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The Impact of Creating Shared Value (CSV) on Competitive Advantage and Global Growth

경쟁우위와 글로벌 성장에서의 공유가치창출(CSV)의 효과

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The Impact of Creating Shared Value (CSV)

on Competitive Advantage and Global Growth

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Abstract

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The role of business in society has become progressively significant over the years than ever before. Especially with the current economic turmoil, the main cause of problems involving social, environmental, and economic issues are being viewed as businesses and corporations. Such increasing discontent with business corporations stems from the perception of society that corporations are benefiting at the expense of the entire community. As society demands for greater responsibility and ownership of these issues, corporations have been earnest to provide suitable solutions and few have been able to do so. Along with this shift, the term Creating Shared Value (CSV) has emerged, offering a broader and long-term focus for corporations to meet customer needs as well as achieve value creation. The main purpose of this paper is to assess whether Creating Shared Value (CSV) has a positive effect on the competitive advantage of a corporation and ultimately have an impact on global growth as a whole. Creating Shared Value (CSV) initially operates on three levels and this paper seeks to analyze whether these levels can be modified or improved upon. The research also delves into case studies of major Korean as well as international corporations that have successfully implemented the strategy and utilized it to improve their position in the market. Another aspect of this paper is to analyze whether it is plausible for not only large corporations but all businesses in general to utilize Creating Shared Value (CSV) in order to establish a mutual bond with their respective communities and maximize their growth.

Keywords: Creating Shared Value (CSV), Corporate Social Responsibility (CSR), Competitive Advantage, Value Chain, Capitalism, Levels of Shared Value

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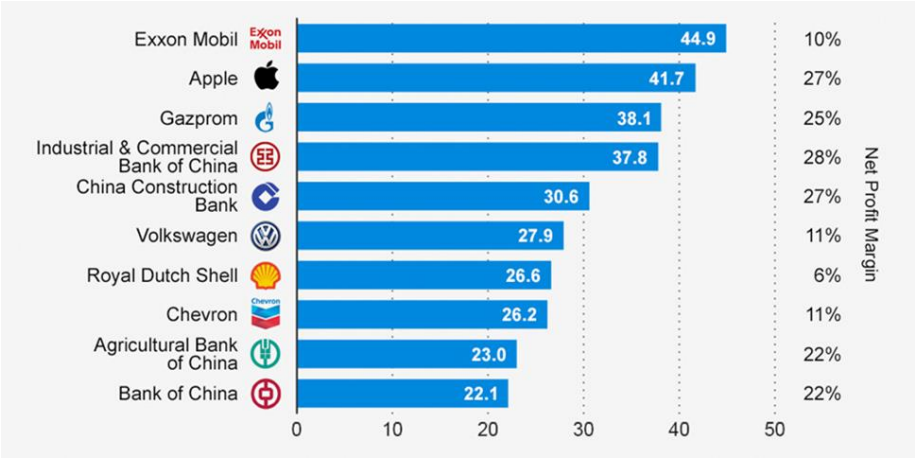
1. INTRODUCTION

In recent years, the outlook on the impact of business on society have become largely ostracized. The past few decades have seen exponential progress in societal, economic and technological advancements and accordingly with that businesses have flourished as well. Prior to this era, businesses were believed to have only one social responsibility and that was to make profit. Illustrated by the following quote from Milton Friedman in 1970, businesses at the time were righteously expected to grow their profits given that they conformed within the acceptable legal limits and boundaries. *"There is one and only one social responsibility of business - to use it resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud"*[1] (Milton Friedman, 1970). However, the rules of the game have changed in fundamental ways and people today expect and demand more from businesses than simply that they maximize their profits without the violation of law. In fact, any business, if its wants to be sustained over time, must maximize its profits but do so in a manner that meets the needs of the stakeholders that allow it to remain viable. When those needs change, businesses have a responsibility to adapt their behaviors accordingly if it wishes to survive.

Over the last few years, the overall trust in business have significantly dropped as society gradually formed the perception that businesses were prospering at the expense of their community and despite the efforts made by corporations to diminish such issues, there is still a struggle to produce effective results.

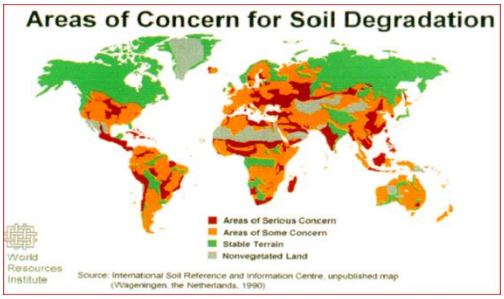
[1] Milton Friedman. 1970. The Huffington Post: *Milton Friedman was wrong about Corporate Social Responsibility.*

Profit of the world's most successful companies in 2012 (in billion U.S. dollars)



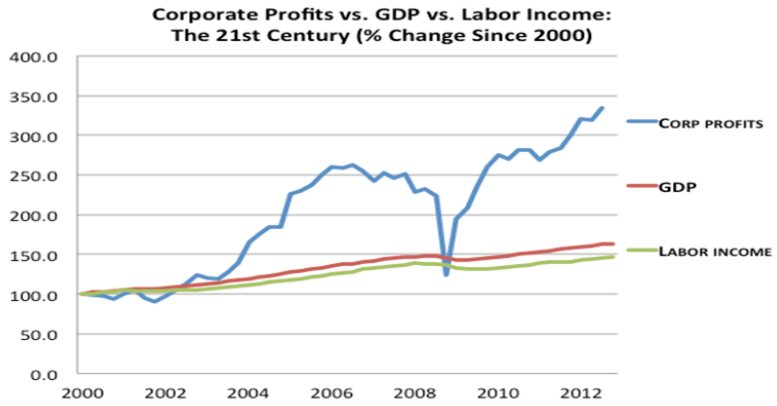
Source: The Statistical Porter. (2013)

According to the UN Millennium Assessment Report[2] in 2012, it reveals the deteriorating condition of our ecosystem as well as the unjust working conditions taking place worldwide. For instance, it is reported that nearly 15 out of 24, almost 60% of world resources have degraded and in addition to that there is said to be exploitation of workers in developing countries in order find cheap resources (UN Millennium Assessment Report, 2012). Even though there are plenty of efforts being made by government and non-governmental organizations (NGO) to deal with these existing issues, they lack sufficient resources, technology and capabilities to fully meet these challenges alone.



[2] UN Millennium Assessment Report. 2012. UN Millennium Development Goals.

