business models for shared value
A Guide for Executives

Network for Business Sustainability

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nbs.net
We suggest these new business models — where stakeholders replace shareholders as the focus of value maximization — could empower capitalism to address overwhelming global concerns.¹

MUHAMMAD YUNUS, BERTRAND MOINGEON, & LAURENCE LEHMANN-ORTEGA

Are ... companies truly transforming their business models in a deep and meaningful way? I have not seen that evidence.²

ERNST LIGTERINGEN, FORMER CEO OF GLOBAL REPORTING INITIATIVE

introduction

Shared value is the idea that by addressing society’s needs and challenges, companies can create economic value in a way that also benefits society. Shared value seems promising, but many managers struggle to make it happen.

This executive guide provides a new approach to pursuing shared value, by focusing on business models. The guide offers the best research-based advice on managing business model innovation in ways that can help companies serve their clients, their stakeholders, and the greater good.

The Rise of Shared Value

The past decade has seen intensive debate on the purpose of business and the ability of capitalism to foster prosperity. Critics have called the idea that the social responsibility of business is to maximize its profits insufficient, and perhaps even undesirable. Politicians, business leaders, consumers, academics, and grassroots activists increasingly realize that focusing on short-term financial performance is hampering the private sector’s ability to provide innovations that allow both business and society to prosper, while simultaneously preserving environmental integrity.

From this discussion, a new concept has quickly risen on business leaders’ agendas: Michael Porter and Mark Kramer’s notion of “shared value.” Shared value became popular after appearing on the cover of the Harvard Business Review, where it was introduced as “the big idea” of “how to fix capitalism.” Shared value proposes to redefine the purpose of business as “creating economic value in a way that also creates value for society by addressing its needs and challenges” (p. 64).

The idea that companies could address social and environmental problems at a profit is appealing, yet most companies are struggling to turn this vision into a reality. Societal challenges remain the domain of governments, non-governmental organizations (NGOs), and social enterprises, not profit-seeking enterprises.

Finding shared value is not automatic. Some initiatives do provide profit and social/environmental benefits. Commonly cited examples include energy and resource efficiency, streamlined processes, and investments in local communities. However, fully unlocking the potential for shared value requires rethinking business in a more fundamental way. It requires innovating business models.

The Challenge of Business Model Innovation

Interest in business models has risen dramatically over the last decade. In 2010, the Economist Intelligence Unit conducted a global survey of more than 4,000 senior managers. Asked to comment on the sources of future competitive advantage, 54 per cent responded that they believe new business models are more critical than new

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products or new services. The 2015 IBM Global CEO report found that “four-fifths of CEOs are experimenting with alternative business models or thinking of doing so.”

Despite growing activity related to business models, very few documented cases exist in which companies have successfully innovated their business models. As Johnson, Christensen, and Kagermann famously noted, “major innovations within existing corporations over the past decade shows that precious few have been business model related.”

What explains the lack of business model innovation? We do not have a definitive answer, but research is starting to provide initial insights.

Challenges to business model innovation begin with conceptualization. It is difficult to define a business model. Additionally, linking business models to strategy can be challenging, despite increasing agreement that these concepts are fundamentally connected. Finally, companies often lack competencies required for business model innovation. These competencies include knowledge about business models and their strategic implications, awareness of the barriers to business model innovation and ways to overcome them, and capabilities and organizational structures required to manage business model innovation.

Adding the goal of shared value provides additional complexity.

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1. recognizing the roots of shared value

While the formal concept of “shared value” emerged recently, many managers and researchers recognize its overlap with previous ideas linking social, environmental, and economic value creation; or view business as spurring social progress beyond traditional areas such as job creation, tax payments, and investor returns. Such previous ideas related to shared value include corporate sustainability, aspects of corporate social responsibility, and the triple bottom line. Because of this overlap, in this document we refer to business sustainability and shared value interchangeably. ¹⁰

This history of work related to shared value has two implications.

First, we can apply many of the lessons learned in implementing sustainability and other earlier concepts. For example, it remains important to have a well-articulated strategy for addressing social and environmental concerns and integration between sustainability and business strategies.

Second, we can manage expectations. Shared value is at the centre of a buzz of interest and consulting activity. Managers must avoid getting swept up in “management fashion,” the over-enthusiastic expectations that often accompany new management concepts. As iconic companies such as Interface or Patagonia have shown, achieving meaningful shared value is a long journey, not an easy fix, and it is subject to many barriers and challenges.

Implementing meaningful shared value requires:

• Understanding shared value better, including its overlap with other concepts.
• Recognizing the barriers to shared value both outside and inside the organization.
• Recognizing the potential of new business models to achieve shared value.
• Understanding business models and how they can be adapted for shared value.

