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# Creating Societal Benefits and Corporate Profits

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[STRATEGY]

# Creating Societal Benefits and Corporate Profits

When pursuing initiatives that aim to synergistically create both business and societal value, companies should keep four key steps in mind.

BY ALEXANDER ZIMMERMANN, PETER GOMEZ, GILBERT PROBST AND SEBASTIAN RAISCH

In an effort to create societal value, many companies engage in important corporate social responsibility (CSR) initiatives. Unfortunately, admirable as these activities often are, they are not always easy to sustain. From a traditional business perspective, such societally beneficial projects are often considered a cost, and the cost side of a business equation is forever vulnerable.

However good a company's intentions, many CSR programs ultimately depend on the commitment of current management and the profitability of the core business.

Fortunately, some smart companies have found a way out of this trap by designing ventures to not only yield important public benefits but also make money. Our in-depth analysis of how four companies created

for-profit initiatives that also have high societal value suggests that each followed a similar step-by-step process to achieve what we call synergistic value creation. As with any kind of new business, the odds of establishing a new business that creates value for both shareholders and the public can be improved with good planning.

For each of these four companies, we analyzed company reports, press articles, case studies and ranking information, and on the basis of these insights, identified the most important activities that aimed simultaneously at creating public and private benefits. Next, we conducted between three and 10 semi-structured interviews with various respondents at multiple levels within each of the companies, and asked them how they developed these new projects. We found that all of them followed a surprisingly similar four-step new business development process.

**STEP 1: Create mechanisms to gain multi-stakeholder input** Traditionally, companies analyze their internal capabilities and target customer markets to identify new opportunities. The process of synergistic public-private value creation requires a different starting point, since companies generally have a limited understanding of public needs. The companies we observed resolved this issue by creating mechanisms at the outset to bring together actors with very different interests, perceptions and capabilities.

For example, the consumer goods company Procter & Gamble established its Connect + Develop open innovation program to ensure that its business innovation leaders consider external expertise and multiple stakeholders' perspectives. The Live Well Collaborative, founded by Procter & Gamble and the University of Cincinnati, is a recent example of a Connect + Develop

initiative. By designing products and services to assist an aging population with its health and mobility needs, Live Well responds to critical demographic changes. Live Well united a variety of societal actors, including Citigroup, the University of Cincinnati's design school and the Singapore government. In three years, Live Well generated ideas that led to eight new business projects and 20 unique product and service concepts, all designed to make life easier for older people. The use of biomechanical virtual modeling to design products and packaging that are aligned with arthritis sufferers' special needs is a good example.

The other companies we studied also developed mechanisms for multi-stakeholder engagement. At BMW, the challenge was less to understand customers' specific demands than to gain insights into public expectations of individual mobility. By integrating input from academic experts, customer groups and public institutions, BMW learned that a new, modern and liberal group of "multimodal consumers" is emerging that prefers the flexibility of combining different modes of transportation to owning a single vehicle as a status symbol. BMW and its experts then developed the idea of the DriveNow premium car-sharing business as a way to reach this increasingly important demographic.

The food company Nestlé initiated its synergistic public-private value creation process through its nutrition, water and rural development initiatives. As part of meeting its goal of improving nutrition and consequently the health and well-being of consumers through food and diet, the company decided to focus on helping to reduce the risk of undernutrition through micronutrient fortification. More than one third of the world's population is affected by micronutrient deficiencies, such as iron, vitamin A or iodine deficiency. A breakthrough idea — to fortify affordable Nestlé products with specific

(Continued on page 20)

## Creating Societal Benefits and Corporate Profits (Continued from page 19)

micronutrients — emerged when researchers at the company engaged with local communities to study nutrition and cooking habits in developing countries.

At the Chinese real estate development company China Vanke Co. Ltd., chairman and founder Wang Shi visited Japan to learn more about that country's ancient and modern architecture. In particular, he was looking for ideas that would help make homes more resource-efficient and long-lasting while addressing China's increasing public demand for housing. In Japan, the large number of prefabricated homes in excellent condition impressed him particularly. Back in China, Wang Shi brought together a varied group of stakeholders — including builders, customers, industry associations and politicians — to generate ideas about how Vanke and China could benefit from this opportunity.

