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Cultivating Shared Value Initiatives

A Three Cs Approach

Elliot Maltz
Willamette University, USA

Steve Schein
Southern Oregon University, USA

This exposition integrates scholarly literature and interviews with senior executives to develop a framework for understanding the conditions which generate initiatives with high shared value for global enterprises and society. In general, our analysis indicates that enterprises are most likely to generate high shared value when they have the *capability* to do so, when there is *consistency* between the creation of shareholder value and social value, and when the social value can be *cultivated* beyond the enterprise that created the original initiative. Our analysis also suggests that certain capabilities (supply-chain expertise, collaborative capability and R&D capability) can be used singly and in combination to support mechanisms for cultivation. Perception of consistency depends on the relative emphasis placed on creating economic versus social value. However, even if a firm's sustainability initiatives are being driven primarily by economic interests, there are significant opportunities and motivation to optimise shared value through the cultivation of social value.

- **Sustainability**
- **Corporate social responsibility**
- **Shared value**
- **Resource-based strategy**
- **Supply chain**
- **Competitive advantage**

Elliot Maltz received his PhD from the University of Texas at Austin. His research has been highlighted in the *Harvard Business Review, Journal of Marketing, Journal of Marketing Research, Journal of the Academy of Marketing Science, Journal of Business Research, Journal of Product Innovation Management, Journal of Business Logistics, Long Range Planning, Sloan Management Review* and *Journal of Public Affairs.*

Atkinson Graduate School of Management, Willamette University, 900 State Street, Salem, OR 97301, USA

emaltz@willamette.edu

Steve Schein is a corporate leadership consultant and a member of the faculty at the School of Business at Southern Oregon University (SOU) since 2005. His primary areas of teaching and research include sustainable business practices, organisational leadership, strategy and business ethics. In 2007 he founded the sustainability leadership certificate programme at SOU, one of the first undergraduate sustainability programmes in a school of business in the United States. Steve Schein is a certified public accountant (CPA) and former CEO with more than 25 years of leadership, business development and senior management experience in many industries. He is currently completing his PhD in Human Development and Organisational Systems at Fielding Graduate University.

Southern Oregon University, Central 144, 1250 Siskiyou Blvd, Ashland, OR 97520, USA

scheinst@sou.edu

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Macroeconomic trends are increasingly driving managers to create sustainable business models, which take into account economic, environmental and social impacts (Lazlo and Zhexembayeva 2011). A recent study found that 93% of CEOs believe sustainability will be critical to the future success of their firm and that, moving forward, it will be important to embed the concept into how employees and executives think about strategy and execution (UN Global Compact and Accenture 2010).

Our purpose here is to explore an emerging approach to developing sustainable business practices: shared value. Proponents of shared value encourage managers to define value creation in a way that goes beyond short-term financial performance and considers a broader set of influences that determine long-term success. In this view, the firm's purpose is to optimise value for shareholders and the broader society in which the firm operates (Porter and Kramer 2006, 2011; Maltz *et al*. 2011).

Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever, Walmart and an increasing number of other firms known for their hard-nosed approach to business have begun to embark on important shared value initiatives (SVIs), yet our understanding of the potential of shared value is in its infancy (Porter and Kramer 2011). To date, the work on shared value has been largely conceptual and supported by anecdotal examples. To our knowledge, no systematic, empirical study has focused on how the concept is being implemented in practice. In this study, we draw on the existing shared value literature to guide a large-scale, qualitative study. Data for the study were gathered from more than 50 field interviews with managers intimately involved in the creation and implementation of initiatives designed to create shared value.

We begin our exploration by reviewing the emergence of sustainability management. We follow with a discussion of how the shared value paradigm fits in this stream of research and then formally define the focal construct of this study as SVIs. We compare and contrast conceptualisations in the literature with the view that emerges from the field interviews to provide a synthesis that allows us to:

- Identify where theory and practice are consistent in the implementation of SVIs
- Propose modifications to improve existing theoretical constructs
- Identify new constructs that may enhance the theory and practice of shared value

We close with implications for management practice and proposed directions for future research into the shared value paradigm.

Roots of sustainable business models

The sustainability movement may be interpreted as a response to the oft-quoted words of Milton Friedman (1970), 'There is one and only one social responsibility

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of business—to use its resources and engage in activities designed to increase profits'. In this proclamation, managers found a clear and overriding definition of value creation—the creation of shareholder value. They focused on making better goods and services more quickly and less expensively, with little regard for the externalities being foisted on society (Lazlo and Zhexembayeva 2011). In the 1980s market demand for more attention to the needs, outcomes and end benefits of society began to grow. This movement was crystallised in the stakeholder view of the firm espoused by Freeman and Reed (1983), who invited managers to re-imagine the corporation not as an instrument of shareholders, but rather as a coalition of resource suppliers aiming to increase their collective wealth.

In 1987, the first formally recognised definition of sustainability emerged from the Brundtland Commission. It emphasised the problems stemming from managers' focus on short-term shareholder value at the expense of longer-term value. Sustainability was defined as meeting the needs of the present without diminishing opportunities for future generations. However, the Brundtland definition provided limited guidelines on how to reconcile fiduciary responsibility to shareholders with the broader set of responsibilities to the community and the environment (Lazlo and Zhexembayeva 2011).

