The Concept of Shared Value in Ensuring Territories Inclusive Development

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Abstract. The article analyzes the concept of CVS value from the point of view of ensuring the inclusive development of individual territories. It is assumed that the relationship between social and economic progress can stimulate new waves of global development. The research used such methods as benchmarking, the method of scientific abstractions, and methods of analysis and synthesis. Conclusions are drawn on the possibility of creating economic value through the formation of social value; the criterion for evaluating genuine social entrepreneurship is considered in terms of its ability to create shared values, not only social benefits, and to ensure the inclusiveness of the development of territories where the company is present, value must be created not only for shareholders, but also for society as a whole.

Keywords: Concept of shared value · Creating shared value (CSV) · Inclusive development index (IDI)

1 Introduction

The current state of national economies, the uneven development of not only individual countries, but also territories within them, has prompted scientists and practitioners to search for new forms of assessing the economic development of countries and territories. The inclusive Development Index has became such a form [9], which was agreed upon at the World Economic Forum in Davos in January 2018 [19]. The WEF report states that the emergence of such an index was due to the fact that “Decades of prioritizing economic growth over social justice have led to historically high levels of inequality in wealth and income. This has forced governments to skip a virtuous cycle in which growth is enhanced by wider distribution and generated without excessive environmental pressure or burdening future generations [5]. IDI is a comprehensive indicator that is formed from values such as growth and development; inclusiveness; and intergenerational equity and sustainability.

As a rule, the inclusive development includes governments of countries and regions. However, we suggest that companies can have no less influence on the inclusive nature of the development of their territories of their presence, including through the creation of shared values. The idea of creating shared values is not new.
The ideologists of “humanistic capitalism” Porter and Kramer suggested the concept of creating shared value (CSV), the idea of which is to strengthen the relationship between social and economic progress, which can become the source of a new wave of global development [13].

The CSV concept was presented as a “Big idea” that could help treat the “ills of capitalism”, namely uneven development and social inequality. As a result, the concept of CSV is firmly rooted not only in the field of business strategies, but also in the broader context of finding solutions to overcome the disappointing consequences of the financial and economic crisis of 2007–2008. The concept of CSV consists of constant practices and policies implemented by the company, aimed, on the one hand, at ensuring competitiveness, and on the other, at creating favorable socio-economic conditions for the communities within which the company operates. In this case, the value itself is defined as the ratio of the received benefit and the corresponding costs, and not just as a benefit itself.

The discussion about the complete collapse of the financial system and the following Great Recession has been led by many authors, including Chang [2], Cristiano, Eichenbaum, Trabandt [3], Crouch [4], and others. In recent years, the debate has become even more fundamental, with economic commentators such as Mason [11] and world-famous scientists such as the economic sociologist Streeck [16] even predicting the imminent demise of the capitalist system. Even before the beginning of the pandemic, almost all developed countries of the world faced economic instability, uneven development of various regions and territories of these countries, and in 2020, these problems only increased. The concept of CSV is an important contribution to one of the most acute economic debates of our time, which deserves attention and further study.

2 Methodology

The analysis presented in this article does not address the question of how to fix capitalism or the macroeconomic consequences of the Great Recession. The focus of our attention is the concept of CSV and ways to implement it in a comprehensive way. First, we analyzed the rating “Change the Word list” – “List of companies that change the world for the better”, compiled by Porter and Kramer [13]. 51 companies out of 200 studied were included in the rating. The assessment was based on a set of criteria including the following:

– innovative approach to doing business,
– social effect that illustrates the scale of changes in the lives of a large number of people,
– availability of competitive advantages for the company as a result of using the CSV concept,
– the impact of “shared value” on the company’s primary activity.

Then we looked at how the CSV concept can be used out of the companies. According to the concept of CSV, companies participate in different markets to create social and economic value, but Porter and Kramer do not analyze the nature of markets and do not explain how social value is created using market mechanisms [13]. To
conduct the research, we used such methods as benchmarking, the method of scientific abstractions, methods of analysis and synthesis, which provide a systematic, integrated approach to a complex (multi-element) object of research, which is the concept of CSV.

3 Results

So, we analyzed the Change the Word list rating, as well as the practices of such companies as Google, IBM, Intel, Johnson and Johnson, Nestlé, Unilever, Wal-Mart. As a result, we have identified new challenges for the development of the theory and practice of the CSV concept.

