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How Shared Value is Reshaping the Role of Businesses in Society

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ABSTRACT

Within the last decade, the role of businesses has experienced a tremendous change of focus. The tendency towards more environmental and social practices that corporations are experiencing is the result of an increasingly shift of power towards the stakeholders. Nowadays the stakeholders are demanding more and more from the private sector. The academic community and the private sector, aware of this fact have suggested a potential solution to reconciled social responsibilities with profit maximizing. The main focus of the research study is to find whether the implementation of Creation Shared Value (CSV) programs in an organization becomes a meaningful factor affecting customer's perception, attitude and behavior towards the brand Pronaca one of Ecuador's largest food suppliers. The results obtained indicate a positive perception towards Pronaca. The results additionally indicate a positive behavior adopted by the respondents towards CSV practices.

Keywords: Creating Shared Value, Corporate Social Responsibility, consumer behavior, stakeholders, Pronaca.

RESUMEN

En las dos últimas décadas el rol del sector privado como un agente de cambio en la sociedad y en el medio ambiente atravesado grandes cambios. El rol de las empresas en la actualidad es el resultado de un cambio en el balance del poder, el mismo que hoy en día lo tienen los consumidores dado la gran disponibilidad de marcas y productos. De igual manera un factor clave en este cambio a sido el acceso a la información que posee el consumidor de hoy en día. En la actualidad el consumidor final está demandando cada vez más del sector privado. Los estudiosos del tema como también los líderes de las grandes empresas del mundo consientes de este fenómeno han buscado formas de cómo reconciliar el crecimiento económico con la sustentabilidad social y ambiental al largo plazo.

El concepto basado en las prácticas de creación de valor agregado o CSV por sus siglas en inglés, se posiciona como la estrategia más óptima para crear este nexo entre la sociedad, el medio ambiente y el sector privado, de una manera tal que permite un ganar, ganar a las partes involucradas. La manera en la que CSV, trabaja es por medio de incrementar el valor total creado en la operación de una empresa al incorporar a los diferentes actores, mas no una distribución del valor existente. El objetivo principal de este estudio es el de identificar si realmente la implementación de prácticas sociales y ambientales como CSV, pueden significativamente afectar la percepción, actitud y comportamiento de los consumidores y por ende incrementar la intención de compra estos productos. El estudio se enfoca en la marca Pronaca, uno de los proveedores de alimentos más grande del Ecuador. Los resultados obtenidos indican una relación positiva entre percepción, actitud, comportamiento y la implementación de programas de CSV.

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Index of Abbreviations

The abbreviations used throughout this thesis are the following ones:

- CSV - Creating Shared Value
- CSR - Corporate Social Responsibility
- ROI - Return Over Investment
- SA - Stakeholder Analysis
- VC - Value Chain
- HR - Human Resource
- NGO - Non-governmental Organization
- ABC - Activity Based Cost
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CHAPTER 1: INTRODUCTION TO THE PROBLEM

It is evident that social and environmental responsibility has been increasingly present in today's world. Research shows that nowadays more and more consumers expect companies to have higher levels of commitment towards society and the environment. Lantos (2001) suggests that the stakeholders are expecting more from the private sector. Nowadays the stakeholders do not only expect companies to maximize the economic value but also the social and environmental value. Due to the fact that our society in many cases perceives businesses as the main cause of social, environmental, and economic problems, the legitimacy of business has been highly criticized. As evidence shows, businesses are progressively implementing more responsible practices towards society and the environment for several reasons, including strategy, defense, and altruism.

For many years Corporate Social Responsibility (CSR) has served as an intermediate step to create cooperation between firms and society, however as the authors suggest it has not been the ultimate solution. In 2011, Porter and Kramer introduced the term "Creating Shared Value". The key difference suggested by the authors is that CSR is implemented on the margin of what companies do and CSV is implemented at the core of the business. The present study intends to find the impact of CSV practices on the perception, attitude and behavior of consumers towards the Ecuadorian brand Pronaca. Even though the company has made big efforts to successfully implement CSV practices, the reputation of the company is still a controversial topic. For this reason, this study aims to find out how and to what extent CSV has contributed to the company from a consumer's perspective.

Background

The first organized movements regarding responsibility in companies go back to the 17th century in England during the introduction stage of the industrialization. The ones in favor of these responsible practices wanted to implement a code of ethical conduct with the goal to encourage companies to be more socially and environmentally concerned. “Since the late 1880s the discussion of social responsibility has continued and in the last decade companies have started to take more and more social responsibility” (Kaplinsky & Morris, 2001, p. 25). Since the introduction stage of the industrialization, companies are broadly considered to be prospering at the expense of the environment and society. In particular in the last decade the private sector has been increasingly blamed for society’s failures.

The code of ethical conduct from the industrialization stage went through several transformation processes, to become what today is known as: ‘Corporate Social Responsibility’. Nevertheless, the private sector and scholars, in the last decades, have criticized the real impact CSR has had on corporate performance as well as the real impact of CSR on the stakeholders. For this reason the whole concept of CSR has been controversial. Authors such as Michael Porter and Mark Kramer (2011) believe that CSR could not be the most effective way to contribute to society and the environment from the perspective of a company and have suggested the concept of Creating Shared Value. According to the authors Michael Porter and Mark Kramer (2011), CSV is conceived as the optimal approach to attack social and environmental problems. The idea behind CSV is to create business value in a way that creates value for the stakeholders. The explanation relies on the principle that CSV aims to expand the total value created by attending the stakeholder’s needs and challenges rather than a redistribution of the existing value. For the previously mentioned reasons CSV is

supposed to be the most powerful approach available to positively contribute to the environment and society from the private sector's point of view.

Problem Discussion

The present study discusses the role of businesses among its stakeholders towards implementing shared value practices. As the 'world of doing business' has experienced a constant change of policies in its practices, companies are increasingly judged as the major cause of social and environmental problems. If one examines how businesses perceive their role in society, probably few of them will show results that have an impact on the positive development of societies. Experts on the field such as, Porter and Kramer have suggested that Creating Shared Value is expressed in the well-being of customers, the sustainability of natural resources, the viability of key suppliers and the economic distress of the communities in which a business operates. (2011)

The problem observed in the present study is how companies can bring business and society back together. In other words how can companies engage their stakeholders to participate in the creation of value? In reaction to the mentioned problem, this study focuses on how and to what extent Creating Shared Value practices provide businesses with the necessary tools to return benefits and a positive impact on society and among their stakeholders.

Hypothesis

Implementing *Creating Shared Value (CSV)* provides businesses a positive perception towards its customers, which increases the likelihood of consumer purchases.

Research Question

How and to what extent does Pronaca's CSV program affect customer's perception, attitude and behavior towards the brand, in order to increase the likelihood of customer purchases?

Purpose

The purpose of the study is to review the existing literature on this topic and broaden the framework of possible solutions that companies could implement in order to maximize the value created towards their stakeholders. The study brings up an analysis of empirical data obtained from the perceptions, attitudes and behavior regarding the purchase of a product that comes from a brand that uses Creating Shared Value practices in their operation. In addition the case study seeks to suggest possible strategies that Pronaca could use to take more advantage of these practices from a marketing perspective. By incorporating to the study the most relevant existing literature on how businesses can share the value created with the society and return a positive impact among their stakeholders, awareness regarding the role of businesses in society will certainly raise.

Thesis Outline

The outline of this thesis starts with an introduction, followed by a review of the literature where the most important terminologies are discussed. The literature includes Corporate Social Responsibility, Stakeholder Management, Value Chain and Creating Shared Value. The literature review is followed by the methodology, which includes a study of the impact of Pronaca's CSV program on customer's perception, attitude and behavior towards the brand. Followed by the presentation of the empirical data, data analysis and finally the conclusions and implications of the study.

CHAPTER 2: LITERATURE REVIEW

Corporate Social Responsibility

The Concept of CSR.

Since up to this date, CSR is a broad concept, there is no agreement on a universal definition. Several scholars have proposed a variety of definitions. Within the definitions that have received most attention are the following ones:

“The organization’s obligation to maximize its positive impact and minimizes its negative effects in being a contributing member to society, with concern for society’s long-term needs and wants” (Lantos, 2001.p3).

The European Commission (2006) has proposed CSR as the way companies integrate social and environmental issues in their operations. In addition it refers to the interaction of companies with the stakeholders involved but necessarily on a voluntary basis. Even though these two concepts differ significantly whether it is an obligation or conferred on a voluntary basis, both concepts emphasize the importance of the support businesses provide to their social and environmental stakeholders. One of the scholars who have received the most attention out of all in the field of CSR is Carroll, who proposed “The Pyramid of Corporate Social Responsibility”



Figure 1. The Pyramid of CSR (Carroll 1991)

Carroll's proposition is that even though business organizations have been created as economic entities, designed to provide goods and services to society, businesses do play an important role when it comes to improve quality of life, as well as to fulfill its obligations. "All other responsibilities are predicated upon the economic responsibilities of the business organization" (Carroll, 1991, p. 15). What the author intends to portray with the pyramid is the scope and impact of CSR, suggesting that Corporate Social Responsibility is not only about social issues but rather consists on four aspects: economic, legal, ethical, and philanthropic.

Arguments in Favor of CSR.

All over the world the role of businesses has experienced a change of focus, acquiring greater ethical awareness towards society and the environment. A change of societal expectations has forced businesses to redefine their role and to act more responsible (Bhattacharya & Sen, 2010). The authors Bhattacharya and Sen (2010) explain that the terminology, which best illustrates the shift towards the new tendency in the role of businesses in our society is called 'Corporate Social Responsibility'. This new tendency consists on a commitment to improve

the societal well being by adapting the business practices and contributions. Waddock (2008) explains that since the introduction of CSR in the 1950s, this practice has increasingly gained acceptance within the world of business. In addition the author points out the fact that CSR has evolved from philanthropy to a powerful tool to incorporate social and environmental responsibility with corporate well being. CSR experts suggest that in particular, the last two decades have experienced an extraordinary change in the way businesses operate in a range of social and environmental issues.

Businesses are progressively implementing CSR policies for several reasons, including strategy, defense, and altruism. Experts of CSR such as Stigson (2002) suggest that it is clear that our society has higher expectations of businesses than only to provide a nice product or a reliable service. Moreover, it is evident that society nowadays is expecting more from companies, and not only to be good corporate citizens, but also it is rapidly becoming less tolerant of companies that do not fulfill their social responsibilities. For the companies that succeed to fulfill their stakeholder's expectations, the conditions appear to be highly beneficial in the short and long term.