In the 1990s, proponents of the triple bottom line argued that building sustainable enterprises requires considering and measuring impacts on people, profits and the planet but they confronted significant opposition from shareholder value advocates who characterised the triple bottom line as a zero-sum game in which creating value for society reduces value for the firm (Lazlo and Zhexembayeva 2011). However, by the turn of the century, scholars had begun to question this apparent trade-off, postulating business practices that could increase value for shareholders, the environment and society simultaneously (Lazlo *et al*. 2005; Senge *et al*. 2008; Laugel and Lazlo 2009; Nidumolu *et al*. 2009). These scholars argued that macro trends such as growth opportunities in subsistence economies, resource scarcity due to global growth, radical transparency facilitated by new communication technologies, and greater expectations for corporate solutions to social problems *require* that managers think beyond trade-offs. The notion of shared value has emerged against this backdrop.

Shared value initiatives

The shared value perspective complements the concept of sustainability management. Advocates adopt the long-term view of value creation articulated by the Brundtland Commission. In a critique of existing management practice, Porter and Kramer (2011) argue, 'They [traditional shareholder value advocates] continue to view value creation narrowly, optimizing short-term financial performance in a bubble, while missing the most important customer needs and ignoring the broader influences that determine their

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longer-term success'. Shared value also explicitly considers value creation beyond the value accruing to the firm. 'The competitiveness of a company and the health of the communities around it are closely intertwined. A business needs a successful community not only to create demand for its products, but also to provide critical public assets and a supportive environment' (Porter and Kramer 2011).

In summary, the shared value approach is characterised by policies and operating procedures that enhance the competitive position of a firm while simultaneously advancing the economic and social condition of the communities in which it operates. Shared value focuses on identifying and expanding the connections between social and economic progress (Porter and Kramer 2011: 66). Shared value is not about redistributing existing value. Rather, it is about finding ways to leverage the connections between social and economic progress to *create more value*, which can be shared among multiple stakeholders.

Maltz *et al*. (2011) propose adopting a social cost–benefit approach to assess shared value at the initiative level. They suggest measuring the shared value of an initiative by examining the financial impact on the firm and the positive and negative externalities generated by the initiative. The present study also investigates shared value at the initiative level, but focuses on understanding how multinational corporations (MNCs) view SVIs. This focus reflects the important role of MNCs in addressing social issues, as well as the sustainability literature's growing emphasis on global issues (Albareda *et al*. 2008; Kolk and van Tulder 2010).

We are also interested in voluntary initiatives that are not motivated by regulatory pressures (cf. Melo and Galan 2011). Thus, an SVI is defined as a *global commercial organisation's initiative to simultaneously create value for shareholders and the communities in which the firm operates, beyond the efforts required by law* (cf. Maltz *et al*. 2011).

Capabilities and SVIs

The resource-based view suggests that unique capabilities and competences explain firms' success (Porter 1985; Prahalad and Hamel 1990; Barney 1991; Teece *et al*. 1997). In the resource-based view, a firm's unique competence yields long-term returns to shareholders as long as the competence remains impervious to competitive threats and continues to provide added value to the firm's customers and/or shareholders. Maltz *et al*. (2011) demonstrate that Walmart creates tremendous shared value by leveraging its capability in supply-chain management. Their study suggests that firms create more shared value in the supply chain by using existing capabilities (see also Porter and Kramer 2011). Other scholarly work on sustainability emphasises the use of R&D capabilities in creating shared value (Nehrt 1996; Judge and Douglas 1998; Graves and Waddock 2000). Porter and Kramer (2011) suggest that shared value can be created through a better understanding of customer needs. They write, 'Too

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many companies have lost sight of that most basic of questions: Is our product good for our customers? Or for our customers' customers?' This underscores the capability to understand customers and build stronger relationships. In summary, the literature suggests that leveraging existing capabilities leads to successful SVIs.

Consistency and SVIs

One of the hallmarks of sustainability in general and of the shared value perspective in particular is the notion that SVIs should create value for both the firm and society. **Consistency** is defined as the perceived congruence of shareholder and social value of an SVI. The optimal condition would be a demonstrable, quantified link between increased social value and improved financial performance (Epstein and Roy 2003).

While the capability to create shared value may exist, shareholders and/or managers may lack the motivation to use this capability in the service of social value for several reasons. Managers have a fiduciary responsibility to optimise shareholder value and, as noted earlier, shareholder-value advocates have argued that adopting a sustainability position requires trade-offs. If managers cannot demonstrate a link between social and financial value in leveraging their scarce capabilities, resource managers will be accused of not fulfilling their fiduciary responsibility and be replaced.

From a shared value perspective, using firm capabilities in a way that generates negative financial returns while trying to create social value for other stakeholders may dilute the financial value that translates into social value in terms of employment or taxes (Porter and Kramer 2006). Perhaps the most important reason for pursuing consistency between social and financial value is the difficulty in implementation when conflict arises, which may limit the value created.

