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國際學碩士學位論文

# **Linkage between Creating Shared Value and Social Entrepreneurship**

Nestlé, the Grameen Bank, and TOMS Shoes Case Studies

공유가치창출과 사회적 기업가정신간의 연계

네슬레, 그라민 은행 및 탐스 슈즈 사례연구

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# **A Linkage between Creating Shared Value and Social Entrepreneurship**

Nestlé, the Grameen Bank, and TOMS Shoes Case Studies

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by  
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# **A Linkage between Creating Shared Value and Social Entrepreneurship**

Nestlé, the Grameen Bank, and TOMS Shoes Case Studies

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# Abstract

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In recent years, the capitalist system has been under severe pressure from the public, being blamed as a major cause of economic, environmental, and social problems. The urgency to effectively cope with the consequences of this phenomenon is now significantly felt more than before. During the last couple of decades, several socially related topics including Bottom of the Pyramid (BOP), Corporate Social Responsibility (CSR), and more recently, Creating Shared Value (CSV), and Social Entrepreneurship (SE) have emerged.

This thesis will examine the role of CSV and SE, in tackling mentioned consequences. CSV suggested by Porter and Kramer, is considered as a new approach of examining social matters while also emphasizing on the importance of other approaches in particular SE. The paper also demonstrates how CSV can enhance the application of SE by applying three levels of CSV: Re-conceiving products and market, redefining productivity in value chain, and developing the local clusters. In this study, CSV is considered as the final destination in the social responsibility path, with SE as the “transitional vehicle.” In latter part of this thesis, the concepts will be further discussed through the case studies of Nestle, the Grameen Bank, and TOMS shoes.

**Keywords:** Bottom of the Pyramid (BOP), Corporate Social Responsibility (CSR), Creating Shared Value (CSV), Social Entrepreneurship (SE), Nestlé, the Grameen Bank, and TOMS shoes.

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## **List of Acronyms and Abbreviations**

CSR	Corporate Social Responsibility
CSV	Creating Shared Value
SE	Social Entrepreneurship
BOP	Bottom of the Pyramid

## **1. Introduction**

The second half of the twentieth century led to a prosperity that was both the cause and effect of social and scientific breakthrough. It redefined human life, leading them to have more freedom, time, wealth, health, social mobility, and confidence to address social problems in new ways (Bornstein, 2007).

Indeed, many of the societal problems that are dealt with now, have all been around for decades. Over the course of history, tackling such problems has been dwelled between relying on private or public sectors. In fact, neither of these sectors has had any drastic progress in achieving a sustainable solution. Despite the claims of the neoclassical, market is far from being perfect. The idea of invisible hand of Adam Smith that if free market is allowed to operate with no interference and then it would correct itself gradually and benefit all the members of the society, has yet proven to be wrong when it comes to addressing all the problems in the society (Kickul,J,Lyons, 2011).

As noted by Bornstein & Davis (2010), the global dispersion of information, technology, and organizing capabilities has forced governments and other related parties to rethink the basis of human security. Government as one of the main players has failed to address societal issues. This could partly be due to inadequate Resource s and lack of political wills (Kickul.J & Lyons, 2012). No longer can private companies keep following their old approaches like Customer Relationship Management (CRM) taking care of their customers need without looking at the side effects of their business activities namely social and environmental. Awareness and satisfaction of customers have evolved into a new era along with the maturity stage of technology in particular IT, the growth of social media services like Facebook and Twitter. Information can now be shared with one click of button through the whole world

community. Therefore, now customers are acting way smarter than ever before, implying to the fact that companies also need to act smartly accordingly, otherwise they would lag behind the expectations of their customers.

The United Nations recently reported that one billion people face hunger as the result of financial crisis. Millions of women and girls die prematurely due to violence or denial of medical care. Fresh water reserves are being depleted, global warming is accelerating. Indeed, many would like to take action but feel overwhelmed, do not know where to begin, or feel the problems are too big to be resolved. Therefore, it requires a much quicker response and anticipation before the problems grow further (Bornstein.D & Davis, 2010).

The unparalleled challenges at global, national, and territorial levels require new set of strategies and tools to effectively be addressed (Nichols, 2006). There are number of questions need to be addressed accordingly. If public institutions or corporate firms are incapable of solving problems individually, then who should be in charge? How to perfect the imperfect market without destroying it unintentionally? How to circumvent the unproductive sides of politics? How to blend the best of public and private sectors to deal with societal issues?

Societies worldwide are desperately looking for innovative solutions yet sustainable to tackle social problems which have afflicted the communities but have not been properly met by the government or marketplace. As a result, in response to the challenges of overcoming the increasingly complex social matters that societies face today, the social sector has grown vastly and continues to proliferate worldwide. Despite of the fact that the subsidies for the public sectors have not declined, they are still under pressure, as governments are struggling to allocate the resources and balance their budgets accordingly. Such pressure on both the government and private funding along with the

proliferation of social sectors, have led to an intense competition for scarce funds (Wei-Skillern et al, 2007).

Szmigin & Rutherford (2012) looked at the matter from another angle. They pointed out capitalism as being in the throes of a crisis of confidence, an ethical crisis of confidence. While, the market system and globalization have undoubtedly lifted living standards across the world, society have been confronted with a global financial crisis that has threatened the basis of national economies with concomitant economic and social misery. Many have observed the cause in market behavior. It can clearly be understood that public can no longer trust capitalism system in particular pure privatization as the main engine of economic growth due to its inevitable side effects. Capitalism is considered as the main culprit and it is doubtful whether it can really resolve its own created problems over several decades namely income inequality, financial instability, exploitation of labors, and environmental damages.

Many prominent scholars in the field have discussed about the corporate giving as an opposite concept to capitalism. Milton Friedman (1970) is often quoted as saying that “the only social responsibility of business is to increase its profits.” On the other side of the spectrum, scholars like Michael Porter and Kramer (2011) believe that the current problems can only be resolved by the capitalism itself. Porter notes that economic and social values creation are interdependent. According to Porter and Kramer (2011), in the era of globalization, it is now obvious or gradually getting more obvious that the awareness of public about variety of issues surrounding them somehow have always been linked to corporate firms’ activities. According to Mycoskie (2012), Companies realize that a profit-only focus can risk alienating customers and partners. They also know that if they want to attract the best talents, they

have to pay attention to having a positive social impact. If a company integrates giving into its business model, it creates a competitive advantage for itself in the market by attracting customers who want their purchases to mean something.

Corporate engagement in society, a broad field that encompasses terms such as philanthropy, corporate social responsibility (CSR), creating shared value (CSV), social entrepreneurship (SE), corporate citizenship, and social innovation, is attracting more attentions than ever before. Until recently, corporate engagement in society was viewed as a business cost, to be traded off against profitability. However, companies are increasingly realizing that by creating shared value, they can benefit society and simultaneously boost their competitiveness in the market (Seelos and Mair, 2005).

Considering the ineffectiveness of philanthropic and CSR practices, the CSV concept has opened up a new era of coping with social and environmental problems in which it considers integrating social value creation into business value creation of the firm which can enhance the competitiveness of business and lead to the sustainability of social solutions. According to Porter and Kramer (2011), the legitimacy of businesses is in danger and public are now more aware of the fact that businesses can do more bad than good. Hence, the evolution of CSV concept married along with the role of social entrepreneurs in today's world of business might be able to recover the legitimacy of businesses and resolve the social problems both in developed and developing world.

Theoretically, in the context of this thesis, CSV is considered as the final destination in which SE is the transitional vehicle or agent in the social responsibility path. Defining the relationship between the societal and economical values should be the primary factor for any business regardless of the kind of field they are involved in.

The objective of social enterprises is to deal with social issues, however the economic aspect of the activity cannot be fully met. By looking at CSV concept, it can be assumed that it is meant to entangle both the social and economic values creation of business into its value creation system. Based on the logic of this research, CSV is considered as the leverage for social enterprises in order to diminish the risks involved in implementing their social ideas.

The theoretical methodology of this thesis is based upon the existing secondary sources on CSR, CSV, and SE. The practical methodology of this paper involves a study on theoretical frameworks and case studies of CSV and SE concepts, taken from published articles and books written by the gurus of the field. This also includes research reports from corporations and other secondary research articles.

## **2. Literature Review**

### **2.1 Corporate Social Responsibility**

Over the past decades, the concept of corporate social responsibility (CSR) has continued to grow in importance and significance. CSR has become the main topic of discussion among academia and practitioner community throughout the globe. The idea that business enterprises have some responsibilities toward society beyond that of making profits for the shareholders has been around for centuries (Carroll & Kareem, 2010).

Based on different periods of time, CSR concept has been defined based on different contexts and gained various synonyms which have contributed to definitional variations and related but alternative concepts including corporate sustainability, corporate accountability, and corporate citizenship to name a few

(Friedman, 1962). In other words, CSR can be considered as an umbrella since it can be overlapped and synonymous to other business-society related concepts (Matten and Crane, 2003). Thereby, it would be really hard to provide one single unique definition for the term.

However, it should be noted that there are still many opposite voices about CSR concept among scholars. For instance, Milton Friedman (1962) describes CSR as the one single social responsibility of the firm in order to use its Resources and get involved in activities that lead to the growth in profitability of the firm while following the rules of the game, engaging in free and open competition without deception or fraud (Myocoskie, 2012). It should be noted that this view is considered to be out of date. Social and economic priorities are now merging. Companies are realizing the fact that putting all their focus on the profit-only activities and strategies can easily jeopardize the perception of the customers and partners about the real existence and social impact of the business (Benn, S & Bolton, 2011). According to Friedman (1970), there is only one social responsibility to be defined for businesses which is to use its Resources and engage in activities designed to increase its profit as long as it stays within the rule boundary of the game. Friedman (1970) refers to the rule as the engagement in open and free competition without deception or fraud.

As pointed out by Carroll (1999), the modern era of CSR was coined for the first time by Bowen (1950), with his book, *The Social Responsibility of the Businessman*. The definition provided by Bowen in his book refers to as obligations of businessman in following rules of actions, and policies which is suited for the objectives and values of the specified society. Yet, there are several definitions of CSR around. World of Business Council for Sustainable Development (WBCSD, 2000) has defined CSR as “continuing commitment by

business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”. According to the WBCSD (2000), business is not separated from the rest of society. The two are linked through a mutual understanding and responsible behavior which society can recognize the role of the business in building a better future.

According to Carroll (1979), corporation should regularly increase their roles and responsibility in dealing with societal matters. As one of the most famous models of CSR, Carroll has introduced the CSR pyramid referring to the fact that the social responsibilities of firms include legal, ethical, economic, and discretionary expectations. Moreover, the pyramid can provide number of elements namely for job and fair wages for the job seekers, new technology promotion, high returns for investors. According to Schwartz and Carroll (2003), there is still some confusion for practices from CSR pyramid model. As a result, the new model of CSR, three domain model of CSSR was introduced by Schwartz and Carroll (2003) which consisted of three elements namely economic, legal, and ethical.

