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WHAT IS THE VALUE OF CREATING SHARED VALUE?

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Introduction

The role of big businesses in society have always been a very thorny subjected in the business community's debate. The more companies have tried to engage in "good" activities, the more they have been criticized for the society's failures, and as a consequence, they have gradually lost their legitimacy, together with a pick collapse of the capitalistic system. But Porter and Kramer claim that it is possible to give this legitimacy back again, only if big companies embrace the concept of Creating Shared Value (or simply CSV) as an operating method. The term "shared value" was initially used by Porter in 2006 in relation to better strategic CSR, but a formal definition has been given by the authors only in 2011 in a paper whose analysis will be the subject of the first chapter of this dissertation, and that is classified under the category "Big Ideas" of the Harvard Business Review, called "How to reinvent capitalism- and unleash a wave of innovation and growth". The general idea is that enterprises should have a more long term-perspective on how they operate in relation to the external society and environment, with a focus on only few social needs that they can serve at their best through their core business, such that they can address the social needs in a way that creates value for both the company (shareholders) and the stakeholders at the same time. Shared value can be created in three ways: by reconceiving products and markets, redefining the productivity along the value chain and enabling local clusters. To abandon the short-term perspective on the social action, the authors argue that CSV should supersede CSR, because it has shown to be something ineffective, only imposed from the outside, for reputational reasons, and that does not pose the resolution of the social needs at the center of the core business and of profit maximization. These words, in particular about the difference between CSV and CSR, are very strong and they opened a big debate in the business community on the issue.

For this reason, in the second chapter, we will first present the main merits and the few critiques against this new branded theory by Porter and Kramer. Then after, I conducted my own research about the difference between CSR and CSV, trying to understand which are the possible points of overlap. First, I will proceed with an excursus into the long history of the CSR literature, that led us to perceive the CSR efforts today as “strategic” and value drivers, and then I will underline some significant theoretical and practical overlaps. In particular, evidence is found on the fact that shared value represents a big definitional construct and that, in practice, we can find a multitude of real case examples that fall under both categories (CSV and CSR).

Since the method of “case study” is the one used by Porter and Kramer to prove the real success of CSV in the 2011 article, and the majority of the following literature is about companies’ real example, we will also analyze two selected cases. The first one is about Nestlé, and it is important as we can say that shared value was born here, when the company decide to re-read its CSR efforts in a shared value perspective and asked to FSG, the consulting firm co-founded by Porter and Kramer, to help in it. In particular, to better understand what means shared value creation, we will go in depth into one of the company’s programs for CSV, The Nescafé Plan in Kenya, to better explain also which are the limits and measurability of the shared value operating method when dealing with rural development. For analyzing the second case study about Snam, instead, I had the great honour to collaborate and personally interview the company’s CSR manager, Domenico Negrini, to have a deeper understanding about the reasons for embracing creating shared value and the nature of the understanding and implementation of the concept inside and outside the company.

In these first 4 chapters, to better understand the “real” value of shared value, a number of implicit and explicit questions will be posed to the reader. For example, what is the difference between strategic CSR and CSV, should CSV supersede CSR, what is the future and limits of CSV and what could be done to improve the operating method. To give a solid answer to them, I had the great pleasure to interview Giovanni Pizzochero, senior consultant and co-founder of Avanzi, the first Italian consulting company to approach shared value with Snam, and the only Italian consulting partner listed in the Shared Value Initiative FSG website. I think his opinion are of significant importance to the end of this research, as not only he took part to some official FSG “CSV forums” all over the world, important occasions to share ideas on the topic with leaders and experts, but also to understand the perspective of a consultant, since the same authors Porter and Kramer are consultants themselves. A number of interesting points of discussion will be highlighted, that can stimulate future researches and better address the role of business in society. My ideas will be mixed in an open debate with Giovanni Pizzochero, trying to find some common conclusions about hypothesis for the future and the “real” value of shared value.

I want to thank both Domenico Negrini and Giovanni Pizzochero for their collaboration and for giving me important instruments for this dissertation. They transmitted me their love for the subject, and enriched my research with their points of view and experience.

CHAPTER 1: MICHEAL E. PORTER and MARK R. KRAMER, the concept of shared value and the role of business in the society

1.1 The capitalist system is under siege.

The capitalist system is under *siege.* This is an interesting and challenging way for our brains to start a discussion in the year 2011, after the financial crisis exploded, after that the gap between rich and poor people has widened further, and finally after that everyone of us in the everyday life can see with his or her own eyes how social and environmental, but above all economic problems, are widening and influencing more and more our perspectives about the world in general and our life in particular. Maybe, this is the reason why we are getting more *sensible* in a certain sense, asking both big companies and government to do something more to solve this problems, not only in our home countries but also in the poorest countries in the world. As a response to society's problems, many companies started to engage in "*good"* activities, showing off how they spend money for projects of *corporate social responsibility (CSR)*, that is for sure a very noble thing to do, that enhances the reputation of the company in the eyes of the consumer, but that may not be enough. In many cases, this projects to enhance societal and environmental problems are seen as a waste of money from a shareholder's perspective, because they want dividends, not sentiments. The government instead responds with regulations, taxes and other measures that in the globalization era, in which capital, labour and people can be moved to every corner of the world, can be more self-defeating that a self-service help for the society. It is evident that something has to be done, not only to understand where is the capitalist system going, and as a consequence were *we* are going, or at least someone has to write something to understand that bearing the responsibility is no longer an option that we can ignore. But who? Or at least what can be done?

Michal E. Porter and *Mark R. Kramer* maybe asked themselves these same questions before writing, between January and February 2011, something that goes under the category *"Big Ideas"* in the *Harvard Business Review* publications. And I say maybe because the title is exactly *"How to reinvent capitalism- and unleash a wave of innovation and growth".* According to the authors, companies should take the lead to take business and society back together by overcoming the "blindness" that made them ignore all the big opportunities that rise once this fundamental link is restored.

1.2 The role of big businesses in the society

The first reason why the capitalist system is under siege, according to *Porter* and *Kramer*, is because the business have lost its legitimacy. People lost trust in their role in helping the society in general and the governments, in a response to restore this legitimacy, are not helping in stopping the fall, according to the authors. Increasingly over time, businesses have been seen as a major cause of social, environmental and economic problems and they have been seen as making profits as the expenses of the society as a whole. In the *"old"* concept of capitalism, big businesses, like for example multinationals companies like Wal-Mart, that employs so many people (around 2.2 million employees) that makes it larger than 41% of the world sovereign nations in terms of population[1] , do actually contribute to social development of the communities in which they operate, in a way that can be considered as a *circular flow.* The company find out a *need* to fulfil and develops a

[1] Shared Value project: *Shared Value: A practical response to the global financial crisis, February 28, 2012*

product or service, sells it and makes profits defined in economic terms as revenues minus costs. As profits increase, the company can expand the product or service lines, thus expanding its operations and penetrate new markets through internationalization, creating more job as the demand for the product increases. As new opportunities and new markets open up, and more employment in the local community in which the company operates is created, thus more wages are distributed. The wage will then be used under different forms of consumption and other investments over which taxes are paid, and the whole community, again, benefits from everyone paying the taxes.

Even if this capitalist system, very simplified in my perspective, seems like making good sense, and good profits for all, business for such a long time has been viewed as a major cause of social, environmental and economic problems and companies lost trust and legitimacy as time passed by, as I already said. As a response, the more they have tried to engage in Corporate Social Responsibility (CSR)to solve social problems, the more they have been blamed by the society and for the society's failure[2]. But where is the problem? *Michal Porter and Kramer* in the above mentioned paper, argues that the problem lies in companies themselves and because of their own capitalistic, short-view perspective of value creation. The authors argue that they continue to view value creation narrowly, maximizing the short-term financial performance but ignoring the long term one, such that they remain staked in both a narrow vision of value creation and a narrow vision of *need,* that consequently may undermine their long term success and determine their blindness with respect to great opportunities for making profits.

[2] *Michal E. Porter and Mark E. Kramer, "*How to reinvent capitalism- and unleash a wave of innovation and growth", *Harvard Business Review, January-February 2011*

Michal E. Porter and Kramer, given the previous considerations, declare that we need a *new approach*, considering that only businesses can create economic and social prosperity through meeting needs at a profit. In this new approach to business, companies are not asked to act as charitable givers, but rather as *businesses acting like businesses*, that are the most powerful force to address the growing and diverse pressing issues that our society is facing.

1.3 A new business model for companies based on Shared Value

For a very long time, and this is still a very modern issue, society and business have been putted against each other, and the trade-off between economic efficiency and societal progress had widened. In the neoclassical thinking, every try to provide societal benefit is considered as a constraint on the business, or company, that will inevitably raise costs and as a consequence reduce profits. Businesses in general have seen societal and environmental issues as problems that they were not supposed to bear, such that this lead to the notion of *externalities, or societal costs created by the actions of the companies,* that they have to *internalize:* for example, caps imposed by regulations on gas emissions, to limit pollution in the local environment in which the company operates, are transferred to the company under the form of taxes and penalties that they have to pay in order to reduce those externalities. Since this regulatory framework has been seen as contrary to their interest, the role of *solver* of those problems has been given to both governments and other non-governmental organisations (NGOs). According to Michal E. Porter is possible to give back legitimacy to the business again, and in a way that contemplate the intervention of the Government to boost the creation of shared value instead of limiting it. This is because their action, according to the author, has been not beneficial and has mined the competitiveness of the business itself.

Therefore, it is possible to bring back together business and society through the concept of Shared Value Creation.

The definition of this new way of creating value focuses on identifying and expanding the connections between societal and economic progress and it is defined as

> *"Policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social condition in the communities in which it operates"*[3]

In simple terms, this is not the definition of value creation *per se* that changes, but is rather the direction and effort of the company in revisiting his own business model, or the products, to make profits in a way that approaches societal issues from a value creation perspective. The result is a win-win game, out of which all the parties involved can benefit. This recognition is not new in the business world, but already explored in the wrong way, as the authors argue. In fact, societal issues have been for a long time not only considered as a constraint and rising cost, but also when contemplated, then putted at the periphery of the model of the companies . If the capitalistic system is reshaped, or reinvented as Michal E. Porter and Kramer argue, it may be possible to find new links that are profitable for both the company and the society.

According to *Porter and Kramer*, it is in the companies that lies the responsibility of bringing together business and society, and this can be possible through the recognition of new models of doing business, and it means to free itself from the simple social responsibility mindset because it doesn't enable the company to pose

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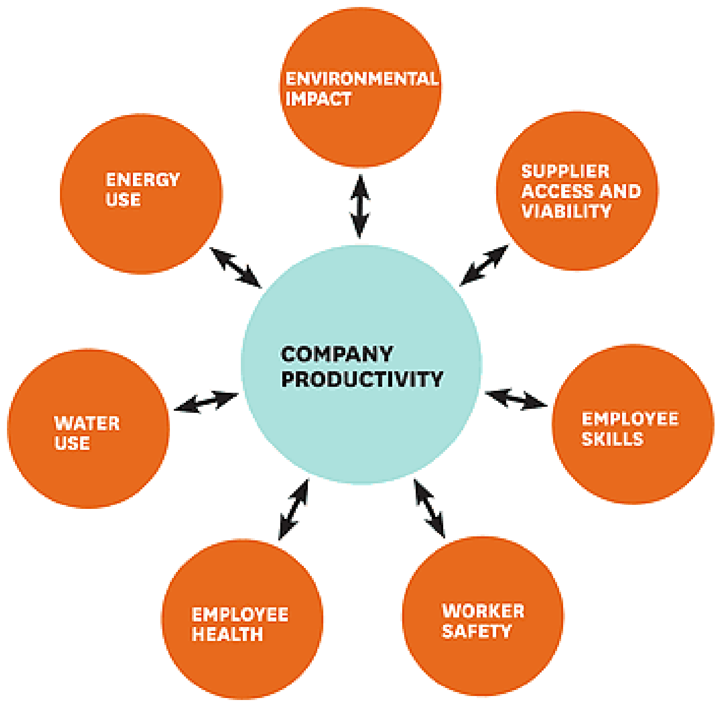
[3] *Michal E. Porter and Mark E. Kramer, "*How to reinvent capitalism- and unleash a wave of innovation and growth", *Harvard Business Review, January-February 2011*

the societal and environmental issues at the core of doing business and in the right perspective, but rather to keep them at the periphery like accessories of the business itself. The basic concept is that societal harms and problems, like the waste of resources or energy, may represent an even bigger *internal* cost to the companies than taxes and regulations. According to the general principle of "*mens sana in corpore sano",* which states that an healthy mind in an healthy body works better, so why shouldn't a profitable company in an healthier society work better? According to the authors, the concept of shared value recognizes that societal needs define *markets* and addressing societal harms and constraints does not necessary increase the costs to the company and mine its competitiveness, but rather also gives the possibility to unlock new ways of doing business through *innovations,* from both a technological and a managerial perspective. They can not only be applied in different occasions and problems in the future, but also have the possibility to increase the productivity of the company and thus expand in new markets.

Figure 1.1: The connection between competitive advantage and social issues



*Source: Michal E. Porter and Mark E. Kramer, "*How to reinvent capitalism- and unleash a wave of innovation and growth", *Harvard Business Review, January-February 2011*

Basically, the company productivity is contingent to a number of interrelated factors that may contribute to its enhancement. As we can see in the picture above, there are several possible links between the company productivity and societal concerns that can yield benefits to the company. This links are represented by a double arrow from society to the company to stress how shared value strategy create a new kind of relationship: the aim of the business is the center but it enables the society to advance and the companies to grow faster thanks to a greater productivity. The orange circles in the picture represents different social needs that could be embedded in the company's strategy and operations and that are most of the time ignored by the companies with the fear to increase costs in an unprofitable way, but that represent the largest unserved opportunities for the business. The creation of this positive links and the creation of shared value can be possible only through a new and major transformation in the management thinking to boost the next evolution of capitalism. According to the authors, realizing it will require leaders and managers to develop new skills and knowledge, along with a deeper understanding of the concept of *need,* not only of the customers, that will spend money for the products, and the shareholders, that will finance the operation, but of all the stakes that are involved in the process. This strategy is not risk free obviously: if the company doesn't devote time and resources to developing a deeper understanding of social problems, it risks pursuing ineffective solutions[4] .

In the typical capitalistic system, the need of the community is spotted and then tried to be fulfilled in the best possible way. While fulfilling this need, the companies gain competitive advantage by putting in place a strategy that creates a distinctive value proposition for a chosen set of customers, that will, in the end, choose your product because has some value characteristics that cannot be found in similar products from the competitors. The main focus of the company is to persuade the consumers to buy more and more of their products, and for this reason the focus is on gaining competitive advantage through price competition, positioning and value chain configuration. In fulfilling the need, moreover, the company conduct extensive analysis on the industry in which it operates and competes, and this is based on the conviction that the industry structure has a very important impact on the firm's profitability. This is obviously true, but at the same time the authors argues that in this vision, they have overlooked at many opportunities to meet fundamental social needs, as represented in the figure, and the impact that this negligence on the

[4] *Mark Pfitzer, Valerie Bokcstette, and Mike Stamp,* Innovating for Shared Value, *Harvard Business Review from September 2013*

company can be substantial. Even if profits rise in the company, once societal needs are not considered, the broader community will perceive this benefits as coming at their expenses. If you do not consider as the center the social need, then even if the company increases its profits they will be perceived as done at the expenses of the society.

> "*Profits involving a social purpose represent an higher form of capitalism – one that will enable the society to advance more rapidly while allowing the companies to grow even more*"[5]

To conclude, shared value focuses companies on the right kind of profits, that can create societal benefits rather than diminish them.

1.4 What Shared Value is not: the evolution of Business in the society

The main question that we have to ask ourselves in facing the concept of shared value is what is the proper role of business in the society and which is the proper way of making profits out of it. While for a company it may be difficult, without an established model and clear guidelines, to find out the key to unlock profits through shared value creation and create economic prosperity, Michal E. Porter has quite a clear idea of what the concept doesn't mean to the business, and is important to stress how this represents a changing role in the society.

The first step is Philanthropy, and this is the first thing that shared value does not look alike. Philanthropy can be defined as a charitable giving to human causes on a large scale, either in the form of donation to worthy social causes or volunteering for example. Philanthropy must be more than just a charitable donation: it is an

[5] *Michal E. Porter and Mark E. Kramer, "*How to reinvent capitalism- and unleash a wave of innovation and growth", *Harvard Business Review, January-February 2011*

effort undertaken by an individual or organization based on an altruistic desire to improve human welfare[6]. But shared value is not just good actions, something naïve or not applicable in a business model or in the activities along the value chain, as a simple charity donation is instead and that does represent just a peripheral activity of the company.

Shared Value is not even *redistributing* the existing values that exists and have been created in the organization itself, is not a redistribution approach[7] to a new set of stakeholders, but is rather expanding the total pool of value to embrace at the same time the economic perspective and the social one. An example of this different perspective is *fair trade*, that is more about redistribution of the existing revenues that are generated by the company, rather that expanding the overall value generated by the company. The cocoa production in the Cote D'Ivoire is an example, according to the authors. The fair trade perspective aims at increasing the wealth of the cocoa producers by redistributing an higher income to them, thus improving their lives, but an higher income doesn't increase their efficiency in the production of coffee. This higher incomes are basically redistributing by charging the final consumers with slightly higher prices than normal products that are not fair trade branded to prove the commitment of the firm to have sane relationship with poorer suppliers, helping at the same time improving their own standard of livings in the local communities. If the relation with the farmer is revisited in a shared value perspective, instead, the suppliers of cocoa can be empowered by improving their growing techniques and improve the local clusters and institutions, such that they can be more efficient and this can lead to an higher production of cocoa, that is

[6] http://www.investopedia.com/terms/p/philanthropy.asp
[7] *Michal E. Porter and Mark E. Kramer, "*How to reinvent capitalism- and unleash a wave of innovation and growth", *Harvard Business Review, January-February 2011*

beneficial for both the company and the farmers. A real example of the cocoa production comes from the giant of food and beverages Nestlé. The Nestlé Cocoa Plan was launched in October 2009 in the Côte d'Ivoire, Africa. It is a prime example of Nestlé's Creating Shared Value approach to business and involves investment of £67 million between 2010 and 2020, building on £37 million in the 15 years before the plan. The initiative aims to help cocoa farmers to run profitable farms. Out of this investment, the company will not have only better and more reliable suppliers of cocoa and more raw materials produced in a more sustainable way, but will also obtain greater profits. On this line of reasoning, while fair value will increase the income of the farmers from 10/20% percent, the shared value creation can raise their income by more than 300%. This is a simple example of how empowering the supply chain in Cote D'Ivoire, for example for Nestlé, will lead to both a greater economic value but also a broader strategic benefit for all the participants in the production and supply[8].

But, above all, according to Michal E. Porter, Shared Value is different from the concept of Corporate Social Responsibility (CSR), that at the same time is different from the definition of philanthropy.

According to the author, Creating Shared Value should *supersede* CSR in guiding the investment of the company in the long term. In the past, all the corporate social responsibility programs have emerged as an attempt of the firm to improve their own reputation and their role of corporate citizenship, to avoid competitors to steal their market share just for a newspaper's article, and thus they have been seen as necessary costs for the survival of the organization. Something that you *have to do* but without which the organization remains the same in the way in which it

[8] http://businesscasestudies.co.uk/nestle/creating-shared-value-in-the-supply-chain/creating-shared-value-along-the-supply-chain.html#axzz3WXBRswy5

organizes its own activities and the value chain operations. CSR is fundamentally another kind of redistribution approach, according to the authors, that is to take the resources from the business and investing those resources in being a good citizen, giving money to social causes and reporting on social and environmental impacts. The activities of CSR are, in fact, reported in different balance sheets with respect to the normal and operational one, and in addition they have to comply with general standards that are designed by regulations.

Figure 1.2 Porter and Kramer's difference between CSV and CSR

Source: *Michal E. Porter and Mark E. Kramer, "*How to reinvent capitalism- and unleash a wave of innovation and growth", *Harvard Business Review, January-February 2011*

In the picture above are summarized the key differences between CSR and CSV (creating shared value) as they are seen by *Michal E. Porter and Kramer.* The only thing that remains equal in both the approaches to face social issues is the compliance with law and ethical standards, but still they have a different focus according to the authors. This different focus represents a shift from the short term perspective to the long term perspective in guiding the investment of the company in the communities. Shared Value is nothing else than a management concept, and thus the difference between CSR and CSV can also be defined, in strategy terms, as the difference between *doing the right thing or doing the things right* . Also the CSR money spending are considered as investments, but is a short-term focus on reputation and they only have a limited link to the business, or a non-existing one also, and this is the main factor that, according to the authors, makes them difficult to be justified in the long term and thus are seen by shareholders as a waste of money.

From the shared value perspective, instead, the investment in social issues is not only integral to competing, but also integral to profit maximization, and not separate or at the periphery of the business approach, as in the case of Corporate Social Responsibility investments. The social impact of the business is becoming more and more important nowadays, so a new approach is needed to give legitimacy to this effort and to see societal needs under a competitive advantage perspective. This is not to say that CSR doesn't give the company a competitive advantage, also reputation is very important to the consumers, but just that the effort can be addressed in a better way by the company , that also leads to a greater innovation.

1.5 Levels of shared value: how is created

The concept of shared value resets the boundaries of capitalism and creates new ways to serve new needs, new markets, gain efficiency and create differentiation through innovation and a better understanding of the concept of need. The opportunities to create shared value emerge in both advance economies and developing or poorer economies, as the nature of social and environmental needs may vary across countries but are possible to be identified in every community. As every country has opportunity for value creation, in the same way also every company has opportunities that will differ across industry, but every company has them. According to *Michal E. Porter and Kramer,* there are three ways through which is possible to create economic value by creating societal value: by reconceiving products and markets, redefining productivity in the value chain and building supporting industry clusters at the company's location. This three level are mutually reinforcing, as they create a *virtuous circle* in which improvement in one area of the company gives rise to opportunities in the others. Even if nowadays not many company have embraced and integrated the concept of shared value in the organization, a discrete number of leading firms are beginning to design a multi-level approach that takes into consideration the 3 layers embedded in the concept of value creation. Now we will proceed with an analysis of the three levels of shared value creation, explaining them through real case examples that are reported in the article to see how a successful implementation can be possible from the company and society's perspective.

1.5.1 Reconceiving products and markets

As I have already stressed previously, the concept of *need* under the vision of shared value assumes a different vision, as, in this case, we have to consider it as a *social need.* What is required in this perspective is not just meeting customer "needs" but think in terms of improving their lives. The needs of the society are huge, and they range in a number of different categories like health, nutrition, greater financial security, less environmental damage and necessity for more green spaces and many others that, according to the authors, represent the most important demand of all that have been missed by the companies. The first step from a company perspective is a deep exploration of the social needs in the context that will lead the company to discover new opportunities not only for selling the existing products but also to serve new markets that have a great potential from a demand point of view, especially in the poorer segments of the world population. The social and environmental problems than should be solved are very big, and at the same time they are also highly unmet worldwide. The aim of the company in this level is to meet social needs through products and services to serve unserved or underserved customers.

Instead in advanced economies, the demand for products and services that, at the same time, meet social needs, is rapidly growing over time. Examples are healthier food, more nutrient or environmentally friendly products. Let's consider a food company that traditionally concentrate on the taste and quantity aspect of the product delivered. Under a shared value perspective, the need of the consumers should be readdresses to meet their necessity for better nutrition, that is always more a matter of concern in advanced countries. The focus, thus, is not on the traditional product definition, but rather on rethinking the business around unsolved customer problems or concerns.

The societal needs in developing countries or disadvantaged communities are even more pressing, according to the authors, and the attention of big leading companies focused on the needs of emerging markets offer to the company the possibility to access billions of new customers at the so called Bottom of the Pyramid. The BOP is a socio economic concept, that groups together the largest but poorer segment of the population and deals with more than 4 billion people all over the world[9]. It consist of people living with very low incomes, ranging from less than 1 dollar per day, thus living in an extreme poverty condition, to a subsistence level of 1-3 dollar to a low income level that ranges from 3 to 5 dollars per day. [10] There are a number of successful examples of companies engaging with this countries, and the societal benefits of providing appropriate products to lower-income and disadvantages communities con be significantly important and profound, while the profits for the companies can be substantial.[11] For the company, this means either redesign products to meet new needs, or also use different distribution methods, that will lead to innovative solutions with respect to the one usually adopted in traditional markets.

