

Bürkner, Hans-Paul et al.

Conference Paper

Shared value and sustainable business strategy

Session Handouts, Global Economic Symposium 2010 (GES), 27-29 September 2010, Istanbul, Turkey

Provided in Cooperation with:

Kiel Institute for the World Economy – Leibniz Center for Research on Global Economic Challenges

Suggested Citation: Bürkner, Hans-Paul et al. (2010) : Shared value and sustainable business strategy, Session Handouts, Global Economic Symposium 2010 (GES), 27-29 September 2010, Istanbul, Turkey, Kiel Institute for the World Economy (IfW), Kiel

This Version is available at:

<https://hdl.handle.net/10419/79126>

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The Global Society

Shared Value and Sustainable Business Strategy

The Challenges

In the recent world wide economic crisis, the moral position of business in society has received renewed attention. Business enterprises around the world have begun to embrace greater responsibility for a sustainable, value-oriented society. These goals need to be reconciled with profit maximizing activities in order to assure the continued survival of enterprises operating in competitive environments.



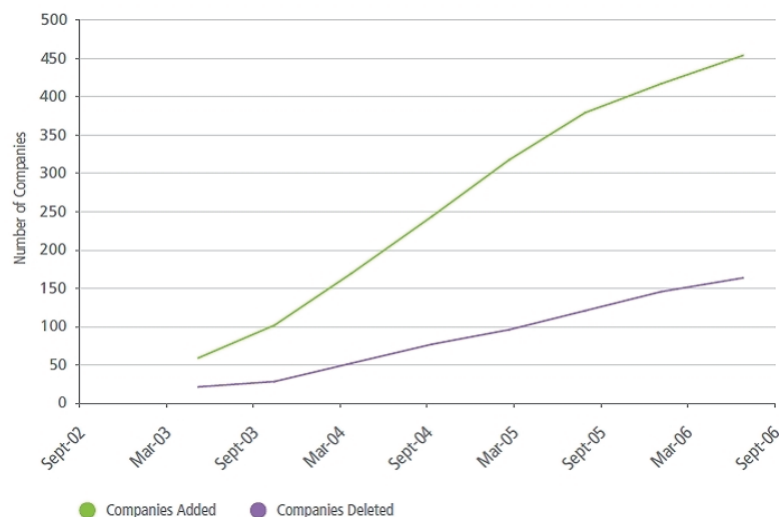
Achieving such reconciliation requires at least following factors:

1. Strengthening the new sense of corporate responsibility for society and identifying fields for shared-value activity in accordance with customers, suppliers, employees and the broader public.
2. Developing specific business models that better allow combining profit maximizing with the provision of shared value for society. These business models may vary according to the relative significance of the commercial compared to the social component, reaching from largely commercial firms with a commitment to shared value, to social entrepreneurs making a living out of serving social interest.
3. Re-organizing corporations internally, to ensure that the impact of corporate operations on society is duly considered, and to establish the commitment toward provision of shared value throughout the firm.

In turn, successful provision of shared value can help making societies more sustainable (e.g., by backing the endorsement for entrepreneurial activity in society, by stabilizing fragile states, by contributing to the rebuilding of failed states) and can help securing options of choice for future generations. And again in turn, a sustainable society by fostering the growth of the whole economy may further social entrepreneurship and shared value.

Ethical/Sustainable stock market indices:

THE INCREASE OF COMPANIES IN THE FTSE4GOOD SERIES SINCE 2001- FIGURE 1



Source: FTSE4Good Index



What kind of shared value is required? How can businesses best use their core competences in the interests of society? What government policies and civil society initiatives are necessary to overcome political or even mental constraints? What barriers are to be removed to reap the social benefit of social entrepreneurship? For instance, are there unnecessarily complicated license and permission procedures? Should new forms of organization be installed, or existing ones (e.g., cooperatives) reinforced to better serve the requirements of shared value business? What support could be offered to firms to be active and efficient in this field (e.g., alliances between commercial firms and social entrepreneurs, joint ventures, PPP)? To what degree does the internal re-organization of corporations require long-range planning and finding a new balance between short and long-term business goals?