Schwartz and Carroll (2003) elaborated the three domains. According to them, the economic domain envelope all activities of firms which can make a direct or indirect positive impact on firm’s economic situation either as maximization of profits or as the maximization of share value. Another aspect of the matter is the legal aspect which is rooted to the activities for how the firms are acted upon legal firms from societal stand point (Schwartz and Carroll, 2003). The legal aspect can be classified into three domains namely, compliance, avoidance of civil litigation, and anticipation of law. Next aspect of the matter is referred to ethical domain which incorporates ethical activities adopted by firms in order to meet the expectation of the society they operate in

as well as all relevant stakeholders (Schwartz and Carroll, 2003). Three general ethical standards have been classified under the umbrella of ethical domain namely, conventional, consequential and deontological.

By looking at the social issues through the glasses of CSR, there are still many questions remained unanswered like what is meant by being socially responsible from corporate perspective? Who is asking for this responsibility? Does it have anything to do with the image of the firm or aftermath of its action in society? Today, however, many businesses are being criticized for engaging in widespread, unrelated CSR activities claimed to be initiated only for the sake of window-dressing (Porter & Kramer, 2006). According to Porter & Kramer (2006), there are four factors used by the advocates of CSR, justifying a firm involvement in social related activities: moral obligation, sustainability, license to operate, and reputation (Porter and Kramer, 2006).

## **2.2 Creating Shared Value**

In general it is assumed that success of the corporation and contribution to society are two separate and independent phenomena, cruising in two separate paths (Porter and Kramer, 2011). Due to severe competition existed in capitalist market, companies have been lacking a broad perspective on how to create economic value. The profitability of company and contribution to society are seen as two opposite matters. In fact, the contribution and dealing with societal matters have been considered as extra costs for companies which could have put the profitability of companies in danger, and rather as an opportunity for further growth (Bokstette and Stamp, 2011). The more businesses trapped into a solely profit and business driven mindset, the lesser the degree of their concern for the outside societal and environmental problems. Thus, they have treated such issues as out of their core business scope.

The businesses are going through a visions cycle. Businesses are seen as the main culprit of all societal, environmental, and economic problems. Thus, businesses are no longer seen as a legitimate buddy and member of the society and economy. This has led to an increase of skepticism amongst both public and political members of the society which have limited the growth of corporate firms. In fact, even if businesses have tried to further embrace the corporate responsibility the more they have been blamed for societal failures (Porter and Kramer 2011). In fact, part of the problem indeed can be rooted to the companies themselves. Many companies have been trapped into a bubble of outdated approaches and strategies, focusing mostly on short term financial goals while missing the big part of the puzzle, their influence on society and meeting real needs of customers (Porter and Kramer, 2011). However, this should not lead companies to step back and stay into their old outdated shelf. As mentioned by Porter and Kramer (2011), companies must start taking the lead and focus on emergence of a new model, by integrating the business and society together; Reconnecting social progress with their business activities. It should be centered on core of what businesses should do and not to do on the margin of their activities. This would give birth to new set of business thinking. It is noteworthy that this new approach sets the societal matters into the core strategy of businesses, a different approach from that of social responsibility mindset, considering social issues as periphery of the whole spectrum.

According to Seelos & Mair (2005) in recent years, the sharp dividing line between society and business has started to blur. The fact remains that business and society have always been deeply and dynamically interdependent. Companies are critical members of society and as the primary drivers of employment, investment and wealth. The decisions companies make and the actions they take reverberate throughout society. And by the same token,

society has an impact on companies (Seelos & Mair, 2005). Companies increasingly recognize that their contributions can be more effective if they align themselves with core competencies of society and community. This allows them to leverage their expertise and impacts in a way that it can better tackle social issues. In other words, firms recognize the enormous potential of their business to contributing into social progress.

According to Porter and Kramer (2011), the workaround for all dealt problems during last decades boils down to the modern concept of shared value creation. CSV looks at the issues totally from a different perspective since it makes a close tie between the values sourcing from society and economy. As pointed out by Porter and Kramer (2011), CSV is based on the metric to develop shared value in a way that it can benefit both the society and economy. From a company perspective, this would lead to an increase in competitiveness of the company in a progressive and beneficial way for both society and economy. Such companies seek to create “shared value”, incorporating social issues into their core business strategies to benefit both society and their own long-term competitiveness. In order to create shared value in a sustainable manner, the vision, mission, and business strategy of the firm must be transformed into a more broader strategy that provide a clear road map for the growth of the company accordingly.

The CSV notion was introduced in 2011 by Michael Porter as the evolution stage of CSR. CSV is considered to be the fruit of numerous studies done by Porter since 1999. According to Porter & Kramer (2006), CSR concept and its related practices can barely be connected to real meaning of business and profit. Businesses can achieve significant shared values through implementing CSV via incorporating different approaches in their value chain.

However, CSV does not deny the importance of previous concepts like CSR or SE (Porter and Kramer, 2011).

**Figure 1: Creating Shared Value (CSV)**



Source: V. Bockstette. M.Stamp. 2011. Creating Shared Value, How-to Guide for the New Corporate (R) evolution, FSG.

As noted by Porter and Kramer (2011), the capitalism is under siege and learning how to create shared value is considered to be the best chance to bring back the legitimacy of the businesses. It would change the business thinking and lead to the next wave of innovation and productivity, resulting in reshaping the capitalism and its relationship with society.

CSV seeks to address the task of regaining trust in the current age of crisis. CSV is considered to be the approach of dealing with the issues outside the scope of the companies in a new innovative way in which societal and environmental issues can be met, guaranteeing the profitability of the business (Crane et al, 2014). CSV integrates both the economic and social values creation together. Porter and Kramer (2011) defines CSV as the policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in communities

in which it operates. Share value looks for identifying and expanding the connection between societal and economic progress.

Additionally, CSV concept states that firms should consider social problems as an opportunity to create economic values for the firm. In other words, businesses should integrate the social value creation as part of their value creation concept in the business and not as a separate entity. CSV, as a new innovative approach has the potential to unleash both social and economic values while at the same time enhance the competitiveness of the company through policies and operating practices (Porter and Kramer 2011).

### **Process of Creating Shared Value**

Many companies might not be well aware of this new concept and have a really in-depth understanding of it and thus are confused on how to implement and integrate it into their current business strategy in order to create shared value. There are three different approaches of creating shared value introduced by Porter and Krammer (2011). It is noteworthy to mention that each pillar of the CSV triangle, as illustrated in figure 2, can also be interdependent or interrelated to other pillars. The following figure is extracted and modified from original idea of Porter and Krammer.

**Figure 2: Creating Shared Value (CSV) Triangle**



Source: Modified model of Porter and Kramer's (2011) original CSV concept

### **I. Re-conceiving products and market**

Porter and Kramer (2011) suggested the re-conceiving products and market through tackling social issues and simultaneously achieving common goods in achieving CSV. Porter and Kramer have put no limitation on the type of social products and goods to be taken care of. In other words, they have defined a really broad scope. It can be perceived that the unit of analysis cannot be of a big deal as long as the business in charge can provide the demanded social product or service for the targeting group of customers accordingly. This would create an enormous opportunity for firms in the business sector. Based on the unit of analysis, for instance, issues arising from a third world country might be different in terms of the scope from those of a community in a developing country; however, the final objective of firms is to create shared values in a way

benefiting both the society and economy.

According to Porter and Krammer (2011), due to fierce competition and rapid growth, many companies overlook the most crucial needs of their customers. Hence, in order to cope such mistake, they need to constantly ask themselves whether their product or service is good for their customers. More important, many companies lose sight of the developing market by just focusing on advanced economy since the demand for products and services that meet social needs is rapidly growing. For example, the appeal for better nutrition is replacing other criteria namely quantity, taste in order to increase the consumption and demand of their customers in food industry. In a similar token, in techno industry, IBM and Intel are providing innovative ways to economize on power usage through helping utilities harnessing digital intelligence.

Likewise, in financial and banking industry, for instance, Wells Fargo has come up with a set of products that can manage the customers' budgets, debts, and credits. In long run, such companies would create sustainable shared value in a way that can benefit the society in a much higher rate in compare with non-profit organizations or government. Such businesses can effectively motivate the customers to adopt new products and services that are beneficial for the society and environment. This would lead to long term prosperity of the whole communities in society all over the globe (Porter and Kramer, 2011).

## **II. Redefining productivity in value chain**

Enhancement of social, environmental, economic capability of supply chain members can stem from redefining productivity in value chain. It should be noted that in order to deal with economic costs in value chain of a firm, it is crucial for the firm to look at the social problems as opportunities to create shared value. All the external factors namely social turbulences, natural

disasters, environmental changes, governmental regulations, and working conditions can all have numerous internal costs on the value chain of the firm. Thereby, firm are required to look through the lens of shared value in order to deal with such issues which can have the least impacts on their value chains. Hence, innovation along with a shared value perspective in value chain can play a significant role in greatly reducing or preventing the negative impacts of external problems on value chain.

According to Porter and Kramer (2006), firms do not need to observe the external pressure and metrics to define their competitive position and required strategy. In a similar manner, in the CSV context, firms can find out about the sources and impacts of external social issues on their internal value chain parameters through the employment of the same approaches used before in analyzing their external market for defining their competitiveness and strategy making. For example, in energy use sector, using more enhanced technology and recycling technique not only can create shared value but it can also result in improvement in energy utilization. In Resource sector, better technology as well as improved environmental awareness can lead to better Resource utilization namely water, raw materials, and packaging. This will have diffusive positive impacts on all parts of value chain, suppliers, and channels. In procurement part, firms have been able to outsource their activities to suppliers in lower-wage locations in order to improve their productivity and quality through easier share of and access to technology and inputs leading to a high growth rate (Porter and Kramer, 2011).

### **III. Developing the local clusters**

Porter and Kramer (2011) point out that firm creates shared value to improve its productivity as well as taking care of malfunctions in the systems surrounding

the clusters. Setting clusters according to the predefined standards and criteria set the tone for open and transparent market formation. According to Porter and Kramer (2011), the success of every company is in regard with the supporting companies and infrastructure around it.

Clusters or large concentration of entities encompass a large body of various suppliers, local institutions, academia, and logistical infrastructure in particular fields (IT, flower, diamond) resulting in different development goals. Such large body of entities can attract number of influential metrics and standards to the area namely universities, quality standards, and market transparency. Thus, clusters can play a crucial role in shaping the productivity, innovation, and competitiveness in the area (Porter and Kramer, 2011).

It should be noted that the absence of clusters can have adverse impacts namely lack of productivity, poor education, poor transportation, racial discrimination, poverty, unhealthy workers, and high security costs. The concept of local cluster development can entangle the local community and government bodies into the core strategy of the business. Consequently, this would create a close tie between success of the company and success of society, a spill-over effect to other players in the economy.

Porter and Kramer (2011) have introduced the process of cluster development. First indentifying the gap and lack existed in areas such as logistics, distribution channels, training, market organization, and education institutions. Next, companies should make a comparative analysis between the activities that the firms have core competencies to influence directly and activities to be collaborated for a cost effective approach. It should be pointed out that the most successful cluster development programs are the ones in which various entities have taken part namely government, NGOs, private sectors, and public sectors.

### **2.3 The Fortune at the Bottom of the Pyramid**

According to Porter and Kramer (2011), equal or arising opportunity grow from serving disadvantaged and developing communities and countries due to the fact that social problems there are more pounding and as a result, they have not been yet considered as viable market for business to operate in compare higher developed communities or regions. However, the trend is now changing since bigger chunk of customers in need are now living in nations huge in lands namely China, India, and Brazil. These customer groups have always been in desperate need of help from more developed countries, yet they had been overlooked for a long time.

