

CORPORATE RESPONSE TO CONCEPT OF SHARED VALUE

Zuzana Kreckova, PhD

Faculty of International Relations
University of Economics, Prague, Czech Republic

Abstract

Recent decades show that pure profit-maximization cannot be the best way for corporate long-term growth. Shareholders golden period is gone. Changed strength of stakeholders is forcing top managers to search for new avenues where profit maximization will be accompanied with value creation that will meet societal needs. The phenomenon of Shared values seems to be the answer. The article analyses successful companies that adopted the concept and brings general conclusions of their successful ways.

Keywords: Shared value, corporate social responsibility, corporate sustainability, stakeholders

Introduction

Over recent decades, the huge discussions have been conducted over the real purpose of corporations, especially with respect to profit maximizations versus obligations towards society and planet. The obligation to devote effort to the later two aspects led companies to start and develop various Corporate Social Responsibility programs. The initial attempts focused mostly on the cost cutting and resources saving activities. So, society and planet were a bit better off, but nothing great was happening. More developed CSR activities aimed at philanthropy and good citizenship. Those really started to shift mind of corporate leaders toward the needs of society surrounding their companies. However, activities like philanthropy are supported mainly and sometimes only, in good economic times, when companies are generating great profit. The global financial and economic crisis minimized, if not stopped, many of these long developed and nurtured projects with good intentions and benefits for wider society.

Even after the economic recovery and reasonable profit creation times renewal, the corporation were reluctant to reinstate their philanthropic activities in the same extent. Even the biggest cooperating partners like non-governmental organizations, perceived the previous approach of corporations

as too vulnerable and non-reliable in case the economic prosperity changes and consequently the first projects to be shortened are the philanthropic ones.

Hence, new concept was needed, the concept that will generate enough profit for corporations, as well as, provide secure added value for the society and planet. The answer seems to be in the idea of Share Value of Michael Porter, professor from Harvard Business School, who encourages corporations to create profit through offering products and services that just meet the needs of society and at the same time respect the fragility of planet ecosystem; and also offering these products and services at profitable level of corporate operations. Although the idea seems simple, the adoption requires complete change of the mindset of the captains of companies. Consequently adoption of the shared value into the day-to-day operations of the company requires often complete redefinition of vision, mission, strategy, product portfolio, to name a few.

From profit to Shared value

In 1970, Milton Friedman in his article “The Social Responsibility of Business Is to Increase Its Profits” claimed any social responsibility programs as “hypocritical window-dressing” (Friedman, 1970). However, the corporate approach developed over time and philanthropy, charity and corporate social responsibility (CSR) activities were part of any major corporate activities at the beginning of new millennium.

The recent financial and economic crisis has worsened the reputation of business enormously. Greedy Wall Street bankers started the domino effect that reflected business as the major cause of economic, environmental and social problems. The crisis also diminished available resources for any CSR programs, because those were designed as company costs. It consequently worsened the reputation of business even more. So, corporations started to search for new ways to do business in less greedy and more responsible way, respecting customer needs, scarcity of resources and longer-term goals.

In 2011, Michael Porter introduced idea of Shared Value Creation. “The purpose of the corporation must be redefined as creating shared value, not just profit per se. This will drive the next wave of innovation and productivity growth in the global economy. It will also reshape capitalism and its relationship to society.” (Porter & Kramer, 2011).

“The concept of shared value can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress. The concept rests on the premise that both economic and social

progress must be addressed using value principles. Value is defined as benefits relative to costs, not just benefits alone.” (Porter & Kramer, 2011, p.6).

Porter and Kramer (2011) also define three key ways for companies to create shared value opportunities:

- By reconceiving products and markets
- By redefining productivity in the value chain
- By enabling local cluster development

Given all the above facts, it is clear that there are some similarities and many differences between CSR and CSV. Similarities lie in the general approach to compliance with laws and ethical standards, differences are described in Table 1.

Table 1: Differences between CSR and CSV

Corporate social responsibility (CSR)	Corporate shared value (CSV)
Value: doing good	Value: economic and societal benefits to cost
Citizenship, philanthropy, sustainability	Joint company and community value creation
Discretionary or in response to external pressure	Integral to competing
Separate from profit maximization	Integral to profit maximization
Agenda is determined by external reporting and personal preferences	Agenda is company specific and internally generated
Impact limited by corporate footprint and CSR budget	Realigns the entire company budget

Note: In both cases, compliance with laws and ethical standards and reducing harm from corporate activities are assumed.