Proposed Solutions

Hans-Paul Bürkner

President and CEO, The Boston Consulting Group

- A larger common denominator for the legal frameworks that business is working on.
- A code of conduct that all companies that operate internationally are signing and adhering to.
- Continued increase in the publicity that offending companies will receive.

John Feldman

Member of the Board of Executive Directors, BASF

Industrial policy has to be sustainable

Economic, ecological and social aspects are the foundation for long-term success of a company and society

Current political discourse is often peppered with the terms “green” and “non-green industries.” The greens are considered to be the good guys because they supply products focusing on resource efficiency and climate protection like windmills and solar cells. The others are the bad guys because they do not produce such “green” products. For instance, the EU Commission targets in its economic strategy EU 2020 the promotion of a “low-carbon, resource-efficient, greener and competitive economy.” Other EU politicians talk about the “green industries” as the industries of the 21st century to whom the future belongs because only they offer solutions for resource efficiency and to combat climate change.

The problem is that the talk of Green Industry or Green Products narrows the focus down to a single area of sustainable development: ecology, often neglecting ecological and social aspects. Green Industry or Green Products are badly chosen terms for yet another reason, as they look at only a small part of a product’s total value chain. A solar cell is a Green Product, but the whole value chain preceding it is not. That is why we need to think beyond the product as such and extend our analysis to explore the best possible way to solve a societal challenge.

A Green Industries label does not say anything about whether the companies in question are sustainable overall, e.g., whether they use resources efficiently, whether their products are commercially successful, or whether they add value for society. The debate is misleading in another way, too, because other companies that may not seem “green” at first glance are disadvantaged politically because of the prevailing narrow terminology. It is a fact that many such



“non-green” companies contribute to the success of so-called “green” industries with the technological expertise and products they supply to them.

In my view, there is a good reason why the sustainable development debate should look at economic and social aspects as well as the ecological. When it comes to solving global problems like climate change or mobility and nutrition, what matters most is not just whether a company manufactures green or non-green products, but whether a) the company can help solve those problems and b) whether the company as such puts sustainability at the heart of its business. We at BASF address these issues with innovative products that contribute toward coping with global challenges and ensure economic success in a sustainable manner.

Sustainability means

1. Innovation of products and solutions for future global challenges
2. Integration of sustainability in daily business life

Global challenges need new solutions—Innovation of products and solutions for future global challenges

BASF contributes to climate protection, resource efficiency and healthy nutrition with its products and innovations. For instance, BASF plastics for the car industry help to make cars more lightweight. BASF insulation foams and materials enhance energy efficiency in housing, which is where the potential for energy efficiency is highest overall. Numerous other BASF products help to save resources and hence reduce carbon emissions. BASF’s nutrition activities include research into drought-resistant crops, which can help produce even better harvests and higher yields for a growing world population. Together with other stakeholders BASF is also active in food fortification. Ensuring a supply of key vitamins in staple foods leads to healthier people, which are the basis for long-term successful economic development in many of the world’s countries. For us, sustainable development in this context means helping to tackle global challenges with our products. In addition, our innovations help our customers to be more sustainable and therefore more successful in the marketplace.

Combining economic success with environmental protection and social responsibility—Integration of sustainability in daily business life

As well as providing innovative solutions, we want to continue enjoying long-term commercial success while acting sustainably as a company. In practical terms, this means integrating social and ecological issues in business processes and having long-term commercial success on that basis. In other words, sustainable development is not an abstract concept at BASF but a strategic decision for successful business.

That is why sustainable development is one of four strategic guidelines at BASF. Strategic decisions for implementation of sustainable development are taken by the BASF Sustainability Council, which is directed by a member of the board of executive directors and numbers heads of various BASF divisions among its members. In other words, sustainable development is a responsibility of the board of executive directors. Our continuing aim is to use processes, products and services that are economically and ecologically superior. BASF has developed tools for that purpose and defined targets to meet the grade in terms of sustainable development. The main thrust of our sustainability strategy is twofold: We seek to minimize our risks by integrating sustainability aspects in our core business activities. In parallel, we want to seize business opportunities through providing more innovative and more sustainable products and solutions.