¹⁰ While there is a partial overlap, there are also differences, which we discuss more fully in the main report. In this executive guide, using the two terms interchangeably does not change the main insights.
2. shared value today: untapped potential

Sometimes, sustainability and shared value represent a “huge business opportunity,” as GE CEO’s Jeffrey Immelt said on launching the company’s eco-imagination project.11

But often, the business case for shared value is less clear. Conventional business models are about selling products/services to a customer — rather than, for example, addressing multiple stakeholders’ needs. From the more conventional perspective, many managers see a conflict between the creation of shared value and the need for profit and growth.

Current Action: Limited Steps toward Shared Value

Today, companies pressured by society to show their commitment to shared value frequently address shared value by setting up an (often separate) department to deal with social and environmental issues, and by engaging in activities disconnected from their core business. These efforts can include philanthropy in local communities and waste and energy reduction. Companies publish reports focused on these side activities. While certainly a good start, activities of this type often have only marginal social and environmental impacts and returns to the firm, even in the form of intangibles. Meaningful shared value requires a deeper, more transformative change.

Market Barriers to Shared Value

Obstacles to more fundamental shared value efforts are real. Companies operate in markets that do not properly value environmental and social resources. Firms activities that negatively impact the environment (e.g. pollution) or people (e.g. labour exploitation) are not fully reflected in the costs of enterprises’ products and services.

Firms that want to navigate toward stronger shared value may thus lose competitive advantage when markets and society do not reward environmental or social initiatives.

Because markets create structural barriers to more radical solutions, business must rethink its logic for creating and capturing value. To truly unlock the private sector’s potential to create social and environmental value at a profit, new business models are needed.

Case 1 provides an example of such business model innovation for shared value.

In the next section, we describe a traditional perspective on business models and how to adapt it for shared value.

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CASE 1: TRANSFORMATIVE BUSINESS MODEL INNOVATION: INTERFACE CARPETS

Carpet company Interface’s initial business model focused on conventional ways of producing, marketing, and selling carpets. The company sought to sell as many carpets as possible. The fundamental drivers of growth were sales volume and frequency.

When Interface managers decided to embrace sustainability, they made a profound shift in their business logic. Instead of selling carpets, they began offering a “floor-covering service.” This was far more than a marketing ploy. Interface went from selling to leasing carpets, which allowed the company to control much more of the supply chain. The carpets were redesigned as tiles, so that only damaged or worn parts required replacing. They were also designed to be highly recyclable because the company could save money by reintroducing them in the manufacturing process. The recyclable carpets significantly reduced total material and energy consumption, allowing Interface to deliver a better service at lower cost.

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3. what are business models?

Business models are complex and hard to define. Generally speaking, the term refers to **how an organization creates, delivers, and captures value.**

### A New Landscape for Innovation

Business models have always been an integral part of business behaviour — firms have always had a business model, whether explicitly acknowledged. Beginning in the mid-1990s, however, diverse events have highlighted the role of business models as a new dimension of innovation. The Internet, new information and communication technology (ICT), rising interest in renewable energies and post-industrial technologies such as nanomaterials — all have broadened the discussion of innovation beyond the earlier focus on product, process, or organizational innovation. Figure 1, on the next page, shows the four dimensions of innovation.

Today, both entrepreneurs and established businesses experiment with new business models. They may provide a product for free and make money elsewhere (e.g. Facebook and other platforms), or offer a free, reduced-feature version of their service to make money with a premium version (e.g. the freemium model adopted by companies such as Dropbox and Adobe). As a result, business models have become part of everyday business language. Business model innovation has redefined consumption patterns and industry boundaries.

Interest in business models is not just about the pursuit of above-average returns. Increasingly, rethinking product technologies or processes seems inadequate to address challenges such as green and smart transportation, recycling and closed-loop production cycles, information consumption, health care, or better nutrition. These challenges also require rethinking the way firms create, deliver, and capture value — the core elements of a business model. Tesla Motors provides an example of business model innovation for shared value (see Case 2).

#### CASE 2: TRANSFORMATIVE BUSINESS MODEL INNOVATION: TESLA MOTORS

Californian electric car developer Tesla Motors pursues radical business model innovations to replace fossil fuels as a primary energy source for mobility. Tesla’s business model deviates fundamentally from the traditional car-manufacturing model. Partnerships with competitors (e.g. Daimler) and complementors (e.g. Panasonic and SolarCity) are remarkable features of Tesla’s business model, as is the installation of a supercharger network that can be used for free.

Tesla goes far beyond car design, manufacturing, and sales. It creates a new business ecosystem including large-scale battery manufacturing and supplying green power at charger stations across the USA and countries worldwide.

