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Shared Value Creation: Value chain redesign in companies of the sugar sector

[1,]Daniel Martínez Navarrete , [2,]Claudia Vásquez Rojas , [3,]Alejandro de Jesús Hernández Peralta , [4,]Juan Carlos Crudet Balderas[4]

[1]*Ingeniería en Desarrollo e Innovación Empresarial, Universidad Tecnológica del Centro de Veracruz, México*
[2]*Centro Interdisciplinario de Posgrados, Universidad Popular Autónoma del Estado de Puebla, México*
[3 y 4]*Ingeniería en Desarrollo e Innovación Empresarial, Universidad Tecnológica del Centro de Veracruz, México*

ABSTRACT : *This article exposes the different arguments in favor of The Shared Value Creation (CVC) within an organization as an inclusive competitive strategy of the social, environmental and economic problems on its different interest groups; It is the redesign of its value chain for a more efficient and effective impact on productivity and business competitiveness.*
A theoretical content and a practical perspective are elaborated to model the way to create shared value in an organization throughout a methodology implemented in a company in the sugar sector. The proposed model is made up of five stages: a) Description of the company, b) Strategic diagnosis, c) Executive proposal, d) Change management and f) Strategic decision.
The strategic decision stage includes a six-steps sub model oriented to develop and to redesign a segment of the entire value chain, where implementation begins with the segmentation of critical inputs, awareness suppliers through Value-Sharing, CSR and Sustainability. Subsequent phases consist of an approach to selected suppliers and the strategic breakdown by the company.

KEYWORDS: *Value Chain, Stakeholders, Competitive Advantage, Shared Value, Supplier Development*

I. INTRODUCTION

As a result of the Brundtland report [1] call for action by all countries to build a community concerned for the sustainable development; Society, government, non-governmental organizations and the media have become increasingly adept at demanding accountability by companies for the social impact of their activities [2]. On the other hand, classical economists are only able to see in the environmental ecosystems an unlimited set of raw, cheap or free materials that serve to support the growth of the economy [3]. However, economics is a subsystem of the natural ecosystem, where it is argued that any economic system is a human invention that requires the exploitation of natural resources to exist [4]. When it is understood that every economic system is a subsystem of the terrestrial biosphere, new perceptions are created to take natural resources advantage. The most important perception is about limits, where it is proposed that success of one subsystem within another, must be able to adapt to its restrictions and limitations of the matrix system, ergo, natural resources have a limit and are constant in Time, which means they expired over the years [5].

The best response from organizations to address accountability and conservation of natural resources has been Corporate Social Responsibility (CSR), which it has emerged as a priority on the agendas of leading business leaders in various countries. However, current approaches to CSR are fragmented and disconnected from business as well as from strategic planning, which they end up dimming many of the best opportunities for companies to create benefits at the place they operate [6]. Although companies have realized about risks and opportunities discarded from RSE, they remain unclear about what they should do to offset the effect [7]. In fact, a large part of managerial responses have been focused on improving the corporate image by skipping the strategic and operational part; therefore, analyzing and studying the main schools of thought about RSC represents an essential starting point for understanding why a new approach is required to integrate social considerations into the company's core strategy and activities in a more effectively way [8]. Managers and representatives of society have more focused on friction points than on their points of convergence. The need's reciprocity to progress economically and socially by organizations and their stakeholders requires that business decisions and social policies must follow the principle of shared value. It means, decision-making should create a benefit in both directions; If a corporation or a society progresses following policies that benefit only one side at the expense of the other, the temporary gain of one will end up undermining the long-term prosperity of both. To implement the principle of shared value, a company must be able to incorporate social approaches into the lines of business to understand competition and guide strategic planning. Academically, the concept of shared value was developed by Porter and Kramer [9] and, officially, Harvard Business Review published it at the beginning of the same year as an innovative theory that replaces Corporate Social Responsibility and Sustainability. Although it is a term that is still under construction, companies such as Nestlé have adopted this concept for a couple of years and have realized that creating value in the short term is not the best alternative to build a profitable and competitive company [10]. Today, most companies are making great efforts to fulfill with environmental policies [11], at the same time gaining benefits throughout initiatives that strengthen the struggle to get companies to adopt a sustainable development model such as sound environmental practices, economic and Social, however, actions have not managed to permeate the way of doing business, despite the strategies and plans implemented, there still prevails the war between society and company; The line that separates them from an integration seems to have no end, so new strategies that transcend the traditional concepts of Corporate Social Responsibility, Philanthropy and Sustainability are needed [12].