This prompted BASF to develop the “Eco-Efficiency Analysis,” a tool that enables cradle-to-grave analysis of a given product or process. Eco-efficiency analysis looks at economic factors as well as environmental impact. It helps both BASF and our customers to compare and judge



alternative products and processes more effectively. BASF's own carbon footprint reporting is a good example. On the basis of an Eco-efficiency analysis BASF has demonstrated that BASF products prevent three times more greenhouse gases than emitted throughout their life cycle. BASF has conducted more than 400 analyses to date internally and in cooperation with partners and customers. BASF has also developed a tool called SEEBALANCE (Socio-EcoEfficiency Analysis). SEEBALANCE is a tool which allows, for the first time, the assessment not only of environmental impact and costs but also of the societal impacts of products and processes. The aim is to quantify performance of all three pillars of sustainability with one integrated tool in order to direct—and measure—sustainable development.

We at BASF want sustainable development to be verifiable in specific concrete terms on the basis of global targets. One such target is to achieve a further significant reduction in water and airborne emissions by the year 2020. The target for greenhouse gas emissions is a 25% reduction versus 2002 by the year 2020. Energy efficiency shall be increased by 25% in parallel. Ambitious targets have also been defined for work and transport safety; for example a 70% reduction in transport accidents versus 2003.

For us, sustainable development does not stop at the factory gates. We work with our suppliers to make sure that certain ecological and social standards are complied within the delivery chain. As an example, BASF initiated a project called "1+3" in China with other companies. The aim is for each project partner to form a team with three business partners in the value chain. The project members support the partners with best practice methods in terms of environmental and social standards. As in a snow ball system, the latter in turn each support another three partners in their own value chain.

Employees and good neighbourship are key success factors for BASF. Accordingly, we support employees by providing continuing professional development opportunities and facilitating a better work-life balance. Through a program called "generations@work," BASF is positioning itself to tackle challenges of demographic change. Its aim is the continuing improvement and expansion of working opportunities for older employees. BASF is also active in local communities at site locations and seeks to be a good corporate citizen. As well as donating money to social and cultural organizations, BASF offers in more than 15 countries "Kid's Labs" activities where children can discover the world of chemistry, to give just one example. Science and education are the top priorities in our community engagement.

To create trust, transparency regarding targets and tools of sustainability is a must. Dialogue with relevant stakeholders is crucial to maintain our license to operate. BASF is an active member of a number of networks including UN Global Compact and the World Business Council for Sustainable Development, to give just two examples. Another demonstration of how we see economic, ecological and social affairs as being part of an integral whole is the format of our BASF Report. This publication fully integrates the reporting of financial figures, sustainability key performance indicators and sustainability management systems. What's more, our report meets the highest standards of quality as defined by the Global Reporting Initiative for sustainability reporting (highest application level A+) and as verified by auditors. One external acknowledgement of BASF's efforts is that we are listed in the world's most important sustainability index, the Dow Jones Sustainability Index.

In a nutshell, BASF stands for being commercially successful, a supplier of innovative and sustainable products, and a responsible and attractive employer. Sustainability is a triad of economic, ecological and social aspects. A one-sided focus on just one aspect is in my view a much too short-sighted approach and unsustainable to boot. That is why, to us, sustainable development also means taking the know-how of the 20th century and to further develop it to solve the challenges facing society in the 21st century.



Takeo Harada

CEO, Institute for International Strategy and Information Analysis

Create a center for information literacy to tackle world's uncertainty

In the era of internet, everyone on the globe needs information literacy to “survive.” Especially in the current financial meltdown, the skill is vital to tackle daily uncertainty. For example, companies want to hire those who can not only acquire accurate information on the web but also make a strategic scenario with them to foresee the future. Furthermore, we'd better be able to modify the scenario according to new information to be acquired in each fragile and changing situation. We can call such a skill to accomplish that “information literacy.”

Information literacy consists of the following two elements: The one is Open Source Intelligence (OSINT), that is to say, skill to get “right” and “indispensable” information fluently, and analyze them correctly. Another element is skill to make accurate scenarios for the possible future according to the results of OSINT. Traditionally, these are recognized as two different skills. But the important thing is to combine them and define that as “information literacy.”