The first task is to create a system for measuring the created benefits. The shared values that arise from implementing business strategies that offer benefits to both clients and companies (as well as the markets in which they are created) differ from each other and are embodied in different combinations of resources and capital. To study these complex effects and benefits, new research methodologies and flexible approaches to assessing changes based on social, environmental, and management indicators are needed. If the methodological work is successful, then over time, companies that support CSV will be able to get reliable information and declare their contribution to the achievement of sustainable development goals [15]. Table 1 provides a list of possible measurement focus, as well as an explanation of what, for what, and for whom to measure.

| The measurement focus | What we measure                                                                 | Why we measure it                                                                 | For whom we measure            |
|-----------------------|---------------------------------------------------------------------------------|----------------------------------------------------------------------------------|-------------------------------|
| Stability             | the effectiveness of the company’s use of resources, the nature of product improvements and their impact on the community of the company’s presence territory | reduce the negative and increase the positive impact on the presence territory    | - leadership; - external stakeholders |
| Reputation            | how does social influence contribute to a company’s reputation                   | to manage reputation                                                             | first of all, the management  |
| Accordance            | compliance with legislation, public policies, standards and codes               | - guarantee application and compliance; - to preserve permission for activities   | - leadership; - external stakeholders |
| Determining the degree of influence | the degree of long-term impact of the company’s activities on the social and economic development of the territory of its presence | assess the dynamics of changes in the impact on the social and economic development of the presence territory | - external stakeholders |
| Common values         | unity of business and creation of common values                                 | increase the total created value                                                 | - first of all, the management; - external stakeholders |

Source: authors.
The second task is to create “rules of the game”. Some of the pioneers of the CSV movement – such as Nestlé or Unilever claim that many of their enterprises initially worked with the interests of society, but failed to significantly influence the basic values of capitalism. This fact suggests that the system will not change until there are new laws, institutions, and standards of business practice [14].

The third task is to publicly demonstrate the achievements of companies using the CSV concept. Google, IBM, Intel, Johnson and Johnson, Nestlé, Unilever, and Wal-Mart are among the companies that are actively involved in creating shared values.

The fourth task is to raise awareness about the possibility of combining the solution of social problems with the simultaneous implementation of profitable strategies. Volans company consultants (London), identified three possible options for the future of the CSV concept [18]:

1. option - rollback and depression,
2. option - gradual, “unhurried” movement forward,
3. option - a revolutionary breakthrough (exponential development).

Which of these scenarios will become a reality depends on the willingness of corporations and key stakeholders to join forces to create a new context in which entrepreneurs’ focus on creating economic, social and environmental values that meet the needs of all involved parties will become the accepted norm of business behavior.

It should be noted that at the present stage, there are a number of factors that determine the contradictory attitude of business to the concept of CSV, namely:

- business, as a rule, does not consider the solution of social problems as an opportunity to create economic value,
- as a rule, both state structures and numerous public organizations view success either from the point of view of a social result, or from the point of view of spent funds. This also creates difficulties in implementing social entrepreneurship projects,
- the process of forming a generally accepted idea of the potential and tools of implementing the CSV concept is still in progress.

Many experts also consider the concept of CSV as a kind of “Corporate social responsibility” (CSR) or a contribution of companies into the “Sustainable development of society”. For example, Borzakov, in his work “Development of the concept of corporate social responsibility: creating common value”. Judging from the title, he considers the concept of creating common value as the development of the concept of CSR [1]. But comparing these two concepts, he reveals clear differences (Table 2).
A number of authors liken the concept of CSV to the concept of "sustainable development". To clarify the situation, we conducted their comparative analysis, the results of which are illustrated in Table 3.

Table 2. Comparative analysis of CSR and CSV

| Corporate social responsibility (CSR) | Creating shared value (CSV) |
|--------------------------------------|-----------------------------|
| Values: activities for the benefit of society | Values: economic benefits and social benefits comparable to costs |
| Citizenship, charity, sustainable development | Joint work of the company and the community on creating values |
| Programs are implemented at the sole discretion of companies or under pressure from outside | Inextricably linked to competitiveness |
| Lack of connection with activities aimed at maximizing profits | Inextricably linked to activities aimed at maximizing profits |
| The programs “Agenda” is defined by external reporting tasks and personal preferences | The “Agenda” reflects the specifics of this company and is formed within the organization |
| The impact/effects are limited by the corporation “operational footprint” and the CSR program budget | Complete restructurisation of the company’s budget |
| Example: Fair/mutually beneficial trade | Example: Reorganization of work with suppliers in order to increase profit and product quality |

Source: authors based on [1].

A number of authors liken the concept of CSV to the concept of “sustainable development”. To clarify the situation, we conducted their comparative analysis, the results of which are illustrated in Table 3.