According to the survey performed by KPMG [13] 95% of companies consider that the obligation of a company with society should be in the strategy of the organization, however, the concept has not permeated to the highest level and It requires a global vision by the board of directors to understand the relationship between economic, environmental and social. 94% affirm that the issue is relevant and critical for the long-term survival of the company, so it is important to prepare for the issue and include processes, specific equipment, budget, as well as methods of measurement and disclosure. Regarding the level of sustainability maturity on a company's administrative board of 95%, only 14% say that the level of implementation is high, while 52% is considered intermediate, which means that almost half of companies have failed to capitalize on the issue of value creation. One of the key issues is that 23% of companies have suffered some kind of impact related to social and environmental factors, while 44% acknowledge that they were medium or immaterial impacts, but ultimately had an impact. This represents that 67% have had some impact for the concept; A figure that is alarming mainly because of the inability of organizations to address issues related to the creation of shared value at all levels. For this reason, new approaches are needed that strengthen organizations to create benefits for all stakeholders [14].

Creating shared value at no time represents an easy and simple activity, especially when an organizational culture has prevailed rooted in different areas of a company [15]. Shared Value raises a set of methods and strategies that will reasonable lead to success, based on the determination of two prerequisites: it requires an open thinking system and a new approach when conducting business where income generation under Principle of self-absorption has no place in the strategies of an organization [16]. Redefining social practices, sustainable actions and acts of philanthropy in an organization of the sugar sector are variables that create the initial context to understand and build shared value, the key is to consider the concept as an indivisible element of economic, social and Environmental [17]. To achieve this, it is necessary to design strategies aimed at creating long-term value, based on the achievement of results for all stakeholders.

It is advisable for an organization to migrate to the concept of shared value because markets become increasingly competitive and globalized information leads organizations to seek alternatives that allow them to have economic growth with a competitive advantage, however, the same Market dynamism is changing the way business is exercised, to the point that the impact generated on the interest groups must be considered in order to achieve the planned success. A synergy between organizations, society and the environmental plane must be created [18].

II. METHODOLOGY

2.1 Definitions

2.1.1 Shared Value.

It is the set of policies and operational practices that improve the competitiveness of a company while helping to improve the economic and social conditions in the communities where it operates. The creation of shared value focuses on identifying and expanding the connections between economic and social progress [12].

2.1.2 Redefinition of productivity in the value chain.

The value chain is the way the activities of a company are organized and interrelated for the creation of value, that is, for the production of goods and services that it offers. Sustainability in the value chain impacts both business operations and interest groups. When the value chain is conducted under an integral and ethical management in all the links that make it, it allows to prevent risks and to construct opportunities between all the actors of the same [19]. The management of a sustainable value chain begins with the selection of suppliers and customers that meet criteria of social responsibility, labor and ethical aspects, safety and physical integration of employees and respect for the environment. This management also includes the generation of joint action plans to improve these aspects throughout the chain [20].

The value chain acts as an internal analysis tool that includes everything from the supply of inputs to the delivery of finished products to customers and users; it represents all the activities that a company executes in the way of doing its business and serves to detect at what level social and environmental impacts are generated, because they are analyzed as a fragmentation of subsystems of a main activity that is called a system. According to Michael Porter [21] a value chain remains embedded in a value system whose activities comprise a larger field which integrates the value chains of interest groups. Suppliers keep their own value chains that provide value through the creation and delivery of inputs to an organization. In addition, they not only supply the raw materials but can also infer in the performance of a company, since if the supply of basic inputs features delays or fails, the production systems can not be efficient in the absence of supplies. A company is a set of links that performs diverse activities that comprise from the design, production, marketing and delivery of products (Fig. 1).