Through serving such market, both customers and businesses have been able to tap into a great deal of success. As an example, surprisingly enough, 11% of Kenya's GDP is now coming from the fund provided through customers registered for the mobile banking service provided by Vodafone's M-PESA service within three years of starting its operation. Thus, it can be aid that such low income markets can provide companies from advanced economies a golden opportunity to further economic and social development. More importantly, it can lead these companies to think in a new ways. In order to penetrate into a new undeveloped or developing markets, they require to redesign their products, value chains, and distribution methods in order to the most efficiency service and product possible.

This would give a new momentum to the companies to think in a more innovative way benefiting both the economy and society. For instance, the concept of Microfinance initially introduced in Bangladesh and other developing countries, however, it has now turned out to be an applicable

approach for advanced economies like the U.S. Thereby, such condition required to be met for underdeveloped or developing world can lead to fundamental innovative practices which can have application in advanced and developed economies (Porter and Kramer, 2011).

Prahalad (1998) first defined this group of customers under the notion of Bottom of Pyramid (BOP). Since then, the notion has been revised, co-authored, and further explored in numerous studies. BOP basically refers to the fact that low income markets can provide a great opportunity for wealthiest companies in the world to find their fortune and also bring about positive results to the aspiring poor communities in the globe. Further, Prahalad and Hart (2002) have explained the opportunity provided for wealthy companies by poor communities in developing nations through the classification of the world population by different income groups segments.

Figure 3 illustrates the concept in a more clear way. This graph illustrates the world economy based on the annual per capita income of different groups (tiers). Top of the pyramid, tagged as Tier 1 represents a population of 75 to 100 million people with an annual per capita income of over \$20,000. In another word, the middle and upper population of consumers are represented in this tier (See figure 2). Tier 2 & 3 represents a population of 15 to 75 million people with an annual income of between \$1,500 to \$20,000. This tier resembles the rising middle and poor class of the society, residing in developed and developing nations respectively. Last tier of the pyramid, tier 4 corresponds to 4 billion people, over two third of the world's population, with an annual per capital income of less than \$1500. This tier basically stands for "the fortune at the Bottom of the Pyramid". Therefore, investment in this tier can make a huge difference in reducing and diminishing many societal problems namely poverty, social decay, political chaos, terrorism, and

environmental issues. In order to invest in this segment of the pyramid, firms are required to take into consideration a fundamental innovation in technology and business model in order to operate efficiently and effectively in this tier.

The concept behind the BOT by Praharald and Hart (2002) supports Porter's and Kramer's (2011) theory on ways of creating shared value introduced and it perfectly fits into the BOP. As long as wealthy companies can meet the demands of tier 4 segment, there would not be any obstacle in re-conceiving their products and market in fully meeting the social needs of the population. Next, it should be noted that the bottom of pyramid population are frequently dealing with unpredictable social, environmental problems which can have adverse effects on the daily lives of people and also as an external pressure on the wealthy companies operating there. Thus, setting well defined and accomplishable social values as well as redefining the productivity in value chain can play an important role in tackling every single problem in this segment accordingly.

Lastly, local cluster development can lead companies to make a large investment in technological and infrastructure improvement of the area. Investment in tier 4 of the pyramid can mean alot to create shared value in the most desperate regions of the world. The population in need can cause the most challenging managerial tasks facing the wealthiest companies. By producing and selling products and services to the poor through environmentally sustainable, culturally sensitive, and economically profitable ways, can significantly assist the tier 4 segment population to improve their lives. A great opportunity for both the company and social entrepreneur to create economic values through social value creation which can be a powerful driving force in further growth of the world economy.

**Figure 3: The World Economic Pyramid**

Annual Per Capita Income*	Tiers	Population in Millions
More Than \$20,000	1	75-100
\$1,500-\$20,000	2 & 3	1,500-1,750
Less Than \$1,500	4	4,000

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

## 2.4 Social Entrepreneurship (SE)

The term entrepreneur in general is considered as someone who starts a new business. However, the reality is that the entrepreneur involves more than just simply starting a new business. The term entrepreneur has its origin in French economics and was established as early as the 17th and 18th centuries (Dees 1998). Literally translation of the term means “someone who undertakes.” Of course, this is not meant in the sense of an undertaker or a funeral director, but rather as a person who “undertakes a significant project or activity” (Dees 1998). Entrepreneurs find new and often better approaches to execute economic tasks that in turn lead to an advancement of the economic progress (Dees 1998). There are also other definitions provided by other scholars. Nichols (2006) defines social entrepreneurship as Innovative and effective activities that focus strategically on resolving social market failures and creating new opportunities to add social value systemically by using a range of resources and organizational formats to maximize social impact and bring about change.

As noted by Kickul and Lyons (2012), businesses in fact are not the only active players in tackling the social issues by finding profitable solutions.

Whole generations of social entrepreneurs are pioneering new product concepts using business models in dealing with social matters. Social entrepreneurs are considered to be well ahead of business corporations in finding opportunities and solving social problems since they are stock with the narrow traditional business mindset. Social enterprises that are well aware of the thinking in terms of creating shared value concept, can scale up more rapidly than purely social programs, philanthropy; lacking self-sustainability and growth. Thereby, social entrepreneurship concept should be measured in terms of its ability to create shared value and not solely social benefits (Kickul and Lyons, 2012).

There are key changes that have made social entrepreneurship concept to further evolve. First, rise of middle class as a result of global increase in prosperity. Second, rise of democratic and semi-democratic societies which have given the room to citizens to look after the societal or environmental issues. Third, increase in the awareness of the public about the global issues and their impacts as a result of the proliferation of the communication technology. Fourth, increase in the formal education available and number of college educated individuals led to heighten awareness and wealth, higher active participation of women in society due to lower number of obstacles being faced.

There are number of characteristics for social ventures which make them unique compare to other players in the market like public or private entities. Following paragraphs briefly address these traits. In terms of the value system, the value system of social entrepreneurs is based on moral in nature whereas for government and private sector are respectively political expediency and profit. Considering the public and private sectors which are typically focused on adversarial relationship and competition; in a similar manner, political parties compete to control policy agenda. Important decisions are reached using win-lose mechanism that work for some and leave others out.

Commercial businesses compete for market share in order to have competitive advantage in the market. However, social entrepreneurs embrace the concept of “Co-opetition”. They understand that in market ecosystem, sometimes they have to compete with other social entrepreneurs, particularly for scarce Resources. Yet, much of the time, it makes sense to collaborate with other players and entities, since it makes their ventures more effective, sustainable, and competitive (Kickul and Lyons, 2012).

Considering the shareholder relationship, the social ventures are accountable to society and not to private shareholders. In other words, the shareholders of social ventures are the people who are invested in the successful solution of the problem they address. As a result, this would prevent misalignment between the goals of the venture and those of the segment of the society they serve. This would require higher standard of accountability and transparency. Social ventures must document their impact and justify their existence, and freely share what the learning’s in the process with others (Kickul and Lyons, 2012).

Social entrepreneurship is considered to be a bureaucratic and nimble field unlike government or large corporation who are bounded by rules and processes. Social entrepreneurs are opportunists, meaning that they monitor the market for changes and ready to adapt to it. Social entrepreneurs are mission driven and not profit driven. Their mission system is based on the environmental and social values. This is what makes them different from governmental and commercial sectors. They see themselves accountable to society and not private shareholders. This would lead them to have higher level of freedom and responsibility.

These characteristics give hope that social entrepreneurs can cope with the hurdles often experienced with traditional public and private institution

when it comes to solving society's most pressing issues. They also highlight the fact that social ventures are most vulnerable when they take on societal problems that neither government nor commercial businesses can solve. This is considered as the niche market of social entrepreneurship (Grayson and Hodges, 2004).

Across the world, social entrepreneurship is demonstrating new approaches and models to create wealth, promote social well-being, and restore the environment. The citizen sector is conspicuously leading the push to reform the free market and political systems. The misnamed "Anti-globalization" movement is not, in fact a movement against globalization, but a strategy crafted by citizens to take back some of the powers the government have ceded to corporations (Bockstette and Stamp, 2007).

In fact, social entrepreneurs have been an active player of this process. There have been number of initiatives the so called concept of "social entrepreneurship" which refers to efficient use of Resources in an innovative manner result in a value added output. In a more general respect, this can be put as a 'value creation' process that can benefit everyone involved. It is assumed as the firms' activities are growing, the issues dragged with them are also developing which requires higher degree of innovation, education, budget, and readiness. This had made many groups from variety of backgrounds such as academia, institution, NGO, corporations and international organizations to more deeply study and analyze the concept and its elements in order to make the concept more mature and applicable.

### **The Evolution of Social Entrepreneurship**

According to Brooks (2009), looking back at the history, social entrepreneurs have dealt with wide range of social systems from top-down, communist to decentralized and open society through establishing organizations helping citizens to adjust to political pluralism and free market economy. Organizations like Ashoka whose works have flourished in number of different places like Latin America. In addition, Ashoka has also adopted a long term organizational strategy to improve international planning and coordination dubbed the diamond model based on the theory introduced by Michael Porter. The objective of this model is to exploit the international and cross “sectorial” linkages in particular regions of the world where the citizen sector is large, diverse, and sophisticated where there are many opportunities for social entrepreneurs to create mutually beneficial partnership with different parties including government, business. Also, they can share knowledge freely and effectively via educational institutions and media. In fact, Ashoka has linked with leading businesses from which it receives most of his finances which in an effort to it aims to unite citizen and business sectors to respond to large scale human and environmental needs (Brooks, 2009).

Social entrepreneurs can develop different sectors like health care, environmental management, education, and political decision making. Having a strong ethical impetus is considered as one of the characteristics of social entrepreneurs. Hence, it is meaningless to talk about the social enterprise without paying attention to ethical quality of its motivation. Over the years, many different definitions of social entrepreneurship have emerged. One of the mostly cited definitions of SE was offered by Greg Dees (2011), who is often referred to as the father of SE education (Brooks, 2009). Dee draws on the thinking of economists like Jean-Baptiste and A.Schumpeter who argued that

entrepreneurs improve the productive capacity of society and provide the creative destruction that propels economic change. Dees notes that Social entrepreneurs' aims for social change, creating new combination of people and Resources that significantly improve society capacity to address problems. He further explains that social entrepreneurs create public value, pursue new opportunities, innovate and adapt, act boldly, leverage resources they don't control, and exhibit a strong sensitive sense of accountability (Bornstein and Davis, 2010).

According to Dee, there are basically two schools of thoughts in the U.S. that focus on enterprise development and innovation. The former emphasizes on organizational strategy, revenue-generation, and financial planning as centerpieces of high impact enterprises, while the latter focuses on breakthrough insights. Some scholars provide definitions that accompanies many forms of changing behavior while others define to characterize only those with uncommon creativity, courage, and tenacity whose work produce large scale transformational change.