Consider the case of a tobacco firm trying to reduce smoking rates. One could argue that a unique core capability of a tobacco firm is to understand and communicate with smokers, its target market. Indeed, we would expect the firm to understand the psychological profile of the market better than any other entity, given the extensive research it has conducted. Thus, tobacco firms are probably capable of reducing smoking rates in their target segment and this could generate significant social value through a reduction in healthcare costs.

However, in this case, value to shareholders depends on maintaining or increasing smoking rates. As such, any tobacco firm trying to implement this SVI would likely encounter considerable internal resistance. At the very least, efforts to reduce smoking rates would likely be delayed. In the worst case, execution of the SVI could be flawed, through the uninspired efforts of employees attempting to accomplish conflicting goals. In other words, the managers would perceive inconsistency of the SVI.

In this study, we investigate:

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- How consistency is perceived by managers in choosing SVIs
- Whether consistency influences the leveraging of certain capabilities
- How perceptions of inconsistency manifest themselves in the implementation of SVIs

Method

Our overriding research interest is how organisations approach the selection and implementation of *successful* SVIs. Given the relatively limited work focused on this topic, we used a purposeful two-stage, theoretical sampling plan (Glaser and Strauss 1967). We began at a general level (see Blumer 1969; Charmaz 2006) by discussing the notion of sustainability. We conducted interviews to ask managers how they view the concept from their role within the organisation, what motivates them personally, which cultural and leadership factors affect selection of initiatives, and how success is measured in their organisation. The purpose of these interviews was to determine whether scholarly work reflects managerial practice and to identify any new concepts that might not have emerged from the literature review (Charmaz 2006). The interviews followed a standard format. They typically lasted about an hour, and were transcribed by the interviewer. A set of questions (see Appendix) provided the structure for the interviews, but we frequently needed to explain and clarify some of the questions, as well as probe deeper with additional questions to elicit examples, illustrations and other insights. The information obtained from these interviews primarily presented insights into the meaning and the motivation of the selection of SVIs.

While the initial round of interviews provided a useful context for *why* firms are pursuing SVIs, the most compelling theme that emerged in terms of new concepts involved *how* firms are creating shared value. Therefore, we designed our second stage of interviews to focus on learning more about the specific ways in which firms are implementing SVIs. Specifically, we used 45-minute phone interviews with a new set of ten respondents with similar characteristics. We focused on the most interesting insights and new concepts that emerged from the initial interviews and those with the greatest potential for guiding management practice and stimulating future research (see Zaltman *et al*. 1982; Corbin and Strauss 2008). In these interviews, we specifically oriented the respondents toward the SVI concept, asking them to provide an example of a positive and negative implementation experience (see Appendix for script).

Sample

Thirty-two organisations were included in the initial sample; multiple individuals were interviewed in certain organisations, resulting in a total of 45 interviews. The firms represented multiple B2B and B2C industries. Because the

purpose of the study was theory enhancement, it was important for the data collection process to tap diverse experiences and perspectives. Thirty-three of the managers held titles at the director level or above relating to sustainability and/or a related concept, such as corporate social responsibility (CSR). The remaining 12 interviewees were CEOs and business unit managers. Consistent with our focus on large MNCs, all of the interviewees worked for organisations with annual sales of more than US$500 million and operations spanning multiple countries. All of the interviewees whose job had a focus on CSR or sustainability had at least five years of experience in the field. The sample reflects a diverse set of organisations, departments and positions, and hence was well suited for obtaining a rich set of ideas and insights.

The ten follow-up interviews were conducted with managers from eight organisations in the technology and consumer-products industries. Given our focus at the initiative level, we interviewed only managers with primary responsibility for the implementation of initiatives. As with the first set of interviewees, all of the interviewees had at least five years of experience in sustainability.

Together, these two sets of interviews provided the basis for a better understanding of the concepts of capabilities and consistency as they are practised in the implementation of SVIs. They also resulted in the introduction and development of a construct which has not previously received much attention—cultivation. These insights are discussed in greater detail in the next section.

Analysis: a three Cs approach to optimising shared value

Capabilities and SVIs

The literature suggests that having the capability to deliver value to both the firm and society is a necessary condition to optimise SVIs. This seems to be consistent with our management interviews. We specifically asked executives to tell us about an SVI they were proud of. The concept of leveraging existing capabilities consistently emerged in their descriptions of successful SVIs:

> [Our company] pursued mentoring opportunities to help in design and flow through process engineering expertise, quality, and production expertise (manager of natural resources at a consumer-products firm describing partnering with an organisation with a social mission).
>
> Our larger lever is to bring the religion of 'proprietary process' to the social enterprises/entrepreneurs of the world, allowing them to become more efficient and effective as they scale (chief technology and sustainability officer at a B2B software firm describing how to optimise social value).

We were interested in identifying which types of capability were mentioned most frequently. In general, the capabilities that emerged from the interviews

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were consistent with those that are prominent in the literature. For example, several of the managers discussed leveraging supply-chain expertise:

> 'We're focused on how we cascade our values through the supply chain and how deeply we can partner outside the company' (director of corporate social responsibility at a global financial services firm).

Of particular interest was leveraging supply chain expertise in the service of measuring shared value, and specifically the social component of shared value.