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Innovation Dimensions

Business Model Innovation
(Innovating value creation, delivery, and/or capture mechanisms of a business)

For example:
- Selling services rather than products
- Closed-loop business models (using waste as inputs)

Organizational Innovation

For example:
- Codes of conduct respecting diversity, human dignity, and rights
- Respecting personal work-life balance
- Decision-making power and division of labour
- Non-monetary incentives

Process Innovation

For example:
- Greening processes through material efficiency
- Reducing and reusing waste
- Recycling of by-products and used end-products
- Waterless production processes

Product Innovation

For example:
- Green products based on biomaterials
- Cosmetics without toxic substances
- Energy-saving devices such as LED light bulbs
- Recycled and recyclable paper and packaging

Figure 1: The Four Dimensions of Innovation

A Traditional Perspective on Business Models

Before innovating business models, we need a way to represent them. Here, we provide a traditional perspective on business models, and describe how it can be adapted for shared value.

Core elements of this traditional perspective are provided in Figure 2.

Business models seek to create value for the company and its customers. Therefore, the business model attempts to explain how resources, capabilities, and activities provide a customer value proposition, which represents the benefits offered to customers through products and services, or a way to help customers get an important “job” done.18

Companies use a business infrastructure, comprising their own and partner resources, capabilities, and activities, to make and deliver the customer value proposition. The business infrastructure might include, for example, technology, employees and their skills, and general processes and working procedures.

The company communicates and delivers its offering through the customer interface. The interface is the company’s relationships with customers, and the channels through which it reaches them — for example, retail stores or the Internet.

A business model’s underlying financial model defines capital and revenue sources to cover the costs associated with the other business model elements, aiming to generate a financial surplus.

4. moving toward business models for shared value

The traditional perspective on business models emphasizes the value created for customers (value proposition), the resources and capabilities needed (business infrastructure), the relationship and channels adopted to communicate and deliver that value (customer interfaces), and the capital required and the economic benefits for the firm (financial model).

This simple understanding of business models is a starting point to represent and communicate both existing and new business models. However, our research reveals that it is inadequate for understanding and building business models for shared value.

“We cannot solve our problems with the same level of thinking that created them,” Einstein said. His insight applies here. As with every innovation effort, business model design starts with idea generation and opportunity recognition. To act on such opportunities, we need a different level of thinking than that used to design traditional business models.

Traditional understanding of business models relies on an image of the firm that is rooted in the assumptions of the old industrial economy and that understands value as the delivery of benefits to customers and monetary returns to the firm.19

Shared value challenges this idea. What is value beyond benefits to customers and monetary rewards to the firm? And who is sharing value, beyond customers and the firm?

Thinking about business models for shared value requires an alternative image of the firm and its operations that conceives value creation in broader terms, for example considering multiple value exchanges. A value exchange is a transfer of something of value between parties: it includes both tangibles, such as products or services or money, and intangibles, such as information or political support. Figure 3 contrasts the traditional image of the firm with the image of the firm from a shared value perspective.

In this view, the value exchanged broadens to many different stakeholders, beyond simply the customer.

We offer the following definition of a business model for shared value:

A business model for shared value (BMfSV) describes a company’s value proposition to its stakeholders, how that value proposition is created and delivered, and how it captures economic value while maintaining or regenerating the different capitals of the communities it operates in.20

In the next section, we introduce the Hourglass Model, which illustrates these elements of business models for shared value.

5. understanding your situation: the hourglass model

The Hourglass Model (Figure 4) is intended to guide entrepreneurs and managers to take a broader perspective on value creation. They can use the model to map how the current business model is creating, destroying, and/or missing value opportunities for different stakeholders. This exercise goes beyond describing an existing business model from a shared value viewpoint. It, in fact, represents the first step in business model design. When managers see the total value created, destroyed, and missed, they can more readily identify opportunities for increasing shared value creation.

The Hourglass Model looks beyond the traditional focus on firm and finance, encouraging consideration of value creation across the business system. This “total value creation” perspective recognizes that any business (model) depends on diverse stakeholders that provide diverse forms of capital, such as investors providing financial capital, the environment providing natural capital, and employees providing intellectual and human capital. In turn, those stakeholders are the partners with and for whom value is created, destroyed, or even missed.

“Stocks” of different capitals\textsuperscript{22} can be enhanced or reduced. The Hourglass Model points to six fundamental types of capital: natural, human, social, intellectual, financial, and manufactured.\textsuperscript{23} These capitals represent the foundation for all business activities; they are required for any value creation process. Most capitals are associated with specific stakeholders (e.g. intellectual capital in employees).

The total value created and captured is “shared” among the company, customers, employees, suppliers, the local community, and the environment. In the process of creating shared value, a business model may destroy or ignore value opportunities for some stakeholders while prioritizing value creation for others. For example, a financially sound firm may create economic value for itself (and employees if profits are distributed), while simultaneously destroying social value for some stakeholders if it treats employees unfairly or squeezes suppliers.