Several conservative experts like Friedman for instance have offered a more traditional economic view in relation to CSR. "There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game" (Friedman, 2002, p. 24). Nevertheless, it has been found by many scholars that implementing CSR can have a significantly positive impact on corporate performance (Bhattacharya & Sen, 2004). Therefore, from the strategic perspective, CSR could perfectly be aligned with the traditional economic view due to the fact that it could positively affect the financial performance. In addition, according to Lichtenstein, Drumwright

and Braig (2004), recent studies indicate that corporations, which are socially and environmentally responsible, can positively affect the attitudes consumers have toward the corporation. CSR could also have a positive impact on the corporate performance as a mean to prevent competitors from attacking the reputation and therefore sustainability of the company in the long term.

Similar statements can be found in studies done by Lichtenstein, Drumwright, & Braig (2004). The authors argue that once a company in a particular industry has successfully implemented CSR policies, rival companies may be as well forced to implement these policies. Previous studies have found that in case the competition does not engage in CSR, they are in serious danger of losing consumer loyalty. CSR may also provide a competitive advantage for firms, thus leading to greater market share, resulting in higher profits for its stockholders. “CSR can differentiate a company from its competitors by engendering consumer and employee goodwill” (McWilliams & Siegel, 2001, p. 13). A highly beneficial aspect for companies with a strong CSR background is that employees are increasingly starting to evaluate their company’s social and environmental performance to determine if there is a conflict between their personal values and those of the firm they work for. This statement also applies for the consumers, due to the exponential increase in the availability of goods and services in the market, and the access to information.

As it was previously discussed CSR in most of the cases it is an integrated practice into a firm's operations and therefore it is a complex procedure to quantify and measure its effects as separate variables. For this reason the Strategic Approach for CSR has gained wide acceptance in the last decade. The Strategic Approach concept consists on doing good in order to make a higher profit. Proponents of the Strategic Approach affirm that engaging in CSR can

benefit a firm in diverse aspects such as the relationship with employees, consumers, and stockholders. “By serving the needs of both stockholders and stakeholders, the strategic CSR is a win-win situation” (Bhattacharya & Sen, 2010, p. 28). One of the many companies that have successfully implemented strategic CSR is Starbucks. “Consumers are demanding more than ‘product’ from their favorite brands. Employees are choosing to work for companies with strong values. Shareholders are more inclined to invest in businesses with outstanding corporate reputations” (Starbucks, 2001, p. 3).

The authors affirm companies would most likely suffer from lost sales, higher turnovers and a negative image, if they do not fulfill their stakeholder’s expectations. In addition, adopting CSR principles could motivate executives to seek more efficient ways of operating by reducing packaging material, better planning the logistics, would help the firm to reduce costs and to be more efficient. From the strategic perspective CSR efforts seem to be logical, due to the fact that they lead to increased revenues. In addition to revenues CSR may also lead to cost reductions. “As with any corporate investment, each dollar of investment in a corporate stakeholder group should be justified by at least a dollar of expected return over a finite time horizon” (Martin, Petty & Wallace, 2009, p. 17). Therefore a crucial aspect to validate the impact of CSR and in particular the strategic approach is to evaluate the financial returns of CSR efforts.

Certainly, having the intention to implement socially responsible practices do not justify the engagement. “Social welfare isn’t the driving force behind these trends. Healthier foods and more fuel-efficient vehicles didn’t become so common until they became profitable for their makers” (McWilliams & Siegel, 2001, p. 54). Therefore social actions, even for mission driven firms must be aligned with the company’s specific corporate objectives and

core competencies, in order to be a sustainable practice in the long term for the firm. It is evident that being socially responsible involves costs, for this reason in order to be feasible and sustainable CSR activities should also generate economic benefits. A corporation could not continue its operations with a policy that constantly generates negative cash flows.

Arguments Against CSR.

Even though CSR has had a wide acceptance within the private sector, the real impact CSR has had on corporate performance is still controversial for many authors. There is an intense debate about the legitimacy and value of CSR. The Nobel Prize-winning economist Milton Friedman (2002) believes that the only responsibility of a business is to generate more profits. Friedman's (2002) argument is that investing on social issues is not appropriate for corporations, due to the fact that by focusing on social responsibilities, the corporation may be distracted from its main purpose, which is to provide a return to its shareholders. Although, most of the experts agree that CSR has helped to reformulate business ethics and it has definitely increased global awareness, for many scholars the concept is still a failure.

Freeman and Liedtka, professors at the Darden School of Business argue that CSR has failed on its responsibility to contribute to the good of society. Furthermore, the authors suggest that CSR promotes incompetence by distracting businesses with society's shortcomings (Freeman & Liedtka, 1991). Furthermore, criticism to CSR regarding the strategic approach advocate that because social and environmental actions will have a price for the firm it does not represent an advantage for the firm but rather a competitive disadvantage. Another problem, which according to the critics weakens the CSR concept, is the fact that in several cases CSR is practiced solely in response to crises. In other words, CSR for companies

consist only on reporting “good stories” without putting in practice concrete social and environmental actions: “The content of CSR very often is misleadingly substantial: the reports are thick and seemingly contain much information, but the actual extent of what is done beyond legal requirements remains limited” (Fougere & Solitander, 2009, p. 221-224). This practice is generally known as green washing. These firms may communicate their good actions through advertising their CSR efforts, in order to promote reputation as socially responsible firms, in the community. Nonetheless, it is evident that these kinds of firms are not pursuing CSR to contribute society but rather to take advantage of consumer’s trust.

As it was stated in the previous section: Arguments in favor of CSR practices could affect the purchasing decisions of consumers, however critics argue that very few consumers are concerned about the social and environmental responsibility of firms. Studies against CSR suggest that consumers have rather low awareness of the CSR practices. Vogel (2008) believes that the main problem is that consumers are less concerned about CSR that they are about other factors such as price in their buying decisions. The author suggests that CSR products are a small niche and that most goods and services are purchased based on quality, price and convenience. Suggesting that one of the main issues in relation to CSR is that the market for these practices is still too small to have a significant impact on the profit margins of a firm.

Stakeholder Management

Stakeholder Management Overview.

In order to understand how Creating Shared Value may reshape the roles of business in society we need to go through the value chain that is connected to the business itself and the interdependence between the firm and its stakeholders. Part of the role of a business in society

is to create a positive interaction and cooperation with its stakeholders. Most importantly, according to some studies, stakeholder management involves engaging your stakeholders in the mission and goals of the business (Fáilte Ireland, Business tools, 2013). A stakeholder has to be understood as a vital part of any project. Stakeholder refers to any person or entity that is expected to either impact the project or to be impacted by the project (Archer, 2003). Stakeholder management requires the understanding of the difference in the amount of contribution and responsibilities that your stakeholders may have towards a project or the normal operations of your business (Hillman & Keim, 2001). Therefore, they will also exhibit different levels of commitment and support.

The tendency that corporations are experiencing nowadays is the result of an increasingly shift of power towards the stakeholders, who are demanding more from the private sector in terms of transparency and the impact of their operations in regard to their external as well as internal environments. According to Archer (2003), the main purpose of assigning time and resources within the normal operations of the business towards stakeholder management is to obtain a level of stakeholder participation, commitment and support. Furthermore, if your business meets a consensus with them towards their responsibility and contribution in the project, it becomes more manageable to successfully complete any change, initiative or project (Archer, 2003). Nevertheless, it is a process that requires that stakeholders are actively managed from the beginning and for the entire duration of a project. “It is also easy to list a range of well-known companies that have built strong reputations based on clear, cohesive, and lived values and cultures: Apple, Toyota, to name just two” (Ipsos Mori, Social Research Institute, 2009, p. 10). The image and role in society companies screen is built by the well-structured relationship with their stakeholders.

Summing up, stakeholder management has long been regarded as a vital part of an organization's effectiveness. It is important to take into account how to manage more importantly the relationship and trust with your stakeholders, since they play important roles as advocates, sponsors, partners and agents of change (Post, Preston & Sauter-Sachs, 2002). "Understanding those you work with and for helps to build strong relationships and, ultimately, to achieve your objectives" (Ipsos Mori, Social Research Institute, 2009, p. 2). Influential research on this field has demonstrated that consumers, investors, governments and several other actors are more willing to listen to companies with strong reputations (ibid, 2009).

Identifying Stakeholders.

In order to identify the stakeholders we need to look through some of its most accepted definitions. "A stakeholder is any entity with a declared or conceivable interest or stake in a policy concern. Stakeholders can be of any form, size and capacity. They can be individuals, organizations, or unorganized groups" (World Bank, 2002). Some other authors define 'stakeholder' as referred to persons, groups or organizations that must be taken into consideration by managers, leaders and front-line staff (Mitchell, Agle & Wood, 1997). Whether the stakeholders are related directly or indirectly to the organization, at different stages they will benefit or being affected by the organization strategy and actions adopted.

The Stakeholders approach has been assumed as a prominent place in public and nonprofit management theory and practice in the last 20 years, and especially in the last decade (Bryson, 2004). Other authors who wrote on the stakeholder's approach, such as, R. Edward Freeman in the now classic text 'Strategic Management: A Stakeholder Approach'

(1984) argue that a stakeholder is considered to be “any group or individual who can affect or is affected by the achievement of the organization’s objectives”. (Bryson, 2004, p. 67). Some other definitions include “all parties who will be affected by or will affect the organization’s strategy” (Nutt & Backoff, 1992, p. 439). For the present research purpose the definition that most accurately approaches the term stakeholder would be the one described in Nutt & Backoff (1992). This definition includes all the groups that need to be involved in decisions taken by managers, leaders and influential actors within the organization. The following exhibit best expresses the structure in which stakeholders are linked to a business operation.



Exhibit 1 (Nutt & Backoff, 1992, p. 439)

The following paragraphs will go through the stakeholders considered as most relevant according to research done by several authors.

Owners/Investors/Lenders.

As stakeholders, the level of importance you give to owners, investors or lenders depend upon the exact structure of the business and how it is funded. According to this research, one of the keys to obtain a good relationship with the owners, investors and lenders, is to agree on a shared vision for how the business is to be operated (Fáilte Ireland, Business tools, 2013). An important aspect that needs to be considered towards a positive relationship with your shareholders is that both investors and funders will always look after and want to protect their investment, and get the highest return possible. Hence, most of the time they perceive the business from that limited perspective. (Savage, Nix, Whitehead & Blair, 1991) On the other hand, taking care of the lenders where managers have to be focused on the finance side, maintaining a good cash flow that backup the debt and pays off. However, in regard to this research, managers also have to consider those concerns related to employee welfare and customer service, which may cause certain pressures that is not always well understood by those external to the business. (Fáilte Ireland, Business tools, 2013). It is highly recommended as manager to check if both sides' expectations are being satisfied without creating a gap in communication between the business and all the stakeholders.