> As global citizens, we face extraordinary challenges including the complexity of global trade and supply networks, a world population expected to reach nine billion by 2050, diminishing resources, worker safety and fair treatment, human health and safety. At the core of these multiple and interconnected challenges, we find the need to more accurately quantify and communicate the sustainability of products (co-director at a sustainability consortium).

Another group of managers focused on leveraging their firms' R&D capability to implement SVIs:

> The bigger opportunity is in areas such as telepresence. This will put a big dent in carbon emissions generated from business travel throughout the world. We're bringing visual collaboration for the masses to the desktop. A big company like ours can fuel widespread adoption in a relatively short amount of time (vice-president of sustainability at a global electronics firm).

> The best example I can give [of] where technology is playing a big role is all of our smart grid work. We can substantially reduce the energy use in this country and most major urban areas around the world by making the energy grid a lot smarter. It's generations old and needs a lot of updating. However, with a number of hardware and software solutions we're developing at [our global capital equipment company] about how people are using and monitoring energy, we can change the use of the grid substantially (director of corporate citizenship at a global capital equipment firm).

The literature and the interviews vary on the importance of collaboration with a broader set of external stakeholders when implementing SVIs. The literature places particular emphasis on understanding and building relationships with customers. The managers we spoke with talked about understanding the needs of customers but placed particular emphasis on patiently investing in trusting relationships with non-traditional partners such as NGOs and competitors.

> Outside the company, we collaborate with BSR (Business for Social Responsibility, an NGO) and are playing a significant role with the Sustainable Packaging Coalition. We are also sharing manufacturing and packaging technology and innovation with several companies (vice-president of product integrity at a global consumer products firm).

> We've started bringing in our largest technology partners to collaborate on how we can integrate sustainability principles into our product design as well as our corporate governance (director of corporate social responsibility at a global electronics firm).

> At [our global consumer products firm], we seek to have a much bigger impact than the size of our company. The Educational Institute is one way we are doing this (chief sustainability officer at a global consumer products firm).

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Consistency and SVIs

The interviews touched on the notion that evaluations of SVI efforts should consider effects on both the firm and society. However, the emphasis placed on firm profitability versus social benefit varied significantly among interviewees. We identified two main perspectives, which we refer to as the economics-first perspective and the mission-based perspective.

The **economics-first** perspective is characterised by the following excerpt from our interviews:

> Economics was the prime driver. We had created this new division, Energy and Environmental Solutions. I recall our chief technology officer describing the alternatives. We were interested in getting into the energy area and all of the solutions were alternative energy solutions (renewable or energy efficiency). However, energy was chosen because of the size of the market coupled with our own knowhow, making renewable energy a good bet (director of corporate responsibility and sustainability at a capital equipment firm).

This economics-first perspective differs from a pure shareholder view of the world in that it incorporates the notion that social/environmental considerations are a legitimate consideration in financial evaluations, as described in the following interview excerpt:

> One of the things I drove at [our electronics firm] was that you can't divorce social and economic value. In an electronics company, you always need to look at performance, cost and quality, so employees were used to optimizing across multiple factors in their design. We realized that social issues, with a primary focus on sustainability, should just become a fourth criterion. Eventually, sustainability became a good lens for looking at inefficiencies (corporate sustainability officer at an electronics firm).

However, the economics-first perspective is consistent with the shareholder view in that the effects on financial results need to be measurable and demonstrable.

> We found a variety of problems with the first few approaches. Increased cost was a common problem. Some of this was health code issues. Working with logistics people, we found that one design placed a high burden on internal groups. We also considered how the solution would look to visitors. Cost and legality (health code) were the primary criteria (chief sustainability officer at an electronics firm describing an initiative to eliminate bottled water at the firm's events).

> We are trying to drive solar down to cost parity with fossil fuel. In the case of solar, there is an implicit social mission. My own feeling is that we could change the nature in terms of making social a bigger decision driver, but if I proposed this, the question that would be asked of me is, 'Is this what investors want to hear?' (head of corporate responsibility and sustainability at a capital equipment firm).

> Our goal is to enable radical energy efficiency. Our company alone emits over a million tons of CO_2 in three areas: buildings, air travel, and our servers. We think we can quadruple the amount of computing power using the same amount of energy by redesigning the data center of the future. One of our engineers put a couple of servers inside a large tent and showed we don't have to use buildings, which use a ton of carbon to make a ton of concrete. So now we make IT packs that sit outside

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> and use about ten percent of the energy [needed] for a building. A typical data center uses tremendous volumes of water and power. This will apply to all worldwide technology centers (chief environmental strategist at a global software firm).

Because of this emphasis on concrete results, the managers working for firms with an economics-first perspective tended to prioritise shorter-term initiatives with tangible impacts on profitability.

> In the end, sustainability issues were introduced in three different ways. The first were laws regarding e-waste or the like, and we knew we had to do these things. The second were opportunities that were win-wins, i.e., where we had a sustainability win and the product got better (e.g., cheaper, faster, more efficient). Finally, there were the areas where our products had a big sustainability impact and we knew we needed to improve them because it was the right thing, and increasingly our customers expected us to. The more challenging items are in the third category above, where you know you need to make sustainability improvements, but it's not clear where the economic gains are. I would say that, at [our firm], we [haven't] gotten that deeply into those issues yet (chief sustainability officer at an electronics firm).