Source: International Soil Reference and Information Centre (1990)



Source: The Atlantic. (2013)

This is where the term, Creating Shared Value (hereafter CSV) comes into play. In 2006, Harvard Professor Michael E. Porter and Harvard Kennedy School of Government Senior Fellow Mark R. Kramer, first introduced the notion of CSV in their Harvard Business Review article titled "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility" (Michael E. Porter and Mark R. Kramer, 2006). The concept was then further developed and specified in the scholars' next article which was published in 2011, "Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society"[3] (Michael E. Porter and Mark R. Kramer, 2011).

The article had instantaneously generated a global movement to redefine the role of business in society. The main idea behind CSV is simple yet profound as it reinstates that a company's success and social progress are interdependent with each other whereas in the past a company's success and its social responsibilities were thought to be on

[3] Michael E. Porter and Mark R. Kramer. 2006. Harvard Business Review. Strategy & Society: *The Link between Competitive Advantage and Corporate Social Responsibility*.

opposite ends of the spectrum. This is largely due to the fact that corporations previously related their business to making money while associating social responsibilities with spending money. It could be stated that a great deal of the problem does lie with businesses themselves as they remain to be stuck in an outmoded, limited approach to value creation. Before the term CSV came to light, there were different approaches known as Corporate Philanthropy, Corporate Social Responsibility (hereafter CSR) that attempted to solve the same issues that corporations were facing. Each of these evolving approaches were a representation of the role of business in society at the time.

In terms of the Corporate Philanthropy approach, it was about setting a good role for corporations and managers to play in society through donations and volunteers to worthy social causes. However such efforts were not able to make much of an impact and corporations needed to move beyond just plain donations. As for Corporate Social Responsibility (CSR), it attempted to conciliate the public discontent at the expense of corporate budget through compliance with community standard and sustainability initiatives. Creating Shared Value (CSV) can be viewed as an evolutionary process from Corporate Social Responsibility (CSR).

What sets CSV apart from these approaches is the fact that creating shared value is at the core of the business strategy rather than being a small part of it. Indeed, CSV is a business strategy that aims to create economic value while simultaneously making namely social and environmental impact. Therefore, the sooner corporations readjust their strategies and recognize the connection between social and economic progress, the closer they will be towards gaining a competitive edge in the market and ultimately contributing to global growth.

Evidently, this does not mean that the concept is flawless and there are in fact critics that criticize the concept of CSV for being presented as the sole applicable strategy that can garner economic advantages and address other aspects of societal challenges. With that said, this study will take into account any major criticisms associated with the concept and verify them in an attempt to dispel or confirm such considerations. Further in the paper, cases of both Korean as well as International corporations that were able to successfully implement CSV into their core company strategy will be presented.

For instance, CJ Corporation, a Korean conglomerate holding company has implemented an enterprise-wide CSV strategy, along with a governance structure and evaluation system and is continually developing programs across all of its business units. Furthermore, their food and foodservice business unit established a joint project with government and private sector partners to enhance the capabilities of rural farmers in Vietnam that supply the company with red chili peppers. The project offers training in farming practices and technology, and invests in improved water infrastructure for both residential and agricultural use.

Through the program, CJ Corporation has been able to secure a stable supply of agricultural products which then ensures the quality and safety of their products. In addition to that, the program has also raised farmer incomes through improved crop quality and yield and offered them access to a steady market. With shared value initiatives and efforts being launched through many businesses worldwide, it is congenial to mention that CJ Corporation is not the only company that was able to implement an enterprise-wide CSV strategy and reap results from doing so. In fact, many major international corporations such as Nestlé and Toyota have joined in on the movement and

have renovated their business in full form. These cases will be analyzed in specific details further in the paper as an essential aspect of this paper is to evaluate whether it is plausible for all businesses to utilize the strategy in order to create economic value while simultaneously making a positive impact on society.

It is essential to recognize that shared value makes societal impact integral to a company's strategy, and offers major new opportunities in every business to innovate and grow. Furthermore, it will also reshape capitalism and its relationship to society, and legitimize business again as a powerful force for positive change.

2. LITERATURE REVIEW

2.1 Background

In today's world, almost everyone whether students, employees, or managers would have come across the notion of social responsibility, whether in the business community, workplace, or even within popular culture. The notion that corporations have a responsibility towards society that is beyond profit maximization goes back a very long way. The same can be implied to public concern regarding the negative environmental and social effects of business. However, the comprehensiveness of social responsibility can be varied due to the fact that there is a multitude of different definitions as well as range of views regarding the conception. Before discussing in detail about the idea of Creating Shared Value (CSV), it is crucial to specify in detail, the different types of approaches that existed prior to and eventually evolved to CSV.

There is a remarkable background and history related to the evolution of the model as well as the meaning of corporate social responsibility (CSR). It is plausible to trace indications of the corporate community's concern regarding society for centuries. In the age preceding to WWI, as global free trade flourished and commercial power cultivated, the entire notion of Corporate Social Responsibility was perceived as a diversion. The prevailing ideology at the time was centered around private self-interest in terms of contributing to the community. However, in 1919, not long after the War, the International Labour Organization was established as part of the League of Nations, bringing together government, business and trade unions, and was based upon an appreciation of the importance of social justice in securing peace, against a background

of ruthless exploitation of workers in the industrializing nations of that time[4] (Jonathon Porritt, 2012). There are references that trace back the concern for social responsibility to the period during the 1930s and 1940s, from notable sources including Chester Barnard's (1938) The Functions of the Executive, J. M. Clark's (1939) Social Control of Business, and Theodore Kreps'(1940) Measurement of the Social Performance of Business. However, it was not until the 1950s that the notion of Corporate Social Responsibility (CSR), at the time more often referred to as Social Responsibility (SR) began to be conceptualized. Accordingly, the publication by Howard R. Bowen (1953) in his book titled Social Responsibilities of the Businessman is perceived to mark the beginnings of the modern period of literature on the subject of CSR. The publication[5] by Bowen is significant in the sense that it was one of the first publications to provide an initial definition of the term social responsibilities: "*it refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society*" (Howard R. Bowen, 1953). Subsequently, the definition as well as the concept of CSR have been continuously updated and modified in accordance to the current role of business in society.

In view of that, the concept of CSR served as a building block and has progressed over time that has led to the expansion referred to as Creating Shared Value (CSV). Essentially, the two concepts are dissimilar, although they share the same foundation of "doing well by doing good". According to Mark Kramer, the fundamental difference

[4] Jonathon Porritt. 2012. Corporate Sustainability: *A Brief History.*
[5] Howard R. Bowen. 1953. *Social Responsibilities of the Businessman*.

between them emerges from the fact that CSR is about taking responsibility, whereas CSV is about creating value[6] (Mark R. Kramer, 2011). The concept of CSV supersedes CSR as it enables corporations to be competitive in a capitalistic market.