To take a total value creation perspective and see opportunities for more shared value creation, managers should analyze how the current business model creates, destroys, or even misses value for each stakeholder and along different types of value or capital.

The questions below can help you use the Hourglass Model to analyze your current business model and better see opportunities toward shared value.

In the next section, we expand on questions raised here to fully develop a strategy for a shared value business model.

\textbf{BOX 1: SEE YOUR BUSINESS MODEL FROM THE TRADITIONAL PERSPECTIVE}

\textbf{Here, you are focused on the traditional business model perspective (the circle at the centre of the Hourglass Model).}

What product or service is the company offering? (Customer)

Who is the primary customer? (Customer)

What is the value proposition? What specific “job to be done” does the product or service help solve? (Customer value proposition)

How is value communicated and delivered to the customer? (Customer interface)

How and where does the firm make money? (Financial model)

Where does the firm incur costs? (Financial model)

What resources and capabilities is the company contributing? (Business infrastructure)

What resources and capabilities do different partners bring and what is their role? (Business infrastructure)

\textsuperscript{22} Capitals are understood here as “stores of value that can be built up or run down over time, but which must be maintained if they are to continue to produce a flow of benefits in the future.” From Association of Chartered Certified Accountants and Netherlands Institute of Chartered Accountants. 2013. \textit{Capitals – Background paper for <IR>}. London, UK: International Integrated Reporting Council. Available at \url{http://integratedreporting.org/wp-content/uploads/2013/03/IR-Background-Paper-Capitals.pdf}, last retrieved October 2016.

Here, analyze your business model through a total value creation perspective, consistent with shared value. Use the outer circle of the Hourglass Model.

Which stakeholder group provides which form of capital?

What forms of capital does the business depend on? What are critical capitals (inputs), and why? Does the business have them or need access to them?

What are the risks associated with those particular capitals? Should the business shift from one type of capital input to another?

What value is created for each one of the stakeholders related to different types of capital?

Is the business (model) destroying value for some stakeholders related to different types of capital? What changes (i.e. adding or dropping specific activities from/to a business model) would improve this situation?

Are there opportunities to enhance value creation related to different capitals?

Is the company able to capture part of the total value it helps to create? Are there opportunities to capture more of the value already created and not currently monetized?

How would a modified or new business model create value for stakeholders?
Case 3 provides an example of a company identifying stakeholder contributions to and benefits from its activities.

**CASE 3: JAGUAR LAND ROVER CLOSES MATERIAL LOOPS AND TAKES A MULTI-STAKEHOLDER PERSPECTIVE ON VALUE CREATION**

Jaguar Land Rover understood that determining the opportunities for value creation for its different stakeholders was critical to the success of its planned sustainability innovation — a new closed-loop aluminium manufacturing system. The system would use waste aluminum as inputs. To gain this information, Jaguar Land Rover mapped and engaged numerous stakeholder groups to identify their interests at different stages of the manufacturing lifecycle and translate these into potential impacts on stakeholder value (see table below). This knowledge facilitated continued benefits to all parties and the transition to a more sustainable manufacturing system.  

<table>
<thead>
<tr>
<th>STAKEHOLDER</th>
<th>CONTRIBUTION FROM STAKEHOLDER</th>
<th>VALUE DELIVERED TO STAKEHOLDER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>Research funding</td>
<td>Compliance, jobs, exports</td>
</tr>
<tr>
<td>Customer</td>
<td>Purchase of aluminum cars</td>
<td>Fuel economy, lower CO₂ tax</td>
</tr>
<tr>
<td>Purchasing</td>
<td>Engagement of suppliers in recycling</td>
<td>Reduced commodity costs</td>
</tr>
<tr>
<td>Finance</td>
<td>Cost-efficient processes for closed loops</td>
<td>Increased profits</td>
</tr>
<tr>
<td>Marketing and PR</td>
<td>Promotion of closed-loop aluminum</td>
<td>Easier sales, reputation</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Scrap material separation</td>
<td>Supply continuity</td>
</tr>
<tr>
<td>Suppliers — press shops</td>
<td>Scrap material separation</td>
<td>Future business</td>
</tr>
<tr>
<td>Suppliers — aluminum</td>
<td>Investment in infrastructure</td>
<td>Long-term partnership</td>
</tr>
<tr>
<td>Shareholders</td>
<td>Investment in enabling technology</td>
<td>Higher returns, resilience</td>
</tr>
<tr>
<td>Employees</td>
<td>Innovation, tenacity</td>
<td>Satisfaction, job security</td>
</tr>
<tr>
<td>Mining communities</td>
<td>Positive engagement</td>
<td>Jobs, responsible mining</td>
</tr>
<tr>
<td>Competitors</td>
<td>Positive engagement</td>
<td>Collective responsibility</td>
</tr>
</tbody>
</table>

24 See full case in main report.
6. adding strategy: the sustainability strategy roadmap

The Hourglass Model shows value creation from a broader perspective. Managers can use the tool to map a current business model and identify opportunities during the idea generation phase, which is typically part of innovation efforts.