The **mission-driven** perspective typically emerged from interviews with managers at firms whose founders had embedded a sustainability ethic in the firm from the start. Managers at these firms were not shy about discussing how mission overshadows immediate financial performance.

> It started with our founders. When they set up the company, it was with the philosophy of making a profit as simply a means to improve society. It is in our DNA. It permeates the company and employees come to our company because of this philosophy . . . Sustainability is embedded in our product and businesses. It is not a bolt-on. We always do believe that an initiative needs to be good for the business, customers, and the environment. It is not philanthropy. It is business (vice-president of environmental sustainability at a technology conglomerate).

> At [our coffee products company], the idea that we can do something that benefits society and the firm imbues everything that we do and has always done so from the origins of the company (vice-president of corporate social responsibility at a coffee products firm).

Even for mission-driven firms, SVIs perceived to have a negative financial outcome will not be perceived as consistent. However, the specificity and timeframe of results through which firm value must be created varies based on the relative emphasis placed on social versus economic value creation. Mission-driven firms are less focused on tangible financial results and more willing to consider longer-term value adds.

> We would not have continued the initiative without value to the firm. For this to be sustainable for a for-profit business there must be a benefit to the business. But we don't need a tangible link to profitability; we just need an inkling that it is good for the business (vice-president of corporate social responsibility for a mission-driven coffee products firm).

> Our [consumer-products firm's] operational expertise was used at [socially motivated partner]. We then urged them to spread their wings. We recognized that [socially motivated partner] needs to diversify the product line beyond us, making

> them a stronger business and a better partner for [our consumer-products firm] (manager of natural resources at a consumer products firm).

To summarise, our interview data indicate that both shareholder and social value are considered in the evaluation of SVIs, but firms generally will not invest in initiatives that will hurt the firm financially. However, firms place differing emphases on the relative importance of tangible, demonstrable economic gains and the timeframe in which to deliver shareholder value. For firms with an economics-first perspective, the outcome will probably need to have a well-defined financial return and timeframe. For firms with a mission-driven perspective, the benefit to the firm may not need to be as explicit.

With these points in mind, we now turn to a concept that is not widely discussed in the shared value literature: the expansion of SVIs' influence beyond the boundaries of the firm. We refer to this as **cultivation**.

Optimising SVIs by cultivating social value

Large, global corporations are being pushed to be socially responsible in part because they own assets in multiple regions and therefore can use their resources to make a difference across geographic regions. Through SVIs that leverage firm capabilities and demonstrate consistency, global corporations can affect relatively rapid social changes within their organisation's sphere of influence.

However, to optimise shared value, the portion of that value aimed at the community of need beyond the shareholders must be able to be cultivated by other entities. Even the largest corporations have a relatively small sphere of influence. If the social portions of the initiatives are not cultivated by other organisations, then the large increases in social value sought by sustainability advocates are unlikely to be achieved. In other words, shared value is unlikely to be optimised.

Therefore, *the resource-based perspective on creating shareholder value may need to be adapted when considering SVIs, as it can be in the firm's best interest, or at the very least not detrimental to the firm, for the social value it creates to be imitated*. If social value is cultivated, the long-term viability of the firm will likely increase through the creation of a more vibrant customer base. As long as the principle of consistency is not violated, any negative financial impact on the firm of cultivating social value will be muted. In some cases, cultivating social value may even expand market opportunities.

This cultivation process can be achieved in at least four ways (see Table 1): supply-chain influence, competitive response, technology transfer and NGO partnership. The approach most commonly cited by managers was **supply-chain influence**. An MNC can influence supply-chain partners to extend their initiative to other entities. This type of initiative can be perceived as consistent by both economics-first and mission-driven organisations, because the results are relatively easy to measure and returns can be realised quickly.

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Table 1 Three Cs view of optimising shared value through cultivation

	Supply-chain capability	Collaborative capability	R&D capability	Economics-first or mission-driven?
Supply chain influence	Yes	Yes	Yes	Either
Competitive response	Sometimes	No	Yes	Mission-driven unless confident of long-term competitive advantage
Technology transfer	No	Yes	Yes	Mission-driven unless economic value made transparent
NGO partnership	Usually	Yes	Yes	Usually mission-driven

For instance, in many cases, Walmart, an avowed economics-first firm, is the largest purchaser of a supplier's product line. Walmart has undertaken a huge initiative to make supply-chain partners' processes less wasteful, thereby reducing costs and their carbon footprint (Walmart 2010). When Walmart influences changes in a supplier's processes to reduce environmental impacts, the supplier is likely to use those modified processes for all its customers rather than incurring the costs of running multiple processes to generate the same output. Thus, social value is cultivated. However, because Walmart influences how the processes are modified, those new processes are likely to be a better fit for Walmart's processes than for those of other customers. Thus, Walmart does not violate the principle of consistency.