2.2 Corporate Philanthropy

Prior to the concepts Corporate Social Responsibility (CSR) and Creating Shared Value (CSV) coming to light, corporations dealt with public criticism and complaints through an approach that was referred to as Corporate Philanthropy. The following approach serves as a basis for other social responsibility related methods to evolve. In order to stay or maintain their place on the good side of the public, Corporate Philanthropy efforts were implemented through donations to worthy social causes as well as volunteer works. These efforts were deemed to set a good role for corporations and their managers to play in society. However, what soon became apparent is the fact that such plain approaches did not make much of an impact on the overall society and Corporate Philanthropy began to decline.

According to the article "The Competitive Advantage of Corporate Philanthropy" by Michael E. Porter and Mark R. Kramer, most corporations feel compelled to give to charity when in actuality few have figured out how to do it well. Many corporate executives have increasingly found themselves in a dilemma as they struggle to satisfy critics demanding ever higher levels of "corporate social responsibility" whilst dealing

[6] Mark R. Kramer. 2011. Harvard Business Review. Creating Shared Value: *Redefining Capitalism and the Role of the Corporation in Society.*

with investors pushing to maximize short-term profits (Porter and Kramer, 2002). The predicament is that, simply giving or donating to charities does not fulfill the responsibilities demanded by the public and such charitable expenditures are difficult to justify to investors who are only interested in capitalizing on their bottom-line benefits. Hence, this is why many corporations seek to be more strategic in their philanthropy efforts. Furthermore, Porter and Kramer (2002), argue that today what passes for "strategic philanthropy" is almost never actually strategic, and as a matter of fact it is not even particularly effective as philanthropy. Rather, philanthropy is being increasingly used as a form of public relations or advertising tool that assists in promoting a corporation's image or brand through its cause-related marketing and high-profile charitable contributions.

In the article, Porter and Kramer (2002), cover one of the most primitive questions regarding Corporate Philanthropy: "Should corporations engage in philanthropy at all?" In accordance to such question, the scholars bring up the argument by the economist Milton Friedman, stating that "*The corporation is an instrument of the stockholders who own it and if the corporation makes a contribution, it prevents the individual stockholder from himself deciding how he should dispose of his funds*" (Milton Friedman, 1970). The economist concluded that in the case charitable contributions are to be made, they should be made by individual stockholders or individual employees but not by the corporation itself. The article by Porter and Kramer is in agreement with Friedman's point as it is revealed that most Corporate Philanthropy is practiced that way today. An issue with such practice is that rather than being associated to well-planned

social or business objectives, the contributions often reflect the personal beliefs and values of executives or employees working within the corporation.

What typically is common today within corporate operations can be explained through two types of contained assumptions. The first assumption presented by Porter and Kramer (2002), is that social and economic objectives are separate and distinctive from each other, which is why a corporation's social spending would come at the expense of its economic results. Secondly, it is assumed that when corporations address social objectives, they provide no greater benefit than what is provided by individual contributors. According to the scholars, these identified assumptions persist today when contributions from corporations are unclear and disorganized. However, it is mentioned that there is a more strategic way to think about philanthropy, in which corporations utilize their charitable efforts to advance the competitive context and quality related aspect of the business environment in which they operate in. For corporations that consider taking such a direction, it would require them to make substantial changes in the way that companies approach their contribution programs. Furthermore, corporations would have to reconsider where to focus their philanthropy efforts as well their contribution methods.

The takeaway from this article is that economic and social objectives have become increasingly intertwined with each other in contrast to prior perspective viewing them as distinct and competing points. In Corporate Philanthropy, it is essential to remember that a corporation's ability to compete depends heavily on the circumstances of the locations where it operates. Therefore, the more a corporation can relate social developments to its business, the more economic benefits it will gain. It is emphasized

that the most effective approach for addressing many of the pressing issues in the world is to organize the corporate sector in ways that benefit both the society and the corporation itself. The concluding remark states that simultaneous social and economic gains have to be produced in order for Corporate Philanthropy to be effective.

2.3 Corporate Social Responsibility (CSR)

There is a prominent background and history associated with the evolution of the concept and definition of Corporate Social Responsibility (CSR). Principally, the concept of corporate social responsibility (CSR) refers to the general belief held by many that businesses have a responsibility to society that extends beyond the stockholders or investors in the corporation. Accordingly, that responsibility is to make money or profits for the owners. These other societal stakeholders typically include consumers, employees, the community at large, government and the natural environment. The CSR concept applies to organizations of all sizes, but discussions tend to focus on large organizations because they tend to be more visible and have more power. And, as many have observed, with power comes great responsibility[7] (Lance Schaeffer and Craig P. Dunn, 2007)

As mentioned, the progression of CSR started taking place in the early 1950s, marking the modern era of CSR. From, then on, it further expanded in the 1960s as scholars provided definite definitions and spread through business entities in the 1970s. In the 1980s, the focus shifted from finding new definitions towards more empirical research as well as alternative themes. Amongst these alternative themes were the notion

[7] Lance Schaeffer and Craig P. Dunn. 2007. Corporate Social Responsibility and Related Terms.

of Corporate Social Performance (CSP), stakeholder theory and the theory of business ethics which embodied the same basic fundamentals as CSR. In the 1990s, CSR continued to serve as the main design until the concept of Creating Shared Value (CSV) was later developed.

Particularly, in the last decade, empirical research has brought forward evidence of the measurable payoff of corporate social responsibility (CSR) initiatives to corporations as well as their stakeholders. According to different periods of time, the concept of Corporate Social Responsibility (CSR) has been defined and contextualized in a variety of ways including: sustainability, corporate citizenship, business ethics, stakeholder management, corporate responsibility, and corporate social performance. However, the term Corporate Social Responsibility is still the most prominent and widely used synonym of them all.

In 1950, the main focus of CSR was on the responsibility of business to society, and to do good for society. The publication by Howard R. Bowen (1953) of his landmark book "Social Responsibilities of the Businessman" is argued to mark the beginnings of the modern period of literature on CSR. The literature by Bowen (1953) progressed from the certainty that generally, largest businesses were vital centers of power and decision making and that the actions of these firms affected the lives of citizens in many ways[8] (Archie B. Carroll, 1999). According to Bowen (1953), businesses were then obligated to take into account social responsibilities and consequences. One of the noteworthy questions raised by Bowen (1953) is: "What responsibilities to society may businessmen reasonably be expected to assume?" Furthermore, Bowen (1953) was one of

[8] Archie B. Carroll. 1999. Corporate Social Responsibility: *Evolution of a Definitional Construct*.

the first scholars to set forth an initial definition regarding social responsibilities in which he stated: “It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (Howard R. Bowen, 1953). The context and definition represented by Bowen (1953) is deemed to be the most notable literature from the 1950s regarding CSR.