Considering the evolution of Social entrepreneurship in a similar thinking like generation of the World Wide Web, it can be theorized that the concept has been through three different stages. Social entrepreneurship 1.0 involved the process of systematically identify people with innovative ideas and practical models for achieving major societal impact, describe their function in society and monitoring their work, and developing support systems to help them achieve social impact. Social entrepreneurship 2.0 changed its path toward more organizational excellence process borrowing insights from other fields like finance, business strategy, and management helping individual's social enterprises to build sustainable and high impact enterprises. Social entrepreneurship 3.0 as in our era seeks beyond individual founders and

institution to the change making potentials to all people and their interactions. It recognizes that SE is contagious. Every individual who starts a social change enterprise emboldens others to pursue their ideas and solutions (Bronstein and Davis, 2010).

### **Commercial vs. Social Entrepreneurship**

In fact, looking at the big picture, social and business entrepreneurs are similar yet different in one aspect of their vision. Social entrepreneurs in one point of their lives, get curious to find them responsible to solve a particular problem (Bornstein, 2007). There is no denying the fact that the concept of Social entrepreneurship has its root in the broader field of Entrepreneurship and draws on the definition of entrepreneurship by Stevenson (1983) as “The pursuit of an opportunity beyond the tangible resources that currently you control” (Austin et al, 2007). The useful definition of social entrepreneurship inherits basic concepts of commercial entrepreneurship, in a sense the two are considered to be interrelated. In fact one of the most common claims about social entrepreneurs is that they adopt a business-like approach to social innovation. Social entrepreneurship maps into the traditional commercial entrepreneurship neatly.

The start of every business activity has been ignited by an idea to meet a need in the framework of so called concept business/commercial entrepreneurship, where the main objective was set based upon the economic value creation of the firm and then social values if defined would be prioritized as the by-product of the former objective. In the long run, as business enterprises got bigger in size and scale of activities, the concerns over the real objectives and side effects of their activities raised challenges in communities (Porter and Kramer, 2011).

In addition, the contextual factors or factors that are out of the control of the enterprise, might have different impacts and results for each type of the entrepreneurs. For example, what might be considered as an unfavorable contextual factor for business entrepreneurship could be seen as an opportunity for a social entrepreneurship to address social matters arising from market failures (Austin et al, 2007).

Although it was mentioned that the social and commercial entrepreneurs are interrelated based on the Stevenson's definition, however, it should be taken into account that there is a clear distinction between the two. Dees (1998) introduced the "Social Enterprise Spectrum", figure 4, to demonstrate the continuum of possibilities, from a more traditional philanthropic style towards a highly commercial approach.

As shown in figure 4, right end of the spectrum refers to the purely philanthropic or nonprofit organizations that do not set their goals for earning income. Hence, the beneficiaries pay nothing for the services they receive, funding is obtained through donations and grants, and volunteers comprise the majority of the workforce (Dees, 1998). In social entrepreneurship, the social value creation is the primary goal of the activity and the economic value can be the derivative of the social value. Nevertheless, there has been a concern over social initiative due to its career risks involved. It is not guaranteed whether the business would be beneficial for the firm as well since, it is heavily relied on financial, human and political Resources in order to achieve sustainable value creation.

At the very left end of the spectrum are "Purely commercial" enterprises (Dees, 1998). Commercial enterprises as their names reveal are self-sufficient. In other words, they can cover all of their operating costs with their earned income through their commercial enterprises and in compare to philanthropic

enterprises do not rely on donations and grants. The beneficiaries of purely commercial enterprises pay market-rate prices for services, staff members earn competitive salaries, and suppliers are paid at market-rates. In other words, the economic value creation is prioritized over social value creation.

Last, at the middle part of the spectrum are hybrid enterprises, a blend of both philanthropic and commercial approaches. According to Dees (1998), it is the hybrid model that can bring about effective results desired by both the philanthropic and commercial enterprises.

**Figure 4: Dees' (1998) Social Enterprise Spectrum**

<b>THE SOCIAL ENTERPRISE SPECTRUM</b>				
		<b>Purely Philanthropic</b> ←————→ <b>Purely Commercial</b>		
<b>Motives, Methods, and Goals</b>		Appeal to goodwill Mission driven Social value	Mixed motives Mission and market driven Social and economic value	Appeal to self-interest Market driven Economic value
<b>Key Stakeholders</b>	Beneficiaries	Pay nothing	Subsidized rates, or mix of full payers and those who pay nothing	Market-rate prices
	Capital	Donations and grants	Below---market capital, or mix of donations and market---rate capital	Market-rate capital
	Workforces	Volunteers	Below---market wages, or mix of volunteers and fully paid staff	Market- rate compensation
	Suppliers	Make in--kind donations	Special discounts, or mix of in---kind and full--price donations	Market-rate prices

### **Social Entrepreneurship Frame work**

To better understand this unique hybrid model, an in -depth consideration of the social enterprise literature specifically is required. Weerawardena and Mort's (2006) study addresses the fragmentation that exists in the academic literature about social entrepreneurship in the nonprofit domain. These authors define social entrepreneurship as "a behavioral phenomenon expressed in a Not-for-profit (NFP) organization context aimed at delivering social value through the exploitation of perceived opportunities" (Weerawardena & Mort, 2006).

Weerawardena and Mort (2006) propose a bounded multidimensional model that identifies social entrepreneurship "as an overall abstraction of innovativeness, proactiveness, and risk management within the constraints of environment, sustainability and social mission", where the outcome is superior social value. The authors express this relationship as follow Where SVC: social value creation; I: innovativeness; P: proactiveness; RM: risk management; S: sustainability; SM: social mission; E: environment (Weerawardena & Mort, 2006).

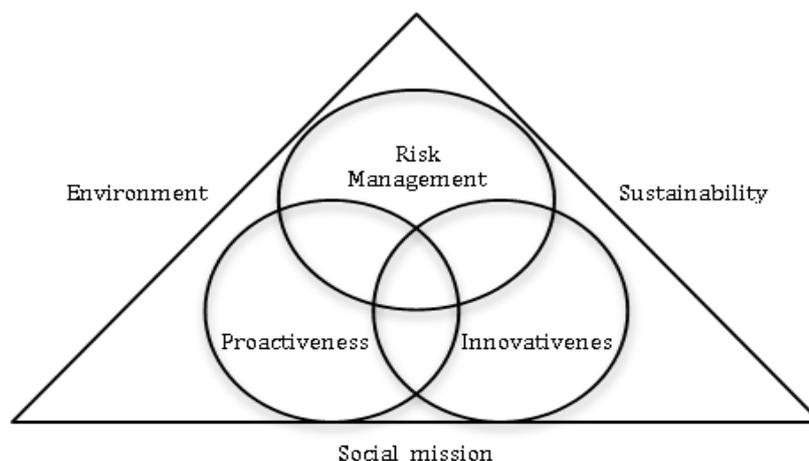
$$SVC = f(I, P, RM) \text{ subject to } S, SM, E$$

The constraints of sustainability and social mission are referred to as static constraints, while the environment is seen as a dynamic constraint that is continually changing (Weerawardena & Mort, 2006). Environmental factors affecting social enterprises, as described by Weerawardena and Mort (2006), include government policy, competition, changing client needs and complex business models.

To overcome challenges presented by the constraints of the changing environment and the need for nonprofit organizations to remain viable so as to achieve their social mission, Weerawardena and Mort (2006) contend that nonprofit organizations must display innovativeness, proactiveness and risk

management. Innovativeness in this model is about innovation in every area of the organization, from service delivery to fundraising. Proactiveness refers to using tools such as strategic planning, forecasting and predictive modeling to survive and grow. Finally, risk management relates to the mandate of the nonprofit organization to ensure its own sustainability.

**Figure 5: The Bounded Multidimensional Model of Social Entrepreneurship**



Source: Weerawardena & Mort's (2006)

### **Social Entrepreneurship Process**

The social entrepreneurship process is often thought of as the most important stage in startup phase of the organization's process (Austin et al, 2006). This process include the following elements namely opportunity recognition, concept development, Resource determination & acquisition, launch & venture growth, and goal attainment (Brooks, 2009). These elements are illustrated in figure 6. Meanwhile, it should be noted that partially this process also overlaps

with the CSV development processes. For example, the “concept development” can be related to “Re-conceiving products and market” since the identification of an unmet need can lead to introducing a new product, service or new market; “Resource determination and recognition” can overlap with the “Redefining productivity in value chain”, both somehow examine financial Resources, human Resources and human capital of the enterprise. This once again attests the rationale behind this thesis, studying the linkage between the two concepts, SE and CSV, in which CSV concept should be the roadmap of SE process development.

**Figure 6: The Process of Social Entrepreneurship**



Source: Brooks, A., (2009). Social entrepreneurship, a modern approach to value creation

1. Social entrepreneur has a keen sense of opportunity recognition in order to create social value. There are two important aspects of recognizing social opportunities. First, social entrepreneurs recognize opportunity whereas others might see it as threats or tragedies. Second, an unmet social need might involve an actual unfilled demand such as a group of inner city parents who are unsatisfied with their local public school. Alternatively, however, it might involve a demand that is still latent that the social beneficiaries might not be well aware of the benefits they might get. A latent demand is considered as a more challenging opportunity for social entrepreneurs than an actual demand since they have to sell the direct beneficiaries on the idea.

2. An opportunity can lead to the development of an enterprise concept. Social entrepreneur recognizes the new products or markets to be served. Next, he can identify and define the actual social rewards to be gained from the successful enterprise and setting the enterprise goals based on these rewards.

3. Resource needs are determined, and the necessary resources are acquired. Social enterprises rely on three main types of Resources. First, there are financial needs. Financial Resources come from earned revenues, philanthropy, and government. The latter two are crucial for the start of the social enterprise since, from the beginning the enterprise does not have any source of revenue to fully rely on. Second, there are human Resource needs in the form of donated and paid human Resources. Third, there are human capitals resources namely education, knowledge, skills, experience, and expertise to make an enterprise competent and operational.

4. The social entrepreneur launches and grows the venture. After the venture has been launched it should be followed by growth based on a business strategy. The growth might be fast or slow, and often involves expansion in size of the organization or scope of the operations.

5. Social entrepreneur can attain goals and beyond. The plan of attaining goals is a crucial part of any social enterprises. It is not just a simple and pure plan but it defines the actions required to be made after the goals have been reached. There are four possibilities for a social enterprise that has measurably reached its goals. It can shut down, redefine itself to meet a social mission, settle into stable service equilibrium, and integrate into another venture. For example, a social enterprise doing volunteer works on vaccinating kids in communities can set an achievable goal in preventing the further spread of the disease. Once the vaccination is done and the goal is achieved then they can further decide what goals he likes or is capable to achieve based on the circumstances, possible opportunities and available resources. They can decide from one of the above mentioned ways to move to the next phase of their social enterprise existence.

### **CSV concept and Social Entrepreneurship Framework and Process**

Having considered the two models introduced for SE and compared them with the three steps of CSV, it can be concluded that the CSV model can cover all aspects introduced in two models of SE. CSV is indeed a more comprehensive model. For example, innovativeness is defined under the re-conceiving the product and market; proactiveness, risk management, sustainability, social mission, and environment are all related to redefining the productivity in value chain. Environmental factor can also be defined in cluster development level since the co-competition and interaction with other players in a cluster can be defined as part of the environmental aspects. Relatively, SE process can be analyzed as follow from CSV perspective. Opportunity Recognition, Concept Development can be categorized under the re-conceiving the product and

market; Resource Determination & Recognition and Launch & Venture Growth as redefining the productivity in value chain, and finally Goal Attainment under cluster development. Hence, for further analysis of the case studies, the CSV notion would be specifically used.