Perhaps, you still wonder why this skill can be said to be “vital” for the better future. The reason is quite simple. The key to analyze information is to see whether there is excess or shortfall in the scene you can see with these information. If yes, there must be certain volatility you should address in near future. The credo analysts should follow is, “Find out excess or shortfall as many as possible, and correct them as soon as possible.” This sounds quite natural for those live in the Far East where the tradition of “Yin-Yang” still exists, while the western people sometimes regard it as something unusual. Anyway, the declaration of G20 Summit, “Tackle the capitalism to the excess!” is deeply relevant to the traditional thought of “Yin-Yang,” which orders us to check the volatility of our surroundings in every day's life and correct it accurately. Information literacy I mentioned above is seen as the modernized version of this tradition.

To brush up that and let it spread around the world, we should create a centre for information literacy where all the people with sufficient skills and sincere desire for the better world come together to move forward. Their priority could be, for example, to train young people in the industrialized countries, who suffer from the increasing jobless rate nowadays.

The era of so called “scenario planning” in the traditional matter came to end. Since 1970's, western conglomerate companies have been trying to establish their own unit dealing with “scenario planning.” Because the task with which we are faced in the current financial meltdown is beyond interests of each company, the international community as a whole should now make up mind to donate and create the above mentioned center for information literacy to save the future generation and world.

Terry Hill

Transport Market Chairman and Chairman of the Trustee Board, Arup Group

The Firm: It is mutual

At its most fundamental the principle stakeholders in an enterprise are the employees and the customers. Good and motivated employees lead inexorably to satisfied and happy customer, and hence successful companies.

There are of course other factors of production; raw materials, suppliers and capital. None of this implies the need for disinterested shareholders, of rather shareholders whose sole interest is profit maximization, the return on investment.



Arup (arup.com) is a 10,000-strong technology, planning, design and business consulting company owned by employee-beneficiary trusts. (EBTs). Founded over 60 years ago, it has delivered uninterrupted (reasonable) prosperity to its members, without debt or acquisition. In addition to reasonable prosperity, Arup's values comprise excellence, honorable dealings and a social purpose. Profits are reinvested in staff and research.

For the most recent UK general election all three main parties advocated employee-ownership. They all see the advantage in this specific solution to creating shared value and sustainable business strategy.

Linda Kleemann

Kiel Institute for the World Economy

Christiane Krieger-Boden

Kiel Institute for the World Economy

1. Strengthening the new sense of corporate responsibility for society

Quite generally, consciousness has to be regained or strengthened that business and society are closely and mutually interdependent. A sound business is required to nurture society, and a stable society is required to enable running business. Business should therefore take interest in creating an endorsing society. However, particularly in a highly competitive environment, it is quite tempting to take a free-rider position. Incentives from stakeholders and/or the state are therefore required to effectively influence strategies of enterprises. Economic research is urgently requested to better understand the underlying relations and to develop adequate incentive schemes.

Meanwhile, one could think of incentives in the form of awards with highest public attention for providers of shared value (like the Noble prizes or the Oscar awards), or of propagation of ethical oaths for managers (comparable to the Hippocratic Oath) and for corporations. Governments should think about establishing a legal institution for a voluntary but binding and enforceable commitment for corporations.

Moreover, the introduction of some kind of social accounting for enterprises should be pondered, to render account to stakeholders not only on the extent of social benefits and social risks of an enterprise, but also on the efficiency of shared-value activities, in an analogous way to the financial accounting for shareholders.

2. Defining shared value in accordance with customers, suppliers, employees and the broad public

Interests of different stakeholders may vary and may pose different, in parts even contradictory challenges to enterprises.