As a solution for many of the issues that may come up in the process of engaging the first group of stakeholders, it is proposed for both parties to come together so that they develop a shared vision for the future of the business (Savage, Nix, Whitehead & Blair, 1991). Nevertheless, the fact that both sides grow further apart and become more and more adversarial over time and end in acrimony may occur if a shared vision is not taken into account formerly. As a final thought on the first group of stakeholders identified, it is suggested to involve the first actors in the development/revision of the vision and mission for

your business and of course the strategic goals that arise from this process. By doing so, it will be easier to bring up the differing perspectives to the surface at an early stage in the business life cycle. This tool is useful because it delivers an overview of the business, which will not be evident from solely exploring the financial reports and serve to give them a greater insight into the ongoing challenges and achievements within the business.

Customers.

Customers, as stakeholders demand interaction with them on a regular basis and so it is the key to survive in any business as a manager. Yet, some research done brought up some new ideas on how to maintain a good relationship with your customers. It has been found that the real consideration on this group of stakeholders is how meaningful the relationship is in terms of really understanding your customers needs and continuously developing a good service offering in response (Fáilte Ireland: Business tools: 2013). It is required to understand the common expectations of customers across the service journey.

The challenge towards looking after and retaining your customers is to define specific customer segments and fully understand their changing needs and expectations that arise on a regular basis (Ferrell, 2004). As you actively seek for satisfying their changing needs and expectations, implementing activities that will help you better understanding your customers, are recommended. Some of them, will be discussed further in this chapter, include: Focus groups, surveys & questionnaires, feedback mechanisms and so forth.

Employees.

Employee engagement is a vital success factor for your business. Certainly, as a manager you have a variety of ways in which you interact with them. The challenge and key here is to achieve quality of those interactions (Jones, 1997). Other signs in line with Fáilte Ireland (2013), when you need to enhance the way you interact with your employees include:

- The effectiveness of the recruitment and induction process.
- The effectiveness of ongoing communications between managers and employees.

By considering these recommendations, the company will be able to better sense how well the engagement with your employees is on an ongoing basis.

Community.

The community as an indirect stakeholder will have a greater or lesser impact on how you run the business, depending upon the location of the business. If your business is located in a small rural area it is more likely to have more influence on the decision you take than if it is based in a large city. Some businesses would rather seek to work closely with the local community since they can implement CSR practices. The important aspect, regardless of the location, is to establish formal platforms, which allow you to interact with the local community in a meaningful way. In addition, implement certain means to communicate your intentions to them. This can be achieved through tools such as an environmental management, or health and safety policy (Dunham, Freeman & Liedtka, 2006).

According to Fáilte Ireland (2013) the most practical way to understand the level of engagement between your business and the local community you interact with directly or

indirectly is to ask the find out the following data: The amount of local employment provided by your business; The support or contribution to the running of any local community groups or charities. Whether your business activities are impacting on daily life for locals. Finally, it is important to learn, whether your company is viewed positively or negatively in the local community. As a final thought, building better relationships with the local community is a huge step to achieve CSV practices in your business and it is a way to add value to your business and create value in service to the community.

Suppliers.

Although, suppliers are considered as secondary stakeholders, the impacts on your decisions are strongly attached to this group. Before studying the importance of suppliers in the future and goals of the business, it was assumed that this relationship has been somewhat at “arm’s length”, because business perceived mistrust within the relationship. Traditionally, the relationship was based on the expectation that the supplier’s aim was to maximize profits by delivering quality in the goods, and the purchaser challenging the supplier on quality, weight and price and always threatening to take their business elsewhere (Jawahar & McLaughlin, 2001). The result of this was that both parties ‘lose, lose’ in terms of profit, quality and a long-term and reliable trading relationship.

The new dynamic has turned to be a rather open one in order to develop a working relationship where needs of both parties are met and achieve a ‘win, win’ situation (Fáilte Ireland, Business tools, 2013). By connecting the value chain from suppliers to delivering value to customers from a solid relationship with suppliers, you ensure delightedness in your customers through the products and services offered. A good relationship not only ensures

good quality in the product and service through the value chain, but a true partnership approach lead to a more efficient management, where you spend less time in operational problems and leave it to focus more on the business (Banerjee, Dasgupta & Kim, 2008). An example of commitment that the suppliers show to the business in real life, is the increasingly offer range of consulting and support services dedicated to businesses which benefit them at low or even no cost.

Government.

The government is the key to the success of businesses. Most of the times, the government is seen as a stakeholder in your business, which it actually true; yet, the impact on your business from the decisions made by the national government can directly affect or change the operations of your business (Golden, Scott & Hughes, 2004). Businesses should focus on the engagement issue; therefore, engage with the local arm of government and its agencies that directly support the industry (Fáilte Ireland, Business tools, 2013). Building strong relationships with these bodies becomes a key to thrive even in a government crisis.

Stakeholder Management Cycle.

Stakeholder Management requires following a cycle, which needs to be defined by crucial steps that lead to accomplish a fully engagement of your stakeholders towards the company objectives. According to important research on this approach, the company intention of following a cycle should be to ensure success by managing the expectations of the full range of people and groups who could be affected by your activities (Business Minds, 2009). It is essential to take into account the different perspectives that your stakeholder may have, since

it can reduce risk, add value to your business model or project and finally, ensure that it is sustainable in the broadest possible sense. Now, going through the steps suggested by Archer, L, any manager of business operations or project needs to make sure to: firstly, identifying, recognizing and acknowledging stakeholder. It is crucial to identify both primary and secondary stakeholders that are directly affected in certain sense by any decision the business make.

Recognizing the most relevant stakeholders and acknowledging them is crucial when it comes to building a decision and consensus; secondly, to analyze and more importantly to understand the responsibility, contribution, commitment and support of each stakeholder (2003). It is recommended to work on a matrix basis or a factor rating method where you place the weight for each stakeholder according to the criteria given below. Thirdly, to elaborate a plan and schedule of the activities that needs to be accomplished in order to ensure good participation and commitment from your stakeholders. Once the plan is ready, the company proceeds to the execution of the planned activities (Roloff, 2008). At last, after the execution it is required to monitoring the outcomes and to take corrective actions (Archer, 2003).

The outcomes obtained from the stakeholder analysis and activity planning are by definition the Stakeholder Management Plan. These outcomes can either be incorporated into the master project plan or managed separately (Roloff, 2008). As it will be discussed further in this chapter, the most effective and used types of activity required for stakeholder management are: training & development, engaging stakeholders in planning and decision making, communication and managing expectations. According to Archer, it can be concluded that regardless the sequence of the cycle or plan suggested, it is subject to the managers of company or the project to select the right order for performing the cycle.

Analyzing Stakeholders.

Relevant research on the topic of Stakeholder Analysis (SA) defines it as “a methodology used to facilitate institutional and policy reform processes by accounting for and often incorporating the needs of those who have a ‘stake’ or an interest in the reforms under consideration” (World Bank, 2002, p. 3). Analyzing stakeholders is useful because it provides valuable information on stakeholders, their interests, and can determine their capacity to oppose reform. Therefore, the managers of the business can choose how to best accommodate them and assure that adopted policies are politically realistic and sustainable.

The origin of Stakeholder Analysis comes from the business sciences. Nowadays, it has evolved into a field that now incorporates economics, political science, game and decision theory, and environmental sciences (Roloff, 2008). Most of the SA applied currently is based on a variety of tools that include both qualitative and quantitative data. These types of numerical and qualitative SA models provide us with a clear understanding of stakeholders, their positions, influence with other groups, and their interest in a particular project or strategic reform of the business. According to research carried out by the World Bank, SA “provides an idea of the impact of reform on political and social forces, illuminates the divergent viewpoints towards proposed reforms and the potential power struggles among groups and individuals” (2002, p. 4). The same research proposes that SA helps to identify potential strategies for negotiating with opposing stakeholders.

Scholars, such as K. Schmeer, suggest that “stakeholder analysis is a process of systematically gathering and analyzing qualitative information to determine whose interests should be taken into account when developing and/or implementing a policy or program” (1999, p. 4). The main aspects taken into account in the analysis are: stakeholder knowledge of

the policy, interests related to the policy, position for or against the policy, potential alliances with other stakeholders, and ability to affect the policy process through power and/or leadership. According to K. Schmeer's (1999) studies, there are seven major steps in the process:



Exhibit 2 (K. Schmeer 1999)

Summing up, by carrying out stakeholder analysis, businesses can obtain useful and accurate information about stakeholders (Roloff, 2008). Furthermore, SA yields an input for other analyses, such as to develop action plans to increase support on businesses strategies and policies, and participation and even consensus-building.

Action plan: activities available for increasing stakeholder contribution and commitment.

As this topic best expresses, this section is dedicated to briefly describe the most known activities within the action plan, which have the purpose to increase stakeholder contribution and commitment.

The lack of stakeholder engagement in the planning and decision making processes may cause stakeholders to resist committing to and supporting plans, objectives and strategies of the business. Creating interaction is key to maintaining a stable negotiation power among stakeholders. The author highly recommends that an effective communication may be the most accurate way of addressing these obstacles (Cleland, 1986). Hence, encouraging the participation and commitment of stakeholders during a project is crucial to guarantee a positive communication. The author argues that training and the development goal is to ensure that stakeholders' contribution to a project or change in a strategy is maximized through the development of appropriate knowledge, skills and attitudes (Roloff, 2008). In line with Archer (2003) training and development with stakeholders should be adopted in order to maximize interaction and long term profits, as well as guarantee of loyalty to your organization.

Training and development can be applied to: individual development, team development and leadership development. Training and development activities aim at developing the knowledge, skills and attitude of individuals and teams (Cleland, 1986). They are highly recommended because they yield good feed-back on the results produced. Stakeholders commonly differ on the purpose of the project and the expectations of outcomes. The goal is to understand their expectations, which will ease the communication with the

stakeholder in and, therefore, yield a higher level of stakeholder commitment and participation (Roloff, 2008). The risk of losing stakeholder commitment is high when you do not meet a clear understanding of their expectations.

Value Chain

In this section we will summarize briefly the concept of Value Chain, moving next to examine its approach for Assessing Competitive Advantage, as well as its future. The value chain is a concept designed by Michael Porter in 1985. Porter's approach on this model is to provide business managers a systematic way to examine how competitive advantage develops and to identify where value is added in an organization (Porter, 2008). The original model (*see figure 1*), made by M. Porter illustrates a diagram including the primary activities and the support activities every business should determine to define its competitive advantage (Rayport & Sviokla, 1995). The activities described within it include, as stated, support activities and primary activities. Then, an arrow is formed by this structure, which represents the margin of the business.