## **Case Studies**

### **2.3 Nestlé Case Study on Poverty Reduction**

The strategy of Nestlé in Creating Shared Value is one of the main factors that have led the company to brand itself with strength globally, as well a philosophy of long term development which raises people out of poverty while creating a company of loyal supplies and consumers (Christiansen, 2011).

It was founded in 1866, and the world's largest milk company since the early 1900s, Nestlé has improved the quality of life for local partners and constituents in developing countries, decreased malnutrition within emerging markets, and contributed to economic development in these countries around the world. Through its 650 agronomists and 3,000 direct buyers, it provides free technical advice and 25 million dollars of micro credit to over 600,000 farmers. Nestlé built its long term strategy around its commitment to "health and wellness" whereby it supplied milk products in developing countries while providing training in improved milk production, crop and feed management, hygienic practices, and free breeding assistance. As evidenced in Latin America as early as the 1920s, local farmers embraced the education, training, and commitment from a well-established company who, in return, provided steady income, resulting in an extremely strong brand name. Outside research has shown that no global company matches Nestlé in terms of the public rating of the company in social responsibility, in the developing world as well as globally.

By launching initiatives to amend poverty and nutrition concerns in emerging markets at an early point in the company's history, Nestlé spearheaded a global campaign that most major corporations have only recently started thinking about. Nestlé refers to this as its "Creating Shared Value Strategy," creating value for society as a means to creating value for shareholders. This has been a key element in building brand strength and customer loyalty. Nestlé is today the world's largest food and beverage company, building rapid growth on a nutrition, health and wellness strategy (Nestlé Website, Christiansen, 2011).

### **Milk District Model**

Nestlé introduced one of the most successful strategies of the company namely Milk district model. Having emerged in the late 1800s, Nestlé's original milk district model, developed in Switzerland, initially involved delivering the raw materials needed for an infant food made of grain and milk, and for condensed milk. In order to operate efficiently, Nestlé established contracts with several farmers to ensure a constant supply of materials. As the demand for milk products increased, Nestlé began opening more factories and working with more farmers. As Nestlé began exploring opportunities in emerging markets, the company faced new challenges and was forced to develop a milk production process from scratch. Nestlé utilized its previous work in Australia to develop an efficient process in Latin America which involved securing a milk-producing area, building new factories with little resources, importing appropriate equipment, and training local workers. As the process developed, Nestlé replicated it in other regions including Asia, Africa and the Middle East.

In setting up a milk district, Nestlé focused on negotiating contracts with farmers for twice-daily collection of milk, installing or adapting milk collection

and chilling infrastructure, coordinating appropriate transportation from collection centers to the district's factory, and developing a program to continuously improve the overall quality of milk. Contemplating the location of the milk district, Nestlé considered production quantity, production costs, potential income earned from milk production by local farmers versus earnings from other alternatives, and competition within the area (Christiansen, 2011).

### **Implications on Poverty reduction**

Nestlé success in developing milk districts was largely a result of its continuous presence in the various communities where opportunity was scarce. More specifically, Nestlé entered areas prepared to train the locals, provide long-term jobs, guarantee wages, and develop a quality end-product. According to Nestlé's technical director of global dairy operations, "It is always the most remote area that is the poorest and less developed. Thus, bringing a milk collection center to an area like that is a blessing for the village, and starts the whole economic development of the place." By identifying the regions with the greatest need for assistance, Nestlé fostered a mutually symbiotic relationship with partner countries. Farmers valued the steady income provided by the company which was used to increase their standard of living while Nestlé valued the long-term commitment and steady supply of milk provided by local farmers. As a result, Nestlé's initiatives in developing milk districts were a first step towards social responsibility and poverty reduction. Nestlé has since been distinguished for its ability to capitalize on its socially conscious behavior. Nestlé integrated its corporate objectives into one model that was responsive to poverty alleviation and malnutrition while simultaneously attaining its corporate strategic long-term revenue and profit goals (Christiansen, 2011).

### **Impacts on Standard of living**

A vital aspect of Nestlé's long-term strategy involved economic development and job security. By the end of 2004, Nestlé assisted nearly 500,000 dairy farmers supplying Nestlé factories directly. Of the 500K, 130K farmers were in Pakistan, 70K in India, 30K in China, 12K in Morocco, 2K in Uzbekistan, 9K in Sri Lanka, 3.5K in Peru, and 3.5K in Panama. Mostly all the dairy farmers were small-scale producers of milk. More specifically, small-scale producers (producing less than 50 liters/day) contributed to 33 percent of Nestlé's fresh milk supply in a given year, while large-scale producers (producing more than 4,000 liters/day) supplied less than 15 percent of the yearly milk supply. As consumption of dairy products increased annually, opportunity for farmers expanded and job security became less of a concern (Christiansen, 2011).

The milk district model did not only result in higher income for farmers, but, the district's rigid criteria played an important role in consumer health and nutrition by providing energy, protein, calcium, and other essential vitamins. An improved state of health among local residents also had a positive impact on poverty reduction. Milk product consumption increased dramatically in most emerging markets, averaging a 2 percent increase per year. The increased consumption of healthier dairy products resulted in lower death rates and an overall improved state of health (Christiansen, 2011).

### **2.5 The Case of Grameen Bank**

It is a risky strategy to tackle a large scale problem when there is little money to spend. Yet, this is the kind of situation that many social entrepreneurs find them in. One of the most feasible solutions would be that problems to be handled directly by creative energy of the family and community members of society. According to Yunus (Arena, 2004), poverty is not a space science or a

complicated machine. It is a topic about the people. Yunus has spent his last thirty years perfecting the microfinance concept that he initially developed in Bangladesh in creating a productive future for the poor villagers. Yunus think that poor people can get themselves out of poverty if they are provided with the right set of opportunities to take advantage of. Poor themselves can create a poverty free world. After visiting the poor communities in Bangladesh, Yunus decided to start assisting them from his own pocket. These tiny amount of money gradually gave birth to the existence of the Grameen bank, an internationally recognized financial institution, having operated in over 43,000 villages throughout the Bangladesh (Arena, 2004).

The Grameen Bank (Village bank), also the so called “Barefoot Bank” made it possible to administer millions of tiny loans through delegating money to borrowing groups and village-based centre chiefs. Grameen Bank has put its focus on access to capital. It was founded and registered in 1983 as a legal body by a Bangladeshi economic Professor named Muhammad Yunus. What he found in the tragedy of rural poverty was a major social opportunity and a seed of a social enterprise that has since transformed the way the world understands poverty relief. He saw that rural people were generally skilled and hardworking, but the returns to their skills were limited by their lack of access to credit to buy materials for their trades (Brooks, 2009). It provides the villagers in particular women with the opportunity to purchase assets, increase their productive capacities, and capture profits through providing small amount of working capitals. Indeed, social entrepreneur focuses on adding value to productive processes. It can be said that the idea of Grameen Bank by Muhammad Yunus has led to the evolvement of the micro-credit/microfinance in practice (Stephenson, 2008).

The case of Grameen bank is considered to be the real example that has given birth to the notions of social business alongside microcredit in practice. Hence, studying the root of the Grameen bank and related concepts will provide a better understanding of the concept.

According to Kickul and Lyons (2012), since the birth of the Grameen Bank on 1983, the concept of microfinance has evolved into a remarkable scale. Muhammad Yunus's idea of microfinance was set based upon breaking the cycle of poverty by lending money to the poor for initiating small businesses that were not serviced by the existing banking infrastructure. Before the Grameen Bank came into play, the community did not have any choice but to get along with the current loan system which they were charged up to ten percent per day. However, Grameen changed all that cycles by offering microloans to people in need at a small percentage of that interest rate of former system.

In order to scale up the model, Grameen came up with one innovative yet simple option, which required equal weekly repayment over fifty-two weeks. Therefore, officers in charge of the loans were supposed to physically collect the all payments from a village with one weekly visit. Grameen dealt with collateral approach of giving out loans by requiring loan to be guaranteed by four other residents of the village. This model is called the “Joint Liability Model” which essentially relied on peer pressure to ensure high repayment rates. In addition, the model scaled well. By 2008, there have been more than 3000 microfinance institutions with over 150 million customers and estimated 30 billion dollars in outstanding loans who have applied the Grameen model (Kickul and Lyons, 2012). Based on the Grameen Foundation website, the Grameen bank has earned the revenue of 176.67 million USD, operating

income of 120.95 million USD, net income of 10.76 million USD, and recruited over 22,000 employees as of year 2010.

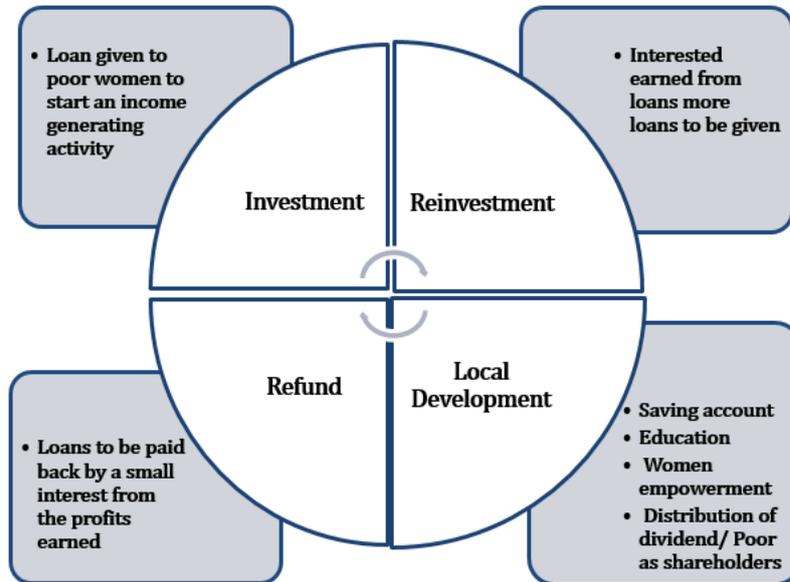
According to Grameen officials and other scholars, the Grameen Bank has provided a new type of banking system, in particular targeting the poor communities in order to exploit their potentials through the assistance from the bank. Figure 7 illustrates how the Grameen Bank differs from the traditional banking system. For further clarification of the bank’s development strategy, figure 8 depicts the business model of Grameen Bank. All four strategies of the model namely investment, reinvestment, refund, and local development are interdependent and support each other.

**Figure 7: How the Grameen Bank Inverts Tradition**

Conventional Banking	Grameen Bank
Profit driven enterprise	Social-market enterprise
Caters to men	Caters to Women
Management owned	Customer owned
Product-centric	People-centric
Procedure orientation	Relationship orientation
Based on legal instruments	Based on trust
Requires collateral	Encourages potential
Pre-set terms	Customized terms

Source: Arena.C. (2004). Causes for Success, New world library, California

**Figure 8: The Grameen Bank Business Model**



Source: Grameen Foundation, [www.Grameenfoundation.org](http://www.Grameenfoundation.org).