**STEP 2: Establish cross-business incubators** After external stakeholders point out potential opportunities for synergistic public-private value creation, companies need to develop them further based on their specific internal capabilities. However, traditional organizational silos often make it impossible to pursue synergistic public-private value creation within a company's established functional or divisional boundaries. Societal issues are complex, and creating public value frequently requires changes that go beyond traditional product development issues.

The companies we studied developed, in effect, incubators focused on advancing ideas for public-private value creation. While these incubators draw on the company's core capabilities, they also provide the necessary distance from the traditional business to combine them into novel solutions that meet the company's dual objectives: creating economic value and public value.

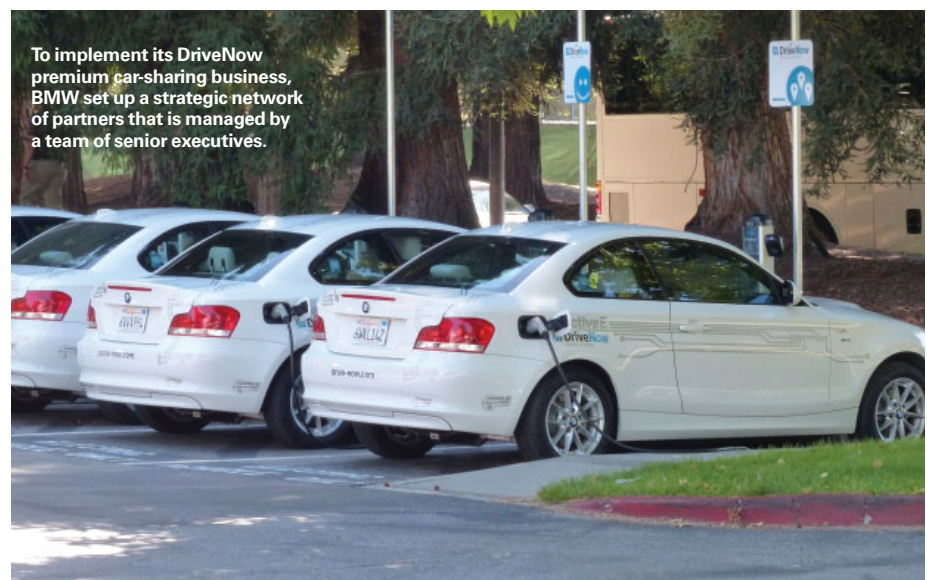
For example, Nestlé established a corporate wellness unit in 2004 to pursue opportunities for nutritionally enhanced products and to coordinate their implementation in close collaboration with corporate R&D centers, sales and marketing units and ground-level business managers in developing countries. The corporate wellness unit helps determine which products are most appropriate for nutritional fortification and selects countries with the biggest micronutrient deficiencies. A core team of scientists and business experts meets with country heads and helps them explore commercial, financial and scientific issues.

In 2010, Nestlé invested in a project, coordinated by the corporate wellness unit, to fortify Maggi bouillon cubes in Central and West Africa with iron in addition to iodine. Their frequent and wide consumption and low cost make bouillon cubes good candidates for micronutrient fortification. The launch of the fortified Maggi products was supported with advertising and information campaigns that promote their health benefits, their affordability and the benefits of combining them with fresh, locally sourced products. This nutritional fortification, which is highlighted on packaging and through marketing

campaigns that also emphasize the benefits of eating fresh, local ingredients and home cooking, helped increased sales in 2012 in Central and West Africa. With the help of Nestlé's corporate wellness unit, that experience is now being leveraged in other developing countries.