Let’s consider the example of Thomson Reuters, a leading company in the IT and Information industry that combine industry expertise with innovative technology to deliver critical information to leading decision makers in the financial and risk, legal,

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[9] http://lexicon.ft.com/Term?term=bottom-of-the-pyramid-(BOP)

[10] *V. Kasturi, RanganMichael, ChuDjordjija Petkoski,* The Globe: Segmenting the Base of the Pyramid, *Harvard Business Review june 2011*

[11] *Michal E. Porter and Mark E. Kramer, "*How to reinvent capitalism- and unleash a wave of innovation and growth", *Harvard Business Review, January-February 2011*

tax and accounting, intellectual property and science and media markets[12]. This company engaged a business with the Bottom of the Pyramid reinventing a service for farmer that earn on average only $2,000 a year.. This service consists of weather and crop-pricing information and agricultural advices that can significantly improve their work condition and final performance of crop picking. This service is not for free, coherent with the profit vision of the concept of shared value, but is given upfront a monthly payment of $5 fee a quarter from the farmers. Considering that this service reaches 2 million farmers, the reconceived product not only has created substantial profits to Thomson Reuters but also created better working condition for the farmer plus an increase in their income of more than 60% of them, even tripling the income sometimes[13]. To conclude, the engagement of this company with the Bottom of the Pyramid created value for both the company, that accessed an unserved and new market unexplored by other company with an innovative product, while at the same time delivering a profound societal help to several disadvantages communities, improving their lives at a profit.

1.5.2 Redefining productivity in the value chain

Every company had a well-developed value chain, made of primary activities, like sourcing and procurement, inbound logistic, operation assembly and sales and customer services, and support activities, like research and development, human resources management and marketing and advertisement activities. Since the value chain is made of several different layers, each requiring a certain amount of resources, opportunities to create share value arise because societal problems can

[12] http://thomsonreuters.com/en/about-us.html
[13] *Michal E. Porter and Mark E. Kramer, "*How to reinvent capitalism- and unleash a wave of innovation and growth", *Harvard Business Review, January-February 2011*

create economic costs in every layers of the process. Examples are natural resources and water use, health and safety of the work force, working condition of the employees and equal treatments in the workplace that can create significant synergies if redirected in the right way[14]. The concept of shared value developed by the authors basically entails utilizing resources, energy, suppliers and employees *differently.* This can happen in several ways, from enhancing the capabilities and efficiency of the suppliers, improving the energy and resources efficiency across the value chain or by improving the employee health and safety or even increasing the wages of lower income employees. These are just some examples of how the value chain can be reshaped, and according to the authors this improvements can lead to significant gains in efficiency for the company.

Figure 1.3 The Value Chain Activities

Source: Michael Porter, "The role of business in society: Creating Shared Value", University of Calgary, Canada, February 12th 2014

[14] *Michal E. Porter and Mark E. Kramer, "*How to reinvent capitalism- and unleash a wave of innovation and growth", *Harvard Business Review, January-February 2011*

In each of the area in the figure above, a deeper research in the link to society can lead to benefits that goes beyond the short-term cost reduction, that in many cases lead to lower productivity or even unsustainable solutions in the long term, mining the competitiveness of the company as a result.

The major categories identified by the authors in which substantial improvements are possible for both company and society are:

Energy use and logistic: both processes and transportation, as part of the value chain, entail substantial use of energy. The shared value approach is about identifying possibilities for reducing the use of energy by re-examining the core processes. Energy used is expensive, in particular in recent years, not only to the company but also to the environment. Avoiding wastes can be beneficial both to the company and to the environment. The result is a better energy utilization through better technology , recycling and other activities that create share value.

Resources use: many big companies use massive amount of natural resources, like water for example. These resources are not only becoming scarce in recent years, but represent also a social issue for many communities. A better utilization of resources is thus necessary according to the authors, and will permeate all parts of the value chain

Procurement: part of the value chain are also activities conducted by third parties, like suppliers. In the company, attempts to bring down prices, they always look for the cheaper suppliers even outsourcing operations in other locations or exercising a strong bargaining power on them . But more and more businesses are recognizing that this approaches is not sustainable in the long run, and started to understand that marginalized suppliers cannot remain productive and support an high level of quality. Through the shared value approach, the suppliers can be empowered, driving up the quality and quantity of the product supplied and thus the company can gain access to better and greater volumes. This will lead to an increase in productivity and thus to a decrease in prices.

Employee productivity: the human resources pool is by many scholar considered as the most important driver of the company's success. But they still represent a cost as far as wages, taxes and in particular health care expenses are paid over their employment. Many companies traditionally sought to bring down costs by either holding down wages or reducing the expenses relative to health care insurances. But with time, leading companies recognizes that they actually benefit and gain on productivity from a more healthy workforce. Shared Value is created with the employee when the company recognizes that the empowerment of the people who work for the organization leads to an empowerment of the company itself, because of a more present and productive workforce.

1.5.3 Enabling local cluster development

During the last two decades, more and more people have tried to identify the benefits and threats of *globalization,* major phenomenon of the last century, that inevitably affects also the way companies approach the business. In the new era of globalization, companies can freely move activities, either horizontally or vertically integrating, to disparate locations, looking forward entering new markets far away in the best way or reducing costs by moving some activities, like manufacturing activities for example, to location where labour costs are lower and efficiency can be greater.

According to the authors, the more companies move activities to other places in the world, the more they lost touch to any place, thus missing fundamental opportunities for value creation. This is because the company should not be considered as *self-contained*[15]*,* which means autonomous from what is around it. Every location in which the company operates is characterized by a number of supporting companies and institution, and if they are not working in a good way as a *cluster,* their deficiencies will affect the success of the company. The regional clusters are made of firms, suppliers, service providers and infrastructures that have to work properly because they play a central role in driving the company's productivity, innovation and efficiency. They all represent interconnected elements in the framework in which the company operates, whose deficiencies can create internal costs for firms. But if the company is not connected to the location in which it operates, it may find difficult to decrease these internal costs created, as the identification of the problems is not possible if there is not a good connection between the accompany and the cluster. This is why *Michal E. Porter and Kramer* define as best practice for the business the development of the surrounding regional framework by addressing gaps or failures in the framework conditions surrounding the cluster.

[15] *Michal E. Porter and Mark E. Kramer, "*How to reinvent capitalism- and unleash a wave of innovation and growth", *Harvard Business Review, January-February 2011*

Let's consider, for example, the role and functioning of public assets, like transportation services or public education infrastructures. If, for instance, the transportation infrastructure is poor, then it drives up the cost of logistic of the company. In the same way, if the public education is not forming well the pool of potential human resources, the company in the future will have to bear additional costs for training than originally contemplated. By considering this factors in a shared value perspective, the company can build better clusters with the final aim of reducing indirect costs to the company that can make it less competitive. In this way, the company create a beneficial link between the company success and the community success and improvement, thus creating at the same time economic value and social value as a result of a shared value approach.

In the paper *Porter and Kramer* present a very interesting case of a successful development of local cluster. It is the case of Yara, an international company that produces mineral fertilizers. Yara's strategy have a particular focus on profitable and sustainable growth in all the location in which operates and from which extract resources[16]. The company operates in different locations in Africa, in particular in Mozambique and Tanzania, where have been identified deficiencies in logistic relative to transportation due to the lack of sufficient infrastructures connecting the regions. These deficiencies where preventing farmers from gaining access to essential agricultural inputs and where also preventing the functioning of the crop's transportation to markets. Once Yara identified the problem and realized how it was creating problem to the local community of farmers and on the productivity of the company, it worked in collaboration with the local governments top put in place a program of implementation of ports and roads, with an upfront investment of $60 million. How is shared value created? The improvements in the transportation will

[16] http://www.yara.com/about/vision/index.aspx

not only help Yara grow its business in these regions, but, by enabling the local clusters, the investment will benefit more than 200,000 small farmers and create 350,000 new jobs. The case of Yara has been particularly successful because the company not only was able to find a gap in the logistic through an examination of the local environment in which it was operating, but was also able to collaborate with the local governments to improve the social conditions.

1.6 The role of the Government

During all our discussion about *Porter and Kramer's*, the role of the government have been criticized, in particular because of past experience of normative and policies that, according to the authors, undermine competitiveness and sap economic growth. Nonetheless, it cannot be ignored the fact that the role of regulations is absolutely necessary for the well-functioning of the markets, and for this reason the authors argue that the efforts of the government should be re-addressed in a way that boost the creation of shared value, such that the company can continue to grow and gain efficiency but at the same time the societies benefits from their intervention. The way in which regulations are designed, in fact, can benefit or work against it, and for this reason *Porter and Kramer* define some characteristics of the regulations that should be embedded to boost the investment of the companies in shared value activities, set goals and stimulate innovation at the same time.

The first characteristics is to *set clear and measurable social goals* for different problems that need to be solved about, for example, energy use, health or safety.

But, at the same time, the second characteristic regards the freedom of the company to choose the most appropriate method to achieve these social goals. The government should *set performance standards* but not prescribe any method for their compliance. The regulations that discourage shared value, instead, force the compliance with particular practices and, by defining specific method, sap innovation and inflict costs to the company. As the companies invest in these activities, the investment of the government should be addressed toward building capable infrastructures for collecting reliable benchmark data about problems affecting the population. Then the company, having free access to these data, can improve their action in the communities, grounded on real data about different deficiencies, like nutritional or environmental one. If the government is able to put in place such infrastructures, the cost of the company relative to data collections decreases, such that they have more incentives to put in place a shared value approach and they can be motivated to have a continual improvement beyond current targets.

The main problem of all this framework is that companies that remain locked into the old mind-set will resist value creation even if well-constructed regulations are applied by the governments.[17] Even if the number of companies that nowadays are applying a shared value approach is growing, and their names are very famous, like Nestlé, Coca Cola and Wall-Mart, these principles still need to be widely accepted, and only once this happens there can be a better alignment between companies actions and government's regulations.

Porter and Kramer argue that the time for the creation of new value for all has come, driven by more social awareness and scarcity of natural resources. The

[17] *Michal E. Porter and Mark E. Kramer, "*How to reinvent capitalism- and unleash a wave of innovation and growth", *Harvard Business Review, January-February 2011*

company must recognize that a new era of capitalism is approaching and that a new management and leadership thinking is required to move beyond todays CSR's approaches to business. According to the authors, this shift in thinking should take place also in the school of management, that still teaches what they consider the narrow view of capitalism, as we have widely discussed in this chapter. This is not only because the society problems have to be reconceived with business, but also because the scholars themselves have a growing sense of the concept of social entrepreneurship. The change of thinking will then expand to other areas of business, like customer behaviour and marketing, to readdress the concept of need and go beyond persuasion and demand creation, with the final aim of serving non-traditional customer's groups. This are just few of the changes in the business schools that are proposed by the authors.

It is important to stress that the concept of shared value is anything but easy. As it has emerged in this chapter, it requires the involvement of government, companies, schools, society, local clusters, infrastructures and all the stakeholders of the business.

1.7 Shared Value: the evolution of a definition

Creating Shared Value (CSV) is quite a recent concept, stressing the fact that the societal and environmental progress are at the heart of the core business and strategy of the company, and thus it has the potential to drive the next revolutionary wave of capitalism and innovation. The concept of shared value attracted the attention of the whole business community to a very big extent, but the concept and definition as developed by the authors are still unique and not subject to subsequent reinterpretation, if not enriched with practical and successful examples of implementations carried out by multinationals companies in relation with the Bottom of the pyramid (BOP).

The literature that followed the article by Michael Porter and Kramer is very limited and basically focus on two interrelated factors. The first one is the development of the concept as presented by the authors or further explanations by other associates, and in particular by the non-profit FSG social impact firm. The second one is the implementation of the shared value framework, exclusively through real case studies of multinationals engaging with the Bottom of the Pyramid to enter new markets, supply new products or empowering local clusters of distributors.

1.8 SV in the business community: FSG and the Shared Value Initiative

FSG is a mission-driven consulting firm that supports leaders and large multinationals in creating large-scale and last longing social change and impact. They provide consulting about strategy, evaluation and performance to make a progress in the world's toughest problems by collaborating and partnering with leading foundations, businesses, non-profit organizations and governments in every region of the world. FSG main focus is on social change and ways to reimagine it in ways that maximize the impact of existing resources, help advance knowledge and practice, and inspiring change agents around the world to achieve greater impact.[18] Since the shared value concept is proposed as a conceptual model to solve the biggest societal problems under a business lens, a big part of work and attention by FSG has been devoted to the subject and is working to engage leaders across

[18] FSG, http://www.fsg.org/AboutUs/Overview.aspx

sectors, industries, and functions in the practice of shared value principles and strategies. On the FSG website is possible to find some articles and materials about shared value in action, among which the most famous are "*Innovating for Shared Value" by Marc Pfitzer, Valerie Bockstette, Mike Stamp, Angela Barmettler,* and "*Measuring Shared Value",* written by Porter and collaborators. It represents the most significant theory extensions of shared value that can be found in the literature that exists at the moment on the subject and that is intended to provide a step-by-step process and pragmatic approaches to measurement, always with real case examples about leading companies.

As part of FSG's non-profit mission, they directly support learning communities, such as the Collective Impact Forum and the Shared Value Initiative, to provide the necessary information and tools to implement a successful strategy to really make a change. The Shared Value Initiative is a global community, operated by FSG, of leaders who find business opportunities in societal changes, as reported in the article discussed in the previous chapter of this dissertation. Among the strategic partners of the community, we find big and very well-known brands like Nestè, that is a shared value pioneer, leading the way in the concept's development from the earliest stages and in collaboration with Porter and Kramer since 2006[19], Hewlett Packard (HP), Intel, Coca-Cola, Deloitte, Novartis and Royal Dutch Shell plc, just to quote some of them[20]. The Shared Value Initiative Community was launched as a partners commitment in 2012, following the famous Clinton Global Initiative Annual Meeting in that same year.

The community also collaborates with consulting partners, and among them the Italian consulting company Avanzi, located in Milan, that offers services about CSR,

[19]SHARED VALUE INITIATIV, at http://sharedvalue.org/partners/funding-partners/nestl%C3%A9
[20] SHARED VALUE INITIATIVE, at http://sharedvalue.org/partners/funders

corporate philanthropy, social enterprise, sustainability and social innovation. I had the great honour to share my ideas about shared value and to conduct an in-depth interview with one of Avanzi's representative, Giovanni Pizzocchero. The inerview will be presented in the last chapter of my dissertation. Avanzi helps Italian firms that are interested in the concept of shared value in developing and implementing a shared value strategy that can best connect to their core business and in relations to their surrounding society and environment. One example of these collaborations will be presented in my dissertation: the implementation of a shared value framework in Snam. Thanks to the collaboration of SNAM's CSR director representative, Domenico Negrini, I reconstructed in detail the history of their commitment to shared value initiatives and the collaboration with Avanzi in an interview carried out in April 2015 in their central office in Milan.

The activities carried out by the Shared Value Initiatives community are the following :[21]

Peer to peer exchange: to keep in touch with CSV practitioners and stakeholders to support the exchange of ideas and best practices.

Market intelligence: to drive a customized research agenda for shared value and deliver actionable practitioner-focused insights.

Strategy and Implementation

The Shared Value Initiative website offers space to people interested in the concept of shared value to share their ideas and actively participate in discussion about the topic in dedicated forum activities.

[21] SHARED VALUE INITIATIVE, http://sharedvalue.org/about-initiative

The community also sponsors the 2015 Shared Value Leadership Summit, that will take place in New York City in May 2015 and will gather together the world's leading thinkers and doers of shared value to deliver the "how-to" of building a SV strategy that truly showcase business at its best. This roundtable will ask to the participants to share best strategies and roll up their sleeves to generate new business solutions to social problems, stressing the role of business in society and the competitive advantage that can be achieved by embracing methods of best practices[22].

All the above considerations highlights how Creating Shared Value is now gaining momentum in the debate on the social responsibility of the business and the creation of an universally acceptable method to implement the SV strategy inside of every company. Even if substantial efforts and debates have been dedicated to the subject, a method to have a full knowledge and understanding of shared value seems like very far away still. In particular, companies still find difficult to find the key to access the success of the concept and the boundaries between CSR activities and shared value activities are not clearly defined in practice. For this reason, in the next chapter of this thesis we will carry out an in-depth analysis in the origins of the concept, the "real" difference with CSR, and the outstanding critics carried out by different authors to Porter and Kramer's position. A deeper understanding on the subject will allow us to find space for further development of the theory and possible implementations, in particular for what regards SMEs, that seems like cut out of the discussion on creating shared value.

[22] SHARED VALUE LEADERSHIP SUMMITT, at http://sharedvalue.org/groups/shared-value-leadership-summit-2015-business-its-best?utm_medium=social&utm_campaign=20150122summit2015&utm_source=twitter

CHAPTER 2: CSV and strategic CSR, what is the difference?

2.1 Shared Value in the renewed EU strategy 2011-2014 for CSR

One of the biggest merit attributed to the Shared Value Theory is the inclusion in the European Strategy for CSR. The European commission in 2011 published the "Renewed EU strategy 2011-2014 for Corporate Social Responsibility"[23] under the recognition that there is a huge need to integrate strategically CSR in the business strategy of every organization. This integration should be carried out in the interest of both the enterprises and in the interest of the society as a whole. The European Commission has previously defines Corporate Social Responsibility (CSR) as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with the stakeholder on a voluntary basis"[24]

This renew strategy for CSR has been developed to further develop the CSR policy in its strategic relation to the society. In the specification of the intentions, a renewed strategy for CSR is necessary as the economic crisis and the economic consequences have damaged the consumer confidence and level of trust in the business[25], as expressed by Porter and Kramer in the article of 2011. For this reason, the European Commission put forward a new definition of CSR as

> " the responsibility of the business for their impact on the society"[26].

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[23] European Commission. A renewed EU strategy 2011-14 for Corporate Social Responsibility, *Brussels* 25.10.2011 COM(2011)681

[24] COM (2011)366

[25] European Commission. A renewed EU strategy 2011-14 for Corporate Social Responsibility, *Brussels* 25.10.2011 COM(2011)681

[26] European Commission. A renewed EU strategy 2011-14 for Corporate Social Responsibility, *Brussels* 25.10.2011 COM(2011)681 p.6

Enterprises should have in place a process to *integrate* social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in collaboration with their stakeholders, with the aim of *"maximizing the creation of shared value for their owners/shareholders and for their other stakeholder and society at large*”[27];

The EC stresses that to achieve and maximize the creation of shared value, enterprises should take a long-term and strategic approach to CSR and to investigate into new opportunities that can arise from developing innovative products, services and business models that contribute to the societal wellbeing.

The EC also suggest some internationally recognised principles and general guidelines that could help enterprises to adopt a shared value creation vision in developing the CSR practices[28]:

- *United Nations Global Compact:* presented in Davos in 1999 by the UN, it contains 10 principles to ensure that companies working in collaboration with the UN are oriented toward societal and ecological responsibility. The 10 principles are divided in macro categories: human rights, labour, environment, Anti-Corruption[29]

- *OECD guidelines for multinational enterprises:* it represents a code of conduct regarding transparency, employment, conditions, the environment corruption. The assessment of these guidelines is more useful as a base of discussion inside of the

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[27] European Commission. A renewed EU strategy 2011-14 for Corporate Social Responsibility, *Brussels* 25.10.2011 COM(2011)681

[28] Simone Domenico Sagnelli and Maurizio Cisi, “Approaches to Shared Value Creation: CSR 2.0 or Something More? Insigths and Issues about the New Sustainability Perspective, *Business and Economic Journal,* 2014 5:2

[29] More information and definitions of the 10 principles at https://www.unglobalcompact.org/abouttheGC/thetenprinciples/index.html

organization rather than for holding a discussion with external stakeholders, like customers for example.

- *ISO 26000:* provide guidance and direction to the sustainable effort of the organizations of all kind, not only companies, as it enlarges the focus to all kind or organizations The connection between ISO 26000 and shared value is greater than the above principles, as is likely to encourage companies to discover the significance that sustainability can have on the core business. However, it will not play a role in terms of incorporating CSR in products and supply chain as it provide guidance rather than requirements [30]

2.2 Origins and development of shared value in relation to CSR

The origins of the term shared value can be found in Porter and Kramer (2006), "*Strategy and Society: the link between competitive advantage and Corporate Social Responsibility"* in the Harvard Business Review. It is very important to carry out an analysis of this previous work with respect to the article of the year 2011 presented about shared value in the first chapter. The main reason is the relationship between CSR and CSV: in the article of 2011, in which shared value is conceptualized and an attempt of framework for implementation is presented, the authors have a drastic position about CSR, saying that shared value should supersede CSR.

In the 2006 article, instead, the shared value concept *originates* from a CSR perspective, and Porter and Kramer coherently observe that many companies have already done much to implement CSR policies and improve the social and environmental impact and consequences of their activities, but that these efforts have not been as productive as they could be. Thus, a better direction to the CSR

[30] Reference at http://www.iso.org/iso/home/standards/iso26000.htm

effort should guide the organization and lead to the creation of shared value. In this perspective, and also according to the European Commission Report on CSR, the shared value concept seems like a *continuation or evolution of a better CSR implementation.* The authors identify two reasons for this CSR' s activities unproductivity: the first one is that they "pit business and society against each other, when they are clearly interdependent"[31]. The second reason, and this is how it practically connect to shared value, is that they pressure companies to think of "corporate social responsibility in generic ways instead of in the way most appropriate to each firm's strategy"[32]. According to this reasoning, CSR does not allow companies to gain the benefits that may derive from new opportunities arising from linking society and business, simply because "CSR approaches are so fragmented and obscure that they cannot see this opportunities"[33].

> *" (…) CSR can be much more than a cost, a constraint, or a charitable deed – it can be a source of opportunity, innovation and competitive advantage"*[34]

CSR can be advanced and the impact can be improved by anchoring it to the strategy, otherwise is not strategic. For this reason they define two different types of corporate social responsibility: responsive and strategic.

[31] Michal E. Porter and Mark R. Kramer, " Strategy and Society: the link between competitive advantage and corporate social responsibility"*, Harvard Business Review, from the December 2006 issue*

[32] Michal E. Porter and Mark R. Kramer, " Strategy and Society: the link between competitive advantage and corporate social responsibility"*, Harvard Business Review, from the December 2006 issue,* pp.1

[33] Michal E. Porter and Mark R. Kramer, " Strategy and Society: the link between competitive advantage and corporate social responsibility"*, Harvard Business Review, from the December 2006 issue*

[34] Michal E. Porter and Mark R. Kramer, " Strategy and Society: the link between competitive advantage and corporate social responsibility"*, Harvard Business Review, from the December 2006 issue*

2.2.1 Responsive CSR

Responsive CSR comprise two elements in the action of the company. The first one is acting like a good corporate citizen, under the form of donations and other money-worth contributions. When a company acts like a good citizenship, the benefits that it can derive back are both the creation of goodwill and improve relation with local governments. In addition, employees also derive justifiable pride in working for a company that carries out such commitments and which have a positive relationship and involvement with the local community. The second aspect of the responsive CSR is instead related to the value chain activities. It represents a more operational challenge and it entails a systematic analysis of the value chain activities to identify the impacts of this activities in each location. The authors argue that in most of the case is not necessary to "reinvent the wheel" and that some best practices have to be identify to limit the social and environmental harm, but they also add that successful companies will in any case gain advantages that are likely to be temporary[35].

2.2.2 Strategic CSR

As opposed to the former, strategic CSR must go beyond best practices and being a good corporate citizen. Through strategic CSR, the authors introduce for the first

[35] Michal E. Porter and Mark R. Kramer, " Strategy and Society: the link between competitive advantage and corporate social responsibility"*, Harvard Business Review, from the December 2006 issue*

time the concept of shared value, intended as a type of CSR that involves at the same time inside out and outside in dimensions working in tandem.

> " *strategic CSR unlock shared value by investing in social aspects of context that strengthen company competitiveness. A symbiotic relationship develops: the success of the company and the success of the community become mutually reinforcing*[36]*.*

For a CSR activity to be strategic, in a successful way, it necessitates to address a single social or environmental issue that is closely tied to the company's business, such that resources and capabilities can be leveraged at their best. The authors argue that "no business can solve all the society's problems or bear the cost of doing so"[37] and that a selection process of a specific issue should be carried out. Other social agendas that, instead, are not closely connected to the business should be left to the attention either of other companies of other industries, if necessary, or even to NGOs or government initiatives that are in a better position and have more effective instruments to solve them.

