé's efforts to mobilize 15 related companies and local universities to co-invest in the Dairy Farming Institute (DFI) to train large-scale farmers in modern techniques. Nestlé invested \$30 million in land, basic infrastructure, the set-up of demonstration farms, and the import of new cow breeds. Average yield per cow in the provinces grew by 66% and milk quality improved 85% between

HOW TO ASSEMBLE THE RIGHT CROSS-FUNCTIONAL TEAM

The shared value strategy establishes which corporate functions need to be most engaged with strategy and sustainability functions in understanding ecosystem conditions: typically, R&D and marketing for products; procurement and geographic leadership for value chain systems; and corporate and government affairs for local community change. The job of these cross-functional teams is to recognize patterns in the market system constraints, and to identify the dimension and types of non-business actors that will most affect the business.

For example: CEMEX's operations, energy, sustainability, public affairs, and CSR teams together identified the dimensions that determined their potential for alternative fuels substitution. These include the state of regulations, waste payment systems and operators, and community awareness of landfill impact.

2014 and 2017. Nestlé's share of the milk formula market in China quadrupled, and, by 2019, the company was the market leader with a 14% share of a \$27 billion market.⁶

Once a company has identified a region where constraints in the social ecosystem undercut value at stake that is considerably greater than the cost of intervention, and the local team has determined that political and economic conditions are ripe for change, the company has identified an ecosystem opportunity worth pursuing, and can empower the local team to take the next steps.

3. IDENTIFY AND MOBILIZE KEY ACTORS FOR MUTUAL VALUE CREATION

The next task for the local team is to map the ecosystem to understand what key actors need to be involved in order to achieve the change they seek. Although it is tempting to assemble a long list of all potential actors, a large coalition can quickly become unworkable. The local team must make the decision of whom to engage, and then persuade them to join the effort.

Other companies in related businesses will typically need to participate and co-invest in the ecosystem change process. In most cases, the opportunity and reason to participate will be obvious. CEMEX's ambition to improve the waste collection system has obvious benefits for waste and recycling companies, and Nestlé's efforts to strengthen dairy production in China has equally obvious benefits for companies that sell farm equipment and agricultural inputs as well as for other companies that produce dairy products. Related companies will need to be persuaded that ecosystem change is possible, and they will also want to help shape the agenda so that it serves their own interests, but their economic incentive will usually be clear.

The same cannot be said for engaging government and social sector organizations that do not respond to economic incentives alone. Companies that seek to initiate ecosystem improvements will need to show local governments and community organizations how addressing the ecosystem constraints will further their own missions and objectives. (See sidebar: *The Importance of Engaging Local Government*.) That's why Novo calculated the total potential shared value creation for all necessary parties in its collaborative effort to improve diabetes treatment. This included the cost-saving potential to the Indonesian government, as well as the increase in healthy life-years for NGOs and donors, and the impact on GDP for international development agencies. Those figures did not change the cost-benefit equation for Novo, but they incentivized government and civil society organizations to join the collaboration.

Calculating the total potential shared value creation may require hiring outside expertise to support the local team. When global mining company BHP sought to protect its license to operate and attract a larger workforce by improving the quality of life in the local community near its copper mine in Antofagasta, Chile, the local engineering team that operated the mine had neither the knowledge nor the trust of the community to determine what would constitute a better quality of life. As a result, the company engaged the OECD, with the joint support of the regional government of Antofagasta, to conduct a baseline assessment of the local quality of life and development

needs. The study recommended greater involvement of local community actors in creating an overall urban development plan. With this guidance, BHP initiated the creation of “CREO Antofagasta” to imagine and improve the quality of life in the city by aligning public and private sector investments around a 20-year masterplan for public infrastructure improvements, led by a dozen major public and private partners. The plan is broken into annual projects and “community wins,” with an initial \$278 million committed through 2025.

As BHP’s experience suggests, the company can catalyze and launch an ecosystem improvement initiative, but the actual plan for change must be developed jointly with the other stakeholders.

4. CONVENE THE KEY STAKEHOLDERS TO DEVELOP A JOINT BLUEPRINT FOR CHANGE

The local team will, no doubt, have a preliminary idea of how to accomplish the necessary change; it would be hard to identify the key players and estimate the potential cost without a rudimentary strategic plan. However, it is essential that all participants develop the final plan of action together with equally weighted input. The company cannot impose its plan on others if it hopes to gain their full cooperation.