Thus, serving the interest of customers may require opening up entirely new markets for providing essential goods and services, such as health services or clean drinking water. It may also require developing new concepts for improving the quality of goods regarding effectiveness, durability, freedom of health risks, taste, etc., and making them yet affordable even to the poorest. Serving interests within the supply chain may require investing in public infrastructure to build an effective and functioning supply chain, not only to the benefit of the enterprise itself but to a whole region where the enterprise is engaged. Moreover, it may require fairly and sustainably valuing all sorts of inputs from land, livestock and raw material by striving for adequate rather than lowest prices for suppliers. Serving the interest of employees, both within the enterprise itself and in supply-chain enterprises, may require providing a sufficient number



of jobs, at fair working conditions, including some longer-term employment perspectives, and at fair wages, relative to the respective local environment, and abstaining from production at lowest cost in favor of production at fair costs. Serving the interest of the broad public, finally, may require rejecting any involvement in corruption or unlawful behavior to stabilize society. It may require offering reliable social security systems to employees and adequate opportunities for education and professional training to the young, to create life perspectives for current and future generations, and to thus contribute to the emergency of a broad, forward-looking middle class as a major pillar of a stable society.

In order to accentuate such interests, stakeholders such as customers' associations, employees' associations, other NGO interest groups, and the state could certificate enterprises for adequate provision of shared value in their specific resort. Also, they could establish rating agencies scoring enterprises for their shared value activities, yet such agencies should be licensed in order to avoid a confusing "cacophony of self-appointed score-keepers" (Porter). Governments should think about adequate support for stakeholder groups.

Any firm that wishes to provide shared value might focus on a limited number of stakeholder interests in order to avoid goal conflict within the firm. Firms should carefully choose the field in which to engage, in close intersection to the company's strategy and as a means of even gaining a competitive edge over competitors. Commitments are the more reliable, the more it is obvious that firms use their own core competences for providing shared value and also profit themselves to some degree from it.

3. Developing specific business models that better allow combining profit maximizing with the provision of shared value for society

Business models for enterprises providing shared value should vary according to the size of the enterprise, from large multinationals, over national SMEs to local entrepreneurs. Business models should also vary according to the relative significance of the commercial compared to the social component, reaching from largely commercial firms with a commitment to shared value, to social entrepreneurs making a living out of serving social interest.

- One major challenge may be to define a shared value that is highly complementary, perhaps even a by-product, to the commercial activities of an enterprise. The main task might then be to internally re-organize the corporation, to ensure that the impact of corporate operations on society is duly considered, and to establish the commitment toward provision of shared value throughout the firm. Finding a new balance between short- and long-term business goals, a turn-around to more long-range planning, might require a switch in internal incentive schemes towards more accentuation of longer-term objectives. These challenges might concern in particular multi-nationals that are primarily commercially oriented with a somewhat limited commitment to shared value.
- The need for new forms of organization should duly be considered, or the need to reinforce existing ones (e.g., cooperatives) to better serve the requirements of shared value business. This could be an issue in particular for smaller and more national oriented enterprises.
- Credit facilities for SMEs and social entrepreneurs should be considered, to enable business with a sufficient rather than maximum profit without risking unfriendly takeovers. On this behalf, microcredit-offering institutions should be encouraged, and state-influenced banks like the German Sparkasse or the French Caisse d'Épargne should be forced to take the lead in credit-financing shared-value activities.
- Unnecessarily complicated license and permission procedures may impede social business and should be removed. This might be of particular benefit to social entrepreneurs that wish to start new and sometimes rather unconventional businesses.



- To further support firms providing shared value, all kinds of cooperation should be fortified, e.g., alliances between commercial firms and shared-value providers, joint ventures, public private partnerships. This might in particular favor social entrepreneurs.

Baris Tan

Dean of College of Administrative Sciences and Economics Professor of Operations Management, Koç University

Business schools' responsibility for a sustainable and value-oriented society

Business schools' responsibility for a sustainable and value-oriented society

In the recent global economic crisis, the moral position of business in society and related to this discussion the legitimacy of business schools and the role of managers have received considerable attention. In fact, these three actors: Enterprises, business schools, and managers have greater responsibility for a sustainable and value-oriented society. In this part, the role of business schools is discussed and using business schools that educate future leaders in a responsible way by using an innovative curriculum and advocate the position of business in society is presented as a solution for this challenge.

One of the most effective ways influencing developments in a society is through education

The effect of providing an education that emphasizes the importance of social responsibility starts with the students when they are at the school and then it will be multiplied when the graduates assume leadership responsibilities and make decisions that are in line with the values rooted in the education.