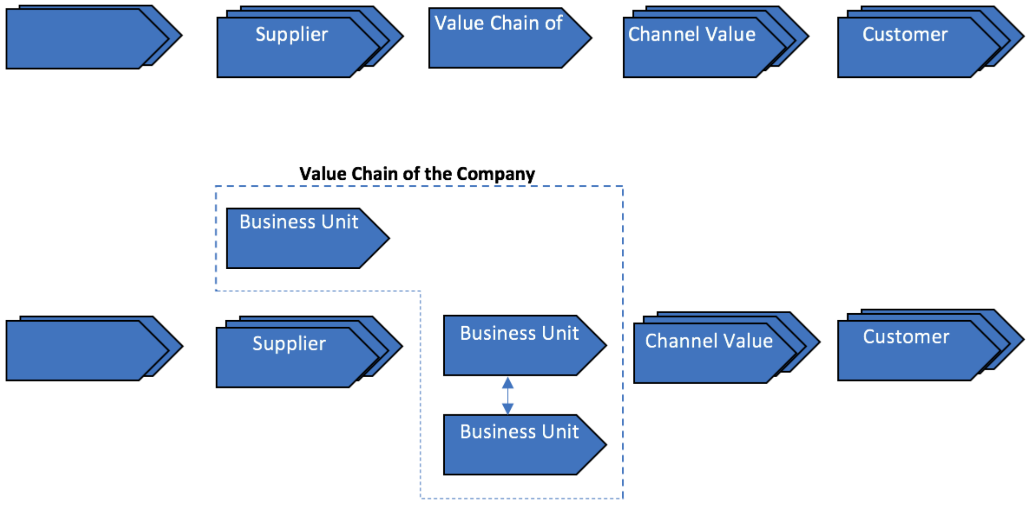

Fig. 1. Michael Porter´s Value Chain [21]

2.2 Shared Value Creation Management Model

The implemented model is integrated by five stages (Fig.2) a) Strategic process, b) Strategic diagnosis, c) Executive proposal, d) Change management and f) Strategic decision.

2.2.1 Strategic process

It is the initial stage and it consists of identifying the current situation of the company to be able to predetermine possible growth strategies oriented to shared value, based on the organizational history, its strategic profile, the strategic capacity and exploration of alternatives. It is the introduction to the organization and serves to know the environment where it operates.

2.2.2 Organizational diagnosis

The second stage is the most important because it is necessary to identify and justify the best alternative to create shared value. For the present research proposal, the redesign of the value chain is considered by applying an AHP matrix.

2.2.3 Executive proposal

The third stage consists of elaborating an executive proposal oriented to the executive leaders and principals responsible to demonstrate with knowledge of cause the advantages that their organization can obtain implementing the principle of shared value in its central strategies. The objectives and execution times must be determined.

2.2.4 Change management

For the fourth stage, a system of open thinking and a high degree of commitment on the part of the executive leaders is required; so that, the implementation of the shared value generates the expected results and they propitiate the management of change throughout the organizational structure.

2.2.5 Strategic decision

The last stage consists of a six-phase management system. In the approach phase, executive leaders are presented with the general process of creating shared value and what each subsequent phase consists of; A planning team responsible for project implementation should be integrated. In the strategic design, the vision is built by the planning team, the values are determined, the environment is analyzed, the strategic projects are determined and the mission is elaborated. For the organizational diagnosis, the strategic projects determined in the previous phase should be prioritized. In the control system, indicators are determined and a balanced scorecard is designed to measure the progress of the strategies designed; It is possible to make a specific budget for each of the actions to be carried out, it also establishes periods and terms of execution (Fig. 3)