As for the 1960s, key events, people and ideas have played an important role in characterizing the social changes ushered in during this decade (Firuza S. Madrakhimova, 2013). The decade of the 1960s marked a significant growth in attempts to formalize or, more accurately, state what CSR means. One of the first and most prominent writers in that period to define CSR was Keith Davis (1960), who later wrote extensively about the topic in his business and society textbook, later revisions and articles. Davis (1960) set forth his definition of social responsibility in an article by arguing that it refers to “business-men’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest”. On the other hand, Eells and Walton (1961) contended that CSR refers to the "problems that arise when corporate enterprise casts its shadow on the social scene, and the ethical principles that ought to govern the relationship between the corporation and society” (Archie B. Carroll, 1999). Both points made by the scholars are valid points in the sense that the definition provided by Davis (1960) highlights CSR as a business decision whereas Eells and Walton (1961) approach the concept as an ethical standard that a corporation must imply to its operations.

Moreover, literature regarding CSR expanded further in the 1960s as more formalized and accurate statements began to emerge in that era. Another influential

contributor, Joseph W. McGuire (1963) stated in his book *Business and Society*: "The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations". The part that distinguishes the definition by McGuire (1963) from other statements by other contributors is due to the fact that he was somewhat more precise in stating that CSR extended beyond economic and legal obligations. When he first constructed the definition, McGuire (1963) did not specify what exactly these 'obligations' were. However, it was later elaborated that corporations must take an interest in politics, in the welfare of the community, in education, in the "happiness" of its and in the employees in the whole social world about it. Therefore, business must act "justly," as a proper citizen should. Such statement at the time hinted at the notion of business ethics and corporate citizenship.

The CSR concept became a preferred topic of discussion in management consultations during the 1970s. The early 1970s was a period during which social movements with respect to the environment, work safety, consumers, and employees were gradually transitioning from special interest status to government regulations. During that time, numerous organizations including the Environmental Protection Agency, the Consumer Product Safety Commission, and the Equal Employment Opportunity Commission were created. Thus, it can be seen that the major initiatives of government social regulation grew out of the change in regards to CSR.

Furthermore, a landmark contribution to the concept of CSR came from the Committee for Economic Development (CED) in its 1971 publication *Social Responsibilities of Business Corporations*, where the CED observed that business

functions by public consent, and its basic purpose is to serve constructively the needs of society to the satisfaction of society (Lance Schaeffer and Craig P. Dunn, 2007). According to the CED, the relation between business and society was changing substantially, to the point where businesses are being asked to assume broader responsibilities to society than ever before. The CED further emphasized that businesses assume a role in contributing to the quality of life on a level that is more profound than just providing goods and services and that the future of businesses will depend on how effectively they respond to the ever changing expectations of the public. Such prospects were illustrated through public opinion polls conducted in 1970 by *Opinion Research Corporation;* found that about two thirds of the respondents thought businesses had a moral obligation with respect to achieving social progress in society, even at the possible expense of their profitability.

Another noteworthy contribution by the CED included an articulate three concentric circles definition of CSR which included an inner, an intermediate, and an outer circle. Primarily, the inner circle focused on the basic responsibility businesses had for its economic function such as providing products, services, jobs, and economic growth. Whereas the intermediate circle focused on responsibilities businesses had to exercise its economic activities in a sensitive way by always being alert to society's changing social values and priorities. Finally, the outer circle referred to newly emerging and still ambiguous responsibilities that business should be involved in to help address problems in society which includes issues such as urban blight and poverty (Lance Schaeffer and Craig P. Dunn, 2007).

Additionally, in the 1970s author George Steiner wrote in the first edition of his textbook *Business and Society* (1971), extensively on the topic of CSR. In the book, Steiner generally agreed with the definition provided by Davis (1960) whilst stating his own views on the subject: "Business is and must remain fundamentally an economic institution, but it does have responsibilities to help society achieve its basic goals and does, therefore, have social responsibilities. The larger a company becomes, the greater are these responsibilities, but all companies can assume some share of them at no cost and often at a short-run as well as a long-run profit" (Archie B. Carroll. 1999).

A significant debate took place in 1972, regarding the meaning of CSR sponsored by the American Enterprise Institute, involving economics professors Henry G. Manne and Henry C. Wallich. Later the debate was summarized in their volume *The Modern Corporation and Social Responsibility*[9] (Manne and Wallich, 1972) in which Manne set forth his definition of CSR by arguing that any working definition requires three specific elements: "To qualify as a socially responsible corporate action, a business expenditure or activity must be one for which the marginal returns to the corporation are less than the returns available from some alternative expenditure, must be purely voluntary and must be an actual corporate expenditure rather than a channel for individual largesse". Wallich further expanded on the discussion by adding that the exercise of CSR involves three basic elements: "1) the setting of objectives, 2) the decision whether to pursue given objectives and 3) the financing of these objectives" (Manne and Wallich, 1973).

In 1975, Bowman and Haire (1975) conducted a survey in an effort to understand CSR and to determine the extent to which companies were engaging in CSR activities.

[9] Henry G .Manne and Henry C. Wallich. 1973. The Modern Corporation and Social Responsibility.

Even though, the researchers did not specifically define CSR, they chose to measure it by counting the proportion of lines devoted to it in the annual reports of certain selected companies. Through the survey, they revealed the types of topics that represented CSR, usually subheads to sections in the annual report. These subheads were as follows: corporate responsibility, SR, social action, public service, corporate citizenship, public responsibility, and social responsiveness. Based on the array of CSR related topics, it can be drawn that corporations had a good grip on what CSR generally meant[10] (Lance Schaeffer and Craig P. Dunn. 2007).

In the 1980s, the interest regarding CSR shifted and the core concerns of CSR began to be modified into alternative concepts, theories, models or themes. In 1980, Thomas M. Jones (1980) contributed to the discussion on CSR by stating: "Corporate social responsibility is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and union contract. Two facets of this definition are critical. First, the obligation must be voluntarily adopted; behavior influenced by the coercive forces of law or union contract is not voluntary. Second, the obligation is a broad one extending beyond the traditional duty to shareholders to other societal groups such as customers, employees, suppliers and neighboring communities"[11] (Thomas M. Jones, 1980). In general, there were various, attempts to measure and conduct research on CSR during the 1980s.

As for the 1990s, the CSR concept transitioned considerably towards alternative themes such as stakeholder theory, business ethics theory and corporate citizenship.