Table 3. Comparative CSV and the concepts of “Sustainable development”

| “Sustainable development” concept | Creating shared value (CSV) |
|-----------------------------------|-----------------------------|
| Promoting sustainability is a broad concept that reflects the need for public goods, systemic changes and measures to prevent difficulties arising from current social and/or environmental issues | CSV is a business strategy and/or decision-making practice aimed at obtaining competitive advantages in the process of business activity carried out considering the population needs. By applying the CSV concept, companies view society’s requests in the context of business and discuss them in market terms |
| The sustainable development strategy is designed in order to better manage risks and achieve greater social results without any special deviations from the established business model | The use of CSV offers new opportunities to generate profits and/or explore new markets while addressing complex issues such as unemployment, climate change, inequality, etc. For example, thanks to the Ecomagination initiative, which is focused on the development of energy-saving technologies, the American corporation “General Electric” (GE) has almost doubled its revenues within five years |

Source: authors.
As you can see, the CSV concept can be considered as a specific approach to company development for the following reasons. Firstly, the CSV concept differs significantly from the “normal” business in its innovation, in its various manifestations, since the “shared value” is usually the result of the development and implementation of a new product, model or technology. As an example, we can analyze the experience of “Discovery” insurance company (South Africa), the leader of the global insurance market. She offered her clients the “Vitality” insurance program, which promotes a healthy lifestyle and radically changes their approaches to doing business. So, firstly, for visiting fitness centers, “Discovery” customers received incentive points that affect the amount of discount from insurance premiums. Today, this insurance product has evolved into a system that covers not only physical education, but also many other aspects, including nutrition approaches. The unified database integrates information from the “Vitality” company’s card, launched jointly with partner organizations (health food stores, swimming pools, etc.), as well as information from smartphones, which are reliably recorded in the database and processed automatically by Big Data algorithms [7].

Secondly, a study of the practice of implementing the CSV concept has revealed that innovations that contribute to the emergence of a common value are a variable combination of 20 models and work methods that have been recorded nowadays. For example, in the framework of the project to support women entrepreneurs in India (Project Shakti), “Unilever” uses a microfinance model, and the Norwegian fertilizer producer “Yara” stimulates the growth of the local economy by creating corridors for the development of agro-industrial clusters in Africa [10].

Third, CSV can be implemented as a business strategy that generates market advantages in the process of solving social problems. Thus, the company, taking care of the environmental safety of its products, can increase the volume of its sales. An example of implementing such a strategy is “Unilever” company, which has doubled the size of its business by betting on the environmental safety of its products, showing customer orientation. The company has included tasks that reflect the implementation of the CSV concept in the corporate “The Sustainable Living Plan” [17].

Fourth, the CSV concept implements large-scale initiatives that are commensurate with the business sizes. For example, by developing enterprises in its supply chain, the retail chain of TFG fashion stores improves the economic situation of many local ateliers, design firms and clothing factories, creating conditions for inclusive economic development.

Fifthly, the investors, clients and partners support of the CSV idea awakens the interest of companies to innovative activities developing that can find new business consumers who are limited in access to certain products and services, that is, again implementing the principle of economic development inclusiveness. Earlier organizations that have already gone through the most difficult stages of developing and launching CSV initiatives are likely to retain their leadership status, and less agile companies will follow their example, or lose the trust of stakeholders and further prospects. Combining social values in the form of investments that are directed to social and environmental goals and business values in the form of investments in long-term competitiveness and creates a common value in the form of investments in long-term business competitiveness that meet the social and environmental goals of society,
creating conditions for inclusive development of the territories where these companies operate. Levels of shared value creation can be described as follows. Revising the concept of productivity in the “cost-value” chain allows to optimize processes in terms of their efficiency and productivity, as well as reduce the risk of social problems. If a company analyzes existing social problems from the perspective of shared values and finds ways to solve them, then we get increased synergy and conditions for inclusive development.

Rethinking the concepts of products and markets takes place by expanding access to products and services that meet the customers needs, which also meets the principles of inclusive development. Today, such categories as the structure of demand and the mechanisms of its formation are studied in detail, but not enough attention is paid to the aspects of the product’s utility for the consumer. Isn’t this the basis of customer orientation?

The development of local (territorial or cross-territorial) clusters creates conditions for improving the environment that affects business and alleviates social problems, due to the fact that no company is self-sufficient and its success depends on related organizations and the surrounding infrastructure, which in turn creates conditions for small companies to access it. In Table 4, we illustrate what social and business outcomes can occur at each of the levels of shared value creation.

| Level of shared value creation | Social results                                                                 | Business results                                      |
|--------------------------------|--------------------------------------------------------------------------------|-------------------------------------------------------|
| Redefining the concept of productivity in the value chain | - reducing emissions of harmful substances into the atmosphere; - improvement of health conditions; - improved nutrition; - improved education | - increased revenue; - increased market share; - market volume growth; - increasing profitability |
| Rethinking the concepts of products and markets | - reducing the amount of used energy; - reducing water consumption; - reducing the natural resources consumption; - employees professional development; - growth of employees’ income | - growth of labor productivity; - reduced logistics and operating costs - increased security of supply; - improving the quality of products/services; - increasing profitability |
| Promoting the development of local clusters | - increasing access to education; - growth in the number of workplaces; - reducing the level of morbidity (occupational diseases); - growth of the population income | - cost reduction; production - increased security of supply; - improvement of products/services distribution infrastructure; - increasing access to the workforce; - increasing profitability |

Source: authors.
There are also objective obstacles to the spread and development of the CSV concept. First, the interests of shareholders still dominate the tasks of social development, so many corporations still focus on short-term horizons and pay increased attention to financial indicators. In addition, companies in the financial sector broadcast “profit priority” to companies seeking loans, which, in turn, seek to meet the requirements of investors.