Source: Porter, Kramer. Creating Shared Value, 2011

Shared value was born as a concept due to need to address societal needs, mostly in the bottom-of-the-pyramid segments of the customers. The social needs are not being addressed sufficiently by the local governments. Companies realized that doing business as usual is not possible when these new client segments are about to be served. Hence, need for completely new strategy arise, strategy that focused on both profit creation for corporation and solving social need of the client segment.

Porter and Kramer (2011) defined the most pressing social issues that could be targeted by Shared value strategy: Environmental Impact, Supplier Access and Viability, Employee Skills, Worker Safety, Employee Health, Water Use, Energy Use, and Environmental Impact.

Figure 1: The Connection between Competitive Advantage and Social Issues



Source: Source: Porter, Kramer. Creating Shared Value, 2011

Several projects with far reaching results were realized since the Shared value idea was formulated by Coca-Cola, CISCO and Unilever companies:

Coca-Cola's Supports of Retail and Communities Development across Brazil

Coca-Cola tried to solve the issue of ineffective small retail sellers in poor areas and to better serve its low-income customers in Brazil. In 2008, company designed a shared value strategy enhancing the capacity of its Brazilian retailers combined with promoting economic development in underserved communities and also improving the company's sales.

In 2009, the company launched Coletivo Retail to train low-income Brazilian youth in two-month courses teaching retailing, business development, and entrepreneurship skills, including a temporary placement with a local retailer (e.g. convenience stores, bakeries, etc.) in their community to gain hands-on experience and enhance the retailer's performance. Finally, students get job market readiness support and after graduation they find easily jobs in the retail segment. In terms of social impact, „Coca-Cola operates 135 Coletivo sites, each with an average of 500 students. More than 25,000 Brazilian youth have graduated, 66% of whom are women. More than 6,000 small businesses have received tailored

business plans as a result of the Coletivo trainings, and 10% of Coletivo graduates have set up their own retail stores with microcredit support“ („Coca-Cola Supports“, 2015) . In terms of business results, Coletivo Retail community volume sales grow 9.5 percent more on average every year („Coca-Cola Supports“, 2015).

CISCO Network Academy

The CISCO Network Academy is another example of shared value, focused social issue in education. With an emphasis to help the underserved communities, CISCO in 1997 launched the Cisco Networking Academy, a training program to enhance knowledge in the latest global networking technologies. Cisco has already trained more than four million students through the creation of ten thousand academies in 165 countries.

Seventy percent of the program’s graduates have attained new or improved jobs, increased responsibilities or a higher salary (Bockstette and Stamp, 2011). An investment of \$350 million USD strengthened Cisco’s business through the creation of a pool of qualified technicians able to administer complex networks. It also creates and further educates sophisticated customers in high-growth markets. “It is a textbook example of how to build long-term competitive advantage via a sophisticated social engagement program” (Bockstette and Stamp, 2011).

Unilever’s Shakti women and Lifebuoy handwashing campaign.

Project Shakti combines several social issues together – Poverty, Women Empowerment, Education – and also solved difficult distribution for Unilever company in the remote rural areas of India. It is an initiative of Hindustan Unilever Limited (HUL) that targets small villages populated by less than 5,000 individuals. Shakti is an example of win-win CSV project. The project brings profitable micro-enterprise opportunities for rural women (Project Shakti, 2012; Shashidhar, 2013).

The project was so successful that Unilever decided to replicate it in other parts of the world – Egypt, Bangladesh, Sri Lanka and Pakistan (“Developing Employment”, 2015).

Another Unilever’s project - handwashing campaign with the bar soap Lifebuoy - leads to behavioral change as it saves lives and sells products (Kaye, 2015). The success story is based on simple approach - teaching a task that takes about 20 seconds. Unilever focused on social issue of Health, as there is evidence that diarrhea kills approximately 800,000 children under the age of five year (WHO, 2013). Majority of these deaths could be prevented by simple task – 20 seconds washing of hands. Bar soap Lifebuoy is in the center of the project. The project Lifebuoy’s handwashing

started in India in 2009 and the idea of teaching children to wash their hands in a creative and playful ways extended even across different continents.

Pursuing the vision that the future business growth has to be more inclusive, given the global scarcity of natural resources and pressuring social issues, the shared value seems to be the answer.