[10] Lance Schaeffer and Craig P. Dunn. 2007. *Corporate Social Responsibility and Related Terms.*
[11] Thomas M. Jones. 1980. *Corporate Social Responsibility Revisited, Redefined.*

During this period, scholars expanded on the CSR concept, although there were no new definitions added to the body of literature until the 2000s where the term Creating Shared Value (CSV) came into play. In a nutshell, the concept of CSR represents a corporation's compliance with community standards and has an undertone of sustainability initiatives which facilitate in improving trust and reputation among the society in which it is operating in.

2.4 Fortune at the Bottom of the Pyramid

The concept of "Fortune at the Bottom of the Pyramid" by C.K. Prahalad and Stuart L. Hart of the University of Michigan is worth mentioning in this research due to the fact that it emphasizes an approach relative to the notion of making a social impact while improving one's economic stance. According to the authors, the world's most exciting, fastest-growing new market is where people would least expect it: at the bottom of the pyramid. What this means is that the world's billions of poor people have immense untapped buying power and if corporations have figure out how to serve such markets, they would be tapping into an enormous opportunity that can prove to be immensely profitable.

The concept was first developed by C.K. Prahalad in 1988 and serves as one of the first studies of its kind to address the needs and potential of the world's poorest people through what is referred to as the Bottom of the Pyramid (BOP), in which the world population is divided into different segments of income group. The subject of the study is about how the distribution of wealth and the capacity to generate incomes in the

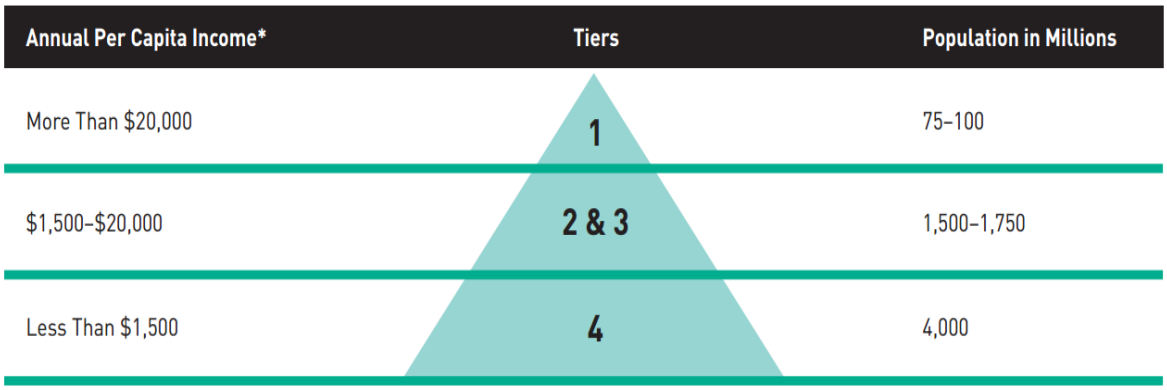
world can be captured in the form of an economic pyramid where the top of the pyramid represents the wealthy portion of the population, with numerous opportunities for generating high levels of income. On the other hand, more than 4 billion people live at the Bottom of the Pyramid (BoP) on less than $2 per day.

According to the authors, Prahalad and Hart (2002), an effective approach is called to action in order to help the poor, and that approach would involve partnering with them to innovate and achieve sustainable win–win scenarios where the poor are actively engaged and, at the same time, the companies providing products and services to them are profitable. Accordingly, such collaboration between the poor, civil society organizations, governments, and large firms has the potential to create the largest and fastest growing markets in the world[12]. (C.K. Prahalad and Stuart L. Hart, 2002).

The following exhibit Figure 1 represents the World Economic Pyramid according to Prahalad and Hart (2002) and consists of four consumer tiers. The top of the tier which is Tier 1 represents the 75 to 100 million wealthy consumers from around the world, composed of middle and upper-income class people in developed countries and the few rich elites from developing countries. The middle tier referred to as Tier 2 and 3, is representative of the poor customers in developed nations and the rising middle classes in developing countries. The bottom of the pyramid, Tier 4 consists of approximately 4 billion people which make up around 60% of the whole world population, who earn less than the minimum income considered necessary to sustain a decent life.

[12] C.K. Prahalad and Stuart L. Hart. 2002. Several articles have been written on the potential market by members of business schools offering consultancy on the burgeoning market. They include *The Fortune at the Bottom of the Pyramid* by C.K. Prahalad of the University of Michigan, *Capitalism at the Crossroads* by Stuart L. Hart of Cornell University.

Figure 1: The World Economic Pyramid



Source: C.K. Prahalad and Stuart L. Hart, (2002). The Fortune at the Bottom of the Pyramid

The linkage between the concept of BoP and Creating Shared Value is that both ideas deal with forming a positive effect on societal and environmental issues whilst making a profit. According to Porter and Kramer (2011), opportunities for corporation may arise when tending to the needs and demands of the less privileged or developing societies. In the same accordance, the concept of BoP states that there is wide spread false perception that the bottom of the pyramid is not a viable market. What needs to be grasped here is the growing importance of the informal economy, which by some estimates accounts for 40 to 60 percent of all economic activity in developing countries.

Overall, catering to the needs and demands of the 4 billion people who make up the Tier 4 market is a great opportunity for Multinational Companies (MNC). Such movement also represents a chance for business, government, and civil society to join together in a common cause. A profound point that needs to be realized is the consumers at the BoP signify the biggest potential market opportunity in the history of commerce if corporations can manage to provide products and services efficiently. This means that

corporations would have to change their focus and think of the BoP as entrepreneurs able to work in the most difficult circumstances and value driven consumers.

The focus would need to be shifted to inclusive capitalism, which creates mutually beneficial partnerships based on trust and respect. Until the poor population can be granted access to economy, they would be restricted from legitimate sustainable development. In order to do so corporations would have to shift to lower cost production models with smaller margins and mass adoption. Following such business model, offers a great opportunity for corporations to create value in the societal aspect which can further improve the growth of global economy.

2.5 Creating Shared Value (CSV)

According to Michael E. Porter and Mark R. Kramer (2011), businesses have lately been increasingly viewed as the main cause of problems involving social, environmental, and economic issues as companies have been perceived to be benefiting at the expense of the community as a whole. Ironically, as companies vie to take more corporate responsibility, the more it is being blamed for what is not working in a society.

The business concept Creating Shared Value (CSV) was first introduced in a Harvard Business Review Article *Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility* [13]. Then the concept was further expanded in 2011, with their follow-up piece entitled "Creating Shared Value:

[13] Michael E. Porter and Mark R. Kramer. 2006. Harvard Business Review. Strategy & Society: *The Link between Competitive Advantage and Corporate Social Responsibility*.