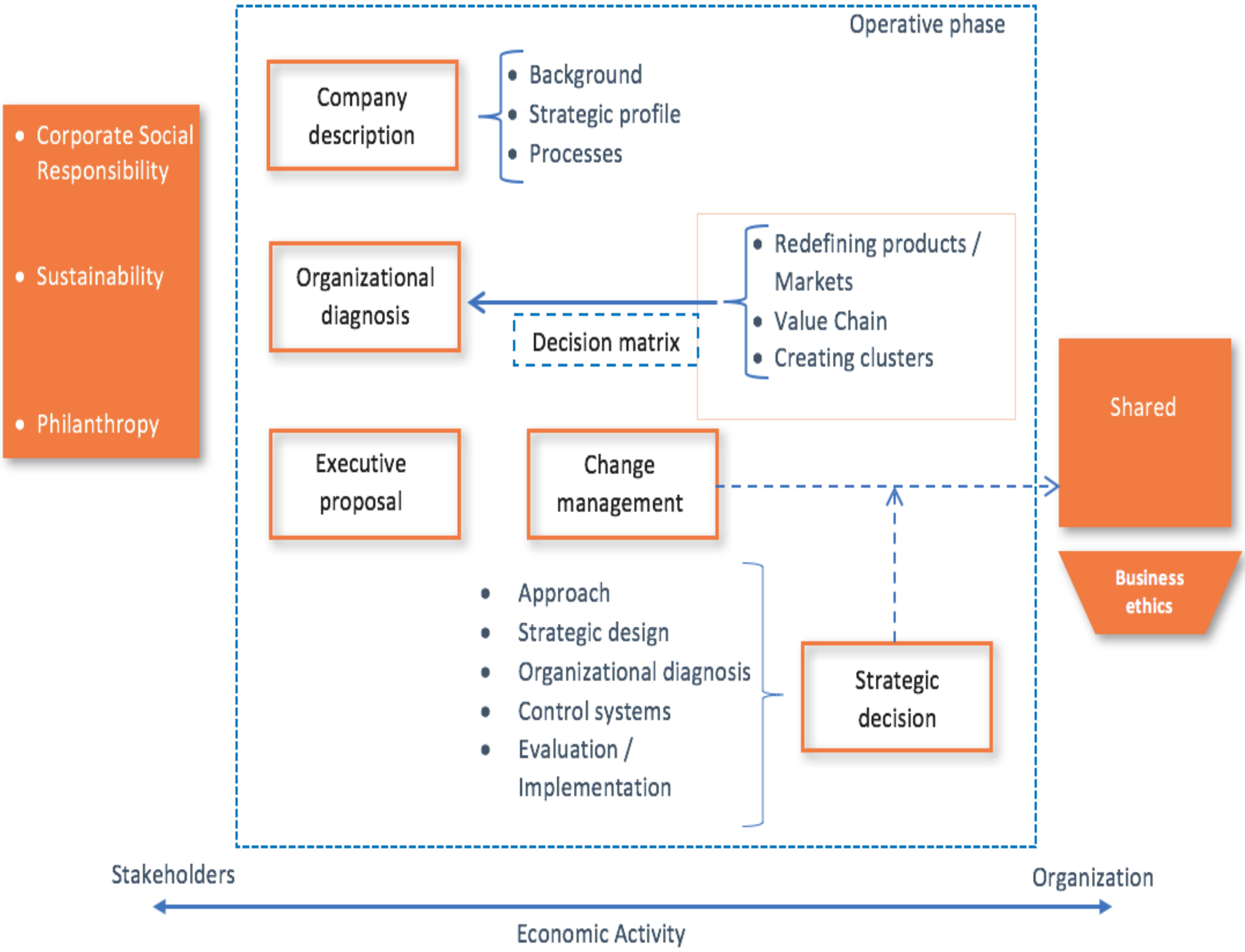

Fig.2 Shared value creation management model

2.2.6 Matrix of decisions for the organizational diagnosis

To determine which strategy is the most feasible for the creation of shared value in a sugar sector company, a decision matrix is elaborated where a nine-point scale is considered to prioritize according to the organizational needs. For the construction of the matrix, departmental and shareholder leaders are included because they are responsible for making strategic decisions. Table 1 presents the most important diagnosis focused on the redesign of the value chain.

