Courtesy: Nestlé Report

Creating shared value: How Nestlé achieved it in Moga, India

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■ ***Asit K. Biswas and Andrea Lucia Biswas Tortajada***

Can business and society work together to foster each other's prosperity? Those who believe so tend to espouse corporate social responsibility (CSR). But critics say many CSR activities are superficial public relation activities and that a company's primary purpose is to serve the interests of its shareholders. Indeed, Nobel Prize winner Milton Friedman once said that the only social responsibility of business is to increase profits.

Yet some big companies and business leaders have managed to bridge the divide by developing sector, company and location-specific models to contribute to good shareholder returns and concurrently ensure the prosperity of the community in which they operate. This form of CSR has a catchy new name: CSV or "creating shared value".

So how does CSV work? Take Moga, a small municipality in Punjab, where Nestlé built its first factory in India in 1958. At the time, the government had banned imports of milk powder and milk products to conserve foreign exchange and to kick-start domestic production capacity. As part of a national import substitution industrialisation model, Nestlé was invited to establish a 11,000 km square milk district in a place of abject poverty, widespread malnutrition, poor living conditions and zero milk culture.

It was probably the last place where a foreign investor could succeed. Starting from scratch, Nestlé had to overcome massive infrastructural, production and cultural challenges to have a chance of making it. Yet over the last five decades,Nestlé has helped to revolutionise dairy farming in Moga. Over time, the local dairy sector went from being a marginal activity for supplementing household nutrition to an organised, profitable economic activity. Reliable milk collection systems were established, strict and transparent quantity and quality standards set, and competitive and profitable rates paid regularly to supplying farmers. It was clearly no mean feat of local cluster development.

On November 15, 1961, the factory's opening day, 511 kg of milk was collected. After one full year of operation, the factory could purchase only 2,054 tonnes. Ten years later, it was 26,660 tonnes. To achieve this increase, Nestlé had to take actions it had never tried before. The company began providing free animal husbandry advice as well as credit and nominal cost services to farmers, whether they supplied milk to Nestlé or not. The company also convinced farmers to move from low-yielding buffaloes to higher-yielding cows.Gradually, dairy farmers benefited as productivity, yields and income increased and a reliable milk supply system was built.Today, Nestle pays its farmers over 6,122 million rupees each year for the milk it purchases, and the milk products it manufactures is exported to other Indian states in India as well as abroad.

The creation of this new income-generating activity in Moga has reshaped its social, economic, environmental and fiscal landscape. Milk payments to farmers, which grew from ₹910,000 in 1962 to ₹6,120 million in 2011, have a 3.5 multiplier effect in ancillary and productive activities. Higher farmers' disposable income has increased their spending capacity and the aggregate demand for additional goods and services. The factory today employs 2,400 people and supports another 86,371 jobs indirectly. Taxes levied on imported inputs by the Moga factory contributes to 25 to 35% of the total income of the Moga municipality.

Transforming a society takes time and so does having a positive, lasting impact. It has taken 50 years of continuous work, commitment, investment and innovation to transform Moga into a thriving milk district. Nestlé's engagement in Moga presents a pioneering case of how a company can position itself at the forefront of the food industry, successfully building and expanding markets, developing quality and innovative products and enlarging secure value chains. All these can be achieved whilst advancing the livelihoods of hundreds of thousands of families in an area that used to be one of the most impoverished areas of Punjab.

By building a community of interests, farms, farmers, workers, ancillary companies, and local consumers can transform underdeveloped regions like Moga into an economically, socially and environmentally better place to live in for its suppliers and consumers, and a profitable enterprise for the company. This is what creating shared value is about.

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Businesses will still be businesses and they will always be preoccupied with increasing profits. Yet, the path they follow to growing profitability has begun to change. As the Nestlé example in Moga shows, companies will continue to do good insofar as their hosting communities also do well. ■

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Courtesy: Nestlé Report

Milk chilling centre at a village in Moga, India