> *" the essential test that should guide CSR is not whether a cause is worthy but whether it presents an opportunity to create shared value – that is, a meaningful benefit for society that is also valuable for the business"*[38]

[36] Michal E. Porter and Mark R. Kramer, " Strategy and Society: the link between competitive advantage and corporate social responsibility"*, Harvard Business Review, from the December 2006 issue*

[37] Michal E. Porter and Mark R. Kramer, " Strategy and Society: the link between competitive advantage and corporate social responsibility"*, Harvard Business Review, from the December 2006 issue*

This same concept is proposed also in 2011 about shared value (2011:17), arguing that SV can offer to the corporations the possibility to use their skills, resources of all type and to enhance the social development of clusters and people. This highlight how CSV involves simultaneously different layers of the organization and at the same time also the mission, and this should be the key difference between creating shared value and corporate social responsibility.

2.3 CSR as a straw man: the main critiques

With respect to the previous work, in 2011 in "Creating shared value: how to reinvent capitalism and unleash a wave of innovation", the authors have a much more dramatic position about CSR. AS it is presented in the article, CSR is characterized as essentially philanthropic and not related to the core business (2011:16). In addition, CSR is defined as separated from profit-maximization and in most of the cases as something that has been externally imposed to the business, only for reputational reasons or compliance with the law. This type of compliance with the social responsible role of the business is called by Porter make-up or cosmetic CSR.

Thomas Beschoner in "Creating shared value: the one trick pony approach" argues:

> *" This, of course, is a very limited understanding of CSR, one that neither reflects the academic debate of the past few decades, nor captures most of today's CSR practices adequately"*[39]

[39] Thomas Beshorner, "Creating Shared Value: The One Trick Pony Approach*", Bus Ethic J Rev* 1(17): 106-112

It is evident that a debate is open about the difference between these two concepts, and that a deeper understanding of the outstanding literature about CSR is necessary to give evidence about an (eventual) change in direction by implementing a shared value perspective to business.

Another author, John Elkington of *The Guardian Professional Network,* writes in an article of May 2011 that he watched Professor Michal Porter shoot a stream of arrows into what he considers to be a straw man, that is his version of corporate social responsibility.[40] Elkington took part to the *Nestlé Creating shared value 2011 event*, during which Porter stood in a speech of their work in collaboration with Nestlé. In addition, regarding the outstanding debate about contemporary CSR, he is in accordance with Beshoner in saying that instead of building such image, the pioneers of the literature who opened up the new social and environmental horizons should be honoured, not diss[41]. In quite the same way, *Laura P. Hartman and Patricia H. Verhane* in their article called *"Proposition: Shared Value as an Incomplete Mental Mode"* argue that they are "uncomfortable in characterizing the entirety of prior corporate CSR investment as outdated" [42](Porter and Kramer 2011:4), even if they agree with Porter and Kramer about the disappointment for the early-phase CSR campaigns[43], that have not delivered results up to expectations.

Since creating shared value seems like picking from the same boxes as corporate social responsibility, other authors like Crane, Palazzo, Spence and Matten[44] have

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[40] John Elkington, "Don't abandon CSR for Creating shared value yet", *The Guardian*, 25 May 2011
[41] John Elkington, "Don't abandon CSR for Creating shared value yet", *The Guardian*, 25 May 2011
[42] Laura P. Hartman and Patricia H. Werhane*, "* Proposition: Shared Value as an Incomplete Mental Mode*", Business Ethics J Rev* 1(6) (2013): 34-43

[43] Laura P. Hartman and Patricia H. Werhane*, "* Proposition: Shared Value as an Incomplete Mental Mode*", Business Ethics J Rev* 1(6) (2013): 34-43
[44] Andrew Crane, Guido Palazzo, Laura J. Spence, Dirk Matten, "Contesting the Value of Creating Shared Value", *University of California, Berkley,* VOL.56, NO.2 Winter 2014

gone further in the critique defining Porter's approach to CSV as *unoriginal and not such a novel contribution.* Its core premises bear a striking similarity with CSR and that Porter and Kramer construct an unrecognizable caricature it to suit their own end[45] (2014:134).

2.3.1 Perspectives on CSR literature

At this point of the discussion, is worth mentioning some CSR authors in the outstanding literature to be able to create our own debate about the "real" difference between creating shared value and corporate social responsibility. The debate over CSR is not recent, and although the effects of this debate are mixed, the pioneers date back to the 50s.

2.3.2 history of CSR from the 50's to the 70's

The formal literature about corporate social responsibility is largely product of the 20th century, but the concept has a very long and variety literature that dates back to the 50s. The definitions have expanded during the years and there is not a single definition of CSR, but rather it can be viewed under different perspectives and spheres of action and implementation.

The early writings of the 50s are more associated with the concept of social responsibility (SR) rather than CSR. The modern era of the literature about the subject is marked in 1953 with the publication by Howard R. Bowen of its landmark book *Social Responsibility of the Businessman,* in which a more serious discussion is

[45] Andrew Crane, Guido Palazzo, Laura J. Spence, Dirk Matten, "Contesting the Value of Creating Shared Value", *University of California, Berkley,* VOL.56, NO.2 Winter 2014

carried out on the topic. The initial and fundamental consideration presented is that, since large business are vital centers of decision making and power, they touch the lives of the citizens in many ways. In the 50's, this new argument is defined on an *individual* level, and not corporate. The responsibility of the businessmen is not limited to the profit-and-loss statement but it range to a wider sphere that have to be defined also in terms of objectives and values for the society in which they operate. Social responsibility for the first time is presented not as panacea but rather as a "social consciousness" of managers that must guide the business in the future[46].

The 60's are important to the evolution of the topic and are marked by the work of Keith Davis, one of the first authors that tried to formalize or state what CSR means. Give his significant contribution much appreciated in the literature, Carroll B. Archie in 1999 defined him as the "runner-up to Bowen for the Father of CSR designation"[47] (1999:271). Davis relates social responsibility to the decisions taken by the businessmen for reasons *partially* beyond the firm's direct economic interest. Thus for the first time, social responsibility is linked to the business, such that we can talk about Corporate Social Responsibility. In addition, a long term perspective about a potential future economic gain for the firm is introduced, that justifies and pays back for the responsible outlook. After Davis, another major contributor in the 60s is Joseph W. McGuire who argues:

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[46] Archie B. Carroll, "Corporate Social Responsibility. Evolution of a Definitional Construct", *University of Georgia,* 199 *Sage Publications,* Vol. 38 No.3 268-295

[47] Archie B. Carroll, "Corporate Social Responsibility. Evolution of a Definitional Construct", *University of Georgia,* 199 *Sage Publications,* Vol. 38 No.3 268-295

"The idea of social responsibility supposes that the corporations has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations"[48] *(*1963:144)

This definition goes beyond Davis', because it assumes that responsibility obligations go beyond the economic and legal sphere. As also many other authors up to this point in the history of the literature, McGuire does not define exactly what these obligations are in the practice. A following elaboration by Davis relates Corporate Social Responsibility to aspects of the business like for example education, the "happiness" of the employees and the welfare of the community. This is still a very modern argument, and it is embedded in what later will be analyzed, the "stakeholder theory", from which the elaboration of Porter and Kramer in the concept of creating shared value does not go very far.

The 70s sees a real proliferation of the concept of CSR. In particular, during these years the behaviour of the company as acting in a social responsible ways starts to be connected to the idea of profit maximization. Porter and Kramer, in 2011, define as the main difference between shared value and corporate social responsibility the link to profit maximization for the company. According to the authors in 20011, CSR is something that poses the social need not at the center of the business model of an organization, but rather at the periphery and that does not improve profits. In the 1971 Johnson first presented what he termed "social wisdom" that is defined as a socially responsible firm whose managerial staff balances the multiplicity of a number of stakeholders, and not only the payback to the stockholder. At the same time, he advanced also a second definition, in which CSR is viewed as:

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[48] Archie B. Carroll, "Corporate Social Responsibility. Evolution of a Definitional Construct", *University of Georgia,* 199 *Sage Publications,* Vol. 38 No.3 268-295

"Social responsibility states that business carry out social programs to add profits to their organization" [49](Johnson 1971:54)

The fact that CSR has already been linked to profit maximization is of crucial importance for our analysis, and ways to have a profit maximization CSR activity that is linked to the business will be analyzed later on in this chapter. For the moment, we can say that this represent the first critique that we move against the shared value theory of Michael Porter and Kramer, and that requires a deeper analysis.

A landmark contribution to the concept has been advanced by the Committee for Economic Development (CED) in its 1971 publication *Social Responsibilities of Business Corporations* (Carroll 1991:274). The CED is a non-profit, business-led public policy organization that carries out in depth analysis and tries to find solution to the nation's more critical issues[50]. It is an American based organization, as also the majority of the literature on this topic is from American authors. The CED, regarding the concept of corporate social responsibility, noted an important thing: that the "social contract" between business and society was changing, and in a significant way.

"Business is being asked to assume broader responsibilities than ever before (…). Inasmuch as business exists to serve society, its future will depend on the quality of management's response to the changing expectations of the public" [51]

[49] Archie B. Carroll, "Corporate Social Responsibility. Evolution of a Definitional Construct", *University of Georgia,* 199 *Sage Publications,* Vol. 38 No.3 268-295

[50] https://www.ced.org/

[51] OED, "Business responsibility of corporations", June 1971

The reason why this contribution is considered very important is that, since the CED is composed by both business people and educators, thus they can give a good construct of the relationship between business and society.

In this early writings, CSR is mainly seen as an expense on philanthropy, on being a good citizen that returns profits to the society. Thus, from the financial viewpoint, it implies a loss of the shareholder's money, at least in the short term, and without clear evidence of a long-term financial gain in the future. Corporate social responsibility is carried out for the sake of social and environmental ends.[52]

The 70s are very important years because they opens officially the debate on CSR and on whether the business should really be held responsible for the society's problems . The very famous and quoted critique to the whole CSR comes from Milton Friedman that in 1970 wrote for the New York Time an article that has a title that every economist could recognize: "The Social Responsibility of the Business is to Increase Its Profits"[53]. Milton's critique is obviously referred to the authors, scholars and businessman that were the pioneers of the social thinking related to the business, but can it be considered as also a critique to the shared vale theory by Porter and Kramer? Milton Friedman is a well-known advocate of the free market, and in 1976 won the Nobel Prize for Economics. His main interest are in monetary theory, inflation and employment, and he is also one of the literature's main advocate of a necessary minimum intervention of the government in business and society, as a necessary way to boost the power of institution and the competition in its pure form in the marketplace[54]. Under this perspective, Porter and Kramer resemble Friedman's theory when they write that shared value represents a broader

[52] Maria Teresa Bosh-Badia, Joan Montlor-Serrats, Maria Antonia Tarrazon, "Corporate Social Responsibility from Friedman to Porter and Kramer", *Theorical Economics Letters,* 2013,3, 11-15

[53]

[54] 5 Lanny O. Ebenstein, Milton Friedman: A Biography (New York: Palgrave Macmillan, 2007), 3

conceptions of Adam Smith's invisible hand (2011:17), because it opens up to better and new possibilities to supply new products and enter new markets.

Milton argues that "the discussions of the social responsibilities of the business are notable for their analytical looseness and lack or rigour"[55]. Business as a whole cannot have responsibilities because only people have responsibilities. A corporate executive in a business is both an individual and an agent that work as an employee to serve the self-interest of the owner of the business. The responsibility of the corporate executives, thus, is not to serve the interest of the society, but to take decisions that are aligned with the interest of the business, that is to make profits for the shareholders. If, then, profits are the only value driver, any decision that lead to an action taken by the corporate executive which reduces earnings without complementary effects, destroys value. The corporate executive, as an agent, cannot spend someone else money for a general or social interest. Thus, Milton assumes that if there are social responsibilities, they have to be associated with individuals, not business.

2.3.3 CSR as value diver

Since Friedman identifies profits as the main value driver, the next logical step is to identify whether the activities carried out through CSR commitment are also driving value. Porter and Kramer posit CSR as discretionary or in response to external pressure. But is there evidence in the literature of a link between CSR and strategy and also between CSR and profit maximization?

[55] Milton Friedman, "The Social Responsibility of the Business is to increase profits", *New York Times Magazine*, September 13, 1970.

Some approaches to CSR, like for example the contribution of McWilliams and Siegel[56], make some important clarification to how CSR is separated from simple philanthropy when it is connected to strategy and profits. First of all they define CSR as activities that go beyond what is required by law, or to better say, it goes beyond just obeying to the laws. For example, a company that maintains a safe environment for the woman by avoiding discrimination is not a socially responsible firm, rather, it is only abiding by the law[57]. Instead, CSR is about developing non testing procedures, decreasing pollution or implementing a progressive human resources management program. One of the more consistent and profit driven way to link corporate social responsibility to product is embodying products with social attributes and characteristics.

The creation of products that fulfils this characteristics is obviously base on the fact that it exists demand, among the consumers, for such products. The demand for these products come from different stakeholders, that are not only the consumers, but also from other stakeholders like investors, employees and the community. Examples of products that are embedded with such characteristics are the one with the label of non-testing on animals, pesticides free or also the fair trade label. The label confer the image that the firm is concerned with some social issues, and that is devoting resources to it. From a strategic perspective, the product is enriched with intangible attributes, like quality and reliability, that are an integral part of the strategy as reputational building. CSR can be linked to a differentiation strategy that allows the managers and the company to achieve at the same time personal interests and product differentiation.

[56] Abagail Mcwilliams and Donald Siegel, " Corporate Social Responsibility: a theory of the firm perspective", *Academy of Management Review,* 2001, Vol.26 NO.1, 117-127

[57] Abagail Mcwilliams and Donald Siegel, " Corporate Social Responsibility: a theory of the firm perspective", *Academy of Management Review,* 2001, Vol.26 NO.1, 117-127

Differentiating through CSR resources may also include substantial investment in Research and Development (R&D). Shared value is proposed as one of the main driver of innovation, but this cannot be said to exclude the fact that also CSR may lead to both product innovation and process innovation once the company invests in these R&D activities. Product innovation is appreciated by the consumers because the product contains some socially responsible attributes; process innovation, instead, entails the fact that the product is produced in a socially responsible manner[58]. In the modern era, the term CSR is used in an interchangeable way with sustainability.

Burke and *Logsdon*[59] analyze social responsibility programs that creates strategic benefits for firms. They identify 5 strategic dimensions that help to identify and assess the value created to the firm by implementing CSR programs. The authors define strategic CSR when it yields "substantial business related benefits to the firm, in particular by supporting core business activities and thus contributing to the firm's effectiveness in accomplishing its mission"[60]. They identify 5 strategic dimensions that help to identify and assess the value created to the firm by implementing CSR programs. A very important specification is that not all the types of CSR must have a strategic imprinting. Some CSR activities, even if they remain nonstrategic, are however valuable to the society and the environment. For this reason it can be said that they are as good as the one that are linked to profit maximization.

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[58] Abagail Mcwilliams and Donald Siegel, " Corporate Social Responsibility: a theory of the firm perspective", *Academy of Management Review,* 2001, Vol.26 NO.1, 117-127

[59] Lee Burke and Jeanne M. Logsdon, "How corporate social responsibility pays off", *Long Range Planning,* Vol.29, NO. 4, pp495-502, 1996

[60] See reference 42 , p 496

The five dimensions that are critical to the value creation of the firm and useful to relate them to the strategy are:

Centrality: it relates the CSR activity to the mission and objectives of the firm. The centrality of the activity gives more possibility for evaluating its success and the fit with the corporate strategy. When the strategic CSR is implemented, it is clearly possible to distinguish these activities from simple philanthropy programs.

Specificity: it refers to the ability of the firm to capture and internalize the cost of a certain CSR program

Proactivity: refers to those activities of scanning and analyzing the external environment to anticipate the emergence of a certain social issue that can be fulfilled and that are likely to change the firm. In this way, new market opportunities and competitive advantages can be exploited, making a CSR activity central to the strategic framework.

Voluntarism: this points stresses the role of CSR as going beyond the legal framework that can be externally imposed through compliance requirements. The activities that are kinked to voluntarism, like having higher safe standard in the workplace, have both strategic and social responsibility payoffs.

Visibility: how are these activities visible to the stakeholders? Also marketing and advertisement are considered as integral part of the strategy of an organisation. As such, when there is an engagement with a CSR activity, it is less likely to have a negative visibility, and this increase the reputation for quality of the company. Despite CSR, also Nestlé or Johnson and Johnson, that now are among the first pioneers of the shared value concept, suffered from negative events that became public through visibility. The engagement in a CSR activity as such through marketing and advertisement is able to give a competitive advantage to the company over its competitors, and the possibility to be proactive in anticipating negative public news that can result in a decrease in profits. Excluding the external environment, visibility also favour the internal environment, and in particular for what concerns the employees. The creation of internal employees programs or a full health care insurance produce economic benefits to the firm by improving productivity, morale and loyalty among employees. In addition, the reputation of a safe and stimulating working environment is able to attract and retain the best employees, and thus increasing the performance of the company.

2.3.4 CSR and CSV overlaps: theoretical and practical differences

Both CSR and CSV focus on the resolution of societal and environmental problems and the associated need and challenges to attend those. The above discussion about CSR is intended to give evidence of the existence in the literature of a strategic and business-oriented approach to CSR. It is not an "end-of pipe practice, but in many cases an integral part of the business practice, including the supply chain and the market side"[61]. In particular, it is of crucial importance to differentiate between philanthropic CSR, that has not a profit perspective, and CSR activities that are incardinated in the business model and aim at profit maximization. Even Porter and Kramer, in their earlier work in the HBR in 2006, claim that CSR can be more than a cost and a driver of innovation and competitive advantage.

The difference between Shared Value and Corporate Social Responsibility exists, but it is more a theory difference than a practical difference. The most significant difference is the definitional construct. Shared Value is presented as a completely new idea that will drive the new era of capitalism, and it has met with considerable

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[61] Thomas Beshorner, "Creating Shared Value: The One Trick Pony Approach*", Bus Ethic J Rev* 1(17) pp.109

success in the business community. It has inspired the world's multinational leaders to meet and discuss about it in roundtables, it won the 2011 McKinsey Award for the best article in HBR and the concept has been embedded in the EU Strategy for CSR.

The most significant contribution is the perspective that the business should take about society: The CSV concept invites the corporations to perceive the societal problems as real opportunities and serious targets for genuine business and decisions. This represent a clear and unequivocal elevation of the social goals to strategic levels[62] and a solutions that seems convincing to both business scholars and businessman to see these problems with a corporate lens that look at profits, neglecting the common good perspective. Thanks to the "Porter effect" the issue about corporate social responsibility has been put at the center of the attention in a way that the CSR literature alone could not have done.

One of the main theory caveat of the CSR literature is, in fact, the highly fragmented set of definitions that are given on the topic. Alexander Dahlsrud[63] gathered together the 37 main definitions of CSR to give a more comprehensive construct to the topic, and ended up dividing the existing definitions in five dimensions of CSR that are presented in the Figure 2.1 below

[62] Thomas Beshorner, "Creating Shared Value: The One Trick Pony Approach*", Bus Ethic J Rev* 1(17): 106-112

[63] Alexander Dahlsrud, "How Corporate Social Responsibility is defined: an analysis of 37 Definitions", *Corporate Social Responsibility and Enviromental management,* 2006

Figure 2.1: Alexander Dashlsrud CSR five dimensions

Dimensions	The definition is coded to the dimension if it refers to	Example phrases
The environmental dimension	The natural environment	'a cleaner environment' 'environmental stewardship' 'environmental concerns in business operations'
The social dimension	The relationship between business and society	'contribute to a better society' 'integrate social concerns in their business operations' 'consider the full scope of their impact on communities'
The economic dimension	Socio-economic or financial aspects, including describing CSR in terms of a business operation	'contribute to economic development' 'preserving the profitability' 'business operations'
The stakeholder dimension	Stakeholders or stakeholder groups	'interaction with their stakeholders' 'how organizations interact with their employees, suppliers, customers and communities' 'treating the stakeholders of the firm'
The voluntariness dimension	Actions not prescribed by law	'based on ethical values' 'beyond legal obligations' 'voluntary'

Source: Alexander Dahlsrud, "How Corporate Social Responsibility is defined: an analysis of 37 Definitions", Corporate Social Responsibility and Enviromental management, 2006

One of the problem with CSR is in the theory, as there is an abundance of definitions that are often biased toward the specific interest of the company[64] such that, as a consequence, prevent the definition of a single concept and implementation.

As completely opposed, Porter and Kramer in 2011 offer one single definition of shared value with only three connected ways to implement such a strategy. The literature that followed has been more practical through case studies than theoretical. If we leave alone the problem of implementation and measurability of shared value, a discussion about the role of business in the society is easier in the case of shared value.

[64] Van Marrewijk M. , "Concepts and definitions of CSR and corporate sustainability: between agency and communication", *Journal of Business Ethics,* NO.44 : 95-105, 2003

For Porter and Kramer, the main distinction lies in the fact that CSR has restricted linkages with the company core business while CSV is the core of the business. Also for what regards the budget dedicated to these activities, CSV companies do not assign a specific budget to social responsibility causes[65].

In practice, as opposed to theoretical considerations, it is possible to identify some activities that have been undertaken by firms in implementing either CSV or CSR. Analyzing the findings of authors like Jenkins [66] and the practical examples reported in 2011 by Porter and Kramer, and comparing the results is possible to find some actions that are carried out in both kind of models. In particular, similarities are found in regard to "redefining the productivity in the value chain". They entail resources use and waste, recycling, employee productivity and relations with suppliers.

[65] Inga Lapina, Indra Borkus, Olga Starineca, "Corporate Social Responsibility and Creating Shared Value: Case of Latvia", *World Academy of Science, Engineering and Technology,* Vol:6 2012-08-29
[66] Heledd Jenkins, "Small Business Champions for Corporate Social Responsibility", *Journal of Business and Ethics,* 2006, 67:241-256

Environmental
ISO14001
Waste minimisation, re-use and recycling schemes
Reduction in use of harmful chemicals
Reduction in atmospheric emissions
Use energy from renewable sources
Membership of environmental organisations
Investment in new technology
Environmental reporting
Award winning environmental schemes
Employees
Investors in people
Flat management structures
Creation of good work-life balance and family friendly employment
Employee newsletters
Social events for staff
Employees sent to developing countries to undertake community projects
Award winning training and development programmes for employees
Employment of older and disabled people
One to one mentoring of employees
360° appraisal schemes
Supply chain/business to business
Open house policy for customers, suppliers and competitors to look around
Directors of business associations
Seeking to develop long-term partnerships with customers and suppliers
Supplier learning schemes
Measurement of key performance indicators and feedback to staff, customers and suppliers
Winners of industry awards e.g., world class manufacturing or service industry excellence
Support and encouragement for suppliers to become more socially responsible
Take part in industry best practice programmes
Inside U.K. enterprise scheme
ISO9001 Quality standard
Community/society
Work with local schools on projects e.g., working with children with learning difficulties
Donate percentage of profits to charity
Supporting local homeless people
Sponsorship of local sports teams
Involvement in awards schemes for young people
Time banks for employees to work in the community
Social auditing
Employ people from the local community
Working on community projects in developing countries
Work experience placements
Award winning community engagement programmes

Jenkins has conducted an extensive study on corporations of medium size engaging in CSR activities, explaining them in practice. The study was carried out through in-depth, semi-structured interviews with 24 UK SMEs. It uses a collective case study to investigate in the good practices of CSR and the benefits derived from them.