Among the Primary activities, generally a business operates with: Inbound logistics, operations, outbound logistics, marketing and sales and service. Yet, the VC concept may not necessarily apply to business services, since inventory is not part of its value chain. Therefore, a different type of process may be followed. Conversely, the support activities do apply to any type of business since those are vital for any organization to operate, including goods and services, NGO's and so forth. Those include, Firm infrastructure, HR management, Technology development and Procurement. The support activities need to cover the VC from the bottom-line.

1 Porter's value chain



Exhibit 3 (Porter, 2008, p. 55)

The key of a value chain is based on the process view of organizations. In this process “the manufacturing (or service) company is seen as a system made up of many subsystems, each with inputs, transformation processes and outputs involving the procurement and consumption of resources” (Porter, 2008, p. 55). Furthermore, how well the value chain activities are managed may determine costs and affects profits (Rayport & Sviokla, 1995). Assessing an organization's value chain requires the knowledge of its competitive advantage in line with its core activities that deliver added value and, therefore, profit margin for the shareholders.

The whole concept of the value chain is focused in activity-based management. Likewise, it underlies in the balanced scorecard. Yet, criticisms of the model have risen. As we discussed a couple of lines above, its most notable weakness is that it does not necessarily apply to service organizations, as it does to goods. Nevertheless, some solutions to this issue came up in 1998. Charles Stabell and Øystein Fjeldstad addressed this model issue by creating an alternative representation of a value chain for professional services firms (*see Exhibit 3*) (Porter, 2008). Service firms, as every product focused organization, need to allocate its

resources to add value to its core activities delivered to the final user and perceived by the stakeholders.

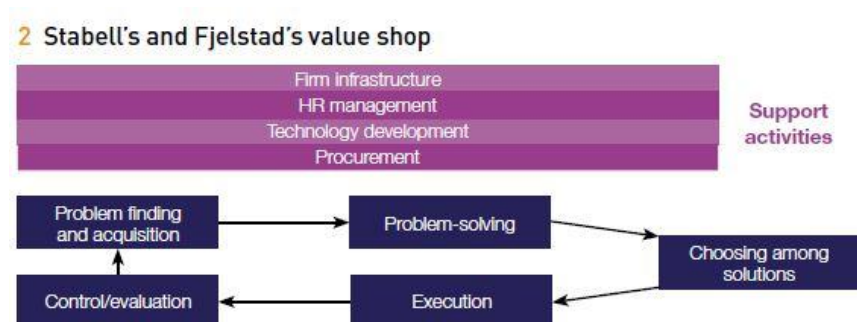


Exhibit 4 (Stabell & Fjelstad, 1998)

According to Stabell and Fjelstad this VC service oriented model can be adapted to a professional service organization easily as a “value shop”. The value shop idea resembles a workshop, which differs to a retail outlet. So, how this service oriented model work, is mobilizing resources to solve specific problems. The process involves repeating a generic set of activities until an adequate output is reached (Porter, 2008). As the author explains, the shop model applies to many organizations, such as, architects, consultants and legal firms. Furthermore, it may apply to those whose main purpose is to identify and exploit specific opportunities (Kaplinsky & Morris, 2001). Assessing a service oriented value chain requires the identification of opportunities where value may be added towards differentiating from competitors and eventually delivering that perceived value to customers.

A relevant difference explained by the author between these two VC models, is that the primary activities are described differently. Yet the support activities are the same as in Porter's model. As Porter states, “from this we can see that the management agenda in a value shop focuses on areas such as the assessment of problems and opportunities; the mobilization of resources; project management, the delivery of solutions; the measurement of outcomes;

and learning” (Porter, 2008, p. 55). Service firms, in contrast with product-oriented firms generally focus more on creating value in each process of customer service towards delivering the final product. Product-oriented firms, by contrary, deal every day with minimizing supply chain, inventory and distribution costs and dedicate less time to identify opportunities where value can be added.

Michael Porter argues in favor of value chain approach, standardization of processes and activities enables minimizing operating costs and identifying areas of improving value. In line with Porter’s (2008) analysis, an organization that adapts this model into its core operations can benefit from the following plus sides such as to apply multiple disciplines and specialties and develop different skills and expertise which are often required at various stages of the problem-solving process. In addition an organization could focus on the core activities and opportunities to differentiate and add value as well as to develop responses to liaise with unique cases. These require that value-creation process be organized to deal with unique situations. Leverage from knowledge and expertise and make the best use of it. Usually demanding a scale of operations that broadly applies specialized expertise and knowledge across numerous problems or opportunities, as the author suggests.

The need of demonstrating a high degree of coordination across different activities, disciplines and sources of expertise, is highly required (Rayport & Sviokla, 1995). Value-chain approach demands a high investment in IT and R&D resources that enable coordination among the core activities towards creating value in every process. Decision-making and analysis comes to a better implementation when managers view the firm in a value chain perspective (ibid, 1995). Managers make decision easier when they are able to scan a problem exactly in the value chain. Finally, benefit from relying on referrals based on reputation and relationship.

Value shops often need to call on expertise from other organizations or disciplines (Porter, 2008). A value shop generally adapts value-creating strategies from expertise recommendations based in cases of service firms.

The Value Chain Approach for Assessing Competitive Advantage.

The goal of studying the Value Chain concept in our core topic is to understand the value chain approach for assessing competitive advantage. J. Shank and V. Govindarajan argue that the value chain most important goal for any firm is to create value along the activities all the way from basic raw material sources from component suppliers through to the ultimate end-use product delivered to the final consumer. This view of value chain best expresses a firm as part of an overall chain value-creating process. (Institute of Management Accountants, 1996) According to the same authors, Shank and Govindarajan, “the industry value chain begins with the value-creating processes of suppliers, who provide the basic raw materials and components.” The value-creating processes continue in delivering value to different classes of buyers or end-use consumers, and ends up in the recycling of materials (Kaplinsky & Morris, 2001).

In a society it is crucial that firms create value not only for customers as users but most important for the environment, in such a way that the positive impact generated from the value chain is perceived by a whole living environment. A firm shapes its competitive advantage derived from the difference between the value it offers to customers and its cost of creating customer value. The first form to create competitive advantage is through differentiation advantage. The second is a relative low-cost advantage (Institute of Management Accountants,

1996). Firms elaborate the strategy that will be implemented to create value for its stakeholders and decide which way to choose depending on the industry they are in:

1. Differentiation advantage: this strategy takes place when a business unit's product offering is perceived of higher quality or outperforms the rivalry product offerings. If customers perceive a product or service as superior, they become more willing to pay a premium compared to what they would pay for the competing offerings. Management applies this strategy in two ways: by increasing price until it just offsets the improvement in customer benefits. This benefits the business from maintaining current market share. The other mean is to lower the price below the full premium level so that it increases the chances to build market share (Kaplinsky & Morris, 2001). Organizations implement different advantage strategy within its value chain in order to achieve value-creation in each operating process and reach sustainability in its competitive advantage.

2. Low-Cost Advantage: when the company's resources enable to lower total costs below the market average, they benefit from competing on low-cost advantage. This relative cost advantage permits a business to compete in either one of two things: the pricing of the product or service is lower than its competitors. This strategy allows the firm to gain market share. (Institute of Management Accountants, 1996) There are some sources of cost advantage such as, having the access to low-cost raw materials; innovative process technology; low-cost access to distribution channels or customers; superior operating management. Furthermore, an alternative to gain a relative cost advantage is by exploiting economies of scale in some markets (Hansen & Birkinshaw, 2007). Organizations should decide how to implement low-

cost strategy within its value chain in order to achieve value-creation in each operating process and reach sustainability in its competitive advantage.

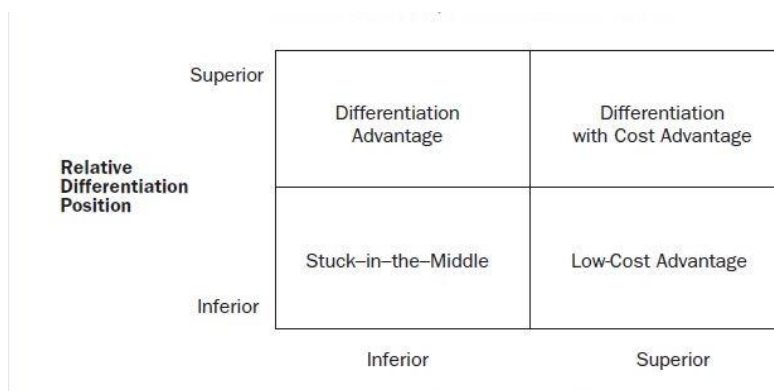


Exhibit 5 (Hansen & Birkinshaw, 2007)

The value chain approach for assessing competitive advantage enables a firm, both service or product oriented, to better understand which segments, distribution channels, price points, product differentiation, selling propositions and value chain configurations will yield them a solid competitive advantage. The key is to concentrate on the particular activities that allow them to capture maximum value for their customers and the firm in order to thrive in the industry the company is in (ibid, 2007).

Creating Shared Value

The Roots of CSV.

Michael Porter and Mark Kramer introduced the term “Creating Shared Value” also called CSV in 2011. Even though the concept of shared value has to be with social responsibility, philanthropy, and sustainability, it has a complete different approach due to the fact that it is implemented not on the margin of what companies do but rather at the core of the business. In other words corporate social responsibility and other approaches have often

remained on the periphery of business strategy not taking into consideration the value created at the heart of the business, whereas the major goal of CSV from the authors perspective, is to create business value in a way that also creates value for the stakeholders by attending its needs and challenges.

For many years CSR has created cooperation between firms and society, however as the authors suggest it has not been the ultimate solution. The academic community and the private sector are aware of the importance to rethink the relationship between firms and society. As it has been discussed in the previous paragraphs, in the past the global economy has been focused mainly in providing products and services to fulfill a demand. Nevertheless, more and more firms, around the world have reconciled social responsibilities with profit maximizing activities.

Companies are broadly considered to be prospering at the expense of the environment and society. In particular in the last decade the private sector increasingly has been blamed for society's failures. Due to the fact that society in many cases perceives businesses as the main cause of social, environmental, and economic problems the legitimacy of business has been highly criticized. "A big part of the problem lies with companies themselves, which remain trapped in an outdated approach to value creation that has emerged over the past few decades. They continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success" (Michelini & Fiorentino, 2012).

It is important to clarify that CSV is not about sharing the value that has been already created which would fall into the traditional redistribution approach. But instead, CSV aims to expand the total value created. A good way to illustrate the different approaches is to compare

the fair trade initiative and CSV from the perspective of the authors. “Fair trade aims to increase the proportion of revenue that goes to poor farmers by paying them higher prices for the same crops. Though this may be a noble sentiment, fair trade is mostly about redistribution rather than expanding the overall amount of value created. A shared value perspective, instead, focuses on improving growing techniques and strengthening the local cluster of supporting suppliers and other institutions in order to increase farmers’ efficiency, yields, product quality, and sustainability” (Porter & Kramer, 2011. p3). As it was previously explained CSV focuses mainly on the relationship between societal and economic progress. It does not intend to redistribute the existing value as traditional social and environmental practices intend, but rather to expand the total value, in order to benefit the company and the stakeholders involved.