Redefining Capitalism and the Role of the Corporation in Society[14]". The notion of CSV was constructed by Michael E. Porter, a leading authority on competitive strategy and head of the Institute for Strategy and Competitiveness at Harvard Business School, and Mark R. Kramer, Kennedy School at Harvard University, the article provides insights and relevant examples of companies that have developed deep links between their business strategies and corporate social responsibility (CSR).

The fundamental principle behind creating shared value is that the competitiveness of a company and the health of the communities around it are mutually dependent. Recognizing and capitalizing on these connections between societal and economic progress has the power to unleash the next wave of global growth and to redefine capitalism. However, there are some critics that argue Porter and Kramer (2011) essentially tell the old story of economic rationality as the one and only tool of smart management. Some critics assert that the author's arguments is a "one-trick pony approach" meaning the concept only covers one certain aspect of business and that there is little chance that the society as well businesses would conform to it. Therefore, the study will take into account any major criticisms associated with the concept and verify them in an attempt to dispel or confirm such considerations. Further in the paper, cases of both Korean as well as International corporations that were able to successfully implement CSV into their core company strategy will be presented including Nestlé, Johnson & Johnson and CJ Corporation.

[14] Michael E. Porter and Mark R. Kramer. 2011. Harvard Business Review. Creating Shared Value: *Redefining Capitalism and the Role of the Corporation in Society.*

There are three necessary strategies involved in achieving CSV. The first method is “reconceiving products and markets”, which is a way for corporations to meet social needs while better serving existing markets, accessing new ones, or lowering costs through innovation. Secondly, the approach is about “redefining productivity in the value chain”, in which corporations can improve the quality, quantity, cost, and reliability of inputs and distribution while they simultaneously act as a steward for essential natural resources and drive economic and social development. The third approach is “enabling local cluster development” as to assure that corporations do not operate in isolation from their surroundings. An essential part of this research is to figure out how corporations can effectively implement CSV into their business model so that they can achieve the best outcome for both the society and its economy. Furthermore, the research delves into whether the three approaches are sufficient to create shared value or whether the approaches need to be adjusted through the implementation of another extra step.

According to Porter and Kramer (2011), when it comes to effectively implementing CSV, corporations would need to rethink their business around unsolved customer and societal problems or needs. Moreover, they would need to identify customer groups that have been poorly served or overlooked by the industry. In addition, corporations would have to think in terms of improving lives and not just meeting customer needs.

The articles by Porter and Kramer (2011) include numerous successful case studies that include corporate businesses that were able to effectively implement CSV and generate value and growth from doing so. The case of Nestlé has been included in both the 2006 and 2011 articles by the scholars and serves as an excellent example for the

concept. Primarily, Nestlé is known to work together with small suppliers and provides with various education and support programs. The corporation then further upgraded their supplier community's working condition by establishing local facilities to measure the quality of the coffee at the point of purchase. Through doing so, the method allowed for high payment directly to the local growers. The program was first launched in the city of Moga and has later been duplicated in various different cities throughout the world (Nestlé, 2011).

Another case study worth mentioning involves CJ Corporation; a Korean conglomerate holding company, which has implemented an enterprise-wide CSV strategy, along with a governance structure and evaluation system and is continually developing programs across all of its business units. Furthermore, their food and foodservice business unit established a joint project with government and private sector partners to enhance the capabilities of rural farmers in Vietnam that supply the company with red chili peppers. The project offers training in farming practices and technology, and invests in improved water infrastructure for both residential and agricultural use. Through the program, CJ Corporation has been able to secure a stable supply of agricultural products which then ensures the quality and safety of their products. In addition to that, the program has also raised farmer incomes through improved crop quality and yield and offered them access to a steady market[15] (CJ Corporation, 2014).

Another case that will be looked into in this study is the case of. Johnson & Johnson, an American multinational medical devices, pharmaceutical and consumer packaged goods manufacturer. Through shared value initiatives, Johnson & Johnson

[15] CJ Corporation. 2014. *Shared Value Initiative Community.*

introduced a corporate employee health program to improve the health of employees, increase employee productivity and decrease healthcare costs for the company. With a focus on prevention and disease management, the redesigned health program offers health assessment and counseling services as well as 100% coverage of preventative screenings. Furthermore, it also provides incentives to employees and their families to make healthy choices and programs to increase health literacy among them. In doing so, Johnson & Johnson have achieved a substantial reduction in medical and healthcare costs and have managed to improve their overall employee productivity and retention[16] (Johnson & Johnson, 2014).

According to Bockstette and Stamp (2011), adopting a shared value strategy often requires a major shift in thinking within a company. Furthermore, success requires an explicit company-wide shared value vision, a focused strategy, a willingness to apply assets and expertise across functions, and performance management that focuses both on results and continuous learning. Shared value creation implies a more internally focused role for CSR, sustainability, and philanthropy staff with a strong emphasis on facilitation and change management[17] (Valerie Bockstette, Mike Stamp, 2011).

It is worth mentioning that according to Seelos & Mair (2005), in recent years, the sharp dividing line between society and business has started to blur but the fact remains that business and society have always been deeply and dynamically interdependent. Businesses are critical members of society and as the primary drivers of employment, investment and wealth. It is essential to remember that the decisions companies make and

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[16] Johnson & Johnson. 2014. *Shared Value Initiative Community.*

[17] Valerie Bockstette, Mike Stamp. 2011. Creating Shared Value: *A How-to Guide for the New Corporate Revolution.*

the actions they take resonate throughout society and vice versa society has an impact on companies as well. Nowadays, corporations are increasingly aware that their contributions can be more effective if they align themselves with core competencies of society and community[18] (Christian Seelosa , Johanna Mair, 2005). Such awareness can assist corporations to leverage their expertise and an impact in a way that provides solution for social issues while gaining a competitive advantage in the market.