Methodology

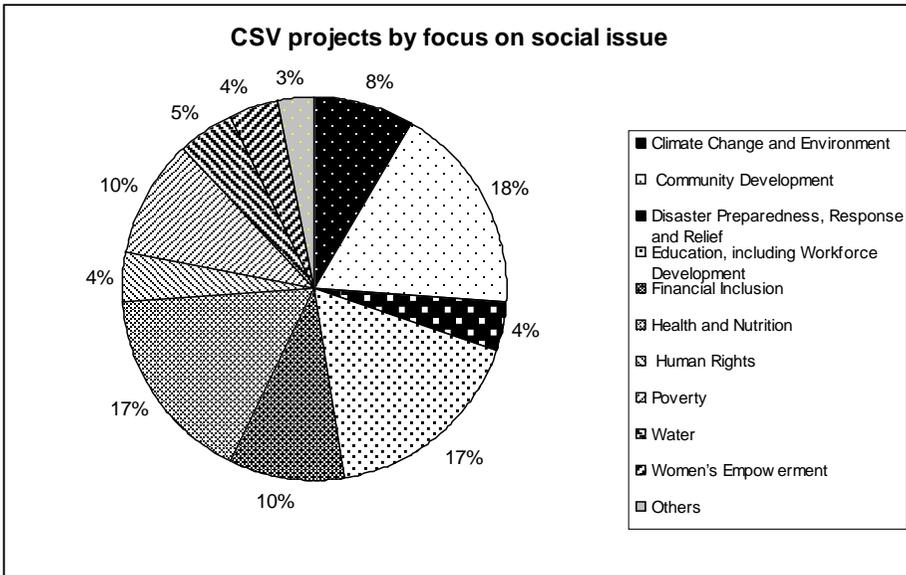
The corporate response to CSV was analyzed through the database of the Shared Value Initiative, the leading organization encompassing the practitioners of the CSV in June 2015. The database covers all the relevant examples of CSV project implemented by different companies worldwide. The database entry is voluntary based on the will of the corporations. Author of this article assumes that companies pursuing Corporate Shared Value in their corporations are also mostly active members of this initiative and posting their project on this portal.

The key areas Social issues, listed by Shared Value Initiative, where CSV concept is used are:

- Climate Change and Environment
- Community Development
- Disaster Preparedness, Response and Relief
- Education, including Workforce Development
- Financial Inclusion
- Health and Nutrition
- Human Rights
- Poverty
- Water
- Women's Empowerment
- others

The social issues of Community Development (18%), Education (17%) and Health and Nutrition (17%), followed by Financial Inclusion (10%) and Poverty (10%) are of the highest interest of companies to run CSV projects (Figure 2).

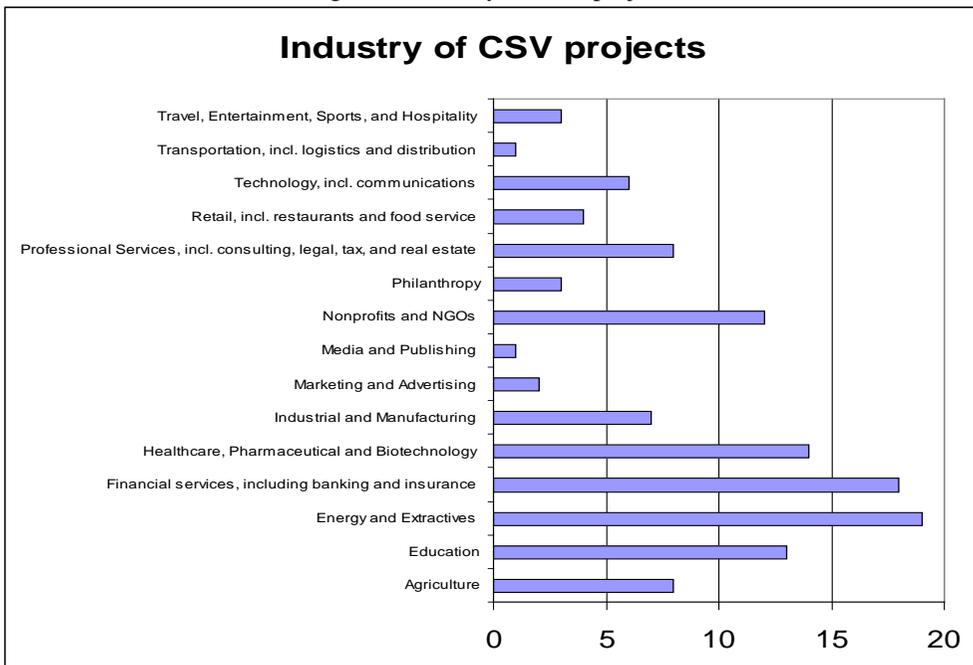
Figure 2: CSV projects by focus on social issue



Source: own analysis from SV Case Examples database

When assessed by industrial view, the most frequent are Energy and Extractives, Financial Services, followed by Healthcare, Pharmaceuticals and Biotechnology, Education, and Nonprofits and NGOs (Figure 3).

