

# business models for shared value

A Primer



Network for  
Business Sustainability  
South Africa

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## how can business model innovation contribute to sustainability and shared value?

**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. It's a concept closely linked to sustainability. Shared value seems promising, but many managers struggle to make it happen.

### Shared Value Obstacles — and the Potential of Business Models

Today, companies pressured by society to show their commitment to shared value frequently set up an (often separate) department to deal with social and environmental issues, and engage in “sustainable” 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.**

Obstacles to more fundamental shared value efforts are real: companies operate in competitive markets and markets are generally inefficient in rewarding companies for social and environmental value creation.<sup>1</sup> **To truly unlock the private sector's potential to create social and environmental value at a profit, new business models are needed.**

#### ABOUT THIS RESEARCH

This primer is based on a systematic review of research and practice, including more than 180 articles, conducted by Florian Lüdeke-Freund, Lorenzo Massa, Nancy Bocken, Alan Brent, and Josephine Musango. For related resources, please see the end of this primer.

## how to innovate business models

Business model innovation, whether related to shared value or not, is a complex endeavor. First, the very notion of business model is poorly understood and managers often struggle with how to describe their own company's business model. Second, while business model innovation is fundamentally linked to strategy, business models are often analyzed separately from strategy.

Adding shared value to the mix increases complexity because shared value requires a different level of thinking — a broader perspective on value creation — than the one which is typically assumed in traditional business model frameworks pointing to value creation and capture.

Drawing on extensive research, **we offer two frameworks to guide decision-makers through business model innovation for shared value.**

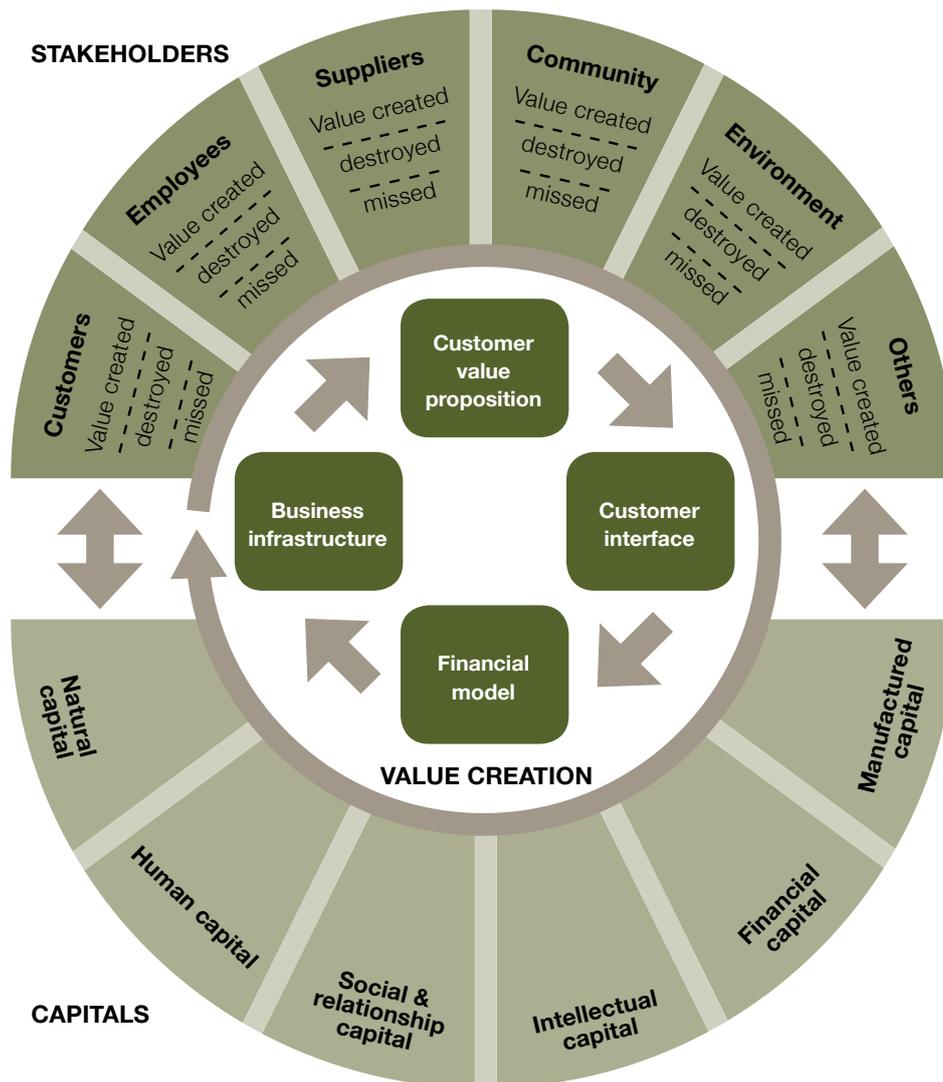
<sup>1</sup> Vogel, D. 2007. *The market for virtue: The potential and limits of corporate social responsibility*. Washington, DC: Brookings Institution Press.