If we look at the environmental section in the table above, we can see waste minimisation, re-use and recycling schemes. Likewise Porter and Kramer (2011) define this same activities as opportunities to create shared value when redefining the activities in the value chain. To give a more concrete example of the overlap between what is considered a CSR or CSV approach, Porter and Kramer (2011) report in their paper the example of Wal-Mart, that was able to " address both issues (societal and economic) by reducing its packaging and rerouting its trucks to cut 100 million miles from its delivery routes in 2009, saving $200 million even as it shipped more products. Innovation in disposing of plastic used in stores has saved millions in lower disposal costs to landfills"[67]. In quite the same way Geoffrey B Sprinkle and Laureen A. Maines (2010) [68] reports Walmart as a very good example of company that implement a CSR activity that focus on environmental concerns that can lead to reductions in production cost. The example quoted dates to the year 2006 when Walt-Mart reduced transportation costs by $3.5 million through one initiative to reduce the packaging on toys. From an environmental point of view, the

[67] *Michal E. Porter and Mark E. Kramer, "*How to reinvent capitalism- and unleash a wave of innovation and growth", *Harvard Business Review, January-February 2011*

[68] Geoffrey B Sprinkle and Laureen A. Maines, "The benefits and costs of corporate social responsibility", *Kelley School of Business, Indiana University ,* 2010, pp.447

company saved “3,425 tons of corrugated materials, 1,358 barrel of oil, 5,190 trees and 727 shipping containers”[69].

As we can see, activities related to energy and resource uses are equally termed, and several examples of companies implementing this strategies could be presented.

Another area of possible overlap between CSR and CSV is the employee welfare and productivity. Porter and Kramer (2011) define among the ways of redefining the value chain to create shared value also the productivity of the employees. Leading companies have learned that because of lost work days and diminished employee productivity. Porter and Kramer invite us to take as example Johnson and Johnson that, by helping employees stop smoking (a two third reduction in the last 15 years) and implementing other numerous wellness programs, the company have saved $250 million on health care cost , a return of $2.71 for every dollar spent in such wellness activities for employees. Similarly, many CSR academics have always recognized the importance of creating a good working environment and training programs as CSR activities that increase the efficiency of the labour force (Jenkins 2006:248). In the table above, in fact, a whole section is dedicated to the employee’s activity aiming at increasing the productivity of the workforce. In addition, the same Geoffrey B Sprinkle and Laureen A. Maines relates many CSR activities to employees welfare and safety [70]. An example is McDonald, that in 2009 spent money on external and independent audit of experts to implement a code of conduct that

[69] Geoffrey B Sprinkle and Laureen A. Maines, “The benefits and costs of corporate social responsibility”, *Kelley School of Business, Indiana University* , 2010, pp.447

[70] Geoffrey B Sprinkle and Laureen A. Maines, “The benefits and costs of corporate social responsibility”, *Kelley School of Business, Indiana University* , 2010

provides requirements for fair and safe working conditions for the vendor employees[71]

Therefore, we can say that there is a kind of “blurring line” or “blurring boundary” between the concept of strategic CSR and CSV in some application areas that do overlap. Maybe some companies are already in place programs that are consistent with the concept of shared value expressed by Porter and Kramer, but they don’t know. This is because the CSV concept stems from a real and deeper understanding of societal problems as strictly linked to the business’ strategy, and for this reason they are easier to point out.

2.4 Shared Value and the Bottom of the Pyramid (BoP)

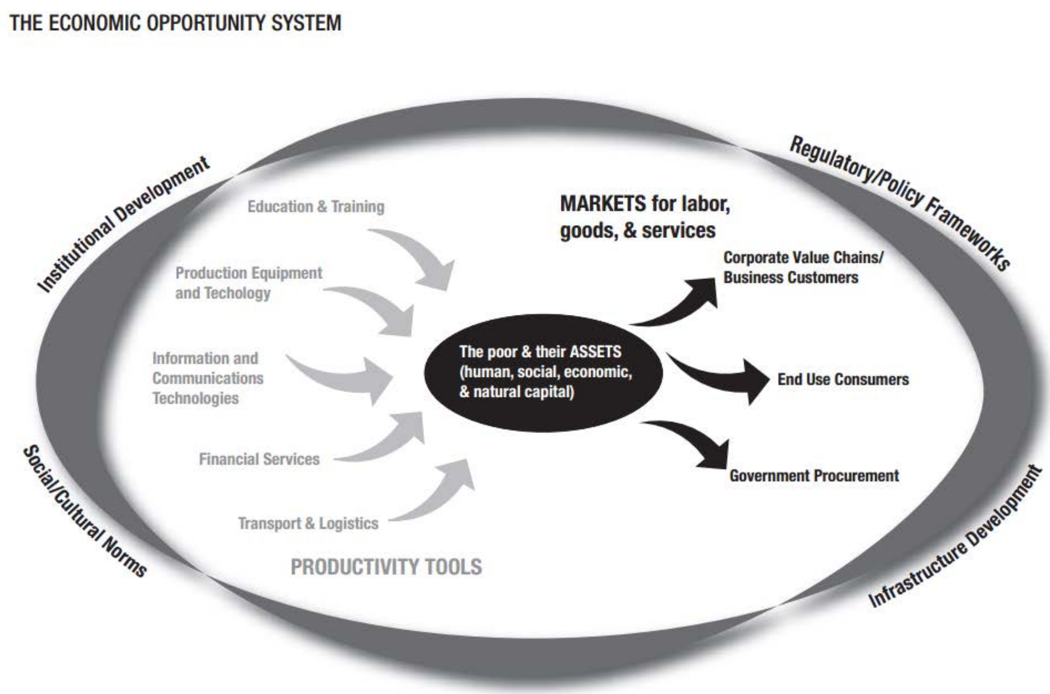
The potential of the shared value concept, as expressed by Porter and Kramer, applies to all business in any country. Like any business strategy, the SV strategies can be unique and tailored to a specific individual company.

By the way, the difference between Corporate Social Responsibility and Creating Shared value is more evident when we consider the strategies of the business in engaging with the poorer segment of the world population: the Bottom of the Pyramid. In fact, the majority of the literature that followed the article in 2011 have focused on the application of SV at the BoP. A number of example can be found, in particular related to how US based multinationals have improved their value chain and at the same time, improved the social context in which they operate.

[71] McDonald (2009). *Values in Practice report.* Retrived at http://www.aboutmecdonalds.com/mcd/csr/report/sustainable_supply_chain/employee_welfare.html

One reason may be that the social issues at the bottom of the pyramid may be much more urgent and evident than in advanced countries, and thus in this group there are greater market opportunities for business . When engaging with the Bottom of the pyramid, it is evident that they are constrained by a multitude of interdependent obstacles, like poverty and weak institutions, . “Expanding economic opportunities are, by far, the greatest potential to create shared value, and large businesses can leverage this opportunities.”[72]

Figure 2.3 The economic opportunity system at the Bottom of the Pyramid



Souce: Jenkins, Beth. 2007. Expanding economic opportunity. The role of Large Firms. Corporte Social Responsibility Initiative Report NO. 17 Cambridge , MA: Kennedy School of Government, Harvard University)

[72] CSR Initiative (2007) The role of the private sector in expanding economic opportunity through collaborative actions. A leadership dialogue Harvard University, October 2007

2.4.1 Inclusive Business Model (IBM)

To expand this business opportunities, the approach that is used by large multinationals and that differentiates from the classic CSR actions is the "inclusive business model". It consists in involving the people from the bottom of the pyramid in different ways: as employees, entrepreneur, suppliers, distributors, retailers, consumers. In a shared value perspective, this involves improve their livelihoods by through new services and new markets. The integrated business model closely relates to the creation of shared value because the company is at the same time able to increase its profits and "doing good" and its origins are less centered in the CSR strategies[73]. When the company embraces in an inclusive business model, the focus is less centered in the gain of a competitive advantage, even if it is for sure a significant benefit, but it is more centered in "marrying profits with development impact"

"In this perspective, the shared value journey can start in two different ways: either by identifying and prioritizing some social issues, and then managers review the sourcing, operation and distribution to surface ideas that can create both economic and social value; or the SV journey may start by looking for significant business opportunities and then consider how to bring a social lens to it"[74].

As we have already said, the SV approach can be developed in 3 ways as in figure 2.4

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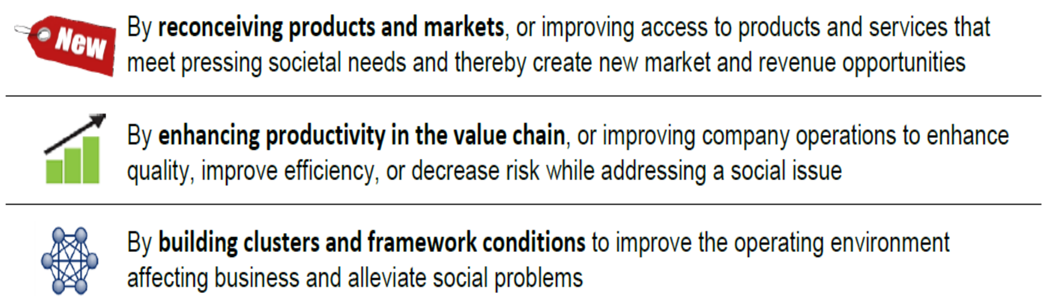
[73] Richard Williams and Janet Hayes, "Literature review: seminal paper on Shared Value", *Oxford Policy Management,* January 2013

[74] FSG "Shared Value in Emerging Markets: How Multinationals Corporations are redefining Business Strategies to reach Poor or Vulnerable Peoplulations", *Rockefeller Foundation, Innovation for the next 100 Years,* September 2012

Figure 2.4 The Layers Of Creating Shared Value



Source: FSG report "Shared Value in Emerging Markets: How Multinational Corporations are redefining Business Strategies to reach Poor and Vulnerable people" September 2012

The 3 points of the creation of shared value do not have to be implemented in isolation but rather the magnitude of the social and economic effect is greater as leading firms have designed multi- pronged approaches. This triple layers strategy is more difficult to be achieved through the simple CSR implementation, and on the other hand is easier to implement at the bottom of the pyramid where more have to be done to improve their lives, institutions, work conditions and techniques and training about the use of the end- products.

An example of this triple approach is given by Novo Nordisk. The company implemented a mutually-reinforcing strategy to achieve more than the 60 percent of the market share in China for the insulin market. How?

1. Enabling Local Clusters: the main problem to be addressed was the recognition of the lack of awareness about the diabetes and in particular about its diagnosis among the Chinese Population. Even when a diagnosis was given in advance, the response in managing the condition was often a failure. For this reason Novo Nordisk was able to strengthen its competitive context by funding the creation of the World Diabets Foundation to increase

the awareness about the disease and then worked in collaboration with the government for the creation of national standard guidelines for its treatment. In addition, due to the lack of information, Novo Nordisk also provided an extensive training to physicians and patients

2. Redefining productivity in the value chain: part of the production facilities was moved in China, Tianjin, allowing the company to be more market responsive to the needs of the population and to gain production efficiency.
3. Reconceiving products and markets: since the demand in the Chinese market where different in China, the company adapted the insulin product to suit the Chinese patients by establishing a local Research and Developing Center leveraging the Knowledge of the local scientist.[75]

2.5 Should CSV replace CSR?

As we already said, there are some CSR activities that are not strictly linked to the concept of profit maximization. Even assuming that CSV should supersede CSR, is it fair to exclude them at all? The concept of shared value says that companies should focus on the strategic fulfilment of single needs on which they can reshape the strategy at their best. The CSR concept instead, covers the wider range of social matters, as we can see from the wide variety of definitions reported in the table, regardless whether they are related or not to the business. Even if creating shared value benefits the company, on the other hand it “leaves out some more global issues tending to which is not related to specific business needs”[76]. But what if, in a

[75] FSG “Shared Value in Emerging Markets: How multinational Corporations are Redifining Business Strategies to reach the Poor or Vulnerable Populations” September 2012, *Rockefeller Foundation*
[76] Inga Lapina, Indra Borkus, Olga Starineca, “Corporate Social responsibility and Creating Shared Value: Case of Latvia”, *World Academy of Science, Engineering and Technology,* Vol:6 2012-08-29

certain community, some social needs are more pressing than the one you have decided to focus on in CSV?

Despite the benefits and clarifications that are embedded in the concept of shared value, it is too early to say that it should replace CSR. The first reason is the novelty of the concept, such that ways of implementation and measurement are still under work. In the article presenting the theory, there is neither a clear theory of implementation nor a single way of measurability.

The example presented about successful CSV practices are about (American) multinationals like Nestlé, that have represented and still are the main adapters of CSV. This implies that the theory makes two important implicit assumptions; first of all that the company disposes of a certain amount of resources and economies of scale necessary to reconfigure the whole set of activities. The second one is that, in particular when engaging with the BOP, the company has already an experience about internationalization, that is not always the case. This makes creating shared more difficult for smaller companies than multinationals, that do not have the same economies of scale, have more limited resources and no international experience to reconfigure activities according to CSV. For this reason CSR, if well and strategically implemented, it still represent the best way to create social welfare or improve environmental conditions. Shared value can be created even with minor activities that create a strong link with the society but that do not necessarily represent a pure example of creating shared value. As discussed also by Crane et. all in 20014, if, as we have given evidence in this chapter, "CSR leads to more revenues, cuts on costs or reduce risks (of any kind) associated with the organization, the real question is not whether CSR is legitimate or not, but rather *how* to make them (better) serve the economic purpose of the business"[77]. The concept of shared value doesn't give legitimacy to the business again, but puts in a more clear way the evidence that the pressing social issues cannot be ignored by the business anymore. To reshape the new area of capitalism, neither the concept of CSR not the concept of CSV can be limited or confined to specific products or projects at the bottom of the pyramid. What is necessary is to reconsider again the stakeholder theory in the entire function of the organization. "The stakeholder theory embraces the social reality that corporations affect and are affected by the society (descriptive level), that the management to be successful takes into consideration the linkages to all the groups in the society that do have a "stake" or an interest in the organization (instrumental level) and that this stakes from all groups have legitimacy (normative level)"[78] . According to Crane et. all, the shared value theory is just another application of the stakeholder theory as long as the society and its needs are seen as cater to be successful in economic terms.

In addition, not all the social issues can be solved through the implementation of a business strategy. As noted by John Elkington, CSV is unlikely to pick up some of the most difficult CSR issues, including human rights and corruption and bribery[79]. If CSV has to replace CSR, as written by Porter and Kramer, a further development of the concept is necessary to include a clear statement on incorporating and addressing pressing social issue whose creation of value for the company is immediate, like the one mentioned about Elkington. Maybe, the reconfiguration of the whole mission of the firm is necessary to have a full shared value approach, that

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[77] Andrew Crane, Guido Palazzo, Laura J. Spence, Dirk Matten, "Contesting the Value of Creating Shared Value", *University of California, Berkley,* VOL.56, NO.2 Winter 2014
[78] Andrew Crane, Guido Palazzo, Laura J. Spence, Dirk Matten, "Contesting the Value of Creating Shared Value", *University of California, Berkley,* VOL.56, NO.2 Winter 2014
[79] John Elkington, "Don't abandon CSR for creating shared value just yet", *The Guardian professional network,* 25 May 2011

does not only carry out a good business in some parts of the world while in others the business as always goes alone. For this reason, there is still much to work on both the concepts of corporate social responsibility and shared value to create an overall and homogeneous framework to understand the external environment and the society.

CHAPTER 3: Creating Shared Value at Nestlé

3.1 About Nestlé: CSV was born here

Nestlé is the world leading company in Nutrition, Health and Wellness, headquartered in Switzerland. The company has embraced the concept of Shared Value since the beginning of its creation as a concept, working in collaboration with FSG, the consulting company co-founded by Porter and Kramer, to re-examine its efforts in Corporate Social Responsibility and its value chain's activities.

Henri Nestlé founded the company in 1866, when the first European condensed milk factory was opened in Cham, Switzerland, by the Anglo-Swiss Condensed Milk Company. The founder was a German pharmacist that launches the *Farine lactée,* made of a combination of cow's milk, flour and sugar, saving the life of a child in his neighbour. In the following years, the company engaged in strategic acquisitions of other leading companies around the world , entering new markets and geographies Heavy investments in R&D, together with strategic mergers and acquisitions allowed the company to wide its product portfolio and to enter a huge number of different markets and geographies. This long term perspective has always been embedded in the concept of sustainability of the company, but until the introduction of the CSV strategy it was just an abstract concept related to the broader spectrum of corporate social responsibility of the business. The year of change came in 2006, when Nestlé decided to concretize this perspective and contacted the Foundation Strategy Group (FSG), that as we have already explained in chapter 1, is a non-profit consulting firm co-founded by Porter and Kramer and with a specific focus on business strategy. The reason why Nestlé decided to re-read its corporate social responsibility efforts was to better re-align the CSR activities with its overall corporate strategy in a long-term perspective that creates both economic and social value. Creating Shared Value was, thus, born at Nestlé, when the consulting project was proposed to the company by Porter and Kramer and the company totally embraced the concept as the way they operate. The development of the theory, in fact, happened after the experimentation in real inside of Nestlé's strategy. The case of coffee and cocoa procurement by Nestlé is, in fact, is reported as one of the main case of successful creating shared value implementation at the BOP in the 2011 HBR article.

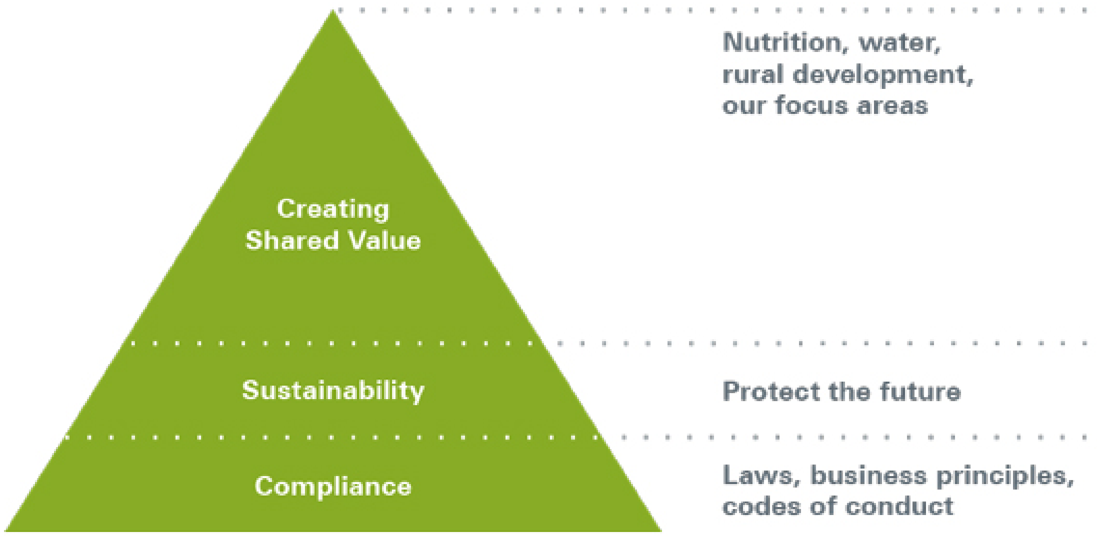
Today Nestlé is a multinational company that evolved from being a simple manufacturer to being the largest food and beverages group selling in its products on 113 countries around the world, offers more than 2000 brands worldwide, employees more than 339.456 people globally, with group sales of $ 91.6 billion (net) in 2014.[80]

3.2 Nestlé in Society

In 2006 Nestlé decided to go beyond the simple concept of sustainability: the company decided to embrace in the Creating Shared Value strategy and approach to the business as a whole. The CSV approach is fundamental to Nestlé such that is able to build a business capable of delivering at the same time superior shareholder value and helping people improving their nutrition, health and wellness all over the world, not only in developed countries but in particular in developing countries, given that the operations of the company's value chain span in 113 different countries.

[80] Nestlè CSV full report 2014

Figure 3.1 : How creating Shared Value works at Nestlé



Source: Nestlè in Society, 2013

For the company, CSV represents the key for long term success, but to redefine the mission alone is not enough. For this reason the company, in 2008, built on its own pyramid of its engagement with society and the environment (Figure 3.1). At the bottom we have *compliance*, that does not only imply the respect of national laws ad relevant conventions, but also the compliance with the company's own regulations, lied out in the *Nestlé Corporate Business Principles* (Figure 3.2), its Management and Leadership Principles, its Corporate Business Principles . Most importantly, the ten principles of the Nestlé Corporate Business Principles are defined as the "heart" of everything they do in Nestlé, and they define the company's culture, developed in more than 140 years. They are regularly reviewed and refreshed by the Executive Board such that they are constantly aligned with the international best practices. Not only the ten principles are assumed to be considered as non-negotiable by all the components and people along the value chain, but they define the " *foundations"* of the Creating Shared Value approach.

Figure 3.2: Nestlé Corporate Business Principles

The ten principles of business operation

Area	No.	Principle	References
Consumers	1	**Nutrition. Health and Wellness**	Nestlè Principles on Nutrition Health and Wellness
Consumers	2	**Quality assurance and product safety**	Nestlè Quality Policy Nestlè Nutritian Quality Policy
Consumers	3	**Consumer communication**	Nestlé Consumer Communication Principles Nestlé Policy on Nutrition and Health Claims Nestlé Nutritional Profiling System Nestlé Nutritional Compass WHO International Code of Marketing of Breast-milk Substitutes* Nestlé Privacy Policy
Human Rights and labour practices	4	**Human rights in our business activities**	UN Global Compact* ILO Conventions 87, 138, 182* UN Convention of the Rights of the Child: Article 32* OECD Guidelines for Multinational Enterprises 2000* ILO Declaration on Multinational Enterprises 2006*
Our People	5	**Leadership and personal responsibility**	Nestlé Management and Leadership Principles Nestlé Code of Business Conduct Nestlé Human Resources Policy
Our People	6	**Safety and health at work**	Nestlé Policy on Safety and Health at Work
Suppliers and customers	7	**Supplier and customer relations**	Nestlé Supplier Code
Suppliers and customers	8	**Agriculture and rural development**	Nestlé Policy on Environmental Sustainability
The enviroment	9	**Environmental sustainability**	Nestlé Policy on Environmental Sustainability
The enviroment	10	**Water**	Nestlé Policy on Environmental Sustainability Nestlé Commitments on Water

* External references

Source: Nestlé in Society Creating Shared Value and meeting our commitments 2012 Full Report

The compliance with the policies is verified in Nestlé through the supervision of an internal *Corporate Group Auditors.* Beyond compliance, the company is concerned and renew the link with the society in general defining *sustainability as* "the development that meets the needs of the present without comprising the ability of the future generations to meet their own needs"[81]. But these two elements are not enough for Nestlé, as the business they carry out cannot be only good for society, but also profitable to the shareholders. For this reason, at the top of the pyramid we find Creating Shared Value as something that is built on the two concepts but that

[81] Nestlé CSV report 2013 pp. 2

goes beyond compliance and sustainability. What does CSV means to Nestlé? The chairman and CEO of Nestlé, Peter Brabeck-Letmathe, in the first report about their new vision of Corporate Social Responsibility declares that:

> "to us, corporate social responsibility is not something imposed from the outside, but is an inherent part of Nestlé business strategy and *Nestlé Business Principles* which guide the way we operate. As stewards of large amount of shareholders' capital, it is in my belief that, in order for a business to create value for its shareholders, over the long term, it must also bring value to society"[82]

In the CSV report by the company in 2008, they define three fundamental points that are crucial to a CSV approach:

- "using the Nestlé core business strategy and operations to create value for the shareholders"[83]
- "serving the consumers by providing them products rich in nutrition contents that can be good for their well-being while at the same time improving their lives"[84]
- "at the same time, improve the economic and social conditions of the people and communities engaged in the whole supply chain at Nestlé, starting from the farmers who supply the raw materials and ingredients in the poorest regions and communities of the world, the suppliers and the trade partners"[85]

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[82] Nestlé, "The Nestlé concept of corporate social responsibility as implemented in Latin America", 2006

[83] Nestlé, "Creating Shared Value and meeting our commitments in society 2008", full report

[84] Nestlé, "Creating Shared Value and meeting our commitments in society 2008", full report

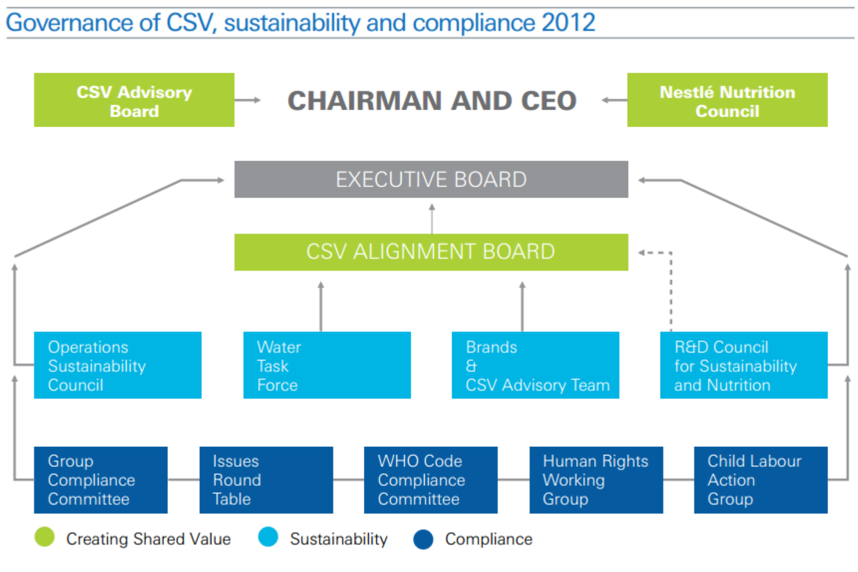
[85] Nestlé, "Creating Shared Value and meeting our commitments in society 2008", full report

According to these points, Nestlé is able to reconceive at the same time the needs of the consumers, the shareholders while, also, holding the respect for people and the local communities they collaborate with along the supply chain.