Here, we describe the Sustainability Strategy Roadmap (SSR), which can be used to set a focused strategy for shared value creation. The SSR can be used for any type of innovation related to shared value: product, process, organization, or business model innovation.

Use the SSR to clarify your company’s expectations for shared value, develop a blueprint for their achievement, and prioritize initiatives so as to mitigate risk and increase chances of success.

**FIGURE 5: STEPS 1—4 OF THE SUSTAINABILITY STRATEGY ROADMAP**

1. **CLARIFY THE GOALS**
   (WHY WE ENGAGE?)
   - COMPETITIVENESS
   - LEGITIMACY
   - ETHICS

2. **IDENTIFY OPPORTUNITIES THROUGH CONTRASTING ANALYSIS**
   2.1 WHAT OPPORTUNITIES EXIST?
   OUTSIDE-IN
   Economic
   Environmental
   Social
   Core Competencies
   Key Resources

   2.2 WHAT OPPORTUNITIES EXIST?
   INSIDE-OUT

3. **INCORPORATE STAKEHOLDERS THROUGH DESIGN THINKING**
   3.1 ECOSYSTEM ANALYSIS

4. **DEVELOP STRATEGIC ROADMAP**
   AS A PORTFOLIO OF OPPORTUNITIES
   OPPORTUNITY 1
   OPPORTUNITY 2
   OPPORTUNITY 3
   OPPORTUNITY n

   3.2 INTERVIEW AND OBSERVE
   TO IDENTIFY UNMET NEEDS

   2.3 PRIORITIZE
   - COMPLEXITY
   - TIME
   - PERFORMANCE POTENTIAL
   - LEARNING POTENTIAL
   - SPAN OF INFLUENCE
   - ...
The SSR prompts decision-makers to ask explicitly:

- Why is the company engaging in sustainability or shared value initiatives and what does it expect for itself? (Step 1)
- What are the strategically meaningful ecological and social issues and related business opportunities, and how should the company begin to prioritize among them? (Steps 2 and 3)
- What type of portfolio of initiatives would best serve goals while minimizing risk? (Step 4)

**Step 1: Clarify the Goals**

To prioritize issues and opportunities, firms must understand why they engage in sustainability and shared value initiatives and what they expect to gain. What do firms expect from shared value?

Firms’ reasons for increased sustainability fall into three main categories:25

- Improve competitiveness.
- Gain legitimacy.
- The desire to “do the right thing,” where actions are often driven by ethical and moral considerations.

Use the questions in the box to clarify your firm’s motivation for shared value.

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*Box 3: Clarify the Company’s Strategic Motivations*

To what extent does the company engage in shared value initiatives because of the desire to improve our bottom line?

To what extent does the company engage in shared value initiatives to meet societal and institutional expectations?

To what extent does the company engage in shared value initiatives because of moral and ethical beliefs and values?

**Step 2: Identify Opportunities through Contrasting Analysis**

Next, firms should identify strategically meaningful ecological and social issues and related business opportunities. Not all shared value issues are equally important to firms. Relevance depends on firms’ motivation for action and factors such as industry context and societal pressures that are firm- and industry-specific. Firms’ core competencies also determine how attractive and complex opportunities are.

In Step 2 of the SSR, firms identify shared value opportunities by using an “outside-in” and an “inside-out” analysis and prioritizing among them based on their strategic relevance to the firm.

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OUTSIDE-IN AND INSIDE-OUT ANALYSIS

Analyses can help firms identify opportunities for creating shared value.

In an outside-in approach, a firm scans general sustainability issues to assess how it is positioned with respect to them. A firm might draw sustainability challenges from lists provided by entities such as the United Nations, the Global Reporting Initiative, the Dow Jones Sustainability Index, or the World Economic Forum (e.g. Global Risks Report), and consider their significance to the company.

Through an inside-out analysis, a firm identifies issues and opportunities related to its specific resources and activities. For example, a firm might have particular technological capabilities that it could use to address selected issues.

Case 4 on the following page describes how the transportation sector might assess its motivations, challenges, and shared value opportunities.

PRIORITIZE

Here, firms classify potential shared value opportunities on the basis of their strategic importance. Firms must develop evaluation criteria and evaluate each opportunity against them. Criteria could include factors such as:

- **Alignment**: Is a given shared value issue or opportunity aligned with a firm’s core capabilities and strategies?

- **Span of influence**: Does the issue fall within the firm’s area of influence? Can the company successfully tackle this issue with its existing capabilities? If it needs to cooperate, who else has relevant capabilities?