The blueprint for change represents the common agenda and aspiration of the founding partners, along with major strategies, early milestones and objectives, planned investments, and key progress indicators. Importantly, it must also establish the collective governance principles and management processes that will be crucial to sustaining efforts over time.

In 2013, Humana, one of the largest U.S. health insurance firms, sought to reduce health care costs by improving community health in cities where it had a large insured population. The company quickly zeroed in on San Antonio, Texas, where Humana insured a large portion of the population of 1.5 million people, and where surveys by the U.S. Centers for Disease Control (CDC) found that residents reported 50% more unhealthy days per month than the national average.

THE IMPORTANCE OF ENGAGING LOCAL GOVERNMENTS AND COMMUNITIES

Social ecosystem dilemmas such as poverty, health, education, or climate change are global issues, most of which are reflected in the United Nation’s Sustainable Development Goals. As a result, companies have tended to address them through global partnerships coordinated by international platforms such as the UN General Assembly, World Health Assembly, or World Economic Forum. Such efforts can be effective in sharing knowledge, raising awareness, and launching pilot projects, but it is rare for them to actually change regional ecosystem conditions.

Although the issues may be universal, the way ecosystem dilemmas affect individual companies is geographically specific. If companies want to overcome the actual ecosystem barriers that affect their growth and profitability, they will need to launch highly localized efforts, funded by dedicated resources, and actively led by their local business units following the five-step approach outlined here. The local team will need to engage closely with municipal governments and community leaders. Working at a national level is not sufficient because national governments may not be accountable to local communities, lack critical insights about local context, and often do not have the ability to enforce regulations or influence attitudes and behaviors within specific communities. It is only when local public and private stakeholders are actively engaged that the power of collective impact and ecosystem change can be unleashed.

Diabetes and obesity rates were well above average, and 28% of deaths each year were attributed to cardiovascular diseases. Humana estimated that a reduction in one unhealthy day per member would save an average of \$188 in annual medical costs.

Humana's chief medical officer understood that social determinants of health such as low levels of physical activity, food insecurity, and social isolation were the key drivers of chronic conditions such as diabetes and cardiovascular disease. This allowed the local team to establish a baseline and identify the community actors that would be needed to improve conditions. Humana brought together healthcare providers, public health departments, community organizations and other businesses in a town hall meeting to create a Health Advisory Board. The Board defined intervention priorities and encouraged coalition members to collaborate on developing potential solutions. Each participant was responsible for a part of the plan based on its particular interests and capabilities. For example, San Antonio's Parks and Recreation Department introduced the Fit Pass, a reward-based program that encouraged people to use parks and walkways for exercise. The American Diabetes Association (ADA) and the Metropolitan Health District of San Antonio joined Humana in developing a digital resource guide offering new ways for patients and their caregivers to manage diabetes. A chain of local grocery stores, the YMCA of Greater San Antonio, and primary care physicians collaborated on a Path to Wellness program to help community members address nutrition and improve health literacy. By 2018, through these and other efforts, Humana had achieved a one-day reduction in unhealthy days, saving tens of millions of dollars in annual medical costs.

5. ESTABLISH AND FUND THE NECESSARY GOVERNANCE STRUCTURES

The local company team will typically assemble a steering committee to oversee the initiative, composed of important participants from business, government, and the social sectors as well as a company representative. The company cannot appoint itself as the leader of this effort, however, as that would undermine the trust and collaboration necessary for full engagement by all participants. This too is contrary to customary corporate practice, as companies usually seek to control business critical efforts and take credit for their social initiatives. *(See sidebar: Do Not Assume Others Will Manage and Cover the Cost of Orchestrating Collective Action.)*

Although BHP created and funded CREO Antofagasta together with the municipal government and local civic associations, the governance structure was carefully designed to separate the community-led choice of what to invest in from the technical oversight needed to effectively implement those investments. CREO's Civic Association, composed of the municipal council, local NGOs and businesses as well as sports, cultural, and industrial associations, defined the long-term community vision and investment priorities. The separate Urban Development Agency employed technical staff experienced in managing large public infrastructure investments and was charged with the design and execution of the projects themselves. A third independent body, the nonprofit Urban Observatory, was charged with monitoring progress against the long-term vision and reporting back to the Civic Association.

DO NOT ASSUME OTHERS WILL MANAGE AND COVER THE COST OF ORCHESTRATING COLLECTIVE ACTION

As for the CREO, process support is essential to initiating, scaling, and sustaining efforts by multiple actors across a system. This backbone function orchestrates and prepares all the partner and community dialogues, tracks progress, helps identify new opportunities and funding for pushing efforts into subsequent milestones and wins. Too often an under-resourced failure in building this system-wide “dynamo” leads many cross-sector efforts to fade away before progress self-propels further gains.