3.3 Governance of CSV at Nestlé

One of the most important characteristics for a successful CSV strategy, and of a business plan in general, is the commitment of the whole company to the new social mission and how much the social issues are eradicated in the management thinking. This implies that the driver of the effort must be the CEO direct commitment to supervise and manage the company's effort. In Nestlé, this is reflected in the general corporate governance structure (Figure 3.3). Under the direction of the CEO and the CSV alignment board, other task forces and smaller councils are responsible for the areas of compliance, sustainability and Creating Shared Value, as we can see in the Figure 3.3.

Figure 3.3: Nestlé's internal Governance Structure



Source: Nestlé in Society Creating Shared Value and meeting our commitments 2012 Full report

3.3.1 CSV Alignment Board

To ensure the alignment of interest, the *CSV Alignment Board,* then called "*Nestlé in Society Board"* in 2014, is chaired and directed by the CEO. The role of the Board is to oversee the strategic implementation of Creating Shared Value across businesses, while at the same time leads and propose new ways to evolve the Shared Value Concept. The CSV Alignment Board reverts to the Executive Board for input and confirmations. The CEO presence in both the Alignment Board and the Council ensures the alignment between the Boards. In particular the Board works to:

- Ensure the proper alignment and coherence of all the activities and the positioning of Nestlé in society
- Assess and draw conclusions about societal development

- Ensuring the compliance and sustainability of Nestlé, while at the same time strengthening the credentials in Creating Shared Value, in particular in the main areas of materiality, namely nutrition, water and rural development

3.3.2 Nestlé Creating Shared Value Council

Formerly called CSV Advisory Board in 2009, the Nestlé Creating Shared Value Council, instead, is made of 12 external experts and university professors in different fields of study, ranging from international health, agriculture, sustainability, nutrition and food sciences. The experts meet quarterly to assess the progresses and to discuss new CSV opportunities and advises to the Nestlé Management for the best implementation way. Among the 12 members of the Nestlé Creating Shared Value Council there is also Michael E. Porter and Elkington, quoted in the previous chapter of this dissertation about the difference between CSR and CSV. Together with the CSV council, the CEO receives suggestions also from the Nestlé Nutrition Council, an independent advisory panel made of leading international nutrition scientists. Its role is to advise on and challenge the reviews of the research programmes carried out in Nestlé. The advises are directed to the senior management team on nutrition challenges (figure 3.3) to consider the possible impact on the company's strategies and policies.

3.4 Materiality analysis and the value chain

The materiality analysis can be considered as the starting point of any shared value strategy, in fact it is also called "Shared Value Opportunity Analysis"[86]. The issues that are identified are the one that matter the most to the business, because they are of most concern to the stakeholders and they have an impact on the finance,

[86] Book: Michael D'heur, "Sustainable Value Chain Management, Delivering Sustainability through the core business", *Springer*

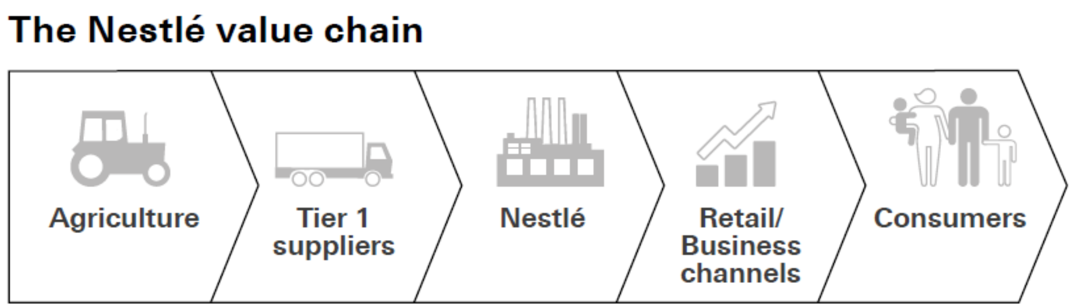
operational and reputational aspects of the company itself. This analysis is carried out very in depth, and in particular it entails a number of critical questions that the company has to analyze in terms of its own positioning and core business to deliver, at the same time, value to the society. The materiality analysis final result will be the identification of some “hot spots” where the company can make a contribution that can be quantified in commercial terms for both the stakeholders and shareholders. In addition, it highlights the risks and opportunities that are created once it is found a positive overlap between the core business, the environment and the society as a whole.

Nestlé carried out the first materiality analysis in 2008, and since then the number of stakeholders involved and the number of material issues added to the analysis has increased significantly. The materiality issues are framed each year in the official CSV report of Nestlé and they are meant to provide official information to all the company’s stakeholders, in accordance with the GRI G4 requirements . The Nestlé value chain can be framed in the simplest way possible as in the Figure 3.4 and 3.5 below and each report it is highlighted the impact that the material issues have on them:

Figure 3.4 Nestlé simplified value chain

Source: The Nestlé concept of Corporate Social Responsibility as implemented in Latin America, 2006

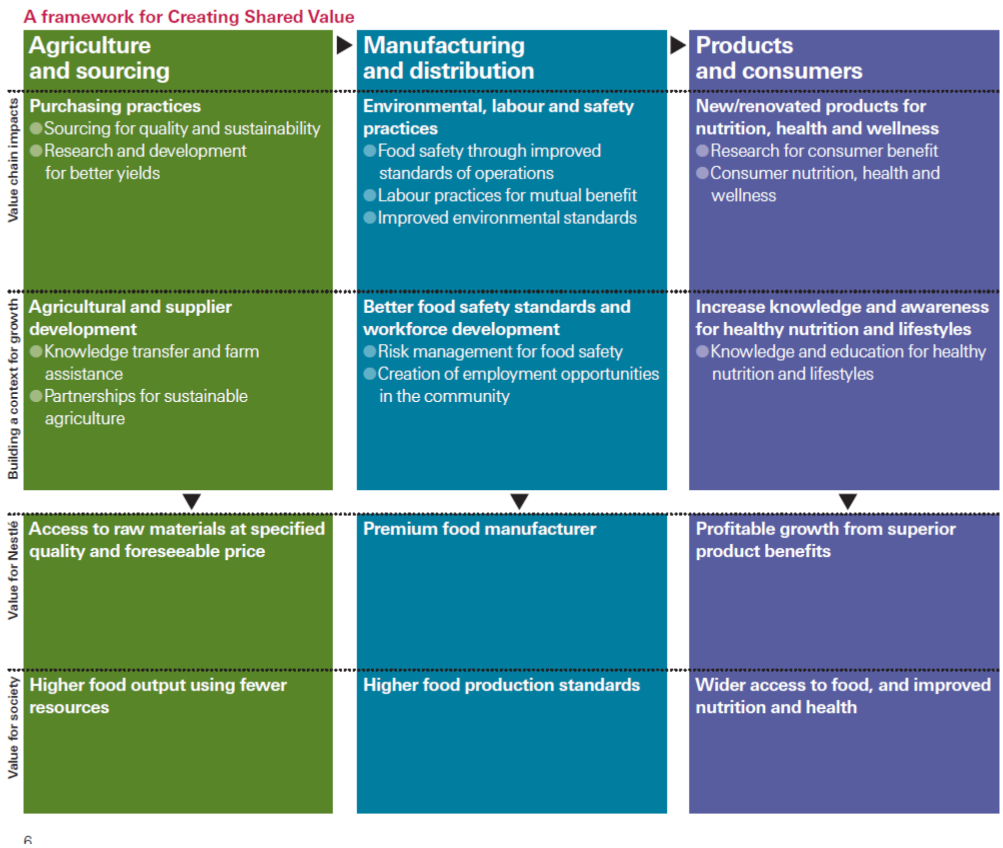
Figure 3.5: The Nestlé Value Chain



Source: Nestlé in society, Creating Shared Value and meeting our commitments 2014, Full report, pp.11

Agriculture regards small-holder farmers with whom Nestlé does not have a direct relationship, while Tier 1 refers to suppliers that have a direct relationship with the company. Following, the value chain covers also the factory production, the retail and business channel and, finally, the end consumers, that are involved in several ways in the creation of shared value from the company. Nestlé is a very complex global corporation that sells every day thousands of products, yet the value chain can be simplified also according to Figure 3.4 in three basic steps: agriculture and sourcing, manufacturing and distribution and products and consumers. The concept of Creating shared value exemplifies the fact that value for both the society and the organization can be created at each step of the value chain activities, as well as they can be "bad" to the company. The activities of the value chain in Figure 3.4 create impacts on the operations and activities, growth and value for the value chain as descried in Figure 3.6 below.

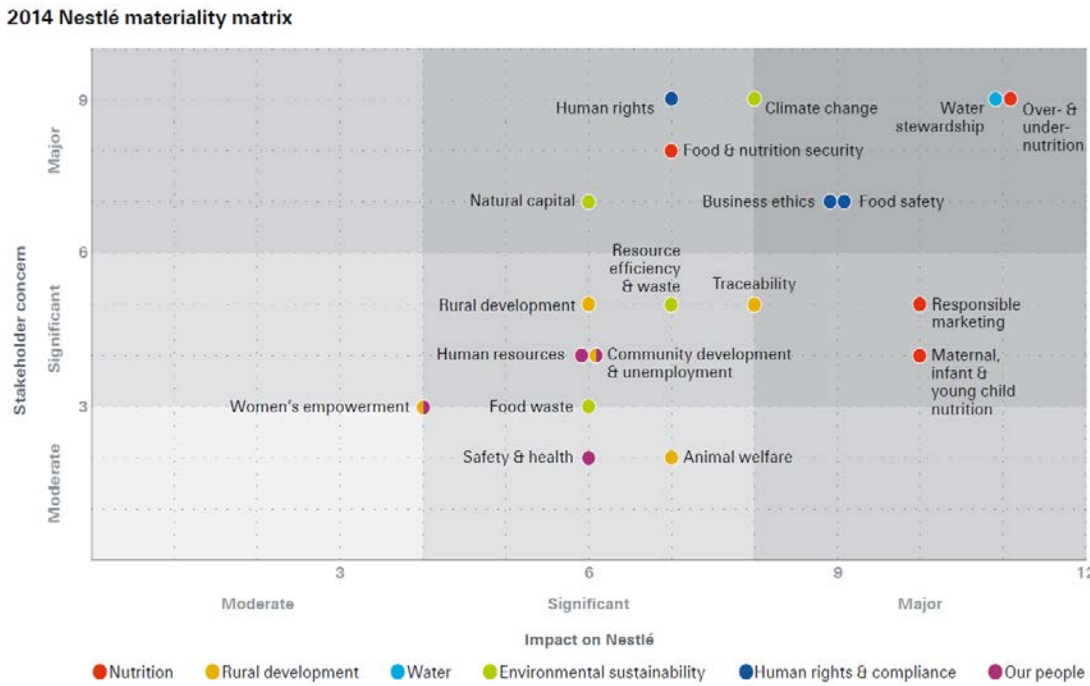
Figure 3.6 A framework for Creating Shared Value



Source: : The Nestlé concept of Corporate Social Responsibility as implemented in Latin America, 2006

Along the value chain, 8 categories containing 19 material issues are identified. As a second step, the materiality issues are plotted and mapped in a matrix graph (Figure 3.5) to have a clear idea about the importance that stakeholders place on the issue and the impact that they have on the core business of Nestlé.

Figure 3.5 Nestlé materiality matrix (2014)



Source: Nestlé in society, Creating Shared Value and meeting our commitments 2014, Full report

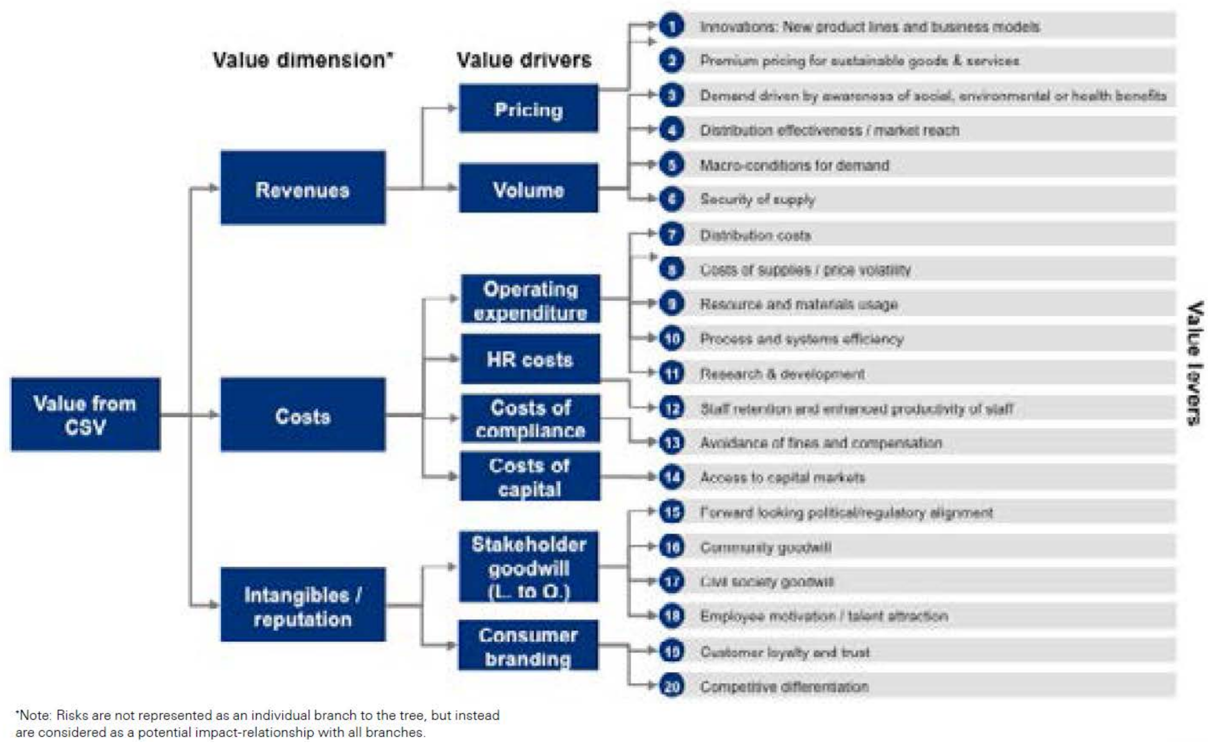
The materiality analysis, together with the materiality matrix, helps the company to understand the commercial relevance of the issues on the business and their significant link with it. To give a commercial value to the social and environmental issues is of fundamental importance as a "company that cannot earn money by implementing sustainability in the value chain and within its core business will soon put a stop to its efforts"[87]. For this reason, Nestlé asked *Accenture,* a well-known consulting firm, to review the commercial value and relevance of the issues that the company tries to address through their shared value efforts[88]. As we can see in the

[87] Book: Michael D'heur, "Sustainable Value Chain Management, Delivering Sustainability through the core business", *Springer*
8888

graph above, all the social and environmental issues vary according to the importance placed by stakeholders and company on them, but all of them have been plotted as at least “significant” if not “major” to the impact on Nestlé.

By assessing the commercial value of the material issues, it is possible to find out how does the social and environmental issues affect different aspects of the company. Some issues are particularly fundamental to Nestlé: to protect the growth and revenues, others do have a big impact on the cost structure, supply chain and risk, while many have an impact on reputation (Figure 3.6). Even if risk is considered the major driver, it is not plotted as an individual branch in the three constructed in relation to the value from CSV, but rather it is considered as a potential impact-relationship with all the branches.

Figure 3.6 Value from CSV (Value dimension + Value drivers)



Source: Nestlé in society, Creating Shared Value and meeting our commitments 2014, Full report

The opportunities areas that are plotted on the matrix are reflected in the business of the company, and for this reason if they are managed poorly they expose the company to different risks; at the contrary, if they are managed well, they can be turned into economic opportunities. As we can see in the matrix, “food safety” has a very big significance to both the company and the stakeholders, in particular for the final consumers. Addressing social needs like over- and under- nutrition can represent serious market opportunities for the company. The first area in which Creating Shared Value focuses is in fact Nutrition , that is the company is socially committed to “ provide consumers with the best-tasting, most nutritious choices of food and beverages at every stage of life”[89]. As we can see in Table 3.6 revenues are the first value dimension of CSV and it is primary dependent on the ability to solve social issues of different kinds through the delivery of Nestlé’s products. The company is convinced that if it is able to leverage knowledge, capabilities and economies of scale to solve societal challenges, then the revenues will increase. This is the prime example of what Porter defines as embedding a social dimension to the mission of the company and to make “different” profits that have a social value. Another crucial dimension at the same time is the water stewardship, that is the recognition of water as a scarce resource that has to be managed along the whole value chain and addressed by the company as a social challenge. As second value dimension of CSV strategy there is the cost structure that, again, is heavily influenced by the water usage. Managing resources in an efficient way along the whole value chain helps the company to realise a cost-advantage and many Creating Shared Value issues are cost drivers: climate change, food waste, resources efficiency and waste (as plotted in the materiality matrix in figure 3.5). The last value driver of the CSV strategy is the reputation of the company. As corporate social responsibility as always been concerned with the effect that certain social or environmental issues may have on the perception of the brand by the consumers, the same can be said for the CSV issues. All the issues that are represented in the materiality matrix have the potential to influence the Nestlé’s corporate standing. In particular, the final consumers are particularly concerned about food safety and about a number of other social issues that have to be respect. Shared Value Creation is, in summary, a set of initiatives that address at the same time critical social issues and important aspects of the business. If opportunities and the business opportunities are leveraged in a positive way, a multinational company like Nestlé

[89] *Nestlé in society, Creating Shared Value and meeting our commitments 2014, Full report*

can create a mutually reinforcing relationship that last over the long run, creating value for both the society and the shareholders at the same time.

3.5 Rural development

The Nestlé's value chain relies on millions of farmers around the world that supplies the company with raw materials that are necessary for the final production of the consumer products, including cocoa, coffee and milk. The supply may happen either through direct suppliers or through co-operatives and collection centers. The farmers in the majority of the cases are small-farmers that live in socio-economic conditions that lack general investments in infrastructures and support by the governments. For Nestlé, the secure supply of raw materials from the centers located all over the world and the reliability of them according to their supplier codes is oh significant importance, and in this long-term perspective lies the core of the company strategy founded on shared value. Therefore, the company assists the small farmers through agricultural support and capacity building programs to increase the yields, crop quality and income levels of the farmers. In 2014, the company supports 376000 farmers through training and capacity building programmes for a total investment of CHF 39 million. The programs, in particular, aim at creating the right conditions for the farmers to meet the Nestlé Suppliers Code, and in 2014 the percentage of farmers that fully comply are estimated at 73% of the total amount[90]. According to the materiality analysis, presented in Figure 3.5, five material issues fell under the category of rural development, that are of both

[90] *Nestlé in society, Creating Shared Value and meeting our commitments 2014, Full report*

concern to the stakeholders and of moderate/significant importance to the company: rural development, traceability, farm animal health and welfare, community development and under-nutrition and woman empowerment. The last material issue, namely woman empowerment, has been reframed since the 2013 matrix, to underline the commitment of the company to face a new social issue in a profitable and efficient way in the value chain. The importance of rural development for the company lies not only in having reliable suppliers, that meet the Nestlé supplier Code and that have improved their social condition thanks to higher crop yield and net income, but also to the traceability of the raw material, that ensures to all the stakeholders that the ingredients have been grown and processed responsibly and can be traced back. The approach to Shared Value, thus, is more evident in the rural development field rather than in the other areas of interest of the company, namely nutrition and water usage.

3.5.1 Nestlé Commitments to rural development

The rural development commitments of the company are publicly reported in the paper for Policy Mandatory of July 2013. In the report, Nestlé aims at explaining how connecting the long term success of the company assuring that value is jointly created for the company and the society. As a consequence, in the company there is the deep recognition that the role of small farmers all over the world is key to success, and therefore they decided to adopt the Creating Shared Value as an operational strategy to ensure the long term supply of raw materials and to create a long-term loyalty relationship with the collaborating partners, including NGO, and small farmers. To further implement the commitment, the company prepared a Rural Development Framework that focuses on farmers that supply the company. The framework recognises the important role of trade partners and the importance of Governments in providing services to the communities. Nestlé, in fact, believes that the Governments have the primary role of setting regulatory frameworks and providing goods and services that can support the rural development. Therefore, the company is committed not to work alone in the creation of shared value, but through the collaboration with a series of stakeholders, like governments, communities and other NGO's for the achievement of a strategy that elevates the economic intention of Nestlé to a social level. Nestlé has set out this commitment on rural development underling how, to this end, this commitment is consistent with the Millennium Development Goals on poverty and gender equality commitment.

3.6 The Nescafé Plan in Kenya 2015, Beyond the Cup

3.6.1 The Nescafé plan as a global initiative

The Nescafé Plan is a "global initiative that brings together the commitments and activities of the company in supporting responsible farming, production and supply of coffee worldwide"[91]. The activities of the Nescafé Plan range from on-the-ground support for the farmers who supply the company directly, ensuring that they comply with the highest standards in terms of quality and that they apply in the right manner the plant-science improvement developed through the investment of the company in Research and Development (R&D). Through the Nescafé Plan the company seek to improve the living standards of the coffee farmers, ensure the compliance with the Common Code for Coffee Community (4C) verification and

[91] *Source: Nestlé in Society Creating Shared Value and meeting our commitments 2012 Full report*

empower woman and young farmers to become leaders in the coffee sector[92]. The Nescafé Plan is not the only instrument through which the company supports the farmers in the global supply chain of coffee. Another significant initiative carried out by Nestlé is the Nespresso AAA Sustainable Quality Program, that supports the local farmers in protecting the highest quality coffee for the Nespresso Grands Cups. Both the programs have distinctive features, standards and requirements, that are reflected in application requirements and sourcing operations. The total investment in the Nescafé Plan over the decade 2010-2020 is of CFH 350 million while for the Nespresso coffee initiative is CFH 300 million between 2014-2020[93].

The Nescafé plan has a very broad geographical scope, ranging in 14 countries including the implementation of the program in 2013 in three new countries in Central America, Vietnam, Columbia and Kenya. The Nescafé plan gather together small farmers through the Farm Connect program, that gather together 171 900 through the Farm Connect program's sourcing staff that provides free in-place technical assistance to farmers and training to meet the highest standards of quality in the crop[94]. This way, the farmers can sell more of their crop and improve, as a consequence, their net income and livelihood in the rural community.