- **Learning potential**: What is the learning potential (e.g., development of new capabilities, penetration of new markets) related to tackling this issue?

- **Performance potential**: How attractive is this opportunity in terms of (i) economic benefits for the firm, (ii) legitimacy, and (iii) social and ecological impact/value?

Many other criteria are possible, including complexity, degree of return, and opportunities for complementary or cascading impacts.

Step 3: Include Stakeholders through Design Thinking

Here, firms expressly factor in stakeholder needs, creating solutions informed by those who will ultimately influence and be affected by business model innovation.

Elements of design thinking can help firms analyze their contexts and identify key stakeholder interests, challenges, and unmet needs. This is another approach for identifying opportunities for shared value, complementary to that adopted in step 2.

Engagement approaches like interviews, field trips, and participatory observation often uncover surprising and inspiring individual stories that support development of the “total value creation” perspective suggested by the Hourglass Model.

This observation and engagement happens through two steps:

ANALYSIS OF BUSINESS ECOSYSTEM

First, identify the firm’s stakeholders: primary and secondary, direct and indirect. Direct stakeholders are those with whom the firm tend to interact directly. Indirect stakeholders are those with whom the firm does not interact directly but who are important to unlock shared value. For example, owners of complementary assets may not currently interact with a firm, but could contribute to shared value as providers of
knowledge and technologies. These stakeholders can help realize new opportunities to create shared value; they can also hamper a given initiative.

CASE 4: SHARED VALUE IN THE LOGISTICS SECTOR

Transportation contributes about 9 per cent of global gross domestic product (GDP). It also accounts for 17 per cent of world fossil fuel consumption, and is the second largest CO2-emitting sector, contributing 13 per cent of global greenhouse gas (GHG) emissions.

In this hypothetical application of the SSR, logistics firms might be motivated to seek shared value because of concerns related to competitiveness (economic returns) and shareholder pressure. They face:

- Regulation of carbon emissions (motivated by global carbon reduction targets)
- Higher and more volatile fuel prices, and
- Increasing environmental concerns of customers, employees, investors, and other stakeholders.

Based on these strategic considerations, the industry could use analysis to identify opportunities. The table shows possibilities.

<table>
<thead>
<tr>
<th>OPPORTUNITY</th>
<th>DESCRIPTION</th>
<th>OPPORTUNITY</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clean vehicle technologies</td>
<td>Introduce clean and ecologically efficient technologies</td>
<td>Training and communication</td>
<td>Provide training and engagement programs across the organization</td>
</tr>
<tr>
<td>De-speeding the supply chain</td>
<td>Decrease transport speed and increase load fill</td>
<td>Modal switches</td>
<td>Transfer freight from air and long-haul road to ocean and rail freight</td>
</tr>
<tr>
<td>Optimized networks</td>
<td>Improve network planning to ensure efficient hierarchies</td>
<td>Reverse logistics / recycling</td>
<td>Develop new offerings around recycling and waste management</td>
</tr>
<tr>
<td>Energy-efficient buildings</td>
<td>Minimize emissions from operating activities</td>
<td>Home delivery</td>
<td>Develop new home delivery offerings</td>
</tr>
<tr>
<td>Packaging design initiatives</td>
<td>Reduce weight and volume of packaging</td>
<td>Carbon offsetting</td>
<td>Develop carbon-offsetting solutions for own operations and clients</td>
</tr>
</tbody>
</table>

Adapted from Seemann, J. 2012. Hybrid insights: Where the quantitative meets the qualitative. Rotman Magazine, fall: 57–61

All references to this case box can be found in the main report.
INTERVIEW AND OBSERVE

Once important stakeholders are identified, firms should combine approaches such as interviews, meetings, field trips and participatory observation to uncover their needs, behaviours, and desires. Firms can consider the questions below to refine their approach.

BOX 4: MAKE YOUR STAKEHOLDER ENGAGEMENT MORE EFFECTIVE

How are you engaging stakeholders to ensure dialogue?

How can forums bringing together multiple stakeholders help to interpret their behaviour and identify needs and desires?

Step 4. Develop Strategic Roadmap as a Portfolio of Opportunities

By combining Steps 2 (general issues/opportunities and priorities) and 3 (analysis and observation), firms can gain a rich overview of opportunities for shared value creation. In Step 4, managers combine opportunities of higher strategic relevance into a coherent portfolio of objectives to pursue. The result is a strategic roadmap.

The portfolio approach is meant to reduce risk by balancing simpler, shorter-term goals with more complex, longer-term (and perhaps higher-impact/higher-reward) ones. In such cases, short-term success stories can help to facilitate continued commitment while (often more ambiguous) longer-term returns are developing.29

28 See Jaguar Land Rover case study earlier in this document for example. The main report contains more details.

29 See main report for an example of how these steps led to complex forms of business model innovation at Jaguar Land Rover.
7. taking action: business model thinking

The strategic portfolio provides a risk-balanced set of objectives for the firm. In this next step, companies match the opportunities in their portfolio to appropriate innovations.