The future sustainable growth of a country and its stability depend on how well it educates its youth to lead its business, economy, and political system in a responsible way and on how well it creates an environment for new businesses to be developed and value to be created.

The topic of corporate social responsibility includes a range of quite distinct, broad issue areas: from labor rights to human rights to environmental concerns, and from philanthropy to corporate governance to ethical business practices such as avoiding corrupt business payments. All of these issues are very important for the present and, more importantly, for the future of an emerging country.

Achieving the goal of having graduates who possess a sense of social responsibility will contribute to the transformation of society when they become leaders. These leaders will manage their organizations by assuming their responsibility to all stakeholders in concerns related to labor rights, human rights, environmental concerns, ethical business practices, corporate governance, and philanthropy.

Business schools have a responsibility to educate and also to advocate

A business school can—and indeed must—have a profound effect on the future of a society. The legitimacy of the business school in this environment comes from this responsibility, its role in shaping the future, and its contribution to society.

Providing an education that will contribute to the welfare of the country and all humanity, educating future leaders in all organizations who will be socially responsible and therefore committed to the highest ethical standards and to the values of democracy, and influencing the intellectual, technological, economic and social development of the country, will bring legitimacy to a business school and ensure its future.



In addition to educating future leaders about CSR matters, business schools should also be the advocates of these issues in society. Leading a discussion on corporate social responsibility in the society and playing an active role to influence the transformation can be a genuinely important responsibility of business schools.

Our experience at Koç University shows that a business school that has strong links with business and educates future leaders of the country can have a profound effect in instilling a culture of social responsibility. All the concerns that are related to the social responsibility of business operations are especially important in emerging and rapidly growing countries such as Turkey.

A need for innovation in business education

Innovation is a major challenge in business education. There is a great need for innovation in the curriculum, content, and delivery of business education programs. Globalization leads the harmonization of business education programs. Although it is essential to benchmark the programs and provide a business education that will prepare students for positions anywhere in the world, different business schools can develop innovative programs that will contribute to the education in different ways. There can be new approaches for business education stemming from business schools located in emerging countries that focus on areas that are especially important for these countries.

Assuming a role in intellectual, technological, economic and social development implies an interdisciplinary approach in business schools. Confining the activities of a business school to simply functional areas will not be sufficient to assume this role. An interdisciplinary approach that combines business, economics, and political science, as well as other fields, will serve the needs for emerging countries.

In the model of Koç University, the business school is a part of the university. This provides the possibility of pursuing an interdisciplinary approach and of including a liberal arts core in business education.

Providing business education with an interdisciplinary approach can be accomplished in a longer time period. Considering the time, the distribution of students, and the participation rates in undergraduate and graduate programs, undergraduate business education may play a more important role in the future, especially in emerging countries. This education should be accessible to all students regardless of their intended area of study. In other words, providing an education that is built on the values of social responsibility to all students is very important for a society. Business school can play an important role as a driver of this change.

Public-private partnership in education as a model for emerging countries

The establishment of Koç University is a good example of a public-private partnership. The Vehbi Koç Foundation that was established by the founder of the largest business group in Turkey has contributed to society by establishing this university. A contribution in the form of establishing a university is expected to have a multiplicative effect with its graduates, research, and teaching programs in the future. Today, Koç University has around 5,000 alumni, and 3,250 of them graduated from the undergraduate and graduate programs of the School of Business. Even though it has been only fifteen years since the very first graduation, a number of Koç graduates have already assumed leading positions in various corporations and organizations.

The developments outlined above can be a model for other emerging countries that have young populations and a great need for quality education. Since 2000, a number of business schools have been formed and financially supported by businessmen or by companies in countries such as India, China, Russia, and Germany.

Public-private partnerships may also introduce challenges for business schools. The model of establishing stand-alone business schools financed by business groups must be balanced by



making contributions to society, with educating better people for a better world an important part of their mission.

Regardless of these challenges, a business school can and must have a profound effect for the future of a society. The legitimacy of the business school in this environment comes from this responsibility, its role in shaping the future, and its contribution to society.