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[92] *Source: Nestlé in Society Creating Shared Value and meeting our commitments 2012 Full report*

[93] *Nestlé in Society Creating Shared Value and meeting our commitments 2012 Full report*

[94] *Nestlé in Society Creating Shared Value and meeting our commitments 2014 Full report*

3.6.2 The 4C Code of Conduct

One of the main objectives of the Nescafé Plan worldwide is to ensure that the small farmers are in the right condition to comply with the 4C coffee certification, that represents a value added to both the consumers and the company's quality final products. The 4C Association is a leading multi-stakeholder sustainable coffee platform that works with companies and coffee producers towards the improvement of the economic, social and environmental conditions of the coffee production to build a sustainable future for the generations to come[95]. The final purpose of applying this Code of Conduct is to achieve a minimum level of social and economic production sustainability[96]. To achieve this final aim, the company and all the stakeholders have to work in collaboration, as Nestlé sets out in the Rural Development Commitments of July 2013. The application of the 4C principles enables the partners to set out a sustainable and long-term relationship with the workers along the coffee value chain. The 4C code of conduct applies to any coffee producing country and any organization, including small-scale farmers, a cooperative or a farmers' association, a mill or a local trader. The only 3 prerequisites for taking part in the 4C unit implementation are: become a member of the 4C association, be able to supply a minimum of one container of green coffee (20 tons) and have an agency that can guarantee the implementation of the 4C Code of conduct, called Managing Entity[97]. The correct implementation of the principles that are lied out by the 4C Association have to be verified by an audit company that is approved by the

[95] "4C Code of Conduct" approved by the 4C Council in December 9th, 2014, version 2.0
[96] "4C Code of Conduct" approved by the 4C Council in December 9th, 2014, version 2.0
[97] "4C Code of Conduct" approved by the 4C Council in December 9th, 2014, version 2.0

association itself and whose name is lied out on the official list of auditing companies that are, thus, trusted as third-party monitors.

In order to achieve this, the Code of Conduct Comprises:

- 27 principles across economic, social and environmental dimensions. They are based on good agriculture and management practices as well as international conventions[98]
- 10 Unacceptable Practices which have to be excluded before applying the 4C Code of Conduct[99]

The implementation of the 4C code of conduct is verified by the audit company on a regular base, and then after a system of "traffic light" is reported about the coffee production in the specific country, as shown in Figure 3.7 below

Figure 3.7 The traffic light system according to the 4C Code of Conduct

Red	indicates that the current practice must be discontinued
Yellow	indicates a practice that needs to be further improved within a transitional period
Green	reflects a desirable practice

Source: 4C Code of Conduct" approved by the 4C Council in December 9th, 2014, version 2.0

In order to achieve the 4C licence, the company and the coffee producer must have eradicated the 10 Unacceptable practices among all the business partners within the

[98] "4C Code of Conduct" approved by the 4C Council in December 9th, 2014, version 2.0
[99] "4C Code of Conduct" approved by the 4C Council in December 9th, 2014, version 2.0

4C Unit. To verify whether the operation has been carried out according to the 4C Code of Conduct, and thus to obtain the certification, it must be achieved an average of yellow performance in each of the identified dimensions and pass the independent audit monitoring. When the company and the producers obtain a yellow light, this color refers to the situation where any principle rated red in one dimension must be balanced with an equivalent number of principles rated green in that same dimension[100]. The yellow light situation is allowed, or better tolerated, only for three years, and then after the first re-verification takes place at the farm. Only if the average yellow light is achieved the green coffee producers are allowed to sell the 4C compliant coffee. From a business perspective and a shared value dimension that aims at increasing the producers net income by training them on the best agriculture practices, the following economic dimensions according to the 4C verification are shown in Figure 3.8

[100] "4C Code of Conduct" approved by the 4C Council in December 9th, 2014, version 2.0

Figure 3.8 Economic dimension of coffee farmers as a business

Principle	Category:	Applies to:
1.1	Profitability and long term productivity	Business Partners which grow coffee
Actions to maintain or increase profitability and long term productivity at farm level are promoted and starting to be implemented.		

Producers are implementing practices that will lead to maintained or increased profitability and long term productivity of their farms,	**There is awareness on practices that have the potential to maintain or increase profitability and long term productivity**	**There is no awareness on practices that have the potential to maintain or increase profitability and long term productivity**
INDICATORS		
Producers are implementing practices that can lead to maintained or increased profitability and long term productivity such as good agricultural practices, post-harvest and handling practices, and good management practices. Implementation of good practices are evident on the farm.	Producers are aware of practices that can be implemented at farm level and that can lead to maintained or increased profitability and long term productivity and implementation of good practices has started.	Producers are not aware of practices that have the potential to increase productivity.

Source: "4C Code of Conduct" approved by the 4C Council in December 9th, 2014, version 2.0

Nestlé is founder and member of the 4C association since several years, and through the Nescafé Plan the company aims to source 180 000 tonnes of green coffee from the Farm Connect Farmers. Out of the total tonnes sourced in 2014 (186 750 tonnes), 130 500 tonnes (70 percent of the total) is 4C compliant, for a total increase of 48% with respect to the previous year 2013, when the 4C complaint tonnes where only 71 493 tonnes [101]

[101] Data are gathered from the 2014 Nestlé "Creating Shared Value Report"

3.6.3 The importance of coffee production in Kenya and related social issues

The coffee industry is key to the Kenyan economy. The country produces the best coffee of the Arabica variety in the world, that is the highest quality of green coffee that can be found to produce products. On average, every year the coffee industry in number counts about KShs 26 billion, that is almost the 10% of the agriculture income of the whole country[102]. For this reason, Kenya represents the leading global exporter of Arabica coffee, and the major country destination from an export perspective are the US, Germany, United Kingdom, Sweden and the Netherlands. The coffee industry represents the fifth foreign exchange earner after tourism, tea and agriculture. The coffee production system in Kenya is focused on the work small farmers organized in regional clusters, and the growers are rewarded with premium prices on the crop for high quality beans. The coffee production in Kenya also has a significant social impact on the population, given that it ensures the livelihood of about 60% of the Kenyan population, giving work to almost 6 million people, directly or indirectly. The coffee beans are wet-processed and classified by bean size, and a grade from AA to A/B is conferred in the classification.[103]

At the same time, the coffee production in the various Kenyan regions is compromised by a lack of social and agriculture infrastructure that diminished the quantity and the quality of the raw material, and in particular the high quality one, like the Arabic coffee in Kenya. In 2011 the company started to track some socio-economic problems that where affecting the coffee production in Kenya. The region represents a key supplier for Nescafé, therefore the application of the Creating Shared Value approach was critical to the company to ensure the continuous supply

[102] Data are gathered from the 2015 "Beyond the Cup, The Nescafé Plan; changing lives and enhancing livelihoods, a social perspective…"

[103] Data are gathered from the 2015 "Beyond the Cup, The Nescafé Plan; changing lives and enhancing livelihoods, a social perspective…"

of coffee from Kenya in the long run, as well as the welfare of the local communities. In particular, before 2011 and the Nescafé Plan, many small coffee farmers where losing interest in coffee farming, and many were dormant in their work. The reasons range from to low-profit margins, coffee berry disease (CBD) and low yield plant variety. Given this problems in the coffee production, the Kenyan small farmers where not seeing good opportunities in the work, due to a too low income generation. An additional problem was the supporting agriculture infrastructure in the area: the majority of the farmers were relying on age-old methods for farming and lacked the necessary technical knowledge to use the more modern practices. This sect of factors lead to a decrease in the coffee production, either for more lucrative occupations or to move to the urban centers for better opportunities, creating an aged farmer community. Aware of the importance of coffee for the country's rural development, Nestlé Kenya decided that it was good to intervene through the Nescafé plan both in the interest of the country, as well as in the interest of the company's supply of coffee reliability.

3.6.4 Implementation of the Nescafé Plan in Kenya

The Nescafé plan in Kenya has been established in 2011 in collaboration with Coffee Management Services (CMS). Coffee Management Services Ltd (CMS) is a leading agri-business service provider, offering farm management services to the coffee industry in Kenya and the wider East African region. Since 2006, CMS have worked hard to become a centre of excellence in agriculture financial services and promote sustainably grown coffee in all the regions[104]. The vision of the company is to be the

[104] Information available online at
http://coffeemanagement.co.ke/About/about.html#axzz3bXdvGe00

leader in East Africa about sustainable coffee farming and to assist the farmer access the coffee markets whose consumer demand for coffee grown using economically, socially and environmentally sustainable practices is ever increasing. Nestlé in Kenya worked in collaboration with CSM and a number of other stakeholders to create shared value by addressing the social needs of the country in a profitable way for the company, securing the long term supply of Arabic coffee from the small farmers of the country.

The Nescafé plan in Kenya is intended to offer to the farmers training on good agriculture production and processing practices, thus improving their skills, the quality of the crop and their final net income, as a consequence. Through the program, Nescafé is not only improving their capacity as coffee producers, but is also giving them the latest knowledge and better and high quality plant seeds to ensure the 4C quality approval. In particular, through heavy investment in Research and development, the company was able to give to the Kenyan farmers access to CBD resistant coffee seeding, namely Batian and Ruiru 11 varieties, that ensure the high quality and longevity of the coffee crops. This modern coffee seeding are provided to the small farmers at highly subsidized rates, thus solving at the same time the social problem of bad crops and lowering at the same time the cost charged on small Kenyan farmers.

In terms of economic coffee production, the objectives of the Nescafé Plan in Kenya are[105]:

- Improve the living standards for over 23,000 coffee farmers in the project
- Enhance the quality of coffee, resistant to the CBD disease

[105] List taken from: 2015 “Beyond the Cup, The Nescafé Plan; changing lives and enhancing livelihoods, a social perspective…”

- Increase the quantity of coffee produced from 2.5 kgs per tree to 7-10 kgs per tree on average
- Ensure the 4C verification
- Empower woman and youth to become leaders in the coffee sector

3.6.5 How does the Plan works: methodology

The Nescafé Plan project in Kenya include over 23,000 coffee farmers, divided across 9 Farmer Cooperatives Societies (FCS) and works in the following way:

1. **Establishment of Demonstration Plots**

Across the 9 FCS in different regions in Kenya, Nescafé has established 27 Demonstration plots where the small farmers take place in training sessions about coffee crop management. The topics that are analyzed during the sessions and that are learned by the FSC are[106]:

- Pruning, soil analysis, handling/de-suckering, canopy management
- Nutrition control
- Water conservation and techniques to maximize water utilization in the plantations
- Chemicals and pesticides applications, disease control and management
- Coffee certification of quality, especially about 4C

This demo plots help the farmers to use the modern agriculture techniques related to better seeding, to see the impacts on plant yield in real terms and to see the practical implementations in the plantations of the techniques they are thought during the training sessions.

2. **Training promoter farmers**

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[106] List taken from: 2015 "Beyond the Cup, The Nescafé Plan; changing lives and enhancing livelihoods, a social perspective…"

Once the small farmers are enriched with the modern plantation methods, they can act as promoters. The promoter project in 2014 counted almost 745 promoter farmers, out of which 159 are woman, and on average they carry out 290 monthly farm visits within their own FCS cluster[107]. The role of the promoter is of crucial importance for the farmers in their cluster that, due to high distances, cannot attend the training sessions in the FCS demo locations. The role of the promoter is to enable the transfer of knowledge by visiting on regular basis farmers in their cluster. The promoters are empowered more with respect to the normal farmers and are provided training at various agricultural institutions in their region .

3. Employing Agronomists

In addition to the promoters, to easy the transfer of knowledge the Nescafé plan also employs six mobile agronomist. The final aim of this additional employment is to expand the coverage of farmers training in the 9 FCS. Each agronomist is assigned to one or more FCS and his/her role is to closely assist the farmer in the implementation of the best practices, since they have attended a number of refresher courses in agricultural institutes.

4. Provide Coffee / Shade Tree Nurseries

As already explained in the previous section, one of the biggest social problem affecting the farmers was the diminishing crop yield due to plant diseases that were mining the farmer's final output, thus discouraging coffee farming in Kenya. For this reason, the farmers in each of the 9 FSC are provided with disease resistant (Batian) coffee seedlings. In 2014, the total amount of the Batian coffee seedlings distributed amounts to 238,593 to 9,015 farmers[108]. In the nurseries, the seedlings are provided

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[107] 2015 "Beyond the Cup, The Nescafé Plan; changing lives and enhancing livelihoods, a social perspective…"

[108] Data are gathered from the 2015 "Beyond the Cup, The Nescafé Plan; changing lives and enhancing livelihoods, a social perspective…"

at highly subsidized rates, and to a final amount of only one fifth of the normal price of the seedling available in the local nurseries. In this way, since the cost is lower, the input costs of farming are lower to the small farmers and the monetary benefits are higher also because they are cultivating better crops, of higher quality for which they are paid a premium and at a lower risk of incurring in plant diseases like the CBD.

5. Conducting Soil Analysis

Another role of the agronomists, together with the share of knowledge with long distance farmers, they have to collect samples of soil to assess the exact fertilization requirements in order to minimize waste and maximize plant output. The analysis of the sample is carried out in Kenya at the Coffee Research Foundation. The fertilization of the soil is essential to the farmers to grow a good harvest, therefore monitoring the result of the soil is key to the success of both the farmers and the company supply of green coffee.[109]

3.6.6 Women empowerment

One of the social issues pointed out before 2011, year in which the Nescafé Plan started in Kenya, was the women's exclusion from the coffee production and farming. The Kenyan culture and norms tended to marginalize the role of women in the rural communities and, as a consequence they always remained in the background and did not take any active role in working[110]. Since farming, as well as for men, may represent a great opportunity for the societal advancement of woman, as well as an increase in the pool of human resources in the coffee bean plantation

[109] Data are gathered from the 2015 "Beyond the Cup, The Nescafé Plan; changing lives and enhancing livelihoods, a social perspective…" p.11

[110] 2015 "Beyond the Cup, The Nescafé Plan; changing lives and enhancing livelihoods, a social perspective…"

for the company, Nestlé in collaboration with the CSM launched another project inside of the Nescafé Plan, namely the "Nestlé Gender Project" for improving the economic opportunities and social conditions not only of the woman but also of the young famers. In fact, both categories are sensible to be left out from the coffee production, even if for different reasons, and the final objective of improving the quality and the quantity of coffee can be achieved in both cases through the Nescafé Plan in Kenya. For this reason, a number of women and youngers are taken for each of the 9 cooperatives that are taking part in the Nescafé program and they are trained and participate to the demo session. The empowerment of women in the supply value chain represents a significant advancement in the CSV strategy in Kenya, and the aim of creating shared value is to increase the number to 1,000 woman farmers, with an increase from the current state of 5% in total to 33% by the end of 2015[111]. The role of the Nescafé plan for what regards the role of the woman in the Kenyan society is to improve their lives and to build their confidence to act as leaders in the coffee supply chain, to give them enough training about Coffee Certification (4C, Fair Trade, Rainforest Alliance and UTZ certified) and empower their future working life through basic business management trainings. In addition, Nestlé also wants to address harder topics for women, to improve their lives beyond the increase in net income and efficiency as a leader in the coffee production. For this reason, the Nescafé Plan in Kenya, in addition, encourages the woman self-knowledge about matters like HIV/AIDS skills and awareness. This additional training goes beyond the CSV concept per se, but it helps the further advancement of the social conditions of the local communities, and decreases the mortality rate caused by the disease. By the way, at the moment, there are no CSV assessment of the link between productivity of the workforce and economic commitment of the company

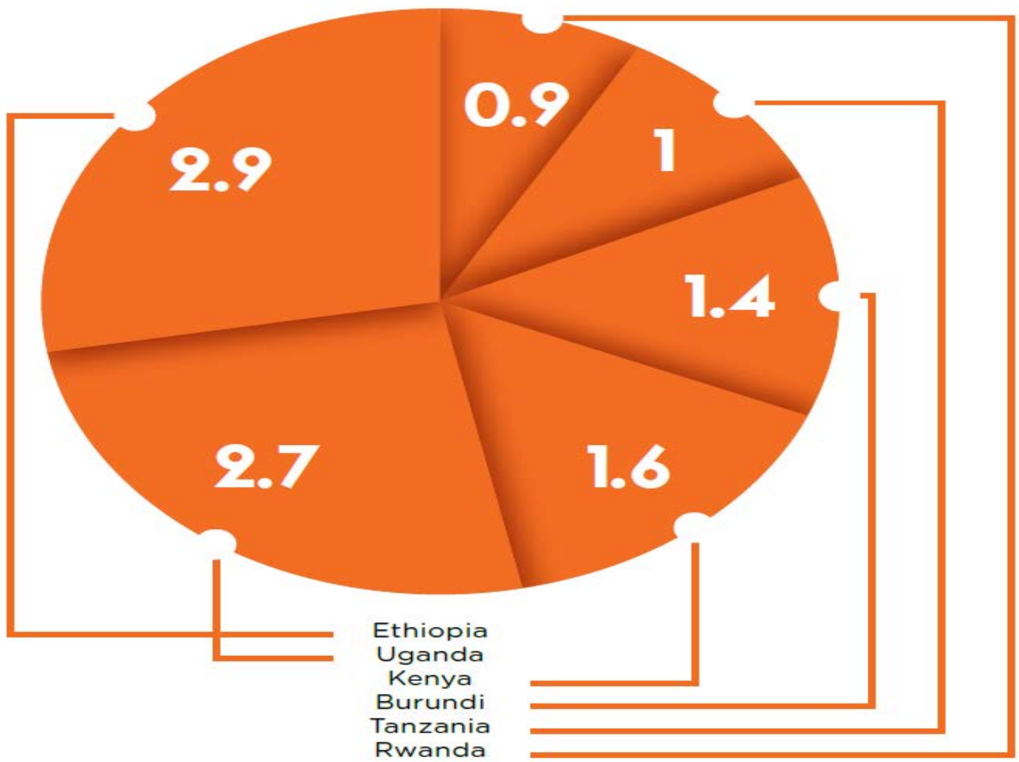
[111] Data are gathered from the 2015 "Beyond the Cup, The Nescafé Plan; changing lives and enhancing livelihoods, a social perspective…" p.11

to the Nescafé plan from a social perspective, therefore is difficult to quantify the effectiveness of this programs.

3.6.7 Measurability of the CSV efforts through the Nescafé plan in Kenya

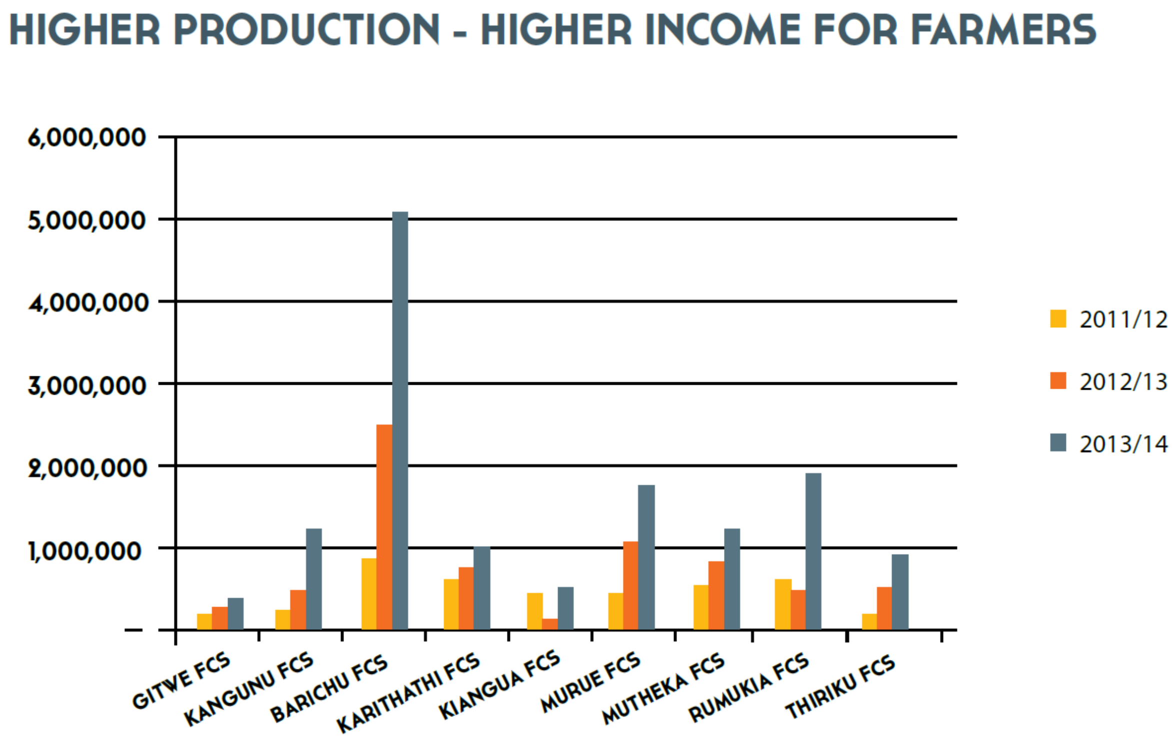
The measurability of the creating shared value efforts is important both for the company and the society. One the company decides to redefine the value chain activities to have more reliable and efficiency suppliers, under a CSV perspective it must also focus on the impact that this strategy has on their lives and on the improvement of the country's socio-economic conditions. The Nescafé Plan in Kenya was initially projected to last for three years, from 2011 to 2014, and thus for the company was crucial to measure the impact they have had on the Kenyan population. The Plan focused on improving the productivity of the local farmers by giving them better agriculture techniques, seedling, leadership experience and empowerment of women. But the expected outcome for Nestlé was more than improving productivity, and increase the quality of the coffee to a grade higher than 1.0 produced in a sustainable way according to the 4C Code of Conduct, but was also to improve their lives in general. In a study conducted in 2015 about the Nescafé in Kenya, the company wants to show how they really had an impact on their lives, and in particular on their income, as we can see in the Figure 3.8 and Figure 3.9 below

Figure 3.8 Women's percentage in Kenyan coffee farming (by region/ after 3 years of Plan)



Source: 2015 "Beyond the Cup, The Nescafé Plan; changing lives and enhancing livelihoods, a social perspective…"

Figure 3.9 Higher production-Higher income for farmers in Kenya (by region)



Source: 2015 "Beyond the Cup, The Nescafé Plan; changing lives and enhancing livelihoods, a social perspective…"

As we can see from the Figure 3.9, after the introduction of the Nescafé Plan in Kenya, the income of the 23,073 small farmers involved in the project has increased in all the Kenyan regions interested. In particular, a greater increase has occurred in the third year of the project, 2013/2014, as the small farmers got more confident with the new techniques and the system explained above started to work in a more fluid and systematic way. For Nestlé, as a company, the economic gain has not been measured in the same terms, but in the report the company explains how this CSV commitment holds the expected result of ensuring, in the long term, high quality, certified 4C coffee, solid producer relationships and a more efficient coffee workforce.

The thing that has to be noticed about this shared value project, and of the CSV approach in general, is that is not possible to quantify in money term the social impact in the region beyond the increase in productivity and income. On the other end, it is not even measured the economic income on the company of this Nescafé project. The lack of universally accepted measurements of the Creating shared value strategy beyond the classic indicators of performance or beyond the use of the case study approach, like in this way, is one of the biggest lack in Porter's and Kramer's theory. If we had to take literary the concept of CSV like it is presented in the 2011 HBR analyzed in the first chapter, than the company should carry out a CSV only if it is measurable in profits terms. But how is possible to quantify in profit terms the impact on the lives of the Kenyan small farmers? In the 2015 report/case study about the creating shared value strategy in Kenya, the impact on the farmer's livelihood, beyond the increase in income and productivity reported in the graph, is measured through the so-called story telling. One farmer from each of the Kenyan regions involved in the Plan has been interviewed to understand the impact of the CSV from a social perspective. The farmers explain the importance that the Kenyan Nescafé Plan had on their lives in terms of "coffee money". The Nescafé Plan for many of them has been a life saver, that enabled them to be more productive, sell more coffee and earn more money. Many explain, in the interviews, that thanks to the coffee money they've been able to put their children to school, pay for their medical needs and buy complementary agricultural elements, like animals or new utensils. But, still, there's no measure to like the social advancement of the country with the relative profits made by the company. In the case of Nestlé, the project had a huge cost in terms of initial investment, and even if it was not money worth, as a multinational company has the opportunities to amortize the investment (and short-term losses) in other parts of the world or with more profitable activities. But this reason cannot be said for SMEs with, even, no experience in internationalization. As already pointed out in the second chapter of this dissertation, measuring social and economic result may be the key to make the theory of CSV more than just a best practice to increase productivity of large (multinational companies).

CHAPTER 4: Creating Shared Value at Snam

4.1 About Snam: change in ownership and CSR background

SNAM was founded in 1940, when the "Ente Nazionale Metano" together with AGIP created the "Societè Nazionale Metanodotti" (SNAM) to start the distribution and sale of gas on the Italian territory through heavy investments in the construction and operation of pipelines in different Italian locations on the whole territory. During the II World War the role of this new branded company was crucial as natural gas was very important to the Italian energy use. In 1948 the pipeline network covered almost 257 Kilometers, until a final extension of 4,6000 in 1960 especially in the Italian Po Valley.[112]In 2009 SNAM Rete gas expands its operations by acquiring the complete control over other two entities, Stogit and Italgas, from Eni for a total amount of 4.509 billion Euros[113]. Through this acquisition, the company has created a new group leading the operations in the regulated gas sector in Italy, the biggest in Europe for investment capital according to the regulatory purpose or RAB (regulated asset base).