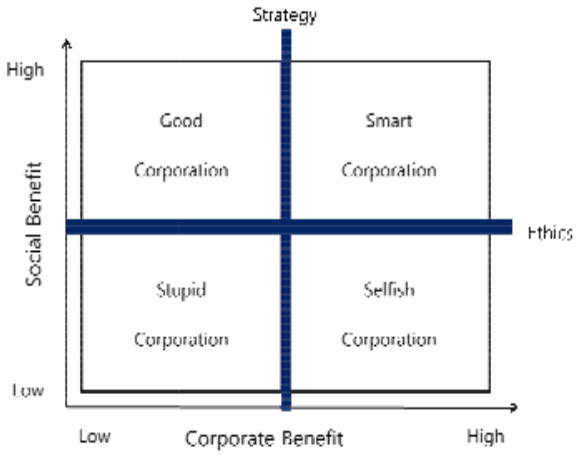
Porter and Kramer (2011) claim that a great deal of the underlying issues has to do with corporations themselves as they tend to focus most of their attention on short-term financial incentives whilst ignoring the most important aspect of business that is customer needs and value creation. Therefore, according to the authors, in order to break the vicious circle, companies must take the initiative in bringing business and society back together through the principle of shared value, which consists of creating economic value in a way that also creates value for the society. The process would require corporations to change their mindset in dealing with these issues as they would have to recognize them as existing at the center rather than on the sideline. In order to achieve that, corporations must move their purpose further than simply gaining profit and towards creating shared value that will further fuel innovation and growth.

[18] Christian Seelosa, Johanna Mair. 2005. Social Entrepreneurship: *Creating New Business Model to Serve the Poor.*

2.6 Extension of Creating Shared Value (CSV)

Even though Creating Shared Value (CSV) is a relatively new concept, scholars have already started to expand on the concept in an attempt to make CSV more comprehensible and accessible. In 2011, scholars Moon, Parc, Yim and Park (2011) have published a paper extending upon the fundamental theory of CSV. In the paper, the scholars have proposed a new framework categorizing corporations by considering different degrees of corporate and social benefits. According to the framework, there are in total four corporations that they have identified which are: Stupid Corporation, Selfish Corporation, Good Corporation and Smart Corporation.

Figure 2: Typologies of Corporation



Source: Moon, Parc, Yim and Park (2011). Typologies of Corporation

These corporations are categorized in terms of how much social and corporate benefits are created. For instance, a Selfish Corporation is focused only on maximizing the corporate benefits, with no regard for social benefits or harm beyond their immediate stakeholders. A Good Corporation is focused on creating social benefits, contributing

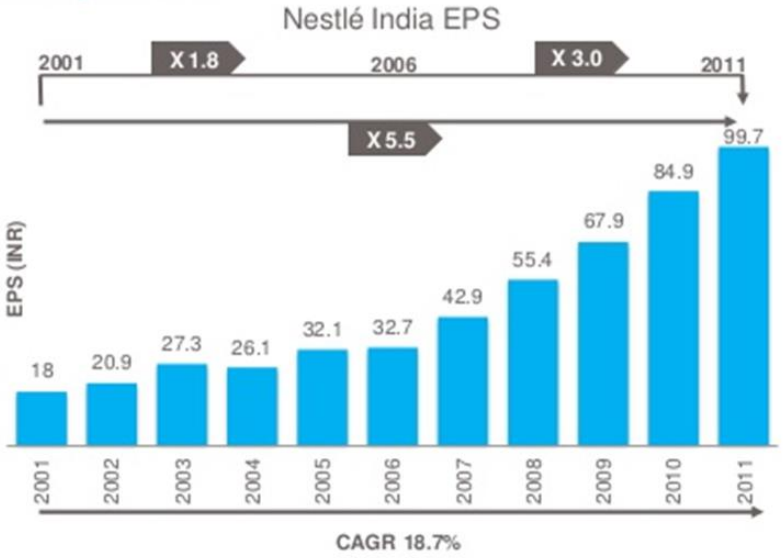
significantly to the society but the down point is that it can easily experience instability in profits. As for a Smart Corporation, it has a balanced focus on both social and corporate benefits, increasing social value in ways which also increase business profits (Moon, 2011). In this framework, Selfish Corporation can become a Good Corporation by doing CSR at the expense of business benefits. Meanwhile, a Good Corporation can become a Smart Corporation by engaging in CSV that is setting up a business strategy while continuing social contribution. A Selfish Corporation can also become a Smart Corporation through CSV efforts, if it manages to increase social benefits created while maintaining its corporate benefits.

3. CASE STUDIES

3.1 Nestlé

Nestlé has grown from a company founded nearly 150 years ago on the success of a life-saving infant cereal to a global leader in Nutrition, Health and Wellness. The company's growth has enabled them to help improve the lives of millions of people through their products and services through employment and supplier networks. The corporation also is known for its contribution to economies around the world, helping 4.1 million families globally earn a living, including the development of many businesses in rural areas in developing countries (Nestlé. Creating Shared Value, 2011). In 2014, Nestlé is estimated to have supported and sustained the livelihoods of 695000 farmers and directly employed 339456 people[19].

Nestlé India Earnings per Share multiplied 5.5 times in 10 years



Source: Nestlé. (2012)

[19] Nestlé. 2011. Creating Shared Value*: Nestlé USA Achieves Zero Waste to Landfill, Makes 1,000 Products More Nutritious.*

3.2 CJ Corporation

Korea's largest food maker, CJ Group, made history in 2014 when it became the first Korean winner of the CSV Porter Prize for Excellence. Porter himself presented the award to CJ Group vice chairman Lee Chae-wook, whose company has integrated shared value into its core business model with dedicated staff and several successful projects. Upon receiving the reward, Lee commented: "We will continue to communicate with vulnerable groups in our community and to keep on creating shared value to pursue sustainable growth" (Meghan Ennes, 2014).

CJ Group has made a clear commitment to shared value in a number of ways including forming new partnership with Shared Value Initiative. In another "first," in 2013 CJ became the first major Korean company to establish a Creating Shared Value (CSV) management department. The Executive Vice President of that department, Jo Min, detailed the processes that have been incorporated throughout the company to really implement shared value. "Our goal is to ingrain the CSV philosophy in our business DNA in a systematic way," she said.

Through a partnership with Korea International Cooperation Agency (KOICA), CJ set out to better integrate these rural famers into their supply chain—not only to pull them out of poverty, but also to secure more of their high-quality product. Now the company is on a journey to improve agricultural productivity in the province, for example sharing advanced farming techniques and practices, such as sustainable seed selection; and establishing effective infrastructure, such as redesigning and recuperating the much needed agricultural water system.

The corporation's food and foodservice business unit established a joint project with government and private sector partners to enhance the capabilities of rural farmers in Vietnam that supply the company with red chili peppers. The project offers training in farming practices and technology, and invests in improved water infrastructure for both residential and agricultural use. Through the program, CJ Corporation has been able to secure a stable supply of agricultural products which then ensures the quality and safety of their products. In addition to that, the program has also raised farmer incomes through improved crop quality and yield and offered them access to a steady market[20] (CJ Corporation, 2014).