Others have suggested that foundations or government carry such cost, as it is common with many global partnerships. And yet, none of our examples have taken that route. Our companies are all lead investors in the collective impact process and maintain a strong governance oversight over progress: This is in fact the acid test of whether the targeted ecosystem changes are truly strategic and material to the company. Public or philanthropic funding may be well-suited for truly pre-competitive platforms which are seeking to establish global norms and standards, be it on how to measure carbon emissions or align on better labor standards, or indeed for more philanthropic partnerships. However, companies have little influence over the sustainability of such funding, or the profiles and qualifications of the staff that will manage the backbone (even if the ultimate choice should always result from collective governance processes).

The way to calibrate process investment relates back to the ecosystem strategy. Product ecosystems are bound to be highly competitive and warrant full

process support from the initiating companies, such as Skanska and Ikea with affordable housing or Novo Nordisk’s changing diabetes proposition.

Value chain ecosystem innovation can benefit one company exclusively—in the cement industry and in the case of CEMEX, there are rarely two cement plants in the same location—or several, as in the case of Nestlé above, where a better dairy value chain helps both international and domestic manufacturers. Either case can also lift complementary businesses (such as waste collectors and processors in waste ecosystems). As a result, value chain ecosystem engagements usually warrant co-investment from a limited set of partners.

Finally, in the case of strategies dictated by local community conditions, future benefits are by nature shared by many. But they are most relevant to the largest businesses operating in the region as more relative activity is exposed to deteriorating or improving local conditions, as with BHP in Antofagasta or Humana in San Antonio. These companies therefore take on the lion’s share of process investment, but because the value often accrues over a longer-term period, funding sometimes can come from a company’s corporate foundation. Once first milestones are achieved and municipal and community ownership grows for the common agenda, companies can invite more open financing.

A dedicated 24-person team, funded by BHP, provided staffing support for all three committees, helped facilitate meetings, tracked KPIs, and proposed mid-course corrections to the plan. This multi-part governance structure guaranteed that local actors are in charge of priority setting while funders maintain control of the execution of investments.

Each ecosystem improvement effort will need to develop its own governance structure, but it will usually be up to the lead company to pay the costs of the necessary governance and staffing support. This may seem inequitable, as the benefits will often be realized by other business, government, and the community as well. Yet maintaining a stable and well-funded infrastructure is essential to successful ecosystem improvements, and other entities cannot be counted upon to share this cost. Governments and NGOs operating on tight budgets may not have funds available, and donor organizations may have protracted allocation processes and internal constraints that impede prompt and predictable funding. These players will usually be willing to contribute to the specific projects and initiatives they helped design as part of the collaboration so that the lead company will almost never be responsible for the entire costs of ecosystem reform, but our research suggests that the leader will need to cover the infrastructure or collective impact “backbone” costs.

TO MEET THE WORLD'S CHALLENGES

As business becomes more globally competitive and social issues grow increasingly urgent, the need and opportunity for companies to take a leading role in social change has become increasingly clear. Many companies have already mastered the art of developing new products and services that meet social or environmental needs, or taken a more expansive view of their value chain by improving social and environmental performance in ways that contribute to their bottom lines. Newly expanded roles for sustainability and CSR directors are increasingly bringing an awareness of social considerations into the company's internal operations. Yet the much bigger challenges and opportunities loom outside the company in the broader social ecosystems that have produced the inequities, societal failings, and environmental degradation that threaten the prosperity and survival of businesses and nations alike.

Changing the social ecosystem requires that companies go beyond the usual global coalitions and charitable contributions by taking on unfamiliar roles and new capabilities. Yet pioneering companies that have successfully led—and benefited from—social ecosystem change have demonstrated a clear path to follow. First, they identify ecosystem hotspots by estimating their potential strategic and economic value to the company. Second, they appoint a local team to determine whether the situation is ripe for change by considering the political and economic climate in the region. Third, they calculate the stakes for all necessary partners, incentivizing their participation by estimating the total potential shared value that could be created. Fourth, the local team develops a collaborative blueprint for change with other participants that defines appropriate roles for each actor to play. Finally, they establish and fund the necessary governance and staffing structure to guide, facilitate, and monitor progress. Companies that follow these steps will find that they not only create value for their shareholders, but also become respected leaders in global progress.

ENDNOTES

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