How Shared Value is Created.

According to Porter and Kramer there are three key ways in which companies can create shared value opportunities. The interesting aspect of this approach is that one way reinforces the other in a circle of value creation. For example by enabling local clusters development you can reconceive your products and markets and therefore redefine productivity in the value chain of your business. In the following paragraphs every concept is explained in more detail.

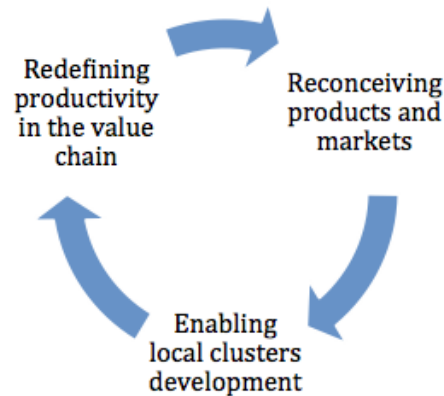


Exhibit 6 (Porter & Kramer, 2011. p2)

Reconceiving Products and Markets.

The global economy has been focused mainly in providing products and services to fulfill a demand. However, very few companies in the past were concern if the product or service they provided was actually good for their customers. Nowadays, the traditional approach is changing, and an increasingly number of companies are becoming more socially and environmentally concerned about the impact of their products and services. For instance Intel and IBM, are working together to find ways to become more power efficient in order to benefit the consumers, the environment, and therefore gain a competitive advantage which could lead to higher profits. The most important aspect of reconceiving markets and products is that social and economic gains are even greater than in the traditional approach, focused only in the demand.

Another important change in the global economy towards CSV is the fact that more and more companies are refocusing on the greatest unmet needs. “In advanced economies, demand for products and services that meet societal needs is rapidly growing. Food companies that traditionally concentrated on taste and quantity to drive more and more consumption are

refocusing on the fundamental need for better nutrition” (Hamel, 1996. p21). Reconceiving products and markets has allowed customers to acquire products and services that create societal and environmental benefits.

Enabling local clusters development.

The concept of enabling local clusters from a CSV perspective has to be with the fact that no company is self-contained. “Firms create shared value by building clusters to improve company productivity while addressing gaps or failures in the framework conditions surrounding the cluster” (Bathelt, H. et al., 2004. p19). According to the authors without a supporting cluster the productivity of a company in the long term suffers. Capable local suppliers, a well-educated workforce, gender equality and a safe environment promote efficiency, and productivity, which in the long term enables that society to prosper. “Clusters include not only businesses but institutions such as academic programs, trade associations, and standards organizations. They also draw on the broader public assets in the surrounding community, such as schools and universities, clean water, fair competition laws, quality standards, and market transparency” (Hamel, 1996. p21). Productivity and innovation according to Porter and Kramer are strongly influenced by geographic concentrations of companies, related businesses, suppliers, suppliers, and logistical support. One of the best examples to illustrate the importance of clusters is the development of technology is the case of Silicon Valley in the United States.

Redefining Productivity in the Value Chain.

According to Porter and Kramer one of the critical ways to how companies could create shared value opportunities is by redefining productivity in the value chain. The areas of improvement are the following ones:

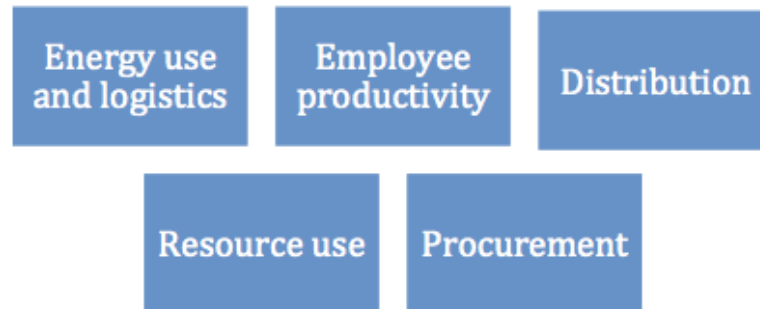


Exhibit 7 (Porter & Kramer, 2011. p2)

Societal issues significantly affect a company's value chain for example the availability of natural resources, security, population growth, working conditions and so forth. Due to the close relationship between the economic and societal aspects many opportunities arise to transform societal problems into opportunities to create economic value. "The synergy increases when firms approach societal issues from a shared value perspective and invent new ways of operating to address them. So far, however, few companies have reaped the full productivity benefits in areas such as health, safety, environmental performance, and employee retention and capability" (Porter & Kramer, 2011. p2). According to the authors redefining productivity in the value chain is directly connected with societal progress, which at the end provides the company a competitive advantage.

The Connection between competitive advantage and social issues:



Exhibit 8 (Porter & Kramer, 2011. p2)

Exhibit 8 illustrates the social concerns where the connection has the strongest influence on the firm's productivity according to Porter and Kramer (2011. p2). "The opportunities are not static; they change constantly as technology evolves, economies develop, and societal priorities shift. An ongoing exploration of societal needs will lead companies to discover new opportunities for differentiation and repositioning in traditional markets, and to recognize the potential of new markets they previously overlooked" What is understood as externalities in most of the cases significantly inflict internal costs on the company, not taking into consideration potential regulations regarding for example waste management or resource taxes, such as taxes for the tons of CO2 emitted.

Energy Use and Logistics.

In order to Create Shared Value it is extremely important that firms reexamine the use of energy through the value chain in order to identify potential opportunities to become more efficient, whether it be in the production process, operations or disposal. According to the authors this can be achieved by innovation, more efficient technologies, recycling, better utilization of energy. Additionally, regarding the logistical systems an increasingly number of companies are concerned about the economic and social costs of their logistics, therefore they have strongly focused their efforts in reducing shipping distances, streamline handling, improving vehicle routing, and so forth. "The British retailer Marks & Spencer's ambitious overhaul of its supply chain, for example, which involves steps as simple as stopping the purchase of supplies from one hemisphere to ship to another, is expected to save the retailer \$250 million annually by fiscal 2016, while hugely reducing carbon emissions" (Porter & Kramer, 2011. p3). By redefining productivity and being more efficient in their energy use in the value chain Marks & Spencer creates shared value for the company and its stakeholders.

Resource Use.

The environmental awareness and the latest innovations in technology are reshaping companies and society as a whole is utilizing water, raw materials, and natural resources in general. "The opportunities apply to all resources, not just those that have been identified by environmentalists. Better resource utilization enabled by improving technology will permeate all parts of the value chain and will spread to suppliers and channels" (Wettstein, 2011. p12). A good example of a leading company where it comes to good practices concerning resource use can be found at Coca-Cola. The beverage company has the goal to reduce its worldwide

water consumption by 20% by 2020 according to the Beverage Industry Environmental Roundtable. This initiative is going to reduce the company overall carbon emissions, not to mention, greatly reduction in economic costs due to fuel and energy consumption.

Procurement.

Traditionally speaking, the relationship between companies and suppliers has been unfavorable for suppliers. Due to company's strong bargaining power, small suppliers have been forced to drive down prices to subsistence level. Nevertheless, according to the authors, nowadays this unbalanced relationship of powers between companies and suppliers is changing and progressively more and more companies are beginning to understand that marginalized suppliers cannot be sustainable neither productive in the long run. One way to implement this improvement is to measure the impact on the suppliers of an increase on the access to inputs, technology, and financing on the overall performance of the firm. (Michelini & Fiorentino, 2012). Explain that nowadays, it has been proof that companies can improve the quality and therefore productivity of the suppliers by cooperation while ensuring the long-term sustainability of the business.

One of the most successful examples of the impact of shared value in relationship to suppliers access and viability is Nespresso, this Nestle division has enjoyed an annual growth of more than 30% since it was launched in 2000. By implementing CSV, Nespresso has gain reliable suppliers for premium coffee by redesigning procurement. For the last 12 years, Nespresso has been intensively working with its growers, providing advice, technology and financing the farmers. In addition the company has established local facilities in Africa and Latin America to measure quantity and quality of the coffee beans. The results, Nespresso has

achieved by cooperating with the suppliers are outstanding and they are being reflected in higher productivity and quality of the product, which represents a higher income for the farmers, lower environmental impact and higher profits for the company.

Distribution.

The way companies distribute their products and services has a tremendous impact on the company performance, customer satisfaction, as well as on the environment and other stakeholders. “Companies are beginning to reexamine distribution practices from a shared value perspective. As iTunes, Kindle, and Google Scholar demonstrate, profitable new distribution models can also dramatically reduce paper and plastic usage” (Porter & Kramer, 2011. p3). Another important aspect in the financial sector, which presents significant innovations in the distribution practices from a shared value perspective, is microfinance. The microfinance concept according to the authors, has created a cost efficient way to provide and distribute financial services to small businesses and families that otherwise would not have access to the traditional financial services.

Employee Productivity.

Many studies have been done in order to understand the connection between motivation and productivity. The correlation found in most of the studies has raised awareness of the positive effects that decent wages, a positive workplace atmosphere, wellness, job security, and opportunities for career development for employees could have on the productivity of the company. Today leading companies are in fact aware of this complex issue. A good example, of a company that has successfully proved the connection between employee productivity and

CSV is Johnson & Johnson, the company has initiated a big campaign to help its employees to stop smoking in addition to several other wellness initiatives. With this initiative Johnson & Johnson has saved more than \$200 million on health care costs, in a period of 6 years (Porter & Kramer, 2011). In addition the company has benefited from a healthier and more productive workforce. Examples such as the Johnson & Johnson case illustrate the tremendous impact employees could have on the company's overall performance from a creating shared value perspective.

Societal / Environmental Needs and Economic Value Creation.

In order to better understand Societal / Environmental needs and economic value creation it is of great importance to see business and society as mutually dependent on each other, for this reason CSV has been widely accepted as the most effective way to create economic and social value. "CSV involves creating economic value in a way that simultaneously creates value for society by focusing on its needs and addressing its challenges. CSV forms an integral part of a company's profitability and competitive advantage, and should therefore guide the investments decisions of companies" (Wettstein, 2011. p15). The first phase in the CSV process for firms is to identify core areas in which shareholders and society's interests coincide. The second phase as the authors explain it, is to invest time, money, human talent. Technology, and other resources to maximize value creation in those core areas. The key aspect of the relationship between societal needs and economic value creation as it has been illustrated consists in generating profit that comes from meeting societal needs, this way the company can gain legitimacy, differentiate from the competition and gain a competitive advantage.