Our interviews revealed a less obvious example in which a large electronics firm set out to eliminate the use of bottled water at all its corporate events, thereby creating social value by reducing waste. The firm's engineers designed a solution that was no more costly than using bottled water (thereby not violating the principle of consistency). From a cultivation standpoint, the initiative took revenue away from bottled water producers and encouraged suppliers to deliver water in other ways. The elimination of bottled water was motivated by a social-value driver, not by a shareholder-value driver, yet the application of social values in the market created a financial issue for the suppliers. The selected water supplier can point to its major customer to increase sales while serving others, while the supplier of bottled water loses business and has to reconsider the sustainability of its product.

Managers cited operational supply-chain management as a key capability for understanding value creation opportunities in the supply chain. While identifying value creation opportunities was an important first step, *the ability to collaborate and innovate were often the true drivers of cultivation through supply-chain influence.*

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> We are also working with [name withheld] to develop quantifiable carbon impact of the new practices that ultimately may result in carbon credits that can be sold on the carbon markets by the growers. The goal is to do this for all [our] growers that take on these new practices, strengthening our supply chain even more (director of environmental affairs at a consumer products firm).

> Where we are today is a well-thought-out strategy of pursuing a closed-loop agenda with an emphasis on developing sustainable materials to support healthy populations around the world. Our new concept is to innovate for a better world (director of stakeholder mobilisation at a global manufacturing firm).

A second way cultivation may occur is through **inducing competitive response**. Maltz *et al*. (2011) reported that Walmart created an SVI with significant shared value when it reduced its prices on generic drugs by two-thirds. In doing so, the firm attempted to increase store traffic to sell other products. However, the initiative also increased the probability that low-income individuals would adhere to their drug regimens, thereby improving their health and ultimately reducing the number of emergency room visits and the corresponding financial burden on the healthcare system.

Major competitors quickly matched Walmart's pricing of generic drugs, but because they lacked Walmart's supply chain expertise they were not able to match Walmart's profitability. Thus, if anything, Walmart enhanced its competitive advantage by forcing competitors to make unprofitable investments, thereby diverting resources from more profitable initiatives. At the same time, social value was cultivated because more people were able to afford to maintain their prescribed drug regimens.

Managers also cited their innovation capability in creating cultivation through inducing competitive response:

> We were one of the first companies to list all of the ingredients on our package. This reinforced the trust that consumers had in our brand. It also sent shock waves through the industry and now all the major cleaning products companies like [name withheld] are reporting their ingredients on their label. This even caused the major trade association in our space to develop guidelines for the entire industry (chief sustainability officer at a global consumer products firm).

Interviewees noted that, without the R&D capacity to maintain their firm's competitive advantage, the consistency of the initiative would be lost, because the longer-term value associated with the investment would not materialise. One interviewee highlighted how enhancing the sustainability of the firm's supply base and sharing methodologies with competitors increased the stability of the supply base for the entire industry. By being the first mover, the firm was better able to take advantage of the increased stability:

> We make the [unique process] model available to the whole industry. We believe this is better for environmental sustainability, but also the sustainability of the supply chain. This decision was part of the development of that process from the beginning. We believed that, in order for the [consumer] market in the broadest sense to survive and thrive, there needed to be a strong system-wide sustainable supply base. A system for the industry needed to be developed and we simply had the capacity to develop it both in terms of the scale and company values . . . We had the capacity to

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> take this on. Even though we make this available to the whole industry, it still makes it a stronger advantage for us, because it is more robustly integrated into our system (director of environmental affairs at a consumer products firm).

A third way in which cultivation can occur is by **sharing technologies** with other profit-seeking firms. The following interview excerpts described this method of cultivation.

> We're working with technology companies like IBM, HP, and Intel to create solutions across the supply chain and around the world to produce information in real time. Technology as an enabler of sustainability is still in its infancy. A lot of the green IT market at the moment is IT addressing its own problems. IT will then enable the world to reduce the remaining 98 percent of emissions through smart buildings, smart logistics, smart transportation [and] smart electric grids (director of sustainability at a software firm).

> The company has a global focus on sustainable agriculture. We have a series of position papers designed to influence the global food companies that cover a broad range of agricultural topics including climate disruption and regional food systems (manager of natural resources at a global consumer products firm).

Obviously, R&D capability is important to creating cultivation through the sharing of technology, for without technology, there is nothing to be shared. However, equally important for our managers was the ability to collaborate in a way that increases the dispersion of social value without jeopardising the profit potential of the initiative, which would violate the principle of consistency.

> If you really look at the mapping of various industries and their impact on carbon emissions, IT companies are directly responsible for only about four percent of global emissions. The real beauty is how you use technology to green the other industries and their 96 percent of the worldwide carbon emissions (vice-president of environmental sustainability at a global technology firm).

> We're moving rapidly towards the strategic integration of social and environmental solutions. If you think about the influence of our technology, we're the backbone and the dashboard technology for electric cars, which are going to benefit the broader society. In terms of our cell phone coverage, it is now an expectation that we do work in the developing world. When we can develop greater coverage, we can offer more solutions around the world, whether it is satellite or expanded coverage from single towers. This has far-reaching benefits for the poorest countries (director of corporate social responsibility, global communications company).

