

## **Embracing Shared Value in China<sup>1</sup>** China Policy Review (Issue 7 2014: p. 115-116).

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Over the past decade, both private and state-owned Chinese firms have increasingly focused on developing corporate social responsibility programs. As part of creating a more harmonious society, the government has increasingly encouraged these activities. For example, when State Grid published its first CSR report in the spring of 2006, Premier Wen Jiabao commented, “They [State Grid] have done well. Companies should be responsible to society and consciously accept supervision by society.” The year 2008 in particular is seen as a turning point, as many companies came forward in the wake of the Wenchuan earthquake, providing financial and other forms of assistance. The government has also continued to emphasize corporate philanthropy and other CSR programs through the most recent two five year plans, such that for many Chinese companies – especially those with international business – initiating corporate social responsibility programs has become the norm.

However, as Chinese companies have increasingly accepted CSR as standard operating procedure, a new concept of “shared value” has overtaken strategic CSR as the globally favored concept of how companies can most effectively engage in social programs. For Chinese companies to keep pace with global expectations and norms, a better understanding of shared value is necessary.

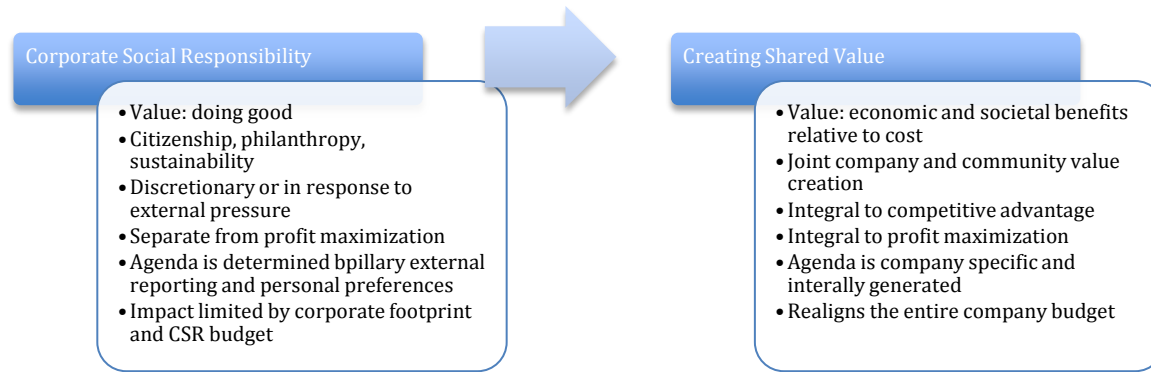
### **Corporate Social Responsibility vs. Shared Value**

While many Chinese companies have been focusing on CSR, others are beginning to seek further differentiation. To paraphrase shared value pioneers, Harvard Business School professor Michael Porter and Mark Kramer, shared value expands value generated by the firm while corporate social responsibility merely redistributes existing value. In other words, CSR operates from an “offset” mindset wherein a company embarks on (largely philanthropic) campaigns to “do good” apart from its profit maximization activities, indeed to compensate for their profit maximization activities. Shared value tries to re-imagine profit maximization itself as a social endeavor. Below is a summary of the key differences based on a similar table from the Porter and Kramer article.<sup>2</sup>

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<sup>1</sup> Translated version published as 孟睿思, 杨一婧。 “中国迎接“共享价值”时代。” 《中国经济报告》2014年第7期, 115-116。

<sup>2</sup> Porter, Michael E., and Mark R. Kramer. "Creating shared value." *Harvard business review* 89.1/2 (2011): 62-77.



This abstract yet critical difference yields further subtle implications: CSR initiatives, as well-intentioned as they may be, tend to be driven by external pressures and are limited by budgets, personal preferences, and those same external pressures. We recently conducted a research project with Lenovo, the goal of which was helping the company evaluate its social initiatives to date, and provide recommendations on how to better to incorporate shared value ideas into its core businesses. That such a high profile company is interested in engaging shared value is very heartening – China needs and is ready for more companies adopting innovative positions on social issues – but our project also highlights the challenges ahead and the need.