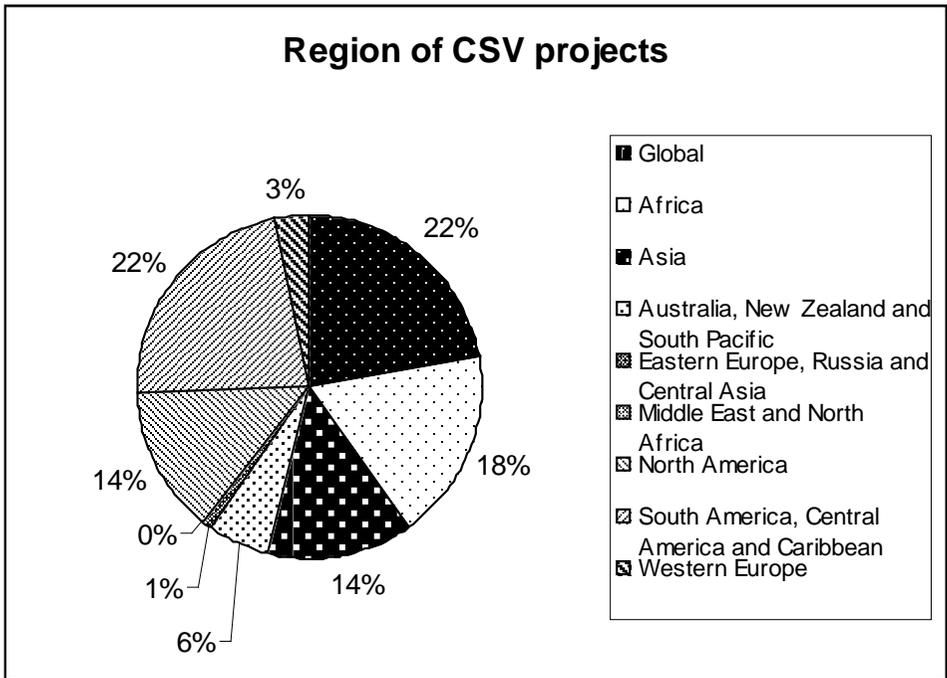
Figure 3: Industry of CSV projects



Source: own analysis from SV Case Examples database

CSV projects distribution by regions is very uneven. The dominant attractions have the ones with Global reach (22%) and South America, Central America and Caribbean region (22%). These are followed by Africa (18%), North America (14%) and Asia (14%). There is only very little interest in the region of Eastern Europe, Russia and Central Asia, and no interest in the region of Middle East and North Africa (Figure 4).

Figure 4: Region of CSV projects



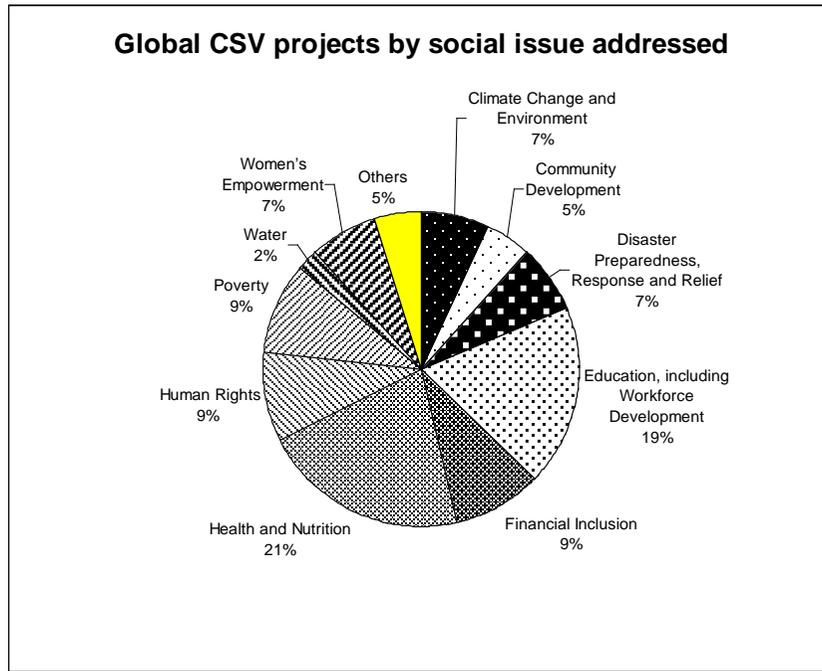
Source: own analysis from SV Case Examples database