The year of change came in 2011, when the SNAM company, previously under the control of ENI, faced a change in ownership. Cassa Depositi e Prestiti (CDP) acquired the 50% control over the company. The separation of ownership led to the creation of an autonomous entity separated from ENI, that previously used to have the control over all the company's operations and stakeholders. The Government itself imposed the creation of two separated legal entities. This change in the ownership structure in SNAM in 2011, was of critical importance also for its efforts and

[112]Data taken at: http://www.snam.it/en/about-us/history/
[113] Data from: http://www.snam.it/en/about-us/history/index_4.html

management configuration as socially responsible company. In 2011, the company had to reorganize the internal operations also in terms of Corporate Social Responsibility (CSR) department, that was previously under the ENI's control. The reconfiguration led to an initial creation of a sustainability department function called "salute e sicurezza" in 2011 and a system of relations and communication of sustainability inside of the company as a "transversal" function across all the SNAM's operations and internal departments. In addition, starting from 2011, the company starts to publish some separates sustainability reports.

The new SNAM is a well-structured company, for which sustainability represents an integral part of, to better say, an integrated and transversal approach that is part of the business strategy of the company itself. The sustainability plans are well-defined by processes and have defined goals, and they interact with all the components of the value chain, and this is an important characteristic of the new company created.

One of the major new feature of the sustainability plan is the willingness to interact with all the stakeholders of the company, both by increasing their efficiency and through transparency about their activities. For this reason, the company CSR department decided that it was necessary to improve the external communication and they started to carry out the external reporting according to the guideline of the GRI G4.

Another important factor to consider at the time of the change in ownership was the social dimension of the company: according to Domenico Negrini, head of the CSR department in SNAM, at the time of change in ownership the connection between the company and the society and territory was very weak, mainly because together with a change in ownership, there has been also a change in stakeholders, previously managed by ENI.

All the above considerations, led the company to re-read their operation and its value chain by restoring the link between the company and the society

4.2 SNAM approach to CSV: a type of SUSTAINABILITY 2.0

The recognition of the importance of the relationship between the organization and the territory plus the re-organization of the CSR operations led the company to a renewed reflection about their outstanding position.

The output of the reflection was, according to Domenico Negrini, that it was not possible anymore to have a simple approach to CSR, but they took the main concepts developed by Porter and Kramer in their 2011 article and they simplified it at an extreme.

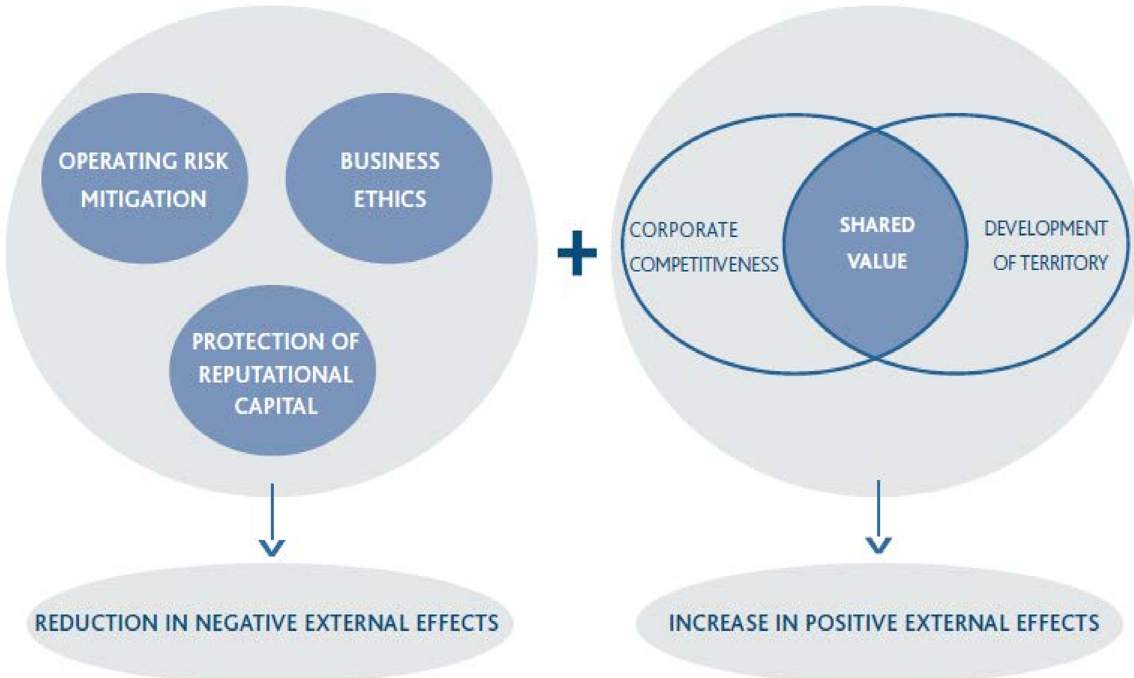
The main reason is to restore the existing link between the external competitiveness and the internal patrimony and asset heritage, both tangible and intangible.

For this reason, as it happened also in the case of Nestlé, the company asked to a consulting company of Milan, Avanzi, to reconsider their efforts in Corporate Social Responsibility (CSR) under a different perspective, that was able to strengthen the outside linkages with the territory and society. The collaboration between SNAM and Avanzi let to the publication of an official report about the CSV efforts called “Toward shared value” (in Italian “Verso Il Valore Condiviso”). The first edition was published in April 2012, year in which the change in ownership and CSR direction has right happened and the year after in which the concept of shared value was presented as a novelty by Kramer and Porter in the Harvard Business Review.

In the Snam's shared value report all the key aspect and considerations about the Creation of Shared Value are explained. Shared value for SNAM, is a new lens through which the company wants to read its efforts in terms of sustainability.

The willingness to adopt the shared value for SNAM is to reach a "Sustainability 2.0" that enables the company to reinterpret and renew the key concept of being a sustainable company. The fundamental aspect for such a business strategy is the recognition, as a company, to be in a leadership position in the Italian regulated gas market, and thus the development of a Sustainability 2.0 through the innovative concept of shared value is integrated with the more consolidated approach to CSR that not only protects the company for operational and reputational risks, but that also offers a competitive advantage to both the company and the territory in which it operates. In the Figure 4.1 below, we can summarize the initial change in direction from simple sustainability, intended as the reduction of negative externalities, to a more evolved model, that comprise at the same time the reduction of negative externalities on the company with the concept of shared value, through a deep link between the company and the territory, that increase the positive externalities. Sustainability 2.0 is intended to leverage the leadership position and the natural monopoly in the Italian market to create better opportunities and shared value for all the stakeholders of the company.

Figure 4.1 SNAM and SUSTAINABILITY 2.0



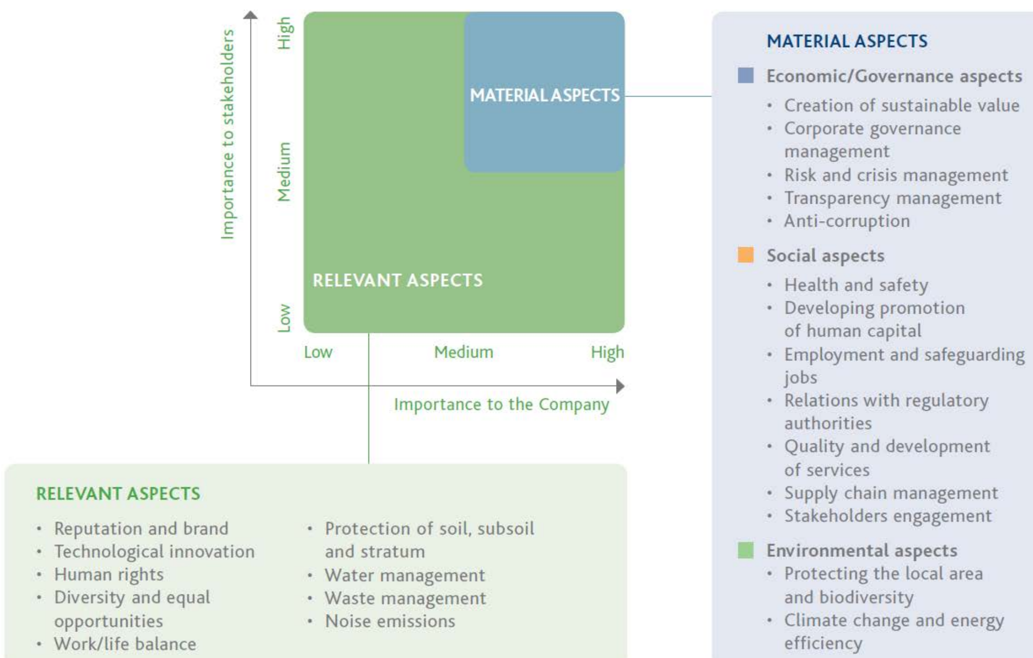
Source: SNAM, "Toward Shared Value", April 2012

To Domenico Negrini, the concept of shared value mixed to sustainability seemed the one that better fit the company's business strategic and CSR efforts.

4.3 Identifying Shared Value: the materiality analysis and material grid

As in the case of Netstlè already presented in the previous chapter of this dissertation, in 2014 also Snam in 2014 conducted a materiality analysis as an interpretation that enhances the company's sustainability strategy. The study has already been carried out informally in the first months of 2012, but in 2014, in response to the new guidelines of the GRI G4, Snam has updated the materiality analysis to focus on areas of greater impact for both the importance to the stakeholders and the importance to the company. The important issues, as in the case of the multinational Nestlé, are the result of an outstanding mix of the suggestions by the stakeholders and the company's management point of view. The 2014 materiality analysis is reported in the 2014's sustainability report called "The Value of sustainability" under the form of a "material grid" reported in Figure 4.2 below. The materiality analysis was submitted to the GRI and obtained the Materiality Matters.

Figure 4.2 Snam's Material Grid



Source: SNAM, "The Value of Sustainability", 2014

4.4 Implementation of CSV in Snam: The Four Capital Model

The main question that the company asked itself was, according to Domenico Negrini: "What do we have as a company, in terms of both tangible and intangible assets, that can be put at disposal of the surrounding local cluster and the territory?". Only if the company is able to answer to this question as a leader is possible to leverage the whole know-how and reconfigure the activities and productivity along the value chain.

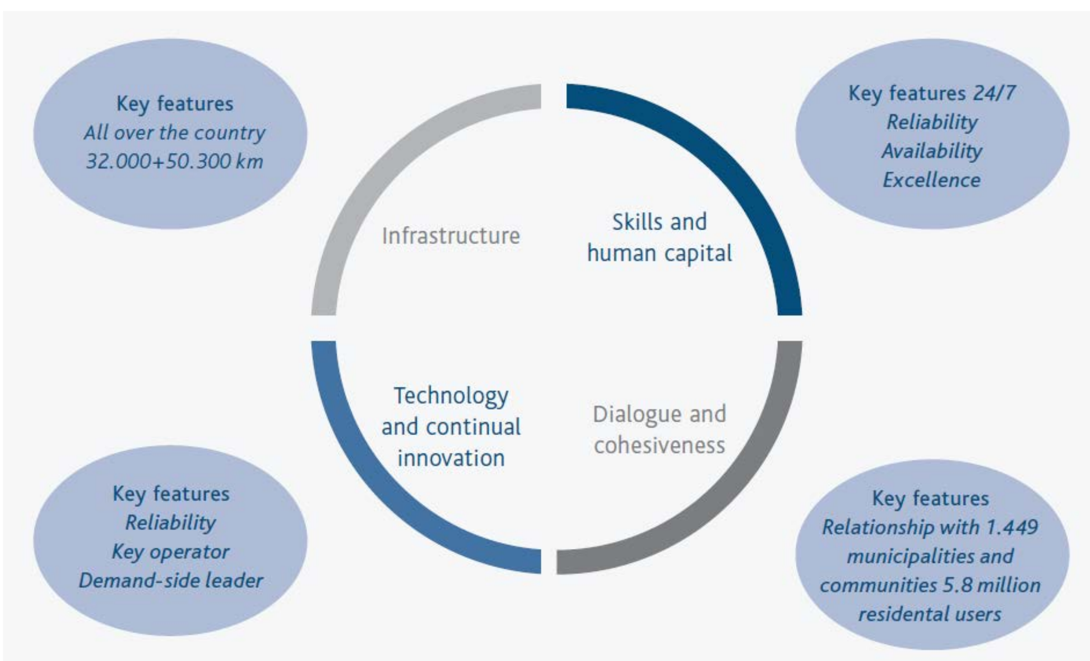
But this is not the only question that the company has to ask itself in order to be ready to create shared value, or sustainability 2.0. Other key questions are: "Does sustainability interact with all the activities along the value chain?"; "Does the company see sustainability only as a defensive mode to protect value and limit the risks associated with operations and reputation, or is it a source of value as a driver of innovation?"; "Does the company contributes to ensure a system of governance that is fair and efficient in general by participating in the draft of the rules implemented by the lawmakers and public authorities?. For Snam , creating shared value and implementing a sustainable 2.0 business model doesn't mean only to be a leader in the regulated gas sector, but also to answer in an affirmative way to all the previous questions.[114]

For this reason, it was of fundamental importance for the company to analyze what they have in terms of tangible and intangible assets to identify potential shared

[114] SNAM, "Toward Shared Value", April 2012

value project, The initial steps was to identify those assets that are more relevant to both the company and that provide, at the same time, added value through their operations t the stakeholders, as we can see in figure 4.3 below. According to Domenico Negrini, is of fundamental importance to carry out an analysis of the company from both an asset and stakeholder perspective to be able to create value for all, and to be accepted as a company by the territory in which it operates. This is particularly true in the case of Snam, that has pipelines and other mechanism all over the Italian periphery, therefore is of fundamental importance to restore the link with the territory and society such that there is not going be discontinuity in the operations of the company. In particular, if the company is not in a good relationship with the territory in which it operates, as pointed out by Domencio Negrini during the interview, it can emerge a complexity in organizing and building the core activities of the company on the territory.

Figure 4.3 Snam's assets for value creation



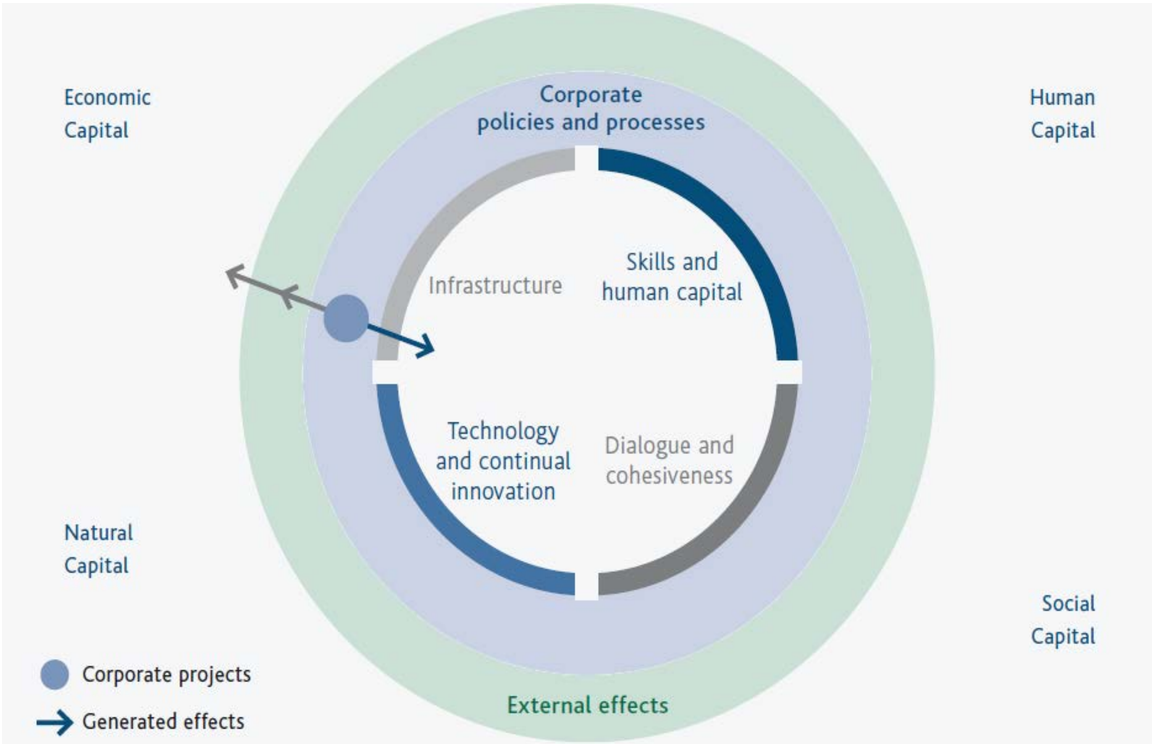
Source: SNAM, "Toward Shared Value", April 2012

As we can see in the figure, the company thanks to its distinctive elements and corporate assets, is able to define the manoeuvring room of the company for the creation of value for the stakeholders and the company. The four assets that are represented in the picture represents the core business of Snam, and according to M. Porter and Kramer, the CSV strategy should be built around the core business. For this reason, according to this 4 assets, or levers, the company has intended to interpret the subject of shared value.

The interaction with the external environment according to the 4 capital that has been identified is very important and it can have a significant impact and effect on the local assets. To supplement the methodological approach, the company together with the help of the consulting firm Avanzi, has chosen to interpret the local areas using the Four Capital Model, which identified a capital inventory in the said local area, identified as four assets, conceptually mirroring the four assets[115] described in Figure 4.3, as we can see in Figure 4.4 below.

[115] Source: SNAM, "Toward Shared Value", April 2012

Figure 4.4: Snam's Shared Value Model according to the Four Capital Model



Source: SNAM, "Toward Shared Value", April 2012

In theory, as we can see in the picture, for the company the potential CSV projects are framed at the intersection between the core business of the company and the external environment and society. In this way, the shared value for both can be maximized.

The Four Capital Model is a new framework for evaluating sustainable development. It was proposed and experimented by a broad-based research commissioned from a network of European Universities and research institutes by the Directorate-General for Regional Policy (DG REGIO) of the European Commission[116]. The Four Capital model is a way to carry out an ex-ante evaluation about the relationship of the

[116] DG REGIO, The contribution of the structural funds to sustainable development, Bruxelles, 2002

company with the local representatives and to the identification of objectives and responsibilities. There are, for this reason, four areas of measurement: the economic capital, that comprise the capital available in the local community to produce goods and services and its relative well-being; the natural capital, that is a fundamental element for the deployment of Snam's operations and that is measured according to classic indicators like CO2 emissions, energy and gas consumption and waste management; human capital, that refers to the general well-being of an individual or a group of people related to his potential productivity, the local cluster can be empowered by increasing the level of general education about topic subjects, health and working skills; social capital. In general, a local cluster is considered as sustainable if the general system is not in decline over one of the capitals jest explained.

Therefore, after the implementation of CSR as CSV, the company has faced also a redefinition of its mission, that identifies as the main aim of the Snam company as

> *"the creation of value capable of meeting shareholder expectations, achieved by providing services to its customers under conditions of the utmost safety and reliability and ensuring the development of infrastructure and the flexibility of the gas system in Italy, in support of the development of competition and security in the supply system. The Snam group pursues a model of sustainable growth over time, centred on careful evaluation of environmental impacts and on the development of new and more efficient technologies. In order to successfully achieve its objectives, the entire group wagers on the wealth of skills of its people and their continual honing"*[117]

[117] *Source: SNAM, "Toward Shared Value", April 2012*

4.5 Shared Value in key processes

To continue the sustainable development of the company, Snam aims at maintaining a shared value vision along all its value chain and core activities, that are the transportation, dispatching, regasification, storage and distribution processes. Since the change of ownership, the company has implemented a number of potential CSV projects of different size and involving different amount of stakeholders. In particular, some areas have been mapped as major current and potential areas of CSV generation: the relationship with suppliers, the making of new investments, sites and infrastructures management and management and provision of services[118]. This represents the major stakeholders that the company has committed to create shared value, thus they have to be well managed to create the greatest potential.

4.5.1 CSV and Snam suppliers: the suppliers portal

According to Domenico Negrini, the company is highly committed to maintain real the efforts in sustainability. Every year, up to 2014, the company is awarded with the Down John Index prize for sustainability, and this represents a big achievement. By the way, as time passes, a sustainable company always has more responsibilities also in terms of managing the third party suppliers. The majority of the suppliers of Snam are unique small and medium companies, for whom the maintenance of sustainable process can have a significant impact on their cost structure. In a shared value perspective, to ensure the continuity of supply to the company and empower the suppliers, the company decided to implement a digitalized system called the Suppliers Web Portal. Through this portal, the company commits to create shared value through a substantial transfer of knowledge to its suppliers. In addition, every

[118] *Source: SNAM, "Toward Shared Value", April 2012*

years are organized events with the suppliers, called the suppliers day, in which sharing ideas between the company and its suppliers is considered as a source of competitive advantage and enhancement of the sustainability efforts.

CHAPTER 5: An interview with Giovanni Pizzochero

5.1 About Giovanni Pizzochero and Avanzi

Giovanni Pizzochero is a 34 years old consultant and project manager/senior consultant of the consulting company Avanzi, the only Italian consulting partner listed in the Shared Value Initiative FSG website for the Creation of Shared Value. After a degree in Philosophy & Letters and in Political Sciences, his working experience rages in some of the most important consulting firms in Italy about sustainability development and Corporate Social Responsibility (CSR). Despite being a journalist, his main field of research is sustainability reporting, stakeholder engagement and evaluation and planning of strategic CSR.

Avanzi, located in Milan, was founded in 1997 and its mission has always been to "become an independent and credible player in the field of sustainable development"[119]. It offers services to different types of clients about CSR, corporate philanthropy, social enterprise, sustainability, social innovation and in the last years also about Creating Shared Value. I had the great honour to share my ideas about the topic of my research and to conduct an in-depth interview with Giovanni Pizzochero. His opinions about shared value are of significant importance for me and for this dissertation. The first reason is that Avanzi has been the first consulting company in Italy to help companies in approaching Porter and Kramer's theory of shared value, like in the case of Snam in the previous chapter; in addition, it must be said that in my opinion it is very important to understand the point of view of a consultant about shared value as the same authors Porter and Kramer are consultants themselves about this topic, like in the case of Porter in the case of

[119] More information about Avanzi at: http://www.avanzi.org/english

Nestlé. The second reason is that some Avanzi representatives often they take part in the CSV meetings with leaders and thinkers that take place all over the world every year. These are very importing occasions for sharing ideas about the roles of the enterprises in the society and the creation of shared value to address future researches and efforts in the next years. They took part to the 2013 event in Boston but not to the one that took place in New York City in May 2015, but they are constantly updated about evolutions and extensions of the theory.

5.2 Strategic CSR and Shared Value

The first question that I decided to ask to Giovanni Pizzochero is to give me his own definition of strategic CSR. The main reason for asking this question is because, as we have given evidence in the second chapter of this dissertation, is that it seems like there are significant conceptual and practical overlaps between strategic CSR and the concept of Creating Shared Value. In particular, Creating Shared value seems like picking from the same boxes of CSR, but with a deeper development of the reasoning about the solution of social needs. Giovanni Pizzochero's basic premise is that, hopefully, in the future we will not talk about strategic CSR or shared value anymore. Hopefully, but this is more an utopia, companies in a few years will include the strategic CSR plans or shared value not as projects, but as a process made of practices that are totally integrated in the industrial plan of a company and that are so natural and implicit that we don't have to give them a name as we do now. At the moment, we talk about strategic CSR as a set of actions on objectives of a company that are measurable and that create an impact, and that are integrated to the core business of a company and act in harmony with it. We can call it in several ways, including shared value. We can consider strategic CSR as a moral value, like to say "every morning, when you wake up, you have to behave in the good way", as something that is integrated in everything you do, and in every action you carry out as a company. The company should carry out their businesses with the basic assumption, first of all, of the compliance with the "normative and public regulations" that are all the explicit rules that are at the base of every business environment and the base of any strategic CSR strategy or shared value strategy. This have to be stressed because, according to Giovanni Pizzochero, many times the companies have some very well developed plans for strategic CSR, but then the whole system falls because of the non-compliance with the normative.