Since its foundation in 1983, the Grameen Bank has developed quickly. In addition, the Grameen Foundation was founded in 1997 to facilitate the expansion of banks modeled after the Grameen Bank beyond the borders of Bangladesh and increase the access of poor people to microfinance by millions worldwide. Since then, the Grameen Bank has multiplied not only its branches through the whole globe, but more importantly it has given birth to number of other related Grameen branded subsidiaries. Some of its most prominent Grameen branded organizations are listed in Figure 9.

**Figure 9: Grameen Family Organizations**

The Grameen Telecom	Telecommunication service for the poor
The Grameen Shakti (Energy)	Renewable energy sources for rural Bangladesh
The Grameen IT Park	Development of high tech office facilities for in Dhaka
The Grameen Health Care Services	Health care services for the poor
The Grameen Knight-wear	Manufactured of the Knight fabrics for export
The Grameen Fund	Social venture capital funding for entrepreneurial start-up
The Grameen Krishni (Agriculture)	Experimentation and training to improve agricultural practices and output

Source: Grameen Foundation, [www.grameenfoundation.org](http://www.grameenfoundation.org).

**Limitations and criticisms against Grameen System**

According to Kickul and Lyons (2012), however, there were criticisms about such model. Some hold on to the view that microfinance is creating debt trap for the poor. Others believe that the interest rates are still too high. Besides, it has created new wave of players into the market who are misusing the model and cheating poor borrowers. Over the past years, Grameen banks have been facing with many opposition groups from political, religious, and legal detractors. However, despite of facing all critics Yunus still remains intent in demonstrating the value of his idea to the developed world. According to Yunus (2007), there is a hope to dispel poverty and hunger at their origin and that by discussing the sources of poverty. He believes that he has been able to end

poverty but more importantly in a more productive and profitable manner. It is noteworthy that banks are originally a commercial industry like many others in the developed world.

As with any kind of lending systems, microfinance has played an effective role to uplift the societies around the world. However, the issue with financial packages arises when used in excess. These days, households, the recreants of micro-loans from multiple institutions using one loan to pay off another. Considering the case of Grameen bank, there is no way to see the viability of the business that it funds. For instance, it is common to find a multitude of cigarette shops funded through micro finance. Also, with the weekly repayment system, the agricultural sectors are all entirely overlooked; since, the time of the repayment must match the harvesting cycle. In countries like India, this would mean sixty percent of the population (Kickul and Lyons, 2012).

## **2.6 TOMS shoes Case Study**

TOMS shoes is categorized as a social enterprise that has been successful since its foundation in 2006. Like many social enterprises, TOMS started from a willingness to tackle a social problem. On his trip to Argentina, CEO and Founder Blake Mycoskie saw the extreme poverty outside the capital, and that many children were without shoes (Mycoskie, 2012). Looking to create “a constant, reliable flow” of shoes for these children, Mycoskie considered charity, but ultimately decided that the best way would be through a for-profit business (Mycoskie, 2012). Mycoskie (2012) notes, “When we first began, the goal was to create a for-profit company that could help relieve the pain and suffering felt by children around the world who do not have shoes”. In eight

years of operation, TOMS has given over 10 million pairs of shoes. Today, the company has the two additional objectives of providing eyewear and water to those in need. TOMS now sells women's, men's, and kids' shoes, eyewear and sunglasses, apparel, accessories, and coffee (TOMS, 2014). In addition, TOMS shoes has built factories in China, Argentina, and Ethiopia. According to TOMS officials, the Chinese factory is specifically doing production for the U.S. market. (TOMS.com, 2011)

### **Marketing of Social Mission**

The company has marketed its giving campaign as "One for One," because with every product purchased, TOMS helps a person in need (TOMS, 2014). For every pair of shoes purchased, the company donates a pair of shoes to a child in need. According to Mycoskie, making the TOMS "One for One" model, a central part of the business from the beginning was strategically necessary for the company's success. "I could have waited until the business was mature and then created some tax write-offs," Mycoskie (2012) says, "but it was an important decision to move forward early, because if you wait a long time before you act, you won't gain all the benefits". Benefits such as customer involvement in spreading the company's mission and strategic partnerships would have evaded the company, had it not started as a social enterprise from the beginning (Mycoskie, 2007). It is largely due to its social mission that the company got to where it is today.

### **Customers act as representatives of the brand**

Being a social enterprise is helpful in marketing to customers (Mycoskie, 2012). "When giving is incorporated into your model, your customers become your partners in marketing your product." Many customers of TOMS shoes are like

brand representatives, sharing and promoting the TOMS story because they want to share the company's unique story and mission. Mycoskie (2007) heavily emphasizes the importance of using a social enterprise's "story" to advance the brand. Some customers, especially of the younger generation, have even started various initiatives based on TOMS (Mycoskie, 2012). A college student from Ohio State University organized an event named "Style Your Soul," for which she reached out to local high schools to tell them about the social impact TOMS is making. According to Mycoskie (2012), "If you are doing something good and meaningful, customers have a greater reason to care about your work". This level of involvement and excitement for a brand is uncommon among non-social businesses.

### **Partnerships with other companies and businesses**

According to Mycoskie (2012), social enterprises have an advantage when it comes to strategic partnerships, because "businesses want to partner with other businesses that are doing something good". Over the last several years, TOMS has partnered with Microsoft, AOL, Facebook, YouTube, Teen Vogue, Ralph Lauren, and Element, and others (Mycoskie, 2012). Mycoskie (2012) views charity as a core competency, which large companies can outsource just as they would other functions. According to Mycoskie (2012), "Just as TOMS outsources technology because we are not a technology company, these large companies partner with cause-related organizations because it's not their core competency".

Partnerships between large profit-maximizing corporations and growing social enterprises are undoubtedly mutually beneficial relationships. Large companies rarely have giving programs that resonate with the public, and when companies do have a CSR program in place, it often seems like strategic tax

write offs or publicity gimmicks to customers (Mycoskie, 2012). Through this kind of strategic partnership, the large company can tap into the customer engagement and loyalty created by the social enterprise, thereby gaining positive publicity for its brand, while the social enterprise gains exposure, free marketing, and potentially other benefits from sharing the large company’s ample resources. Traditional profit maximizing companies are increasingly realizing the importance of philanthropy activities for their business and moving such initiatives to their brand marketing departments (Mycoskie, 2012). Mycoskie (2012) says, “Partnerships have made our global giving possible, as well as more powerful”. Figure 10 illustrates the business model of the TOMS shoes.

**Figure 10: TOMS shoes Business Model**



Source: [www.toms.com](http://www.toms.com)

### **Critics’ Point of Views**

TOMS has built factories in China, Argentina, and Ethiopia which can convey the fact that it might have led to positive impacts on the communities involved, since it has created the members of the communities with new job opportunities. However, it should be pointed that this is something that many other business corporations or for-profit multinational companies like Apple have been doing

during the last decades in China or other developing countries that enjoy a really low cost labor forces. In fact, this strategy has enabled the multinational companies to stay competitive in the marketplace by having more tight control over their production expenses. There are number of issues and questions to be discussed in the following part. Thus, this is not something that TOMS shoes should be really proud of, considering the main objective of its creations and operation, A for-profit social enterprise. Moreover, this would cause local communities to heavily depend on the TOMS operation as their only source of income and growth in life which might not be the ideal choice for many of them or their next generations.

#### **A For-Profit Social Enterprise, CSR Structure**

Obviously, public do not necessarily recognize Apple as a social oriented company just because it has created new jobs in China or other parts of the world by installing its factories there. Similarly, the fact that TOMS shoes has built its production lines in China, Argentina, and Ethiopia, and simultaneously following the “One for One” business model, branding itself as a for-profit company with social related goals, do not specifically categorize the company as a social business or even socially responsible company. In fact, a for-profit social enterprise slogan of TOMS resembles a business firm pursuing CSR activities. Likewise, there are dozens of multinational companies who are making massive profits and they publish their CSR reports annually, making sure to maintain a good public image. This would keep their customers still loyal to the company (Bartter, 2012).

As mentioned, today is the age of awareness, public has more awareness ever than before. Thus, socially conscious and responsible businesses have unique image among public. However, what is important here is that the

credibility of those annual CSR reports is something that should be precisely questioned about and studied. The question to be asked here is, how transparent and trustworthy those reports are. TOMS ensures on their website that factories operate in line with best manufacturing practices. However, still TOMS shoes remains largely private about the details surrounding their production facilities. They ensure that no children are engaged in their manufacturing process, but make no other guarantees regarding production. Their statement that they “follow local labor standards” provides a blurred answer to what standards consumers can expect that they follow and does little to ensure the consumer that their workplace conditions are a priority to the firm. Finally, their lack of communication regarding workplace conditions and failures to provide transparency in this area creates added concern from consumers’ points of view.

In addition, TOMS shares that their products produced in their facilities in both Ethiopia and Argentina are used for donated shoes only while products made in China are the shoes that enter the U.S. market for sales. The donated shoes, produced in Ethiopia and Argentina, have a slightly different build and TOMS claims that they provide a stronger sole in line with the need in the developing world. In addition, it is unclear what percentage of each sale goes toward distribution and donation of the second pair.

### **One for One Business Model, A Cause-related Marketing Strategy**

As mentioned above, the business model of TOMS shoes is based on the “One for One” marketing strategy, meaning that “With every pair of shoes purchased, a pair is donated to a child in need.” This model has led TOMS shoes to reach the revenue of 9.6 million dollars. It is obvious the success of the TOMS is more related to its marketing strategy than its design or quality. The customers are partners in marketing with the company; in which they

act as the marketers for TOMS by spreading the idea around in their social networks, a conventional marketing approach.

Moreover, according to TOMS' reports, the distribution of donated shoes comes in two forms; partnering organizations and TOMS directed "Shoe Drops". The majority of distribution comes from TOMS strategic partnerships with non-profit organizations with significant on-the-ground capacity. However, it is unclear exactly how these partner organizations are examined and how long these partnerships and relationships with both the donors and customers last. What if another company comes with a more innovative and less costly idea? Because, as mentioned, based on what TOMS is doing, it falls into the category of for-profit or business companies with CSR derivative activities, contradicting to what the company claims. Many wonder if TOMS' cause-marketing is truly about the cause or simply about differentiating the firm in a much saturated market and improving the overall sales. In other words, is the company truly acting socially responsible or simply using the cause as a tool to increase domestic sales? Does their tactical cause-marketing or one for one strategy cause their real intents about their charitable efforts to be misguided in the eyes of consumers? (Bartter, 2012).

### **Discussion: Application of Creating Shared Value (CSV) in Social Entrepreneurship (SE)**

#### **Nestlé-Milk District Model**

Nestlé is a great example of how CSV concept can be applied in practice. Nestlé realized the need for change when the demand for its milk products started to increase. They decided to restructure their business model in order

to meet the high demands of the market. They came to the conclusion that CSV can assist them in achieving this objective. In the following paragraphs, the application of CSV concept on Nestlé milk district model is explained.

#### I. Re-conceiving product, market, and services

Poverty reduction was one of the top priorities of Nestlé to tackle. Nestlé decided to have a constant presence in areas where the opportunities were rare. It indeed created the opportunities in such areas, since these areas were mostly populated by poor communities. Nestlé offered a full set of services such as training the locals, providing long term jobs with guaranteed wages, developing high quality products. In reverse, the locals guaranteed the steady and long term supply of milk to Nestlé. Hence, the main focus of Nestlé in these areas has been put on securing jobs and developing the economics of rural areas. Gradually, as consumption of supplied milk increased, there was no concern from milk farmers regarding their job security and wages. In long term, the development income of rural areas can lead to the development of the economy of the local and the whole community.