According to Michelini & Fiorentino (2012) the key to accomplish the reconciliation is to reconsider the role of companies in society. Similarly, Porter & Kramer (2011) propose that companies must be the ones responsible in bringing business and society back together. The authors suggest that the solution lies in the principle of CSV. In other words the solution is to find a way to create economic value in a way that also creates value to the stakeholders by addressing social and environmental challenges. According to both authors this could only be achieved by reconnecting the success a company has with the social and economic development and progress of the company's stakeholders.

CHAPTER 3: METHOD

The present method investigates customer's perception, attitudes and behavior towards Pronaca's CSV programs. The CSV programs recently implemented by Pronaca Ecuador consist on involving the stakeholders in their value chain by providing technology, financial assistance, education, and more eco friendly and socially concerned practices. The purpose is to increase the overall value created. The questions that will contribute to the research are: Do customers really value Pronaca's CSV programs? Are customers aware of Pronaca's CSV programs? Does it have an impact on the consumer behavior towards Pronaca Products? How do customers feel about purchasing food that derives from Pronaca's CSV program? Prior studies reveal that there is a direct relationship between customer's attitudes and behavior (Tsang et al, 2004). Our main assumption is that customer's attitudes are driven by perceptions they may have towards brands with CSV programs. The goal is to find if the perceptions created in the mind of the customers have a direct influence over the attitude adopted by the customer, which will be reflected in the purchase behaviour.

Customer's Purchasing Process.

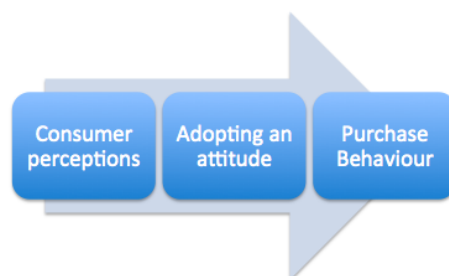


Exhibit 9 (Tsang et al, 2004)

Relevant empirical studies on attitude argue, "It is a learned predisposition of human beings. Based on this predisposition, an individual would respond to an object (or an idea) or a

number of things (or opinions)” (Tsang et al, 2004, p. 66). Also, it has been said, “an attitude is a person’s enduring favorable or unfavorable evaluations, emotional feelings, and action tendencies toward some object or idea” (ibid, 2004, p. 66). Since researchers have been recently studying the impact of CSR and CSV programs implemented in organizations, there is a small body of literature dealing with customer’s attitudes and behavior. Studying customer’s perceptions, attitudes and behaviour toward brands with CSV programs could become a part of the crucial information for corporations in a near future. Building an accurate CSV strategy in the portfolio of products toward the right customer that pays a premium for it could maximize returns and become a long-term differentiation strategy. This is one of the most relevant reasons we chose to study the consumer behaviour towards CSV strategies by Pronaca.

Methodology

The methodology, which is based on a quantitative approach, is used to identify whether Pronaca’s CSV program is a factor that significantly affects customer’s perception, attitude and behavior. The research measures the level of relation between the studied variables with the likelihood of purchase. The quantitative study is based on the results obtained from online surveys. The surveys are mainly structured on a nominal, yes or no and numerical basis.

The statistical method that will be used to test whether the hypothesis is valid or rejected is through a chi-squared test. The hypothesis stated is: “Implementing *Creating Shared Value (CSV)* provides businesses a positive perception towards its customers which increases the likelihood of consumer purchases.” The chi-squared test will support the study to statistically determine the degree in which we can assure a significant hypothesis. Yet, a

complementary study of the trends and findings obtained from the respondents will be done in the next section. This study will analyze the perception attitude and behavior towards Pronaca as well as to propose further research recommendations.

Justification of Methodology

The foods retail sector in Ecuador is largely comprised of big-sized suppliers such as Pronaca. The worldwide trend seems to indicate that more and more customers including Ecuadorian customers seem to be searching for more social and environmentally friendly products and services. The objective of this study is to seek the development of a framework for understanding Pronaca's customers and their social and environmental awareness in their grocery shopping habits. As well as to identify what drives the customers to be socially and environmentally responsible in their grocery shopping habits. In addition, it intends to find out to what extent the customers are involved and value these practices. "In order to succeed in today's competitive market, companies depend more and more on how customers perceive them in terms of socially responsible performance. Clearly, as companies become decisive and powerful economic agents in today's society, they are required to intervene in societal matters which overcome their commitment to earning profits" (Bertomeu, 2009, p. 1).

The paper reviews and analyses the results of a quantitative field study conducted with students from Universidad San Francisco de Quito (USFQ). The results obtained are intended to statistically show whether or not a relation between awareness of socially and environmentally certified products and the buying intention for these products exists. In addition, this paper seeks to proof the existence of a relation between Pronaca's CSV initiatives and customer purchase likelihood.

Expected Results

The expected results from the quantitative study are the following:

- The customer's perception, attitude and behavior towards a CSV product are positive and it is reflected in the willingness to purchase it.
- The customer's perception, attitude and behavior towards a CSV product is reflected in the willingness to pay a premium for these attributes offered by the brand.

These results will be a guide to understand the impact of Pronaca CSV strategy towards customer's shopping habits and to suggest further research on whether the personality may influence customer's perception, attitude and behaviour towards a CSV brand.

Elaborating the Test Conclusion

The methodology to elaborate the test conclusion is based on the observed frequency, which is then necessary for calculating the expected frequency. After obtaining the expected frequencies, the chi-squared is computed by using its formula. After this process, a sum up of all the chi-squared values is computed to obtain the test chi-squared value. The last step consists in obtaining the p-value by using statistical software and comparing it with the significance level so that a conclusion can be stated from the evaluation. The conclusion consists of either supporting the alternative hypothesis or not rejecting the null hypothesis.

Company Overview

Pronaca is an Ecuadorian company that processes and sells food to retailers. Pronaca started as a company in 1979. The company has been in Ecuador for more than 30 years and has expanded its borders with productive and commercial activities to Brazil, Colombia and United States (EMIS, 2014). The company generates approximately 6,500 direct jobs. As the eighth largest company in the country, measured by sales volume, with annual sales above US\$ 550 million, the commitment to the entire circle of stakeholders is a crucial challenge for its directors and shareholders (Gómez Rosero, 2011). Additionally, the company is the leading buyer of hard yellow maize in Ecuador, which constitutes a main component of animal feed, an essential input for the company's core process business (Vélez, 2010). In brief, Pronaca is a leading corporation in its industry and a large job provider that is building a strong image of a social and environmentally concerned company.

Research Tools Applied

The research tools applied in the vast majority of the study were: online surveys elaborated in Google Docs and sent via the USFQ students Mail. The questionnaire was designed to take at least 5 minutes to be completed. The reason why this was the chosen research tool to be used is because the study required a depth analysis of the perceptions, attitudes and behaviour towards the role of Pronaca as a social and environmentally concerned brand. Furthermore, as a way to complement the study it has been conducted an in-depth interview with the Pronaca Regional Commercial Officer Mr. Alex Reed. The purpose of the in-depth interview was to collect a general perspective and relevant information about the situation of the company regarding CSV programs and its role in society.

Description of the Participants

The population obtained from the USFQ student office is 5.516, population based on campus daily program. (See Table 1) The studied sample size chosen consists of 360 USFQ students.

The statistical measures used are the following:

- Margin of error: 0.05
- Level of confidence: 0.95
- Variance: 0.5
- Sample size obtained: 360

PROGRAM	NUMBER OF STUDENTS
USFQ virtual education program	318
On campus daily program	5516
On campus evening program	128

Table 1. Description of the participants.

From the sample obtained we look for studying how socially and environmentally conscious the USFQ students are in their grocery shopping habits.

Sources and Data Collection

The data obtained comes from quantitative research that was mainly based on questionnaires. Furthermore, a qualitative research has been conducted in an in depth interview with the Pronaca Regional Commercial Officer. Both types of research provided us with valuable data for the analysis. As briefly described in the previous section, the sample that participated in

the study: - Studied universe: USFQ On campus daily program students that already are or could potentially become customers of Pronaca products.

- Sample: 360

- Estimated age range of the sample: 18-30 years-old

- Occupation: students attending the on campus program.

- Assumptions: the vast majority of the sample does not work yet.

The vast majority are not actual customers of Pronaca products since they do not grocery shop themselves, however all of the participants know the brand and are direct consumers. As described so far in this chapter the main focus of the study is to obtain relevant data from the perceptions towards the environmentally and socially concerned practices related to the brand Pronaca. This implies that the sample studied will return valuable data for supporting our hypothesis even though it is not part of the direct customers segment but rather to a potential customers segment.

CHAPTER 4: DATA ANALYSIS

Details of the Analysis

As reviewed so far in the literature framework, CSV is nowadays a prominent strategy that serves businesses to thrive in changing markets and customer needs on a long-term run. On the other hand, the method offered an interesting field of study in which it is examined what customers perceive, the attitudes and behavior towards the role of a brand in society in general. In relation with what the existing literature review proposed, the method suggested that implementing CSV within Pronaca, can become a useful strategy to increase the likelihood of product purchases. This finding can contribute to supporting the implementation of CSV strategies in different businesses within the industry examined. Therefore, the method applied in a case study of Pronaca is coherent with the theories reviewed that support the implementation of CSV strategies to thrive in the long-term run.

The criteria for the analysis was based on determining the coherence and significance of the data obtained that could support the hypothesis of the study. Thus, if the analysis suggested congruence in the variables studied, the hypothesis is supported in a larger degree. Empirically, if the respondents show a significant degree of relation between the perceptions, attitudes and behavior and the likelihood of purchase, therefore, the hypothesis becomes more valid. Now, the tool applied for tabulating the data was mainly the Google Doc that returned all the data into a database and then exported to an Excel spreadsheet. As for the analysis, the tool used is Excel. Furthermore, the data analysis consisted of using a statistical test called Chi-squared which was conducted on the following criteria:

Chi-squared Test.

This statistical tool will help to test the following hypothesis:

- A degree of relation in which the willingness to pay a premium for CSV products is explained by customer's positive perception, attitude and behavior towards considering a CSV product in the purchase process of a Pronaca Product.

Stating the Alternative Hypothesis.

The alternative hypothesis is the one intended to be proven. For our study we have stated the following alternative hypothesis: "The willingness to pay a premium for CSV products is explained by the positive perception, attitude and behavior adopted by the customer towards a CSV Pronaca product."

Stating the Null Hypothesis.

The null hypothesis is the one that will reject the validity of the stated alternative hypothesis. For our study we have stated the following null hypothesis: "The willingness to pay a premium for CSV products does not explain the perception, attitude and behavior adopted by the customer towards a CSV product."