To sum up, we can define strategic CSR as the set of normative, actions that are taken in the direction of creating value and that are totally integrated in the core business of any enterprise.

After, I asked to Giovanni Pizzochero which are the main reasons for implementing strategic CSR in the perspective of a company. As also in the case of shared value, they are carried out for several reasons, and one of them may be the reputational aspect of the business. According to Giovanni Pizzochero, companies do implement strategic CSR or shared value as a reputational driver in most of the cases, as long as for them the reputation is an intangible asset. Nowadays reputation has a "tangible value" between 3 and 10 % of the total, but is not easily measurable, and the value vary in wide rages of percentage of total intangible value, such that is not possible to define exactly how actually strategic CSR has an impact on reputation. If strategic CSR does contribute to it is good for the company, but actually we are not talking only about it. And we should not even talk only about it.

For how we see strategic CSR and shared value today, there are many failures because not all the activities are seen according to a more holistic approach to business. For example, we are not restoring the link between company and society if by one side you are creating value for the employees by creating a good environment and thus increasing their efficiency, or you are decreasing the packaging of your products thus the company is creating value in terms of costs and environment, if at the same time you are exercising, as a big company, excessive bargaining power on the suppliers to achieve that.

Give this definition of strategic CSR, and the conceptual overlaps with creating shared value, the question is how it is possible to differentiate it from a conceptual point of view from the one of shared value. In their work, Porter and Kramer express their opinion that shared value actually should supersede CSR, but actually there are some considerations that are necessary to consider in both cases about the real role of companies in the society.

5.3The social need resolution and limits of action

The main change in the thinking seems like being the definition of the social need . According to Porter and Kramer, the social needs are almost everything because they don't give a real definition of it, and they range from pollution to working conditions, to lack of good and supportive institutions at the BOP to drive their development, to the fact that the employees smoke and thus decrease their efficiency. But in reality, there are some social need there are some primary and some that are secondary. It is the purpose of the company that defines the difference and the sphere of action of the social action.

When the company follows a shared value perspective, for example, by reducing the packaging of the products, the social purpose is not integrated in the enterprise purpose, and this should be the right way of creating value for both the society and the company. The company is very focused on what we do, for example reduce the packaging, but less in “how you do it” and “why you do it”. Nestlé for example, through the Nescafé Plan, wants to ensure the continuity in the future of Arabica coffee supply for the company, but in the purpose of doing it there is nothing of social. Of course, by carrying out the Nescafé Plan, the company is creating social value, but it does not stems from a social perspective, but from a pure economic perspective, that is to ensure that the company will always have some farmers that produce the raw materials that they need and will need in the future years. At a macro level, it is very good that a company like Nestlé do operate in Kenya where the government is not able to provide to his population the right economic and social institution to support them, but at a micro purpose level, the need does not stem from the Kenyan society situation, but rather from the economic need of the multinational company to secure the coffee supply chain. If there is not a social purpose in what the company does, like also in the case of Creating Shared Value in Kenya, then the limits of the system can be worse than the problem itself. The Creating Shared Value project in Kenya is creating a system of mutual dependence between Nestlé, the multinational company, and Kenya, the country that lacks economic and social condition to prosper in the long run as conglomerate of small coffee farmers. But the double link between the company and the Kenyan society is not balanced as long as the main driver of action for the resolution of the social need is the economic purpose and not the social purpose. If in, let’s say, ten years, the Arabica coffee that is produced in Kenya will not be the main raw material used in the coffee production in the future, then Nestlé will not have incentives anymore to operate through the Nescafé Plan for the resolution of the social need of its population, and this limit can create consequences that may deploy in living conditions actually worse than 2011 and before the implementation of the Nescafé Plan. The company in this case, through the Nescafé Plan is substituting the role of the government that is not able to improve the living and social conditions of its population, and in fact they collaborate with local non-profit entities to implement their work. When the Kenyan market will not represent the key of the Arabica coffee production anymore, they will just leave it, because they are not the Government, in the end, and the economic purpose will supersede the social purpose.

One of the main strength that are expressed by Porter and Kramer in their work is the long term perspective that shared value has with respect to the traditional CSR practices. But this long term perspective is expressed only in term of the company, and not of the society, as in the economic purpose the society still remains subordinate to the economic purpose. According to Giovanni Pizzochero, the key of a successful long-terms social action, either called shared value or strategic CSR, is the definition of the social purpose of what you do.

5.4The main drivers to approach shared value

The first main driver for the companies that ask to the consulting companies like Avanzi to approach the shared value concept is a re-launch and re-evaluation of the CSR strategy according to a new parameter, that is the creation of new value for both the company and the society. In the case of Snam, for example, the main focus was on re-considering the relationships between the company and the territory in which it operates under a new perspective of value creation. In that case, the main driver of shared value was to give a more "of impact name" and a re-renewed and deeper approach to the already existing sustainability practices of the company.

Thus the CSR activity interpreted under a shared value perspectives are not anymore those activities that uses, or waste, the money of the company and usually called philanthropic CSR, but something linked to the strategy and to the generation of value to the business.

According Giovanni Pizzochero, for the consulting company in charge of envisioning this new approach, this is a major effort because they are not asked anymore just to decide to which humanitarian association to devolve a certain amount of the company's budget, in a ore philanthropic way, but is rather about integrating a certain amount of social considerations in the company's production.

Analyzing this initial considerations about CSR and shared value and their drivers for approaching the concept, we can say that shared value helps to better address the CSR's efforts in the direction of creating a greater amount of value for both the company and the society.

The second driver, instead, is the conviction that the concept of shared value allow the consulting company and the company to reconsider some assets that are part of the company's heritage and that are not fully used in their capacity, and that do have a cost to the company. In a shared value perspective, is possible to make profits out of it, in the indirect form of reduction in expenditures for their maintenance and decreasing their opportunity cost. Basically, according to Giovanni Pizzochero, it is possible to extract some kind of both economic and social value from their renewed and under-utilized assets. An example of this is the very famous "Car-to-go" that we can see in all the major Italian cities, including Rome. Car to go can be considered as a real case that in some sense fits the concept of creating shared value, but of questionable resolution of social need. The origins of Car-to-go stems from the fact that Daimler use to have a stock of Smart cars not utilized because of the car industry crisis. So, the question under a shared value perspective is how to re-use this asset to solve a social need? For this reason they created a new service that Porter and Kramer would say to have "redefined products and markets" and "redefined the activities along the value chain" by solving the problem of the mobility downtown in the Italian cities. But is it really a social need that can fall under the category of shared value? Porter and Kramer do not give an explanation about it, such that almost all the categories of the population need can fall under the shared value category.

5.5 The Marketing of Shared Value

According to Giovanni Pizzochero, and also in my personal opinion, creating shared value, as conceptualized by Porter and Kramer, for sure has a big potential for the business community's new discussion about the role of the business in the society. What it is important to understand is whether this potential lies more in the "Porter effect"[120] and in the power of the concept as it is written in the article, or if has evident success in the reality as a method implemented by the companies to reconnect and better create profits that have a social value. The 2011 seems like a re-branded theory of what Porter has previously written about the competitive advantage diamond model, the Porter's Value Chain, strategic CSR (2006) and enabling the local clusters (2000). In my opinion, as long as the same old ideas are used to create value for the society and to open once again the debate around CSR, is good to be so.

The shared value concept has a very big communication impact, in particular in the American community. In fact, if we search on the internet for implementation of the shared value strategy, almost the totality are American multinationals like Unilever, and the reason lies in the fact that American and Europeans have two different vision about CSR. If we have to quantify how many company used in Italy the concept of shared value they are really a very few. But the marketing company used to marry the concept much more than he consulting companies that helps the companies in the industrial plans for CSR, and this is because they recognize the

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power of the origin of shared value, that is Michal Porter. The reason is that it "sells" as a concept, but is not such a novelty contribution as it is presented in the paper. Just to give an example, the plan of social action and sustainability of Nestlé and Unilever is almost the same. They are both committed to development of the environment and the business in a way that is strongly anchored to the strategy of the company. But while Nestlé calls everything what they do "Creating Shared Value" (CSV) and it is seen as a real operational strategy, Unilever does the same but it is simply called the Unilever Sustainable Living Plan (USLP). Between CSV and the USLP there are not substantial conceptual differences, there are differences in the implementation of the strategy, but this exists also in the set of companies that married the concept of shared value and decided to design some projects for it, for example at the Bottom of the Pyramid. Porter and Kramer, in fact, define the 3 levels of shared value (reconceiving product and markets, redefining the productivity in the value chain, enabling local clusters) but then they do not define a strategy or implementation plan, such that is not possible to distinguish CSV from other approaches like the USLP.

5.6The problem of measurability

As we have seen in both the first chapter of this dissertation and in the case study about the Kenyan Nescafé Plan, a universal method for measurability that link the economic and social performance in a shared value perspective does not exist, or at least not yet. For this reason it was in my intention to ask to Giovanni Pizzochero how important is to be able, as a company, to measure the costs and benefits related to a certain CSV or strategic CSR strategy. The business community is actually working on the implementation of an integrated business model, but also according to Giovanni Pizzochero, we are still far away from the full accountability method for social and economic impact at the same time. In their work, Porter and Kramer do not give any indicator of performance that can better fit Creating Shared Value, and for the potentiality and implementation, the “case study method” still represent the most used parameter of performance. At the moment there are a lot of models that could be used to measure the social impacts (for example the Social Return on Investment SROI), but all of them are full of controversies and used for the classic CSR approach, and this is another hint that makes us think that in the end they are not that different.

One of the major problems, in particular of shared value, is how to measure the impact of a shared value strategy from both an economic and social perspective.

5.7 Hypothesis for the future: CSV, strategic CSR or something more? The idea of an enlarged Governance

To make more concrete an analysis of shared value, and its potential, it is necessary to try to define some hypothesis for the future. For this reason I formulated 3 possible hypothesis for the future of Creating Shared Vale concept and I asked to Giovanni Pizzochero to give me an opinion about which one is possibly going to be the most likely in the next years. This hypothesis may be useful also as starting point for future research about the evolution of shared value in relation to CSR and other best-practices in the social entrepreneurship world. Also, given the success of Porter’s earlier works, it may be useful to understand whether this theory will have the same impact on the economic studies, according to Giovanni Pizzochero and mine’s opinion.

The three hypothesis that I formulated are as follow:

Hypothesis #1: In the future, Creating Shared Value will supersede CSR as operating strategy with a social and economic purpose, but only for (American) multinational companies, like Nestlé, that have the right economies of scale and expertise of internationalization to drive major innovation through shared value projects

Hypothesis #2: In the future, Creating Shared Value will supersede CSR as an operating strategy with a social and economic purpose, if and only if it will be implemented the right method of measurability that directly link the economic and social benefits related to a given CSV plan, in a clear and standard way, giving more incentive to the companies in investing in CSV

Hypothesis #3: In the future, CSV will represent a new management thinking that elevates the social objectives to a more strategic level and that lead to the creation of a company's social mission, but the implementation will remain subjective to the individual company, either called CSR or CSV.

According to Giovanni Pizzochero, none of this three hypothesis will represent the actual situation in the future, even if the hypothesis #1 is probably the more likely to happen, while he hopes that the hypothesis #3 will lead the future as general thinking that drive some social benefit through the core business. The reason for the Hypothesis #1 is that big multinational companies will find some opportunities to secure some activities along the value chain through some shared value projects.

According to the opinion of Giovanni Pizzochero, today the general thinking and perspectives about the social action still remain closed in the vision of the business as in 1970, when Milton Friedman postulates that "the social responsibility of the business is to increase profits". The problem of all the three hypothesis for the future is conducible to what we already said in this earlier part of the interview about the purpose of the company. As long as we continue to think about what the company does and not how and why it does something, so starting from an economic purpose and not the social purpose, the future will not see the proliferation of the three hypothesis.

According to Giovanni Pizzochero, it is necessary to take in consideration once again Freeman's "stakeholder theory" of the business (1984), and only in this way the company will actually have a social purpose. How can the stakeholder theory once again be taken in consideration to really reconstruct the link between business and society?

According to Giovanni Pizzochero, the whole system could be implemented starting from the extension of the system of governance inside of the multinationals and businesses in general. As we have seen in the Nestlé Creating Shared Value example, this multinational company already went one step forward by introducing the CSV Alignment Board and the Nutrition Council, but in reality this is not enough to give to the company a social purpose. The Nutritional council and the CSV alignment board are made of experts in different field of humanistic studies, but still they are external to it and to the social problem they talk about. As in a Democratic system, we have representatives of all the stakeholders through the politic representatives in the Parliament, according to Giovanni Pizzochero (and other professionals like Stefano Zamagli) also in the Governance system of the companies there should be representatives of the stakeholders. There are different ways in which this engagement can happen and with different levels of involvement. So, as long as we have in place a system of representatives in a democratic system, in the same way there should be a system of representatives in the enterprises. When we talk about the stakeholders of the company, they can be the employees, the citizens, the suppliers and even the "future generations" as hypothetic stakeholder, or local associations etc. Until they are not given free of speech in what the enterprise does, how can the link between society and business really be restored, as said by Porter and Kramer? If the stakeholder remains outside of the governance, how can the company know which is the real social need that is necessary to be addressed through its core business? When we talk about, for example, reconceiving products and markets, in reality the company is not acting with a social lens to solve the actual social needs, but is looking for gaining competitive advantage. This is marketing and not acting with a social purpose.

The three hypothesis for the future, thus, are not going to happen according to Giovanni Pizzochero unless the Governance of the enterprises is not amplified. Nestlé and Snam, as we have seen in the previous chapters, actually do communicate with the stakeholders extensively, through events, interviews and other channels, like the Snam Suplier Day or the CSV Forum, but we have to notice that they always do that after that the strategy has been defined. The system of extended governance to the stakeholders should allow the company to engage in a structured system of cooperation in which the strategy is a process of co-design and joint planning between the company and the stakeholder.

For Giovanni Pizzochero, the future of CSR or Shared Value lies in what we he calls "Co-determination and Cooperation" through the inclusion of both who is inside and outside of the enterprises, the enlarged corporate governance or the co-design of products and services, the sharing economy and the re-use of costly and under-used assets, social innovation and start-up.

5.8 The problem of budget: the oxymoron

As we have discussed in the previous section, even if we hope that in the future we will talk about cooperation, the hypothesis more probable is still the hypothesis #1. The reason is that big multinational companies that have the capabilities to re-read the value chain will find out opportunities for projects Shared Value Creation. But projects of shared value creation is itself an oxymoron. In their work, Porter and Kramer define as the main distinction between CSR and CSV the fact that, while for CSR it is assigned a certain budget to the project, for CSV the budget is not defined as it is totally integrated in the company's strategy, as we can see below in Figure 5.2.

Figure 5.2 Porter and Kramer's difference between CSR and CSV

Source: Michal E. Porter and Mark E. Kramer, "How to reinvent capitalism- and unleash a wave of innovation and growth", Harvard Business Review, January-February 2011

But if we look at the reality, as we have seen in Chapter 3 for the Nescafé Plan in Kenya, the Plan intended as a global plan do have a budget that span over a number of year, and that is reported every year in the company's CSV annual report. If the company does not have a social purpose and does not engage in a real governance with the stakeholders, the budget for the creation of shared value cannot be unlimited, as the social dimension does not span over the whole activities of the value chain.

For this reason, since CSV should not even a budget, the examples of Nestlé and Snam does not really represent pure examples of shared value as intended by the authors. The difference between the two, obviously, is that Nestlé is a multinational company that is already one step forward to many other companies, and they have redefined the mission of the company to create shared value. But still, even if they have a multitude of CSV projects and forums all over the world, we cannot say that there is not a budget for them, because shared value is not perfectly implicit in what they do yet. For this reason, Giovanni Pizzochero defined Creating Shared Value as a best practice, that surely creates value for the company and the society in some way, that is still company -centred and not society-centred and that, as a best practice, could be substituted by other CSR projects or other options. The hypothesis that really CSV will not have a budget will be fulfilled, according to Giovanni Pizzochero, when as we said we will not talk anymore of CSV or strategic CSR because the social purpose will be implicit in everything that the company does.

5.9 Conclusive reflection about Creating Shared Value

According to Giovanni Pizzochero, as an idea and from a conceptual point of view, Creating Shared Value has a very good potential, but it did not had the hoped success, at least in Italy. If we look at the following literature, the majority is about real case study of the implementation of American multinational companies that found new opportunities for profits with different activities. And they are even less the company that had a more integral approach to CSV, in the sense that they redefine the mission of the company with a social mission, like in the case of Nestlé and Snam that we have seen. In Italy, for example, the use of the term “shared value” is very low, but it doesn’t mean the company does not have in place effective practices of strategic CSR that are able to reconceive markets and society

I proposed to Giovanni Pizzochero a possible conclusive reflection about the concept of shared value, and he agreed with me that it can be a good final thought that may stimulate future researches on the topic. The shared value approach represents a very good try to reconceive markets and society with a renewed link between the two, that starts with the vision of Friedman about the business, who affirms that the “social responsibility of the business is to increase profits”[121] of the 1970, and not with Freeman and the so called “stakeholder theory”. This stresses once again how the shared value perspective is given as having a real social perspective, but then the company address all those social needs that are “useful” under an economic perspective for the company. The reasoning should start from the holistic approach of Freeman’s “stakeholder theory” and not from Friedman, and shared value tries to find a way new legitimacy to the business that has a social purpose, but always with a very strong focus on profit maximization and less on the stakeholders.

[121] Milton Friedman, “The Social Responsibility of the Business Is to Increase its Profits”, *New York Times Magazine,* September 13, 1970

Conclusions

At this point, we should be able to recognize what is the value of Creating Shared Value. Starting from an analysis of the "pure" theory of the concept as presented originally by the authors, already in the second chapter we have reached significant conclusions on the topic. The concept of shared value has for sure a significant impact in the business community, elevates the society's goals to a strategic levels for companies, is included in the "Renewed European Strategy 2011-2014 for CSR" and has been awarded for the best article in HBR. But as a theory, we have given evidence that supports the critiques of some authors, in particular about its novelty and difference with strategic CSR. I have considered the fact that a difference between the two concepts exists, but I conducted extensive research to state that shared value is more about a definitional construct, a new-branded theory to justify a renewed effort of strategic CSR. Through the "Porter effect", the social goals are once again elevated to a new strategic level, as they can be source of significant economic opportunities for businesses. I have found also significant practical overlaps of implementation, in particular regarding what Porter and Kramer call "redefining the productivity along the value chain" by analyzing the works of authors like *Jenkins* and others*.* Additional overlaps consist of the "employee welfare and empowerment", whether in advanced or emerging countries, as actions to increase their productivity, that has always been recognised as strategic actions by the CSR business community and literature. In addition, we have found limits in the fact that "CSV should supersede CSR" as long as I constructed some implicit assumptions on the operating model, like economies of scale and expertise of internationalization, that are more likely only for (American) multinational companies. In addition, CSV cannot solve all the CSR thorny issues, and has the limit of living out some more global issues that hardly relates to specific business needs.

The use of the two case studies has been fundamental for the research, not only to give insights into CSV implementation and measurability, but also to understand the reasons why companies do approach the topic. In particular, some of the case studies' most important points has been used to draw final conclusions during the interview with Giovanni Pizzochero.

Shared value seems like picking from the same boxes as CSR, and for this reason I decided to ask to Giovanni Pizzochero a number of questions to find out which is the real value of shared value. The first point is that, for a company to really address a social issue, it should not be called in any way, as it should be totally integrated in the core process. By the way, this is an utopia, and the main challenge about shared value is in the definition of social need and social purpose. Companies are still too focus on "what they do", and less on "how you do it" and "why you do it". In practical terms, we arrived to the conclusion that the economic purpose still superseded the social purpose in creating shared value, as long as multinational companies find social needs to fulfill only by finding gaps of efficiency along the value chain through CSV. The company and society through CSV create a mutual dependence system, that is dominated by the economic purpose, that is the interest of the company. The first reason that we have identified as driver of shared value is the re-launch and re-evaluation of the CSR efforts, but as long as there is not in place a method of full measurability that links the social achievements to the economic ones, CSV can only be presented as a best practice, and not a completely new theory. Shared value is a good marketing communicator, but according to Giovanni Pizzochero it could be implemented as a system by enlarging the system of governance inside of the enterprises by including the stakeholders in broader categories. In this way, the future of both strategic CSR and CSV would consist of "co-determination an co-operation" of the company's actions and co-development of the products and services.

The shared value approach represents a very good try to reconceive markets and society with a renewed link between the two, that starts with the vision of Friedman about the business, who affirms that the "social responsibility of the business is to increase profits"[122] of the 1970, and not with Freeman and the so called "stakeholder theory". This stresses once again how the shared value perspective is given as having a real social perspective, but then the company address all those social needs that are "useful" under an economic perspective for the company. The reasoning should start from the holistic approach of Freeman's "stakeholder theory" and not from Friedman, and shared value tries to find a way new legitimacy to the business that has a social purpose, but always with a very strong focus on profit maximization and less on the stakeholders.

[122] Milton Friedman, "The Social Responsibility of the Business Is to Increase its Profits", *New York Times Magazine,* September 13, 1970

Questions of the interview with Giovanni Pizzochero (in Italian)

1) Potrebbe gentilmente darmi, secondo il suo punto di vista, una definizione delle attuali pratiche di CSR considerate "strategiche"?

2) Data questa definizione, quali crede siano le principali differenze concettuali tra i due concetti: creating shared value e corporate social responsibility?

3) Quando una azienda chiede di approcciare il valore condiviso, quali sono le sue esigenze e perché vogliono adottare una nuova visione sociale? (ex reputazione, hanno dei precedenti, diversi stimoli etc…) E sono diverse rispetto a quelle attuali di CSR?

4) Quali crede siano le principali differenze pratiche e di implementazione tra le strategie a valore condiviso e quelle di CSR?

5) Pensa che si possa parlare di CSV come una teoria affermata oppure di una "best practice", che assomiglia molto al classico rapporto mondo profit-non profit?

6) L'approccio al valore condiviso Snam possiamo considerarlo come un caso "puro" di CSV o una reinterpretazione in chiave strategica delle pratiche di sostenibilità già esistenti? (sustaibability 2.0)?

7) Porter e Kramer parlano di social need che può essere risolto in maniera efficace solo con una nuova visione di capitalismo e di CSV business model, ma crede che questo lasci troppo da parte l'etica che è alla base delle pratiche CSR? Ex. Pensa che l'approccio al valore condiviso tralasci troppo il fattore etico legato all'azione sociale?

8) Riconosce che ci sia un significativo overlap tra alcune pratiche di CSR e di CSV? Per esempio, riduzione emissioni, attività per aumentare l'efficiency

degli impiegati e la loro sicurezza, riduzione degli sprechi (riciclaggio e usi alternativi). Invece, le attività nel terzo mondo?

9) In quanto società di consulenza, quali pensa che siano i problemi principali nel rileggere i processi della catena del valore in chiave valore condiviso? Come vengono individuate le attività che hanno un potenziale?

10) Ora proviamo a fare delle ipotesi per il futuro, e le commentiamo :

    1. In futuro creare valore condiviso sostituirà le pratiche di CSR, ma solo per le multinazionali che hanno abbastanza “economies” of scale e fondi per investire in innovazione

    2. In futuro, creare valore condiviso sostituirà le pratiche di CSR **se e solo se** sarà possibile use un sistema di misurazione che collega i benefici sociali e quelli economici in modo concreto e standard, che quindi dia più incentivi alle aziende

    3. In futuro, il valore condiviso rappresenterà un nuovo **management thinking** che eleva a livello strategico gli obiettivi sociali, la creazione di una social mission, ma l’implementazione rimane soggettiva alle compagnie sia come CSV o CSR.

11) Considerando i costi elevati relativi a CSV, quali possono essere le alternative per le SME? In particolare, le multinazionali possono ammortizzare i costi su altre attività anche in geografie diverse, ma come viene visto il trade-off costi vantaggi allo stato attuale?

12) Si può parlare di un tentativo di riconciliare l’obbiettivo principale delle aziende, quello di fare profitti, con l’obiettivo sempre considerato accessorio, il CSR per risolvere il trade-off fatto da Friedman nel 1970?

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