Moreover, the Nestlé model also played a crucial role in improving the health and nutrition of locals by providing them with set of healthy and nutritional products such as protein, calcium, and other essential vitamins. Gradually the milk consumption among locals increased which led to lower death rates and an overall improved state of health.

#### II. Redefining the productivity in value chain

Introducing the new set of services to locals, further led to the improvement of their working condition standards. Part of the procurement strategy and in order to improve the overall productivity of milk farmers, Nestlé provided them with high technological machineries and monitoring systems. Also, to develop the quality of the milk, it immensely provided technical assistance to

farmers regarding the animal husbandry and veterinary support. In addition, Nestlé recently opened its Dairy farming institute in China in order to further improve the farming quality of the locals by providing them with number of various objectives namely learning how to use the latest agricultural technologies, improving the farming skills, learning how to improve productivity, being trained with internal and national experts in the field, learning new practical experience regarding their business development, and learning how sustainably produce milks. Furthermore, to improve the logistics, Nestlé provided a secure route of transportation and infrastructure including storages and cooling facilities to keep the milk fresh.

### III. Developing local clusters

To further ensure the longevity of its activities in the process of shared value creation, Nestlé decided to scale up the application of its milk industry to other businesses. As part of this effort, Nestlé diversified its business through developing clusters in various products and businesses namely cosmetics, pharmaceutical, bottled water, pet foods, and ice cream. The cluster development helped Nestlé to be immuned against the economic and political instability. In fact, as part of supplying its milk, Nestlé has used its Milk district model to five main regions of the world namely India, Pakistan, Indonesia, Columbia, and China (Dairy farming institute).

Considering the huge investment of Nestlé in local areas, it is recommended that they keep a close collaboration with the local government and take advantage of the local social entrepreneur forces who want to eradicate more advanced problems and develop the rural by providing education for children, examining the fertility rate of population, building IT infrastructure, and developing the renewable energies. These are the issues that can be more easily tackled by local social enterprises, rather than by

Nestlé alone.

### **The Grameen Bank**

The Grameen bank is considered as a social enterprise or social business as its founder, Muhammad Yunus puts it. Looking at the business model can reveal some of its core business values for its activity which is based upon the concept of micro-finance. The introduction of micro-finance by the Grameen Bank for improving the lives of poor communities is considered as a novel step in tackling social issues by giving low interest loan to poor women to start an income generating activity. Nevertheless, there are many externalities that Grameen should deal with while tackling societal issues. Applying the CSV concept can further clarify the lacks and strength of core business values and how much it is aligned with the real existence of the bank as a social business.

#### **I. Re-conceiving product, market, and services**

The money provided by micro-loans goes through the processes of refunding, reinvestment and finally rural development in order to set its benefits to the society. It should be noted that the real value creation starts from the point that Grameen controls the wheel of value creation in the process by developing the rural. Grameen spends the refunded money with low interest rate on doing something good for locals namely saving account, education, women empowerment, distribution of dividend to poor as shareholders of the bank.

Education services provided by Grameen can positively impact the lives of poor locals since it will increase the literacy of the rural. Gradually, the literacy rate in the whole area and of course the nation will be improved. This education programs can offer trainings in different areas like business startup, self-improvement, and courses that can dramatically change the lives of the poor. Once poor communities are well educated, they can use their own

potentials more effectively while getting the financial help from Grameen. However, there is supposed to be a monitoring system in place to observe the way money is invested among locals to generate income. To reach this goal, Grameen needs to restructure its value chain. One way to achieve such objective is to establish an auditing company under the Grameen brand or have partnership with an international auditing company in order to provide transparent and reliable annual reports of the activities.

In addition to its financial activity, Grameen played a crucial role in improving the health and nutrition of locals through its partnership with the Danon dairy and providing locals with the set of healthy and nutritional dairy products. Besides, in case people cannot afford growing cows or harvest agricultural products due to lack of required knowledge and skills, Grameen can provide them with micro-loans to improve their standards up to the required level and be able to effectively collaborate with foreign companies like Nestlé in dairy or food production.

As it was shown in figure 9, Grameen has built a number of local subsidiaries under its brand name. Some of the most prominent ones are Grameen Telecom, IT Park, Health Care service, and Agriculture to name a few. Interestingly, each business can examine different set of needs in communities depending on their demands and potentials as well as the specialty of the company. Grameen Telecom is a unique service that can gradually revolutionize the lives of the communities since its applicability is need everywhere. Also, IT Park can be a great source of information and education hub for young generation interested to learn about the technology. Once they become an expert in the field, they can work toward the development of infrastructure of the community based on the latest technological advancements. This would have both direct and indirect

positive impacts on the lives of poor communities in learning how to use the energy more efficiently, taking advantage of renewable energies using Grameen loans.

## II. Redefining the productivity in value chain

Examining the value chain of Grameen bank shows that there are number of things to improve considering the externalities it faces with including legal, political, and religious oppositions. The idea of giving low interest rate loans and rural development are both solid ideas. However, the money that is given out should also be tracked down by Grameen employees and how it is invested and used by local women. Otherwise, giving out money would not be a sustainable idea.

In addition, Grameen should start the education of loan receivers from the beginning before giving them any loans, since they need to be trained on how to use this money effectively to generate the maximum income. This requires Grameen to restructure its model and educate its employees on how to effectively guide poor locals to use the loans. Also, Grameen should look at the loan takers as its own employees or workers and make close partnership with them. In long term, these loan takers can act as the consultants of the bank guiding other loan receivers in other communities. Besides, Grameen have close partnership with the government in order to provide such knowledgeable pool of employees to the public sector. As a result the idea can simply be spread in the sectors of the country.

As part of its rapid growth and development, Grameen has partnered with Danone dairy company which the final products were introduced to villagers solely through the Danone group and not so much efforts needed to be put into action by the village themselves. Of course, this has improved the health and economic level of the overall villagers by providing them with better

nutrition and partial job opportunities. However, by looking at the big picture through the lens of CSV, in long run, the standard of living of the village has not much improved if it is compared with the case of Nestlé milk district model which Nestlé made fundamental transformation in infrastructure of the village. It directly and positively impacted the standard of living by turning each villager into a potential and self-sustained supplier of milk. In a similar token, Grameen and Danon together should innovatively restructure and realign their value chains and build the infrastructure of the village in a shared value format which both the villagers and the businesses can benefit from.

### III. Developing local clusters

Grameen has already done a great job of developing various local cluster and subsidiaries under its brand name such as Grameen Telecom, IT Park, Health Care service, and Agriculture. Each venture can cover different sectors in development of the rural. Moreover, Grameen put one step further and branched out its banking system to developing and developed countries namely the U.S. and Australia, since there are poor communities in every part of the world. This step can be considered as part of the cluster development of only its banking system in international level. Grameen should develop its partnerships in other sectors with global players. Such partnerships are important because they provide extra revenue streams and eliminate some risks that investors might perceive by diversifying its fundamental business model.

The partnership of Gramaeen with Danon is a great idea by itself for the development of the rural lives. However, Grameen needs to develop international clusters for all the sectors in Bangladesh in order to create a co-opetition environment benefiting both the community and businesses. Clusters of international actors can give a great accessibility to potential workers and educated portion of the Bangladesh population. Grameen can play a leading

role since it knows the market and potentials of villages due to its deep rooted connection with poor communities along with its strong subsidiaries under its brand name developed locally and globally. Therefore, it can partner with global players to innovatively tackle the societal issues in Bangladesh. This would provide the village with an immense opportunity to improve their living standards in a more sustainable and productive manner; learning how to create shared values. Consequently, this can more quickly and effectively turn the ideas into concepts solving the societal issues which can benefit all parties including the locals, government, and companies.

### **TOMS Shoes Case Study**

Studying TOMS shoes case study reveals the fact that the business model of TOMS is a CSR model, regardless of what they claim otherwise in their reports. In the following paragraphs, the case is further examined by applying three levels of CSV.

#### **I. Re-conceiving product, services, and market**

TOMS can make slight changes to its marketing “One for one” strategy. It can change the structure as “for every pair of shoes purchased, donate two pairs to every poor person in need.” This means that TOMS is creating extra values in correlation to its business activity. Critics no longer consider the company social goals as a marketing campaign.

In cases, communities that lack schools or education centers, TOMS can use its networks and capabilities to build schools and provide free education programs and trainings for poor students. Consequently, the literacy decreases among poor communities and this would lead them to better use their real potentials according to the most suitable available resources.

Concerning about the health of poor children in Argentina as it is considered as one of the reasons of TOMS's existence and is tightly related to its business model. In order to set a better public image and do something that satisfy its critics while magnifying its first intent of caring for the health of the poor communities, TOMS can built health Care centers and hospitals in poor communities. TOMS can also take advantage of its partnership with both non-profit and for-profit organizations in order to accomplish this goal. This would immensely improve the health of the people in the area and lead them to better use their potentials for development and growth of their own communities' infrastructures. As a result, such new initiatives would bring about new trends of development enhancing the innovativeness and efficiency through the shared value creation system in poor communities.

## II. Redefining Productivity in Value Chain

TOMS shoes should redefine the productivity in its value chain. Shared value concept can make drastic and effective changes in the value chain by tackling different social matters namely energy, natural resources, water use, health and safety of employees, working conditions, and equal treatment in the workplace which can benefit both the society and the company. Meanwhile, these issues can be viewed as opportunities for TOMS from CSV perspective to tackle since TOMS factories also heavily rely on such resources for its production.

Procurement, as one of the support activities in value chain can drastically enrich the capabilities of suppliers. In order to produce shoes or other products, TOMS needs to thoroughly study the rural infrastructure of targeted communities. TOMS can procure its production required supplies from where the plants are built using the potentials of local workers and available resources. Moreover, in case of having any partnership, it can invite potential partners who can bring about significant changes to the lives of local

people by developing the infrastructure. If TOMS improves the quality standard of infrastructure in rural areas then it can procure many of the resources needed for production in its factories. TOMS can employ the potential of local people in enhancing their supplying powers.

Relatively, enhancing use of energy, water and other resources can help both the communities and TOMS to achieve a shared value that can benefit both parties. For example, through partnership with high tech companies and collaboration with local community, TOMS can pioneer the development of renewable energies namely wind or solar energies in poor communities where in long term, benefiting the company and the people, a shared value perspective.

Next, there have been numerous talks about the transparency of TOMS regarding its working standards, safety and health of the employees in TOMS shoes production plants since there have been no clear reports clarify the skepticism. If these criticisms hold true, then the real existence of the company should be questioned. A for-profit social enterprise should align all its value chain elements according to the shared value concept in order to fully achieve its goals and satisfy its clients. TOMS should provide transparent reports regarding the health of workers and quality of its plants and thoroughly inspect the wages and conditions of its workers regardless of the location of the factory. Consequently, this would increase the productivity of the workers which can direct the benefit to company.