Creating a concrete link between technology sharing and profitability is problematic for economics-first firms, as benefits to the firm tend to accrue over a much longer timeframe. Of course, creating a more structured financial relationship with the partnering firm or local government is one way to help safeguard shareholder value. 'We take Board positions and make the small companies aware of how to exploit our [commercial technologies for solar power generation] and perhaps beta new products or provide access to R&D in early stage development' (head of corporate responsibility and sustainability at a large B2B hardware firm).

Perhaps one of the most interesting insights that emerged from our interviews is how cultivation may occur through carefully considered **NGO collaboration**. This refers to an engagement with a specific non-profit organisation

whose capabilities are complementary and synergistic to those of the MNC. Our interviews revealed numerous examples of highly structured, long-term, collaborative relationships with NGOs. In each case, firms had built on their collaborative capabilities to create relationships designed to optimise the long-term outcome of a specific SVI beyond the capabilities of either the firm or the NGO operating alone.

> It starts with the longtime leadership orientation of our founder. We're one of the few large companies that donate five percent of our pretax profit to the communities around the world where we operate. We try to set up self-sustaining projects around employment, health, and education. We've got three projects right now in Africa where we are pulling all of the results together (global consumer products company discussing collaboration with NGOs and universities in Africa).

> Ten years ago, it was backslapping between CEOs and Board members saying they had given so much money. Now it is about discrete competencies that corporations and nonprofits can bring to solve problems. The general approach to collaboration has become more surgically focused on solving very specific environmental and social problems (vice-president of global responsibility at a consumer products firm).

> With respect to the positive impact we're having on water and the environment, it's incredible what we've achieved with the [NGO] since the program started four years ago. We're only four years into this partnership with [NGO]. Initially, we started focusing on seven river basins and 15 countries. Since then, we've launched in an additional 40 countries. They have 90 offices in the field, which allows us to have a local connection everywhere. We've melded the people in the field so that now they're almost indistinguishable (vice-president of the environment and water resources at a global consumer food-products firm).

Firms engaged in these kinds of cultivation activity were primarily (although not exclusively) mission-driven firms. Typically, the activities involved some sort of supply-chain management expertise as the MNC incorporated the NGO into the supply chain over time.

> We're focused on how we cascade our values through the supply chain and how deeply we can partner outside the company. I manage the NGO engagement strategy where we have moved to a much more strategic relationship with NGOs (director of corporate social responsibility at a global financial services firm).

> Increasingly, pressure is being felt throughout the world to drastically reduce the environmental and social impacts associated with global consumption. Retailers, manufacturers, suppliers, governments, NGOs, researchers and consumers all hold a stake in the sustainability of global product production and use. As global citizens, we face extraordinary challenges including the complexity of global trade and supply networks, a world population expected to reach nine billion by 2050, diminishing resources, worker safety and fair treatment, and human health and safety. At the core of these multiple and interconnected challenges, we find the need to more accurately quantify and communicate the sustainability of products. The challenge before us, then, is to work collaboratively together, developing an approach that drives better understanding, standardisation, and informed decision-making (co-director at a sustainability consortium).

SVIs often involved joint R&D projects using the specialities of the two organisations.

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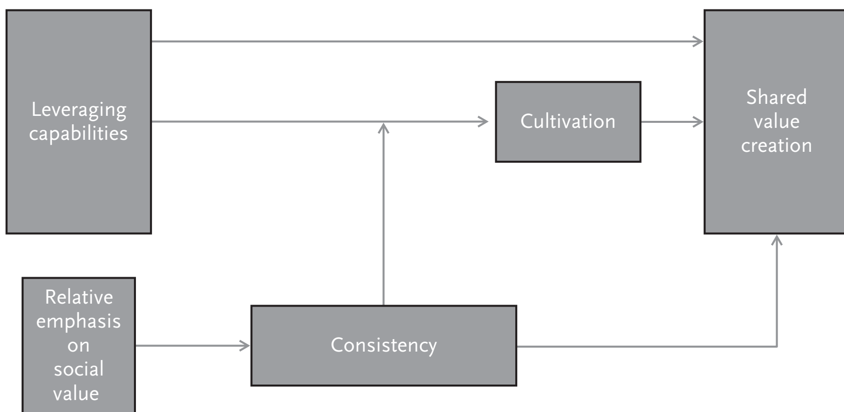
> We are also the only large company that has agronomists in the [. . .] growing regions and offers the expertise for free to make their growing practices more sustainable . . . [Our company] is working with a number of communities [linked through our NGO partner] to try to actually provide empirical evidence of the practices (director of environmental affairs at a consumer products firm).

To summarise, MNCs are cultivating in multiple ways, leveraging a variety of capabilities. How they combine and leverage these capabilities depends to some degree on how they evaluate consistency. There is no single, 'best' way to optimise shared value. The process of optimising SVIs is summarised in Figure 1. Our interviews suggest that MNCs leverage key capabilities and, implicitly or explicitly, use their perspective on the relative importance of the economic and social components of shared value in formulating their initiatives. However, in every case, the most successful SVIs are cultivating the social component of the initiative beyond the boundaries of the firm. Our interviews further suggest that SVIs cultivating the social component of the initiative beyond the boundaries of the firm are likely to create significant shared value.