Secondly, the social sentiments are that people do not believe in business altruism. Such sentiments were predetermined by the practice of corporations, which often created or aggravated environmental and social problems, so it is very difficult to believe in their intention to fix the situation - even though the activity of entrepreneurs has already saved many people from poverty in different countries.

Third, corporations use social programs for effective “PR”. Companies are actively demonstrating social responsibility in times of increasing tension in society. Enthusiasm fades over time, and the habit of loudly proclaiming goods deeds (unrelated to the core business and corporate culture) remains. This process can be traced in the current conditions of the Covid-19 pandemic, as the pandemic prolongs and we become more accustomed to new conditions of existence, reports of actions by companies designed to reduce the problem of inequality in the state of certain regions and population groups are reported less often.

4 Discussion

What are the conditions for successful implementation of the CSV concept in business practice?

1. The culture of innovation. A corporate culture that encourages the development of new ideas will facilitate experimentation on new growth strategies.

2. Support of senior leadership. It is critical for senior leadership (CEO), to encourage shared value thinking, set the appropriate tone, and encourage the energy and creativity of the company as a whole in this direction.

We can emphasize leaders features that can set a similar tone. We analyzed the experience of active CSV participants and identified common qualities that allow CSV leaders to promote and execute complex initiatives in the dynamic context of the modern world [8]:

- the ability to see common goals for business and society is an important quality that is usually combined with the desire of leaders to solve a social problem and a willingness to take deliberate risks based on a clear understanding of the capabilities and needs of their organizations,
- system view helps CSV champions recognize signs of upcoming changes in their own industry, region, or on the global stage. For example, after seeing the need for diabetes prevention in hard-to-reach communities in South Africa, Brazil, India, and Mexico, Tracy Sims, the head of the Global Citizenship Group of Eli Lilly and Company (USA) company shared with colleagues his thoughts on the possibilities of business participation in solving the growing problem [6]. His ideas became a
source of motivation for the creation of an intersectoral partnership in the field of noncommunicable diseases (the Lilly NCD Partnership), which supports medical institutions and many patients in developing countries with the active assistance of the UN and in collaboration with national funds, programs and scientific institutions,

– the ability to interact with different players in a network format is critical for the implementation of CSV strategies, the success of which largely depends on mutual understanding between organizations and actors that have different ideas on the ultimate goals and ways of achieving them. By skillfully coordinating the discussion, leaders help their partners form a common view of the origins of social problems and make strategic decisions that allow them to achieve a positive effect for all involved parties [12].

3. Involved local management. High commitment and management are important at the level of business units and regional structures, as local managers have a better understanding of local needs and conditions.

4. Intergovernmental interaction. CSV strategies require the support of all the necessary structural divisions of the company for synergy and integration of work into everyday activities.

5. Focus on long-term success. Leadership focused on a long-term CSV strategy must have the patience to see beyond short-term challenges and take advantage of the opportunities for long-term benefits that are included in effective inclusive development of communities, regions, and even countries.

5 Conclusion

As a result of our research, we came to the following conclusions. Firstly, the ability to create economic value through the creation of social value contributes to the emergence of new ideas on the customers needs, productivity and external influence on the corporation success. Secondly, the focus should be on meeting multiple human needs, serving large new markets, the internal costs of existing social disadvantages, and the competitive advantages that arise from addressing social problems and creating conditions for inclusive development. Thirdly, those who had very limited resources – social entrepreneurs and companies in developing countries were the first to form shared values, for which the challenge of ensuring inclusive development is particularly acute. Fourthly, the criterion for evaluating genuine social entrepreneurship should be its ability to create shared values, not just social goods. Fifthly, in the process of creating shared values, the line between commercial and non-profit organizations is gradually blurred. Sixthly, the greatest opportunities for creating shared values are formed by the company’s core business. Seventhly, in the process of creating shared values, companies solve social problems that they do not create. Eighthly, the concept of CSR implemented by many companies is a corporate “cosmetics”, and a strategic approach is necessary. Ninthly, the concept of CSV should be embedded in all business
processes of the company. Tenthly, to ensure the inclusiveness of the development of the territories where the company is present, it must create values not only for its shareholders, but also for society as a whole, especially in the territory of its presence, which is already not an isolated example.

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