When analyzing social issue of the projects by each region, it turns out interesting facts. Companies are focusing on Health and Nutrition and Education (incl. Workforce Development) in the globally spanned projects, on Health and Nutrition and Community Development projects in Africa, on Community Development projects in Asia, on the Climate Change and Environment, Community Development and Health and Nutrition projects in Australia, NZ and Pacific, on Education in Eastern Europe, on Community Development and Poverty in North America, on Education and Community Development in South America and on Climate Change and Environment in Western Europe.

The highest numbers of projects are on the Global level of reach. The highest incidents represented Health and Nutrition projects (21%), followed by Education, incl. Workforce Development (19%). These two top social

issues were followed by Financial Inclusion, Human Rights and Poverty, each with 9% of global projects (Figure 5).

Figure 5: Global CSV projects by social issue addressed



Source: own analysis from SV Case Examples database

Conclusion:

The Porter's idea about new approach to capitalism through addressing social issues jointly with aiming for profit addresses many corporations, acting both on global and local scale. Since 2011, when the idea of Corporate Shared Value was introduced to public, many of CSV projects were realized with both lines of success, social and financial.

We can see that the initial picture of social issues to be addressed by CSV projects by Michael Porter has already developed into slightly different areas, refined by corporate practice and monitored by the Shared Value Initiative.

Some regions, Africa, South America, Central America and Caribbean, North America and Asia are magnetizing CSV projects, while other regions are still untouched.

Further research could focus on analysis of reasons why CSV projects are of no interest in regions of Eastern Europe, Russia and Central Asia and Middle East and North Africa. Also analysis of key drivers enabling CSV projects in Africa, Asia, South and North Americas would be very beneficial for future discussions with all key stakeholders of CSV projects.

References:

- Bockstette, Valerie, Stamp, Mark. (2011). Creating Shared Value: A How-to Guide for the New Corporate (R)evolution. Retrieved from <http://www.fsg.org>
- „Coca-Cola Supports“. (2015) Coca-Cola Supports Retail Capacity and Economic Development in Brazil. Retrieved May 21, 2015 from <http://sharedvalue.org/examples/coletivo-retail-program-supporting-retail-capacity-and-economic-development-brazil>
- “Developing Employment”. (2015). Developing employment opportunities. Unilever. Retrieved May 20, 2015 from <http://www.unilever.com/sustainable-living/the-sustainable-living-plan/enhancing-livelihoods/opportunities-for-women/developing-employment-opportunities/index.html>
- Friedman, M. (1970). The Social Responsibility of Business Is to Increase Its Profits. The New York Times. Retrieved May 21, 2015 from <http://query.nytimes.com/mem/archive-free/pdf?res=9E05E0DA153CE531A15750C1A96F9C946190D6CF>.
- Kaye, Leon. (2015, April 22) Unilever’s Handwashing Campaign Goes Beyond CSR and Saves Lives. Retrieved from <http://www.triplepundit.com/special/disrupting-short-termism/unilevers-handwashing-campaign-goes-beyond-csr-and-saves-lives/>
- Porter, Michael, E. and Kramer, Mark, R. (2011). Creating Shared Value. How to reinvent capitalism – and unleash a wave of innovation and growth. *Harvard Business Review*. January-February 2011.
- Project Shakti (2012, February). Project Shakti: It is all about empowerment. Hindustan Unilever’s Project Shakti shows how economic development can be brought about through micro enterprise. *Indian Management*
- Shashidhar, Ajita. (2013, July 7). Empowering Women - and Men. *BusinessToday*. Retrieved from <http://businesstoday.intoday.in/story/project-shakti-helped-thousands-of-women-and-also-men/1/195911.html>
- SV Case Examples database. (2015). Shared Value Case Examples database. Shared Value Initiative. Retrieved May 20, 2015 from http://sharedvalue.org/example-listing?keys=&field_industries_tid=All&field_geography_tid=All&field_resource_social_issue_tid=1776&sort_by=created&sort_order=ASC
- WHO, 2013. Diarrhoeal disease. Fact sheet N°330. April, 2013. World Health Organisation. 2013 retrieved from <http://www.who.int/mediacentre/factsheets/fs330/en/>