By now in China and globally, CSR is a well-established corporate domain with internationally standardized reporting guidelines. Such a development is surely net positive, but, as we've pointed out in prior columns, this also means that many companies can relatively easily "window dress" to meet the reporting guidelines without embarking on any substantive change. Shared value, on the other hand, demands that the very purpose of a corporation be redefined, and so is much harder to fake.

At this moment, China can benefit from more companies engaging in both CSR and shared value, especially as shared value appears to be in its nascent stage. Environmental and societal problems continue to loom large, problems that are beyond the scope of government bureaucracy and the weak NGO sector. Corporate social responsibility efforts work in tandem with governments and NGOs, as their validity is derived from meeting third party regulations, but as such, they indirectly face the same limitations in scope and in resources. Some businesses have begun to form socially-focused partnerships, but very few large Chinese companies have undertaken massive CSR commitments such as Goldman Sachs' 10,000 Women Initiative<sup>3</sup> or organizationally embraced a social mandate as Broad Group<sup>4</sup> has.

On the other hand, China is fertile ground for shared value ideas to take root, and Chinese firms have the potential to become global leaders in this new type of strategy. Companies

<sup>3</sup> Marquis, Christopher, V. Kasturi Rangan, and Catherine Ross. "Goldman Sachs: The 10,000 Women Initiative." Harvard Business School Case 509-042, July 2010

<sup>4</sup> Marquis, Christopher, Nancy Hua Dai, and Lynn Yin. "Chairman Zhang and Broad Group: Growth Dilemmas." Harvard Business School Case 412-095, December 2012

enjoy unusually close relationships with policymakers, creating more collaborative potential. Many top executives are also high-ranking Communist Party members or serve on advisory committees to the National Party Congress. Lenovo, for example, is an advisor on education reform. Other experts also cite the characteristics of Chinese youth: internet-savvy, connected to global ideas, and unburdened by traditional ways of doing business as promising signs that Chinese companies will continue evolving toward greater social and environmental consciousness.<sup>5</sup>

### **Lenovo: Shifting from CSR to Shared Value**

Lenovo has a CSR program that has produced commendable projects over the years, such as its corporate volunteering web platform, Ya'an earthquake relief efforts, rural education pilot programs, employee exercise programs, and numerous NGOs it has funded through venture philanthropy. The company had identified four "pillar" causes to support: education, digital divide, environment, and disaster relief, and its various CSR initiatives reflected these core values. However, these same pillars had also created a somewhat disaggregated approach to social issues – many things could be included under those pillars. And like at many companies, some projects were greenlit because of personal enthusiasm from various executives, or as circumstances arose. While the Lenovo CSR projects were accomplishing tremendous social good– the company had yet to step up with a unified vision befitting its position as a tech industry leader with global presence.

Lenovo's CSR division clearly understood the need for a repositioning, and saw an opportunity with the new company motto, "IT Empowerment to the World."

**Shared Value Potential in China's High-Tech Sector.** Some of Lenovo's competitors in China have taken steps to realize shared value potential. Cisco, which also contributed to Sichuan earthquake relief, expanded its disaster-relief operations into a long-lasting "Connecting Sichuan" program. The company has pledged \$50 million dollars toward finding innovative and scalable ways to rebuild Sichuan, such as designing tech-enabled classrooms, "smart" hospitals, and clinics. Cisco's efforts aren't simply "more of the same" charity measures, its commitment of significant monies and time underlie a long-term strategy, what Porter and Kramer refer to as "reconceiving products and markets." By rebuilding disaster-struck areas from the ground up to be more connected, Cisco is creating new target populations for its products. Its TelePresence sites, conceived to help teachers collaborate with peers, mentors, and leaders over a professional development network, is a new product that could be implemented in many other locations. And lastly, the measurement mechanisms developed in Sichuan will help frame for executives the business case for shared value and guide the company's future efforts.

Intel and Microsoft are also taking their first steps: Intel launched the Education Transformation strategy to help students around the world gain access to computers and the internet. The strategy comprises components such as including advocacy for policy

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<sup>5</sup> <http://www.forbes.com/sites/china/2011/10/25/can-china-lead-the-development-of-the-shared-value-economy/>

reform, curriculum standards and assessment, sustained professional development of teachers, ICT deployment, and support of research and evaluation. The model's end goal is to increase sales of classroom technology and groom a future technologically savvy workforce.