The test is subject to the following statistical parameters: Confidence level: 95%; Significance level: 0.05; Degrees of freedom: 3

Importance of the Study

The analysis returned favorable customers' indicators towards purchasing a product that belong to a socially and environmentally concerned brand that encourage to reshape the role of businesses in society. In overall, the present study has empirically proven within the selected sample that respondents (seen as potential Pronaca customers) reacted positively, in terms of likelihood of purchase, to the implementation of CSV practices in Pronaca food products. The impact of successfully implementing CSV in an organization can be both favorable for the organization long-term success as well as for the society and environment.

Results and Analysis

The data analysis done in the present study has tested whether the implementation of CSV practices in Pronaca food brands portfolio have an impact on customer's perceptions, attitudes and behavior towards the brand and its grocery shopping habits, through the collection of data within a specific sample of customers. As part of the most relevant results, it has been obtained a tendency of positive behavior towards the brand. Such positive behavior adopted by the respondents has shown that the more customers feel attached with CSV practices the more it increases the likelihood of purchase. Furthermore, the reactions shown by the respondents expressed in all aspects positive perceptions towards the role of a socially and environmentally concerned brand in the environment's quality of life.

Customer's Profile.

From the findings obtained it can be seen that the consumer profile trend is rather considered as socially and environmentally concerned in its grocery shopping habits (59%). Also, there exist a 28% of respondents that consider themselves as not socially and environmentally concerned. Therefore, the customer's profile obtained from this sample of USFQ students shows that in the Ecuadorian food industry massive efforts can be done towards adjusting the customer needs towards more socially and environmentally grocery shopping habits. Furthermore food suppliers like Pronaca could adapt the product portfolio and distribution channels towards targeting this type of more socially and environmentally concerned trend in customers.

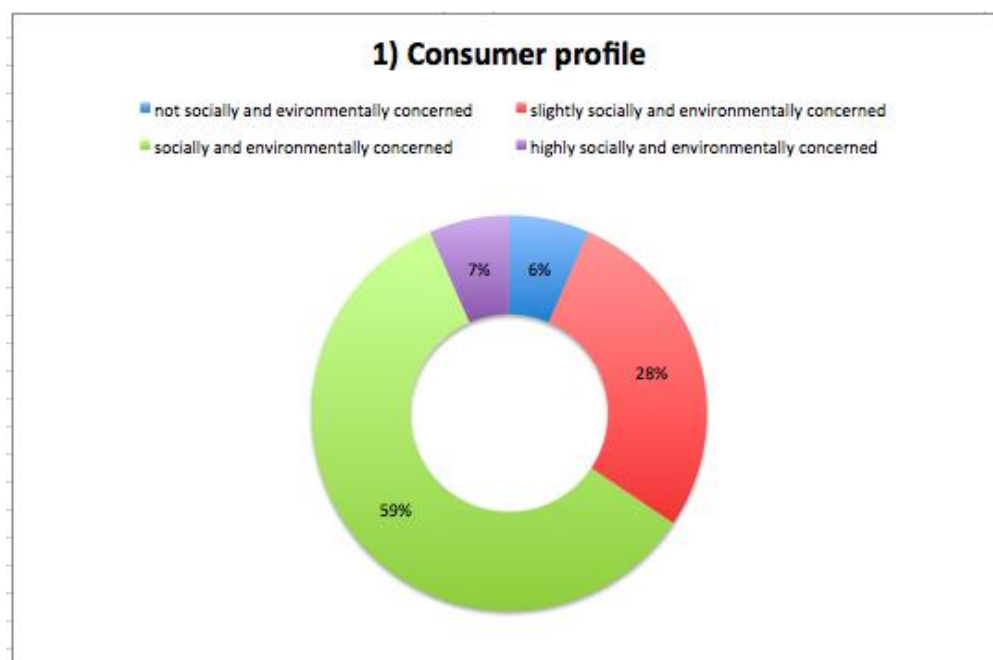


Exhibit 10. Customer Profile

Social and Environmental Perception towards Pronaca.

In the case of the perception towards how responsible are food suppliers; slightly more than half of the respondents consider Pronaca as a socially and environmentally concerned supplier (51%). Yet, 35% said Pronaca is slightly socially and environmentally concerned. There is still a majority that perceives Pronaca as a socially and environmentally concerned supplier. Therefore, this could mean that the firm is communicating its CSV strategy positively to customers. Furthermore, Pronaca could move its marketing efforts to better communicate its CSV initiatives.

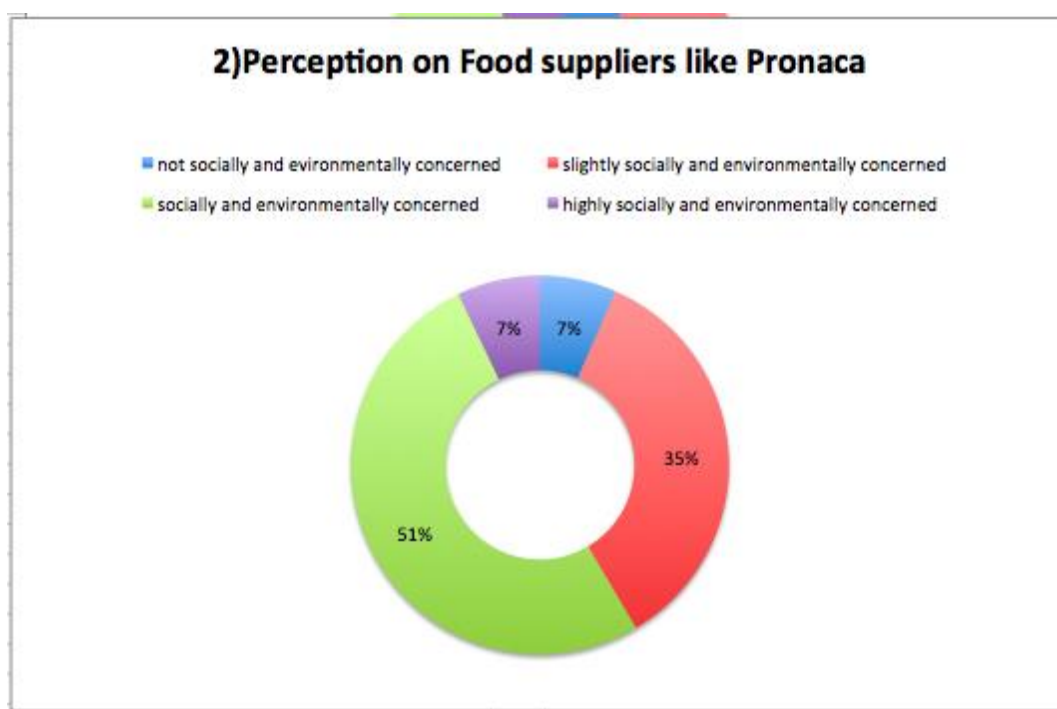


Exhibit 11 Perception on Food suppliers: Pronaca

Perception towards Socially and Environmentally Concerned Food Brands.

In overall a 92% of respondents agreed with the importance of being socially and environmentally concerned customers for the wellness of the environment. This is an attitude adopted by the respondents when they are aware of the impact of socially and environmentally concerned grocery shopping habits on their behalf. What can be concluded from this study results are that when customers are involved in a role of acting socially and environmentally concerned towards grocery shopping habits the attitude adopted is positive towards brands that poses these practices. This positive attitude is also shown in exhibit 3, in which a positive relationship towards paying a premium for socially and environmentally concerned food brands is observed. Summing up, the relation between adopting a positive attitude towards a socially and environmentally concerned shopping habit and the willingness to pay a premium for a socially and environmentally concerned food brand does exist but as the data shows it has not been statistically proven (see Exhibit 11).

		WILLIGNESS TO PAY A PREMIUM FOR RESPONSIBLE BRANDS				
		0% premium	10% premium	20% premium	30% premium	TOTAL
ATTITUDE TOWARDS CONSUMER IMPACT IN THE ENVIRONMENT QUALITY OF LIFE	Agree (+)	86%	92%	92%	95%	90%
	Disagree (-)	14%	8%	8%	5%	10%
		98	198	55	15	366 participants

Table 2. Willingness to pay a premium price for responsible brands.

According to the results (see Table 3) a 90% of participants have a positive attitude. To make this clearer, among the group that would pay a 30% premium in products that come from socially and environmentally concerned brands, a 95% adopted a positive

attitude towards a socially and environmentally concerned consumption. In addition, among the group of 55 respondents that prefer paying a 20% premium, the majority (92%) belongs to the group that reacted positive unto adopting a socially and environmentally concerned consumption attitude.

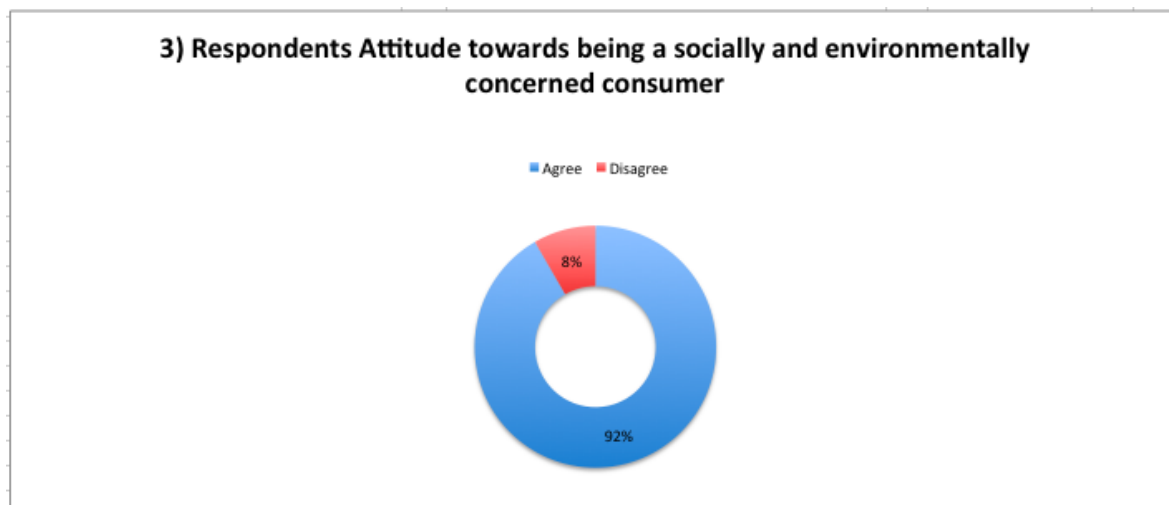


Exhibit 12. Respondent's attitude towards being a socially and environmentally concerned consumer.