Firms can address opportunities in multiple ways. Only some strategic opportunities are likely to require innovating a business model. For those that do, managers need to understand the peculiar aspects of innovating a business model, as opposed to innovating products or processes. The Business Model Thinking (BMT) framework helps managers do that.

Business Model Thinking has three stages:
1. Identify whether business model innovation is an appropriate response to an opportunity.
2. If business model innovation is appropriate, use existing business model patterns and frameworks to generate alternative business model possibilities.
3. Develop and test prototypes to allow for rapid learning, adaptation and eventual scaling of the selected innovation.

Step 1: Identify Dimensions of Innovation

Not every shared value initiative requires a changed business model. When companies identify a strategic opportunity, they must decide what kind of innovation best exploits it. Should they innovate in products, processes, organization or business model?

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**FIGURE 6: BUSINESS MODEL THINKING**

1. IDENTIFY DIMENSIONS OF INNOVATION
   - PRODUCT
   - PROCESS
   - ORGANIZATIONAL
   - BUSINESS MODEL

2. MODEL AND IDEATE
   - ARCHETYPES AND PATTERNS
   - BUSINESS MODEL FRAMEWORKS

3. MAKE
   - FAST PROTOTYPE
     - BY EXPERIMENTING AT THE PERIPHERY
   - LEARN
     - DELIBERATE
   - ITERATE
     - ADJUST
   - VALIDATE
These questions can help determine if a shared value opportunity demands business model innovation:

- Does the opportunity require reconsidering the rationale behind the company’s overall value creation, including customer value proposition, business infrastructure, customer interface, and financial model?
- Will the firm change its revenue model (where and when it makes money)?
- To address this opportunity, would the firm monetize business activities differently (e.g., licensing products instead of selling them)?
- Would the firm separate users and payers (e.g., offering free products to one group while drawing revenues from another)?

Positive answers to one or more of these questions likely indicate a new business model is required.

Even within business model innovation, the degree of change can differ, from incremental adjustments to radical redesigns. Knowing how radical a business model innovation effort is can provide a helpful warning: more radical innovations are typically riskier and more subject to inertia.

Step 2. Model and Ideate

If addressing an opportunity requires business model innovation, begin to look at business model alternatives. Companies can use multiple tools to generate such alternatives and sketch possible new business models. See the main report (Section 8.3) for a review of selected tools to help designing new business models.

Managers can also look at business model templates or patterns to decide how to transform a particular sustainability challenge into an opportunity. Many business model templates or patterns for shared value exist. For instance, efficiency gains, closed resource loops, and natural material substitution are key means of enhancing ecological value. Companies can increase social value creation through innovations that promote stewardship, sufficiency, and functionality over ownership. Finally, companies can achieve economic value creation through mechanisms that repurpose the business, seek inclusive value creation, and are both sustainable and scalable. Figure 4 on the following page summarizes potential patterns for shared value creation.

Step 3: Make

Business model innovation is too complex to be fully anticipated or planned.

Instead, companies implementing new business models should start small, learn fast, and scale rapidly. They should ensure learning before making costly investments. Firms should follow a discovery-driven, trial-and-error approach.

We suggest the following steps:

- Define prototypes and pilots and quickly experiment at the periphery of existing business models.
- Ensure that you actively manage learning (instead of the rather passive process of learning by doing).
- Make small adjustments until final approval.
- Keep investments small until concepts are proven. Invest more substantially when there is greater evidence that a particular idea will work, and then be prepared to scale up with vigour.

### FIGURE 7: MAJOR SHARED VALUE INNOVATION AND PATTERNS

<table>
<thead>
<tr>
<th>MAJOR INNOVATION TYPES</th>
<th>ENVIRONMENTAL</th>
<th>SOCIAL</th>
<th>ECONOMICAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAXIMIZE MATERIAL AND ENERGY EFFICIENCY</td>
<td>CLOSING RESOURCE LOOPS</td>
<td>SUBSTITUTE WITH RENEWABLES AND NATURAL PROCESSES</td>
<td>DELIVER FUNCTIONALITY RATHER THAN OWNERSHIP</td>
</tr>
<tr>
<td>Low-carbon manufacturing</td>
<td>Circular economy, closed loop</td>
<td>Move from non-renewable to renewable energy sources</td>
<td>Product-oriented PSS — maintenance, extended warranty</td>
</tr>
<tr>
<td>Lean manufacturing</td>
<td>Cradle-2-Cradle</td>
<td>Solar- and wind-power-based energy innovations</td>
<td>Use oriented PSS — Rental, lease, shared</td>
</tr>
<tr>
<td>Additive manufacturing</td>
<td>Industrial symbiosis</td>
<td>Zero-emissions initiative</td>
<td>Result-oriented PSS — Pay per use</td>
</tr>
<tr>
<td>Low-carbon solutions</td>
<td>Reuse, recycle, remanufacture</td>
<td>Slow manufacturing</td>
<td>Choice editing by retailers</td>
</tr>
<tr>
<td>Dematerialization (of products/packaging)</td>
<td>Take back management</td>
<td></td>
<td>Radical transparency about environmental/societal impacts</td>
</tr>
<tr>
<td>Increased functionality</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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8. barriers to business models’ innovation for shared value