**STEP 3: Form new partnerships** After a solution with the potential for synergistic public-private value creation has been developed, it must be brought to the market. Most large companies have built strong execution capabilities to ensure that new ideas can be profitably introduced to the market. However, synergistic public-private value creation has special requirements. Quite often, companies lack the specific capabilities or the legitimacy to successfully launch these activities and get them accepted and valued by the broader public. They often target new customer groups that may not find the company's existing brands, marketing concepts and distribution channels attractive.

At this point, external partners must again enter the picture. Collaborations with external partners enable companies to complement their internal resources and capabilities. Moreover, partnering with governmental institutions or non-governmental organizations often adds



the legitimacy and political credibility required to spur market adoption.

For example, to implement its DriveNow premium car-sharing business, BMW set up a strategic network of partners that a team of senior executives manages. Initially, the team established a joint venture with Sixt SE, a leading European car rental company based in Pullach, Germany. Sixt shared BMW's vision of creating synergistic value by introducing affordable, flexible and environmentally friendly solutions for individual mobility. While BMW provides technical know-how and marketing skills, Sixt contributes its expertise in fleet management and customer operations.

DriveNow works with political decision makers at the national, regional and city levels. For the launch in Munich, the city council allowed DriveNow vehicles to park in any of the city's public parking spaces. This was a change from previous car-sharing offerings, which require users to drop cars off at specific locations; by not requiring customers to return a car to the same parking space where they picked it up, the DriveNow model reduces exhaust emissions and increases flexibility for customers. The city found the collaboration attractive, since it helped reduce problems with congestion and environmental pollution while ensuring steady revenues for the city from public parking spaces. For BMW, beyond helping to make DriveNow a profitable business, the collaboration provided additional legitimacy since the public perceived the company as supporting the public's interest in more sustainable transportation. DriveNow gained 85,000 registered members in its first year in Germany and is growing by 10,000 members a month.

**STEP 4: Install multi-perspective monitoring systems** Once the process of synergistic value creation has reached the implementation stage, the company must assess its effectiveness. Since market demands and trends are constantly shifting, companies

need to assess and adapt their portfolio of products and services. Traditionally, companies use internal performance metrics to monitor whether products or services continue to fulfill customer expectations. However, although these systems capture the economic value dimension well, they are insufficient to evaluate the public value that these initiatives create. Public value cannot be measured internally because it is largely dependent on external observers' perceptions. Companies striving to monitor their synergistic public-private value creation process therefore complement their internal monitoring systems with perspectives from different external stakeholders.

After the launch of its prefabricated homes business, the Chinese real estate developer Vanke relied initially on internal figures to assess the reductions in energy, water and wood consumption achieved through the use of prefabrication. The chairman set yearly savings targets for resource consumption and carbon emissions. Strong improvements were realized by extending the projected average lifespan of a house.

Vanke then engaged in extensive customer surveys to understand how customers perceived the company and which of its activities they valued most. These surveys helped align the company's offerings with changing customer demands and also further improved the economic and public value creation of its prefabricated homes. Over time, Vanke complemented its internal monitoring systems with additional external perspectives, such as the U.S. Green Building Council's LEED standard for excellence in green building design, construction, operations and maintenance. In addition, Vanke is now working with the World Wildlife Fund on environmental sustainability issues.

Multi-perspective monitoring systems are not only well suited to measure public and private value. They also provide an important foundation for further synergistic value creation. For example, BMW's assessment of its DriveNow business provided

very valuable insights regarding the evolution of public mobility needs, which are now being used by the company to develop more next-generation mobility ideas. In other words, the four steps of synergistic value creation can form not so much a single line as a virtuous spiral — one that will hopefully lead the company to both higher performance and greater public value.

Engaging in a process of synergistic public-private value creation has many benefits. It can stimulate new growth and increase the company's profits. It can also be a great way of improving customers', partners', and other societal groups' perceptions of the company. Our favorite outcome, however, is the sense of purpose and fulfillment these synergistic value creation initiatives give to employees. In all of the companies we studied, employees' eyes lit up when we asked about their involvement in these projects. After all, it's not every day that you can help your career, help your company and help society all at the same time — at least not yet.

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