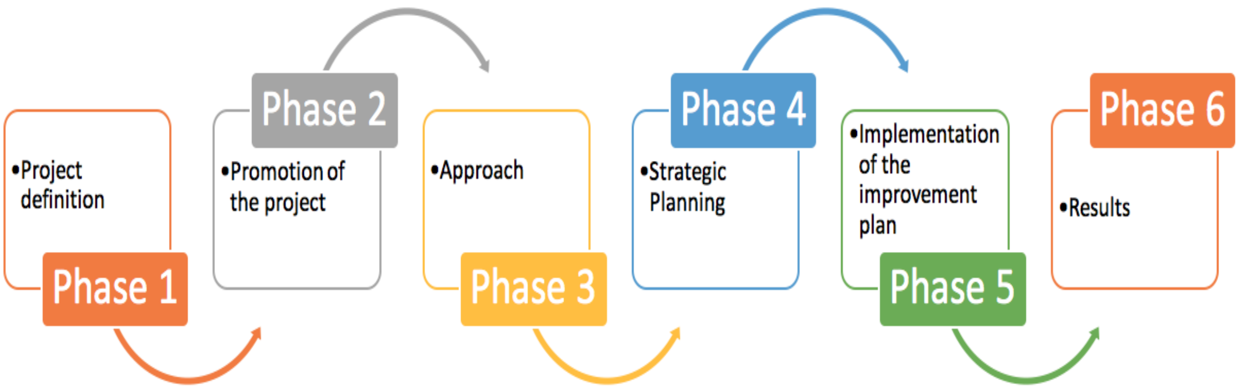

Fig. 3 Stages of the strategic decision phase

Table 1. Decision matrix for the value chain redesign

Key Aspects	Actions Done	Needs
Is the product distributed to the final customer directly or through intermediaries?	The company does not sell the product directly to the end user. It is through suppliers.	Ensure that suppliers of primary, secondary and temporary supplies deliver the requirements of the company with the established quality criteria.
Does the organization have a sustainable value chain?	The company implements a supplier development project as the main link in the value chain to foster shared value and sustainability within the organization.	The company seeks to be a pioneer at the national level in the creation of Shared Value.
Do the organization's customers meet Shared Value, CSR, Sustainability or Philanthropy criteria?	According to the different programs that are implemented different criteria of the mentioned topics are satisfied.	To satisfy the criteria of its main supplier in the creation of a sustainable value chain that integrates suppliers.
Do the suppliers that integrate the value chain satisfy Shared Value, CSR, Sustainability or Philanthropy criteria?	The company is implementing the project "Application of best practices to suppliers". The objective is to show the actions carried out by the company on issues related to shared value, social responsibility, sustainability and philanthropy to encourage them to adopt measures in their organization as suppliers.	Strengthen and enrich actions related to social and environmental impact, corporate governance, quality of life at work and the creation of a sustainable value chain that integrates suppliers from farmers to the main suppliers of services or products.
Does the company conduct a risk analysis in the chain, including social, environmental and economic aspects?	The company has launched campaigns to eradicate child labor during the harvesting periods mainly in the fields.	To obtain the recognition of Development of Suppliers of the Mexican Center of Philanthropy (CEMEFI).
Does the organization generate action plans in collaboration with the members of its value chain to create sustainable synergies?	To conserve and improve the infrastructure of the area where the company is located, different activities are carried out from the signposting of pedestrian areas to the patching and garbage collection of citizens.	Deploy different projects that join strategic partners under ethical and responsible principles.
Does the company implement or adopt a supplier code that specifies the characteristics and conditions which ensure that fundamental principles are respected regarding aspects of Shared Value, CSR, Sustainability and Philanthropy?	Currently, it does not have a specific selection code of suppliers; however, as part of its vision they intend to develop a process for the adequate selection of socially and environmentally responsible suppliers.	To develop a procedure for the proper selection of socially and environmentally responsible suppliers.
Is the performance of suppliers selected and rated based on criteria established by the organization?	It doesn't exist a provider qualification procedure.	It is necessary to design a measurement instrument that justifies decision making for selection of suppliers of critical inputs.
Are all the actors in the chain sensitized about the importance of developing a sustainable value chain together and offering training tools?	For the company, it is essential that its collaborators complete their basic studies, which is why it facilitates the management of documents before the corresponding agencies in order to finish their studies.	To have a workforce with higher education studies as a minimum requirement.

The issue of value-sharing in the supply chain of organizations refers to the principle that all companies should be responsible for national and international standards to be applied to their entire production chain, including their suppliers and subcontractors.

III. RESULTS AND CONCLUSIONS

In implementing the methodology of figure 2 the creation of shared value is observed from two perspectives; First, the company must have the initiative to deploy a project that generates value not only for its shareholders but also for those interest groups that integrate its value chain, allowing the creation of a shared value; Second, the most relevant benefits are identified for participating stakeholders throughout the value chain.

The sustainable value chain is built when large companies begin to permeate their criteria and shared value guidelines in their value chain, sensitizing and defining accompanying programs to generate business partners under ethical principles and productivity. Based on the analysis of strategies, the needs of the company, the actions implemented and the matrix of decisions, it is concluded that the best alternative that satisfies short-term needs and priorities is through the strategy of ***redefinition of the value chain***. The decision is based on the fact that the programs developed by the company have been viewed from the social point of view and have not been taken into consideration by the other interest groups that make up the value chain. Although customer and supplier-related links were analyzed, priorities point more strongly to suppliers as a competitive strategy.

According to the matrix in Table 1, shared value is strengthened through the development of suppliers, which are generally micro, small and medium-sized enterprises, and constitute the value chain of companies. The benefits for suppliers when participating in the project are:

1. As a supplier, the project allows to strengthen its processes through strategic and orderly actions.
2. To have a clear objective and all your actions aligned towards the attainment of your vision.
3. Being part of an integral value chain.
4. To have the advice and design or redesign of your strategic plan

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