## Use the Hourglass Model to Understand Your Current Situation

The Hourglass Model (Figure 1) supports entrepreneurs and managers in taking the broader perspective on value creation required to develop business models for shared value. You can use the model to map how your current business model is creating, destroying, and/or missing value opportunities for different stakeholders.

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 or the environment providing natural capital.

**FIGURE 1: THE HOURGLASS MODEL**



The Hourglass Model asks decision-makers to consider the following issues:

- **Stakeholders:** With and for whom is value created, and what are the outcomes for the different stakeholders?
- **Total value creation:** What kinds of value exchanges take place between the business and stakeholders, and how are their capital inputs processed in the business model?
- **Capitals:** Which capitals are needed from which stakeholders to create value, and is there an opportunity to maintain or grow the capital base?

## Add Strategy with the Sustainability Strategy Roadmap

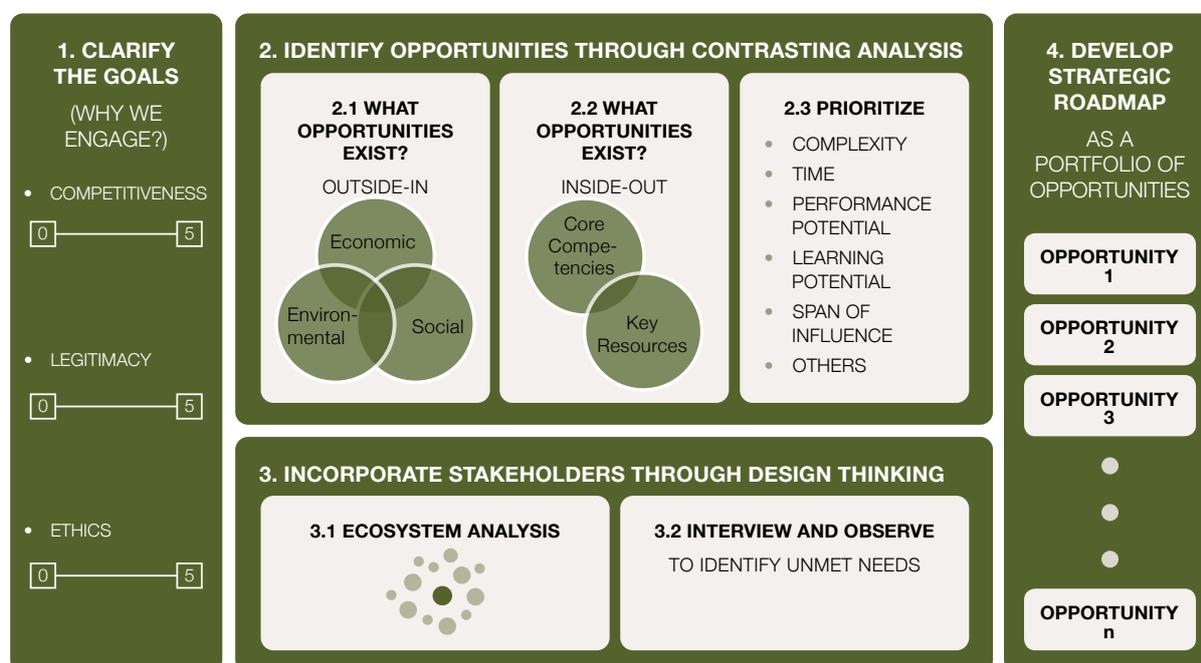
Once you understand your organization's current approach to value creation from a shared value perspective, use the Sustainability Strategy Roadmap (SSR) to set a focused strategy for shared value creation. **The SSR can be used for any type of innovation related to shared value: product, process, organization, 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.

As you work through the Sustainability Strategy Roadmap, you will:

1. Clarify and communicate why the company wants to engage in shared value initiatives.
2. Identify, select, and prioritize opportunities based on criteria of strategic relevance to you.
3. Determine stakeholder interests and prospective areas of potential engagement.
4. Assess strategic alignment and develop a portfolio of opportunities that balance risks.

**FIGURE 2: SUSTAINABILITY STRATEGY ROADMAP: DEVELOPING A STRATEGIC ROADMAP FOR SUSTAINABILITY AND SHARED VALUE OPPORTUNITIES**



## next steps

We encourage you to draw on the [Executive Guide](#) for detailed guidance on how to use the Hourglass Model and the Sustainability Strategy Roadmap. The Executive Guide also provides assistance on the next step: taking action. It describes our Business Model Thinking framework, which shows how to use existing business model patterns to test, adapt, and eventually scale an approach.

For additional detail, explore the project's [Main Report](#) (100 pages), which contains a deeper look at the nature of business models, barriers to business model innovation, and case examples.

Please let us know what you thought of the report. Contact NBS at [info@nbs.net](mailto:info@nbs.net).