Although the project is still in early stages, the company is banking on improving crop quality and yield, ensuring a steady market for the produce. If the initiative is successful, CJ hopes to expand the model to other impoverished regions and product lines. This kind of scale should be the ultimate goal of any shared value project like this one, and CJ Group is an ideal example of a business on the journey to making it a reality.

[20] CJ Corporation. 2014. *Shared Value Initiative Community.*

4. CRITICISM

Creating Shared Value (CSV), in its principle ideologies, and in its numerous strategic segregations and deviations, provide a lot to consider regarding capitalism, corporate self-interest, community growth. However, some critics argue that in addressing Creating Shared Value (CSV), the notion of "shared value" is not specifically acknowledged or specified, or further developed in terms of scholarly knowledge. Therefore, shared value may not be perceived as such an advanced idea as its advocates make it out to be, and in some cases may in fact, substantiate counterproductive results in its efforts to create value through the reshaping of capitalism.

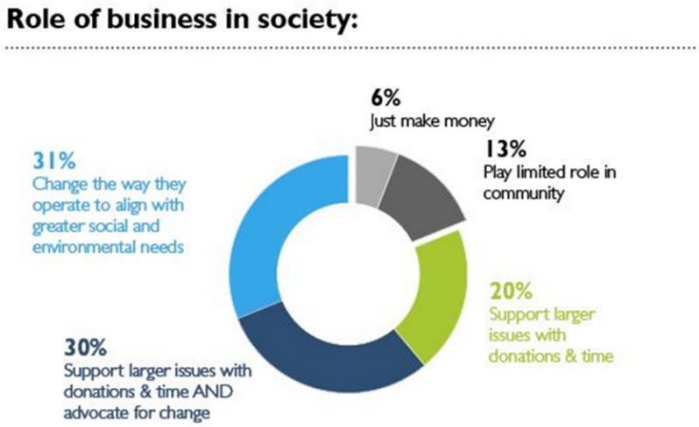
Moreover, it is arguable that at times, CSV is indicative of broader misapprehensions and inadequacies that have stalled not just theoretical work regarding the area of CSR, but also in terms of education and research initiatives. In terms of management research and practice, Porter and Kramer would have to be the prominent scholars to have introduced the terminology. However, for "creating shared value" to be a newly innovative notion, the idea has to bring something new to the table. With that said, the implicit postulation regarding CSV is that corporations along with business managements have neglected the fact that businesses should create value for society as a whole. However, in most cases, bestowing CSV as an innovation generally makes sense if indeed the purpose of a firm is centered around mostly creating economic value when in fact it should simultaneously concentrate on creating social value as well. In that sense, Porter and Kramer generally refer to corporations that perceive value creation in a constricted manner, enhancing solely the short-term financial aspect.

It is reasonable to contend that indeed the most fundamental issue with CSV is indeed its observation of corporations as an entity whose sole valid purpose is to produce economic value for the corporation and its proprietors. Furthermore, the early work done by Porter was criticized for the being characterized by such intellectual restraint and for emphasizing it. Moreover, due to CSV being narrowly limited to certain specified ventures and products rather than the entire firm itself, the notion that "the purpose of the firm must be redefined" can be viewed as being confined to a certain extent. Such perception of the purpose of a corporation is still dominant in the current business community as markedly competing for customers' and investors' interests is still the essence of business.

5. CONCLUSION

In conclusion, the term "Creating Shared Value" has generated strong interest from not only businesses but the public along with strong skepticism. Starting with a Harvard Business Review article in January 2011, Michael Porter and Mark Kramer, the scholars, have popularized the term which led to corporations and communities to reevaluate and renovate the role of businesses in society. The scholars established their own definition of "Shared Value" as a way to identify market opportunities aimed at solving social problems in a way that increases profitability and competitiveness.

Practicing Corporate Social Responsibility is suitable and satisfactory for some corporations at the moment but should not be the ultimate goal and in the long-run it is beneficial to rather pursue the methods set out by Creating Shared Value (CSV). The purpose of business should rather be centered around creating economic value while creating shared value for society.



Source: Magazine for Corporate Communications and Public Relations. (2012)

The whole concept of business is beginning to change. Creating Shared Value (CSV) can be utilized to contribute towards far broader opportunities for strategy and economic value creation and will drive the next wave of innovation, productivity and global economic growth. Realigning business practice around shared value gives greater purpose to the corporation and to capitalism itself. Ultimately, recognizing and capitalizing on these connections between societal and economic progress has the power to unleash the next wave of global growth.

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국문초록

경쟁우위와 글로벌 성장에서의 공유가치창출(CSV)의 효과

사회에서 비즈니스의 역할은 전보다 최근 몇 년간 점진적으로 중요해졌다. 특히, 현재 경제적으로 혼란적인 상황과 함께 사회적, 환경적, 경제적 이슈들을 포함하는 문제들의 주요 원인은 비즈니스와 기업이라는 측면으로 비춰졌다. 이와 함께 증가하는 이러한 불만들은, 기업이 전체 사회의 비용이라는 측면에 대해 긍정적인 효과를 준다는 사회의 인식으로부터 나왔다. 사회가 이러한 이슈들에 대해 더 큰 책임감과 주인의식을 요구함에 따라, 기업들은 적합한 해결책을 제공하기 위해 노력해왔다. 그리고 몇몇 기업은 그러한 해결책을 제시했다. 이러한 변화와 함께, 기업이 고객의 필요를 맞추기 위한 더 광범위한 것에 초점을 맞춘 공유가치창출(CSV)과 가치창출획득이라는 용어가 생겨났다. 이 논문의 주요 목적은 공유가치창출(CSV)이 기업의 경쟁우위에서 극정적인 효과를 가지고 있는지 접근하는 것이다. 그리고 궁극적으로 글로벌 성장에 효과를 주는 것에 접근하는 것이다. 공유가치창출(CSV)은 초기에 3 단계로 작동된다. 그리고 이 논문은 이러한 단계들이 수정될 수 있는지 혹은 향샹될 수 있는지 분석하는 것을 추구한다. 연구는 또한, 시장에서 기업들의 시장점유를 증진을 위해 전략을 성공적으로 적용하고 이용한 한국의 주요기업과 국제적 기업들의 사례를 찾아보는 것도 포함한다. 이 논문의 다른 관점은 대기업 뿐만이 아닌 모든 일반 기업들이, 그들 각각의 상호의 펀드를 발행하고 상장을 최대화하기 위해 공유가치창출(CSV)을 활용하는 것이 그럴듯한지의 여부를 분석하는 것이다.

주요어: 공유가치창출(CSV), 기업의 사회적 책임(CSR), 경쟁우위, 가치사슬, 자본주의, 공유가치의 단계

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