Respondent's Perception about the Responsibility of Maintaining the Quality of Life in the Environment and Society

In this question, respondents were asked to choose among: citizens, government, NGO's and private sector to see which one they consider should be the most responsible about taking care of the environmental and quality of life. Surprisingly, the vast majority (73%) responded that citizens should have the role of taking care of it. The government as an important actor was also chosen by the 19% of the respondents. What we can infer from these results is that the respondents feel involved as citizens and somehow take responsibility of improving the quality of life in their environments. Moreover, the fact that those respondents considered as

most important the citizens to assume this role in society, could be interpreted as a sort of willingness to get involved in a socially and environmentally concerned way of consumption. What firms like Pronaca can do from this trend of customer behavior is to leverage from this opportunity to increase efforts in its CSV programs which can be directed to involve the customers as agents of change when buying these kinds of products. In this way customers feel participants of a positive change in the environment's quality of life along with the brand.

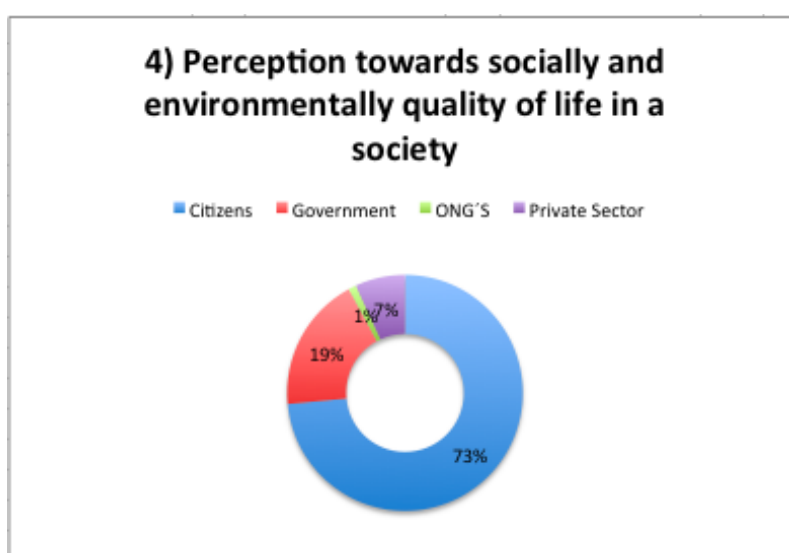


Exhibit 13. Perception towards socially and environmentally quality of life in a society.

Relation between Customer's Behavior towards Choosing a Socially and Environmentally Concerned Food Supplier.

In this section we will study the level in which the customer's behavior towards choosing a socially and environmentally concerned food supplier is related to the willing to pay for a premium price for this product. It is important to study whether it exists a possible relation because it explains more accurately the influence of implementing a CSV strategy in the case of Pronaca over the customer's behavior. More precisely, obtaining a possible relation would

explain whether using CSV practices in food products is a factor influencing a customer's behavior. How we chose to study whether it exists any relation is through a statistical test called Chi-squared test.

Observed frequency	Consumer Behaviour	Willingness to pay a premium for CSV products				
		0%	10%	20%	30%	TOTAL
	Group that reacted negatively towards a socially and environmentally concerned food supplier option. Q6	63	104	23	2	192
	Group that reacted positively towards a socially and environmentally concerned food supplier option. Q6	14	83	58	19	174
	Sub totals	77	187	81	21	366

Table 4. Observed frequency

Expected frequency		Willingness to pay a premium for CSV products				
		0%	10%	20%	30%	TOTAL
	Group that reacted Negatively to Q6.	40,39344	98,1	42,5	11,01639344	192
	Group that reacted Positively to Q6.	36,60656	88,9	38,5	9,983606557	174
		77	187	81	21	366

Table 4.1. Expected frequency

Chi-squared test.

Alternative hypothesis: "The willingness to pay a premium for CSV products explains the perception, attitude and behavior adopted by the consumer towards a CSV product."

Null hypothesis: "The willingness to pay a premium for CSV products does not explain the perception, attitude and behavior adopted by the consumer towards a CSV product."

Subject to:

- Confidence level: 95%
- Significance level: 0.05
- Degrees of freedom: 3

- Chi-squared obtained: 61.68

- p-value obtained: 2.65E-7

	fo	fe	Chi-squared	
Group that reacted Negatively to Q6.	0%	63	40,39	12,65
Group that reacted Negatively to Q6.	10%	104	98,10	0,36
Group that reacted Negatively to Q6.	20%	23	42,49	8,94
Group that reacted Negatively to Q6.	30%	2	11,02	7,38
Group that reacted Positively to Q6.	0%	14	36,61	13,96
Group that reacted Positively to Q6.	10%	83	88,90	0,39
Group that reacted Positively to Q6.	20%	58	38,51	9,87
Group that reacted Positively to Q6.	30%	19	9,98	8,14
				61,69

Results:

Chi-squared test	61,69
Degrees of freedom	3
Confidence level	95%
Significance level	0,05
p-value	2,56E-07 <alpha 0,05

Table 5. Results

Chi-squared Test Conclusion.

It can be concluded that due to a 2.65E-7 obtained p-value which is lower than a 0.05 significance level, the alternative hypothesis must be supported under a 95% confidence level. Therefore, the relation between willingness to pay a premium for CSV product and perception, attitude and behavior adopted by the customer towards a CSV product is statistically significant. (*chi-squared test*=61.68 , *p*<0.05). This result supports the idea of a positive relation between willingness to pay a premium price and the perception, attitude and behavior adopted by the consumer towards a CSV product

CHAPTER 5: CONCLUSIONS

The study consists of a rich framework that attributes to the importance of CSV nowadays, namely reshaping the role of businesses in society. The overall findings contribute to suggest possible answers to the research question which is: How and to what extent does Pronaca's CSV program affect customer's perception, attitude and behavior towards the brand, in order to increase the likelihood of customer purchases? The methodology used has been accurate to analyze the data obtained, including the use of data tabulation and statistical tools. Therefore, the analysis has supported the research question with positive indicators towards the implementation of CSV in Pronaca within the field of customers study.

As part of the main findings obtained from the research method used, an existing positive relation between the perceptions, attitudes and behavior and the likelihood of purchasing a product that comes from a socially and environmentally concerned brand has been found. Thus, the answer to the research question is that the implementation of CSV practices in Pronaca food brands portfolio do positively affect customer's perceptions, attitudes and behavior in a way that increases the likelihood of customer purchases. One possible cause that has been tested is that customers increase their likelihood of purchasing a product of Pronaca when they feel involved with a social and environmental cause that the company is part of. However, it has to be mentioned that the sample that has been tested consists of students that can become potential customers of Pronaca and the purchase process applied to the method only includes a limited part of what implies an actual purchase. The method does not include the consideration of other factors, such as, price, attributes of the product and so forth.

Generally, the study has suggested that there might be a changing trend in customer's needs, which fosters their ambition to purchase brands that create a positive impact in the environment and society. Customers might feel attached to these kinds of brands that involve customers for a favorable cause in society. The global trend of becoming more socially and environmentally aware, is affecting people's shopping habits. Businesses, on the other hand seek for valuable indicators of customers behavior, such as the impact that CSV programs create on their customer's behavior. This could be a plus side for Pronaca as it can be seen as an opportunity to implement CSV in its portfolio of brands as well as leveraging from a profile of customer that is willing to adopt socially and environmentally household expenditures. The data obtained may be used as highly valuable information to elaborate a profile of a socially and environmentally concerned customer in order to target a CSV product to the right segment of customers. This customer segmentation strategy is profoundly based on the present research that proves an existing relation between the perception, attitude and behavior towards a CSV brand and the intention of purchase in customers.

Limitations and future research

The study previously presented has a number of limitations, each of which points the way to future research.

Firstly, this study was conducted at USFQ, focused only in the perceptions attitude and behavior of students. Even though all of the participants knew the brand Pronaca, not all of them were involved in the purchasing process. This study raises the possibility of future research in order to better understand the perception, attitude and behavior in the purchasing process of other demographic groups. In addition, this research focused in the food industry,

which by nature is a more sensitive topic, than for example services or commodities. Due to the fact that it has a direct impact on the consumer health and well-being could be that the results do not apply for every industry. Due to this the possibility of future research in other economic environments, cities and industries could contribute to the findings.

Secondly, has to be with linking corporate social and environmental performance with corporate financial performance. Even though most scholars agree on the benefits of being a socially and environmentally responsible firm, it is not an easy task to quantify and measure the impact regarding, the ROI or other financial performance indicators. As it was previously discussed in most of the cases is an integrated practice into a firm's operations, therefore it is a complex procedure to quantify and measure its effects as separate variables. For future research, a way to quantify the impact could be to keep all other factors constant and to measure the financial performance of the company before and after the implementation of social and environmental practices, such as CSV.

Lastly, the personality type the customer has as a factor affecting perception, attitude and behavior in the purchasing process. Therefore, the results obtained on the surveys could be influenced by psychological implications. This limitation raises the possibility of a further field of research in relation to the psychological implications of the customers. By analyzing the Jungian Personality Test, from the Myers-Briggs approach, further research could be done to identify how and to what extent the personality characteristics of the customer affect perception, attitude and behavior in the purchasing process.

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APPENDIX A: QUESTIONNAIRE

Página 1 de 1

Perceptions, attitudes & behaviour of a consumer towards Pronaca

Perceptions, attitudes & behaviour of a consumer towards Pronaca Creating Shared Value products

1) In what degree of a socially and environmentally concerned consumer do you find yourself in your shopping habits? *

- not socially and environmentally concerned
- slightly socially and environmentally concerned
- socially and environmentally concerned
- highly socially and environmentally concerned

2) In what degree of a socially and environmentally concerned food supplier do you find Pronaca? *

- not socially and environmentally concerned
- slightly socially and environmentally concerned
- socially and environmentally concerned
- highly socially and environmentally concerned

3) Do you believe that your grocery shopping habits as a consumer have an impact in the environment and its quality of life?*

- agree
- disagree

4) From your perspective, who is responsible for enhancing the environment quality of life?*

- Government
- Private sector
- Citizens
- ONG'S

5) Are you aware that Pronaca uses a Creating Shared Value corporate strategy in its products? *

- Yes
- No

6) Choosing a socially and environmentally concerned food supplier over another that is not known for that is part of a decision making in your grocery shopping habits? *

- Yes
- No

7) Choose the option of a premium you would be willing to pay for a food product that comes from a brand that has a Shared Value with all its stakeholders? *

Seleccione la opción que más se aproxime a su disposición.

- 0%
- 10%
- 20%
- 30%

Indique su genero*

- Masculino
- Femenino

Le agradecemos por su valiosa contribución a esta investigación