Managers can use the Hourglass Model, the Sustainability Strategy Roadmap, and the Business Model Thinking framework to think strategically about business model innovation.

However, challenges remain. Our tools focus on clarifying strategic thinking, but business model innovation faces many additional barriers. These barriers are particularly pronounced in large firms. Only a few have overcome such challenges (e.g. Patagonia, Interface, and Novo Nordisk).

Box 5 lists some of the most documented barriers large firms face in business model innovation for shared value.

New companies and social and non-profit enterprises are often more agile and able to innovate. However, these organisations often face other challenges, such as limited resources and limited capabilities.

All organisations can enhance and complement their own networks, knowledge and experience through partnerships. Such collaboration across boundaries allows companies to conduct incremental experiments that will not disrupt the existing business. These experiments can lead to more transformational business model innovation.

**BOX 5: BARRIERS TO BUSINESS MODEL INNOVATION FOR SHARED VALUE AMONG LARGE CORPORATIONS**

- **Short termism.** Many companies are controlled by dispersed owners and governance structures seeking short-term gains rather longer-term and sustainable benefits.

- **Risk to existing business and customer base.** Existing firms risk jeopardizing their business when changing or augmenting their business model — e.g. by introducing alternative products to respond to competitors.

- **Limited social and ecological capabilities.** Large companies’ skills tend to focus on market competition instead of managing for social and ecological risks and related value creation.

- **Lack of integration.** Most firms “decouple” business and sustainability strategies by confining sustainability to a cultural and departmental silo within the organization. As a result, companies separately formulate and assess strategic decisions and decisions guiding sustainability initiatives. This separation results in symbolic rather than substantive sustainability decisions and actions.

- **Inertia and resistance to change.** A company’s existing processes and culture often risk suffocating the new business model. This dynamic may lead to operating two separate but simultaneous businesses at the beginning of a business model change process.
9. moving forward

By innovating business models – the fundamental way a company creates, delivers and captures value – the private sector can use its innovative capabilities to develop solutions that profitably address social and environmental issues. However, barriers exist to such innovation. Understanding the nature of these frictions is important for innovators and visionary leaders. This report offers tools to help managers rethink value creation and align it with strategy. This perspective could help advance progress toward visionary business models that create shared value. Please see our full report from this project for more details on business models for shared value and share our primer with your colleagues.
about the research

This executive guidance document highlights the most important practical insights emerging from a systematic review of the scientific literature in the fields of corporate sustainability, shared value and business model innovation, complemented with several interviews with business experts from South Africa and abroad, representing organizations such as Nestlé, Woolworths, Jaguar Land Rover, WWF, and Incite.

The research project was inspired by the leadership council of the Network for Business Sustainability South Africa and conducted by Florian Lüdeke-Freund (University of Hamburg, Germany), Lorenzo Massa (Vienna University of Economics and Business, Austria and École Polytechnique Fédérale de Lausanne, Switzerland); Nancy Bocken (TU Delft, The Netherlands and University of Cambridge, United Kingdom); and Alan Brent and Josephine Musango (Stellenbosch University, South Africa). The Guidance Committee for this project included Brian Chicksen (AngloGold Ashanti); Christopher Whitaker (Barloworld); Jannette Horn and Pieter van der Walt (Altron); Stephen Elliott-Wetmore (WWF); Sue Lund (Transnet); and Ralph Hamann, Kristy Faccer, and Nicola Ehrlich (NBS-SA).

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About the Network for Sustainability South Africa

NBS-SA is hosted at the Graduate School of Business at the University of Cape Town. This South African office is an affiliate of the Network for Business Sustainability, a non-profit based in Canada. The Network for Business Sustainability produces authoritative resources on important sustainability issues with the goal of changing management practice globally. We unite thousands of researchers and business leaders worldwide who believe passionately in research-based practice and practice-based research.

About Our Leadership Council

NBS-SA’s Leadership Council is a group of South African sustainability leaders from diverse sectors. At an annual meeting, these leaders identify their business sustainability challenges — the issues on which their organizations need authoritative answers and reliable insights. Their sustainability challenges prompt each of the NBS-SA’s research projects.
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- Sustainability through Partnerships
- Innovating for Sustainability