Microsoft's multi-pronged Community Affairs Program provides cash and software for IT skills building and job creation in Microsoft markets around the world, a good example of "enabling local cluster development." Current projects include the Microsoft Open License program, which enables eligible nonprofit organizations to acquire multiple software licenses at reduced prices, and the Unlimited Potential Program, which provides IT facilities to youth in Hong Kong through wireless-enabled learning centers.

**Realizing Lenovo's Potential.** What lessons can we draw for Lenovo and other companies seeking to make a greater social impact? Shared value is not just a trendy new idea in global business, it requires a new mindset, and with it, a new corporate identity. Shared value commitments must be big; and they must also be patient. In China, where education reform is a perennial topic and national caucuses and inequality is becoming an ever graver concern, we felt that Lenovo's efforts to improve rural education provided the greatest opportunities. Lenovo has already launched government-approved pilot projects utilizing technology to improve education, such as Kumon-style reading video exercises, home learning modules, and online workshops for teachers. Such efforts are entirely in line with "IT Empowerment to the World," and are rich in partnership opportunities. The company could further strengthen ties with its core businesses by emphasizing STEM education and entrepreneurial education. If the pilots are successful, Lenovo will have sown the seeds for future markets and perhaps even developed IT products that could serve customers all over China and beyond.

To realize such potential, companies must move quickly. For example, Novo Nordisk, the pharmaceutical company, recognized the need in the mid 1990's for strengthening diabetes control in China, where 69 million people suffered from the condition in 1994 yet only 150,000 people were regularly taking insulin. Novo Nordisk introduced customized products to China, established local distribution networks, and partnered with government agencies, doctors, and the media to educate the public about diabetes treatment. By 2010, the company's market share in China had grown to 63%, and the Chinese diabetes control market had expanded to \$1 billion dollars. In shared value terms, the company estimates it has saved 140,000 life years over the years and added \$30 billion to its own net present value.<sup>67</sup> A similarly powerful opportunity may exist for Lenovo. The inequality of resources in rural areas is a pressing issue in China, and if the company can conceive new products in rural education and strengthen other local agencies through partnerships, the company will generate value for Chinese society and unlock a huge new market.

Companies must also be willing to take the long view. In 2000, Guangsha Construction, China's largest private construction company, invested \$3.65 billion dollars in

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<sup>6</sup> <http://sharedvalue.org/examples/diabetes-care-china>

<sup>7</sup> [https://www.sharedvalue.org/sites/default/files/resource-files/Competing\\_Saving\\_Lives.pdf](https://www.sharedvalue.org/sites/default/files/resource-files/Competing_Saving_Lives.pdf)

establishing tuition-free schools to train rural migrants to become construction laborers, granting contracts to those who receive training and pass exams that focus on legal, technical, and safety topics. Within five years, Guangsha had trained more than 750,000 workers, retaining many over multiple construction projects and hiring them into permanent, full-time positions.<sup>8</sup> In China's typically high-turnover construction industry, investing in skilled labor gives the company a long-term competitive advantage, but Guangsha had to be willing to absorb the large initial cost. Most shared value projects are more than just business operations, they alter entrenched norms and establish new societal practices at local, regional, and even national levels, and thus, take time to bear fruit. In Lenovo's case, it will take years to generate sound results from pilot programs on rural education, and likely years more before positive results are replicated, scaled, and productized.

Of course, implicit in such successful case examples is the most important criterion of all: executive buy-in. If Lenovo and other Chinese companies hope to reorient their businesses toward shared value, top-down commitment is key. Social efforts can no longer be relegated to CSR departments; they must be incorporated into all decision-making structures. Companies that embrace this complex task will be rewarded by strengthening the brand – not simply their own, but China's. Overseas, Chinese products continue to face doubts from consumers and governments alike of their quality, safety, cleanliness, and social implications. The “offset mindset” embodied in CSR will never accomplish enough to address these issues – more Chinese companies must re-evaluate their operations from the ground up to bring the Chinese economy more in line with a truly harmonious society.

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<sup>8</sup> [http://www.fsg.org/Portals/0/Uploads/Documents/PDF/Shared\\_Value\\_in\\_Emerging\\_Markets.pdf](http://www.fsg.org/Portals/0/Uploads/Documents/PDF/Shared_Value_in_Emerging_Markets.pdf)