Figure 1 Three Cs framework for optimising shared value creation



Conclusion

Managers are increasingly convinced that sustainability will be critical to the future success of their firms. Consistent with a recent study jointly conducted by the UN Global Compact and Accenture (2010), throughout our interviews we found sustainability is becoming more deeply embedded into strategy and how success is being conceptualised at MNCs. Promising research into the notion of shared value can help managers structure their efforts in this area. Shared value focuses on identifying and expanding the connections between social and economic progress. Shared value is not about redistributing existing value. Rather, it is about finding ways to leverage the link between social and economic progress to *create more value*, which can be shared among multiple

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stakeholders. This exposition represents the first large-scale, systematic study of how managers are currently implementing and optimising SVIs. We conducted more than 50 interviews with senior sustainability executives intimately involved in the implementation of SVIs to develop a more granular view of how theory is being translated into practice.

Consistent with the resource-based view, our work suggests that planning for successful SVIs requires that a manager consider the firm's available capabilities. Three capabilities were mentioned prominently and consistently in our interviews: supply-chain expertise, collaborative capabilities and R&D capabilities. **Supply-chain expertise** is required to identify sources of waste, understand how to reduce waste and develop standardised measures to quantify progress. These methods and benchmarks are often cultivated through competitive responses and/or collaboration with NGOs. Thus, supply-chain expertise is often combined with **collaborative capabilities**, which generate effective, non-traditional partnerships (e.g. with competitors and NGOs) to optimise shared value creation. **R&D capabilities** were cited singly and in combination as a key factor in implementing SVIs and facilitating the cultivation of social value through supply-chain influence, competitive response, technology transfer or NGO partnerships.

Consistent with the shared value view, our interviews touched on the notion that the evaluation of SVI efforts should consider the effects on both the firm and society. However, the emphasis placed on firm profitability versus social benefit varies significantly. Some firms exhibit an **economics-first** perspective, which is similar to the shareholder view of the firm, but incorporates the notion that social/environmental considerations are a legitimate consideration in financial evaluations. Managers in economics-first firms require relatively tangible evidence of a direct link between the initiative and financial value. As such, they often focus on shorter-term SVIs. In contrast, **mission-driven** firms, which take a more balanced view of the relative importance of economic and social value, do not need to demonstrate immediate, concrete evidence of economic value. Managers in these firms assume that increasing social value is good for the firm in the long term.

These different perspectives inform decisions on whether and how to cultivate social value. Mission-driven firms consider a wider range of cultivation activities. Many of the economics-first firms focus heavily on supply-chain influence for their SVIs, because of the relatively concrete, demonstrable and immediate cost savings. However, in many cases, economics-first firms, with their focus on more concrete measurements, may be thought of as leaders in cultivating SVIs. For example, Walmart's initiatives to reduce waste and CO_2 emissions, largely driven by economic motives, have reshaped the supply-chain practices of competitors and have been adopted by many industries.

In summary, our qualitative research suggests that MNCs are implementing SVIs in multiple ways and leveraging their capabilities strategically across all boundaries (competitors, NGOs, suppliers). In doing so, they are often creating standards and best practices. This perhaps represents the latest evolution in the sustainability movement in general and the shared value perspective in particular.

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Nevertheless, the shared value movement is still in its infancy. Developing measures of capability, consistency and cultivation is necessary to generate quantitatively supported generalisations. While our work suggests important ways in which cultivation is occurring, there are likely to be other methods utilised by MNCs. Our work also does not consider how shared value is being implemented in smaller firms. Nor does it consider how SVIs are initiated from NGOs or public sector entities. Understanding how not-for-profit organisations engage for-profit firms in these initiatives is an important area for future research. We urge scholars to build on our work to refine how to optimise SVIs in all contexts.

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Appendix: Scripts for interviews

Stage 1 interviews

(45 interviews on the general concept of shared value and how it is practised at the MNC)

Background

1. How or why did you become involved with sustainability within your organisation?
2. In regard to your current work in corporate sustainability, which issues motivate you most?

Leadership

3. To what extent do you integrate sustainability into your leadership development processes?
4. Are sustainability initiatives included in overall performance evaluations?

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Culture

5. How would you describe the pace of change related to sustainability within your organisation? What would accelerate the pace?
6. What type of learning needs to occur in individuals in order to fully integrate a mind-set of sustainability?

Measuring success

7. How are you measuring your success at both the individual and the organisational level? Can you share any particular success stories?
8. What do you perceive as your greatest challenges in accomplishing your goals at both the individual and the organisational levels?

Stage 2 interviews

(10 interviews focused on the initiative level)

1. Consider an initiative that your firm generated that you are really proud of. Talk to me about the decision-making process
   - Who was involved?
   - What were the decision criteria?
     - Capabilities
     - Profitability
     - Explicit discussion and evaluation of social value
     - Spreading social value beyond the firm's boundaries
   - What was the timeline like?
   - Who made the final decision?
2. Tell me about an initiative that didn't meet expectations

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