Meanwhile, the partnership with other companies and NGOs in distribution of products should be carefully examined. TOMS needs to diversify its recruitment strategy in selling and distributing its products from wide range of customers and communities where the company is located. Moreover, TOMS can innovatively enhance its distribution system through the

empowering of the locals by providing them with micro-finances to distribute the products in their communities and gradually the whole Latin American region. Gradually, this would turn the involved individuals into future entrepreneurs.

Although costly for TOMS, relocating the production plants closest to its point of distribution can immensely unlock new set of economic opportunities. For example, the products from TOMS' China plants are exported to the U.S. market. However, if TOMS moves the factories closer to its U.S. market, not only it can save a lot of shipping costs but also play a crucial role in reducing the carbon emissions. To further save costs and play a more active role in solving societal problems, TOMS can install its factories in places where the job are scarce for the locals. This would benefit community by providing them with new job opportunities and also TOMS would have easier and more flexible access to workers along with a deeper connection in communities in long term which can help the company to create shared value.

### III. Developing local Cluster

Taking advantage of the procurements strategies discussed above such as having easy access to capable suppliers can also back up the local cluster development. TOMS can invite potential companies and study the possible opportunities in communities and take immediate actions. For example, if there is an urgent need for health and better nutrition, then collaboratively TOMS along with other prominent multinational actors and companies like Nestlé, PepsiCo, and Unilever can set up comprehensive research plans and study the problems precisely. Then, they can provide the most suitable and cost efficient idea to deal with the problems. Moreover, each company itself can play a leading role in developing local cluster in its specialized field. TOMS can work on necessary infrastructures and boost up the standards of

the living of locals in order to more effectively develop the local clusters. As a result, in long run it would normalize the market. Additionally, TOMS can invite the local government to take part in the program and be part of the help. In long term, all involved actors namely TOMS and other NGO and corporate firms, government, and locals can enjoy an efficient supply chain system by having easy access to required services such as education and training in order to learn required skills for further development of the community. This would develop a strong cluster. Once the infrastructure level reaches the global standards, they can get involved in co-opetition to further increase the quality and accessibility of the market.

### **3. Conclusion**

This thesis has yet come far to link the SE to CSV in order to depict a better roadmap for the entrepreneurship discipline in social sector. CSV can immensely provide a fertile ground for the seeds of SE to be set globally. This thesis aimed to apply the Creating shared value (CSV) concept on Social Entrepreneurship (SE) in order to further improve the social value creation and sustainability of the social entrepreneurship activities. This also results in a more consistence business environment. In compare with commercial entrepreneurship, social entrepreneurship has claimed to deal with social issues since it has placed its primary goal based on creating social value and economic value as secondary. The two concepts are intertwined. In his 2012 interview, Porter noted that “Social entrepreneurs can bail us out of the problems created by a narrow definition of capitalism; SE is the Trojan horse or transitional vehicle toward creation of shared value.”

On the other hand, there is a degree of uncertainty or career risk among social entrepreneurs which makes them hesitant whether their business would be profitable or durable in long run. Thus, this is something that might delay or prevent the initiation of many social entrepreneurship activities (Valerie and Stamp, 2007). This concern and ambiguity can be resolved by coupling SE with CSV. Corporations can be good partners for social enterprises, only if their goals and value chain elements are well aligned. Corporations can support social entrepreneurs through grants from their corporate foundations or through their operating divisions and collaborate with a social enterprise as an opportunity to innovate or to reach a new market. Social entrepreneurs desperately look for ways to reduce the risk of losing their investment as much as possible along with increasing the flexibilities in solving social issues. Creating shared value model can provide such leverage by implementing its three key steps namely, re-conceiving products and markets, redefining productivity in value chain, and creating local cluster development.

As a side note, it should be noted that the CSV model beautifully define and include social entrepreneurship framework and process introduced in this study. CSV notion acts as a navigator for the social entrepreneurship model in dealing with social issues. Applying CSV on three case studies clearly identified the strengths and weaknesses of three case studies discussed namely Nestlé, the Grameen Bank, and TOMS shoes and how they can improve further.

Micro-finance is the backbone of the Grameen bank existence and growth. However, it can be used more effectively to enhance the productivity of the villagers and build the infrastructures. Grameen has already pioneered a number of subsidiaries through the local cluster development under its name, providing wide range of services for the village besides having its partnership with Danon and producing dairy products in Bangladesh. However, it is hard to

say if it has produced something as a shared value, since there are many criticisms about the credibility of its social business as well as facing oppositions from governmental and legal entities. Thus, Grameen should go one level deeper by inviting more international actors to build the infrastructure and improve welfare of the country and simultaneously restructure its value chain to better align with the CSV. Because they provide extra revenue streams and eliminate some risks that investors might perceive by diversifying its fundamental business model. In addition, Grameen should make more effective partnership with its opposition groups in particular government since it is the primary authority body of Bangladesh. Hence, it can play a leading role in further advancing the Grameen's ideas. Moreover, Grameen should develop a comprehensive monitoring system to observe all its activities including the way money is invested among locals to generate income and provide annual/monthly reports of all its activities to act as a more transparent entity.

A multinational corporate company, Nestlé Milk district model, as one of the first initiators of shared value notion, has innovatively taken a new dimension of applying the concept and restructuring its business model. Nestlé has played a crucial role in improving the health and nutrition of locals by providing set of healthy and nutritional products which led to lower death rates and an overall improved state of health. Nestlé also redefined its value chain. It dramatically increased the standard of milk production by providing high quality milk and technological machineries and monitoring systems, technical assistance for animal husbandry and veterinary. In addition, Nestlé expanded its local and international cluster to developing countries like India, Pakistan, Indonesia, Columbia, and China.

Named as a for-profit social enterprise, TOMS shoes started its idea by providing poor communities in Argentina with shoes with an aim to

improving their health. The concept behind the company's growth and success lies in its "One for One" business model, with every pair of shoes purchased, a pair is donated to a child in need. Customers are partners in marketing the product, since they see it as cause-related marketing. First of all, the for-profit company with social related goals resembles CSR activities of big corporations. This somehow contradicts with the main seeds of the value creation of TOMS as a social enterprise targeting poor communities as its main core strategy. Moreover, TOMS has build plants in China, Argentina, and Ethiopia supplying its productions. Although these plants have created plenty of job opportunities, yet they did not significantly improve the rural infrastructure. It is just a new source of income for people working in plants with no noticeable positive impacts on other aspects of their lives. This is where the notion of CSV can make noticeable impacts as it was seen in Nestlé case study. TOMS should redefine its products and services. It can change its slogan as "for every pair of shoes purchased, donate two pairs to every poor person in need." This means that TOMS is creating extra value in correlation to its business activity. Critics no longer can consider the company's social goals as a marketing campaign.

TOMS can use its available resources to build schools for poor students and provide free education programs and trainings. This can decrease the literacy rate among poor communities and leads them to use their own potentials for development of their own communities and enjoy a higher standard of living in long run. Likewise, TOMS can have access to pool of highly educated workers with a potential to be its future business partners or employees. To further expand its concern about the health of communities, TOMS can build health Care centers and hospitals as well as providing poor

communities with healthy and nutritional products as well as inviting prospective partners to collaborate.

To alleviate the energy costs, TOMS can initiate various environmentally friendly practices and campaigns in preserving, recycling and generating renewable energy Resources for the local. TOMS can play a positive role in reducing its environmental prints in the area. Moreover, TOMS should provide more transparent reports regarding the conditions of its worker in its plants and further improve their conditions and safety. Consequently this will increase the workers productivity which also benefits the company. In case of having lack in any area, TOMS can use its world-known reputation and networks to invite potential business corporations who desperately look for doing something good for the society as part of their social responsibilities agenda. In long run, it would positively impact the living standard of the communities in the region.

#### **4. Further Research**

It should be taken into account that there are not many researches done yet connecting CSV and SE together, although Porter and Kramer (2011) briefly touched the surface of the SE concept in their paper. It should be noted that the notions of CSV and SE are still considered as new practices to be fully adopted and implemented by businesses, social workers, and academia. This can be an opportunity for further research for scholars in different fields. Gradually, the researches on these concepts are growing specifically on how to measure CSV and role of innovation in creating shared value.

Relatively, an extended version of CSV was introduced by Moon et al. (2011), adding another strategy to the original three levels of Porter's model to better define the core competency of business, meaning that companies should

produce products that they have the most competency. In addition Moon et al. revised the other three levels as follow: re-conceiving comprehensive targets, redefining the productivity in value chain based both internal and external factors, and enabling local or global cluster development.

Recently, also the notion of Creating Integrated Value (CIV) has been introduced by Professor Wayne Visser (2014). It combines many of the ideas and practices already in circulation -- like corporate social responsibility (CSR), sustainability and creating shared value (CSV) -- but signals some important shifts, especially by focusing on integration and value creation. Practically, CIV helps a company to integrate its response to stakeholder expectations (using materiality analysis) through its management systems (using best governance practices) and value chain linkages (using life cycle thinking) (Visser and Kaymal, 2014).

To take the matter into further consideration for future researches and studies, it is advised to apply these new concepts on case different studies and analyze the result for further clarification and improvement of the evolutionary concept of social responsibility. Additionally, the Middle East and Central Asia are all but absent from the map of social entrepreneurship and creating shared value. Russia and former Soviet Union states are all clearly very difficult states to start in which to identify social entrepreneurs, though it is a large and globally significant region to be overlooked (Kickel and Lyons, 2012). This can signal a great opportunity niche for new scholars and practitioners in the field.

It is quite obvious that a young field like CSV and SE require numerous researches and studies in order to be further evolved and adopted by different companies in every parts of the globe. After couple of decades being passed, the concept will be well defined from different perspectives, meaning that there is a

large pool of opportunities for scholars for further research in order to further evolve the field (Hoogenderoon.B, Pennings.E & Thurik, 2010).

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## 국문초록

### 공유가치창출과사회적기업가정신간의연계

최근몇년간,자본주의시스템은경제, 환경, 사회문제의주요원인으로비난받으며대중으로부터심한압박을받고있다. 이러한현상의결과에효과적으로대처하는것은이제이전보다훨씬더긴급하게느껴집니다. 지난 20 년동안피라미드의바닥 (BOP), 기업의사회적책임 (CSR), 그리고더욱최근에는공유가치만들기(CSV), 사회기업가정신 (SE) 등여러가지사회적으로관련된개념이등장했다.

이논문은결과로서언급되었던최근에개발된두사회관련개념, CSV 및 SE의역할을조사할것이다. 포터와크래머에의해제안된 CSV는다른접근방식의특정 SE의중요성을강조하면서사회문제를조사하는새로운접근방식으로간주된다. 또한이논문은 CSV의재소유제품과시장, 가치사슬의생산성재정의, 지역클러스터개발의세가지수준을적용하여 CSV가 SE의응용프로그램을향상시킬수있는방법을보여준다. 본연구에서 CSV는 SE가"과도기의차량"으로간주되는동안에사회적책임경로의최종목적지로간주된다.이논문의후반부에서는이러한개념을네슬레, 그라민은행및 탐스신발의사례연구를통해논의될것이다.

**핵심어:**경제학에서의 바닥 피라미드, 기업의 사회적 책임,공유가치창출,사회적 기업, 네슬레, 그라민 은행 및 탐스 슈즈 사례연구

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