Integrated Value Creation (IVC):

Beyond Corporate Social Responsibility (CSR) and Creating Shared Value (CSV)

By Wayne Visser¹ and Chad Kymal²

¹ Founder Director, Kaleidoscope Futures and CSR International; Senior Associate, University of Cambridge Institute for Sustainability Leadership; Transnet Chair of Sustainable Business, Gordon Institute of Business Science; Vice President of Sustainability Services, Omnex. Website: www.waynevisser.com, Email: wayne@waynevisser.com.

² Founder and Chief Technology Officer, Omnex; Founder and President, Omnex Systems; Founder, American Quality Standards Registrar (AQSR). Website: www.omnex.com, Email: ckymal@omnex.com.

Abstract

Integrated Value Creation, or IVC, is an important evolution of the corporate responsibility and sustainability movement. It combines many of the ideas and practices already in circulation - like corporate social responsibility (CSR), sustainability and creating shared value (CSV) - but signals some important shifts, especially by focusing on integration and value creation. More than a new concept, IVC is a methodology for turning the proliferation of societal aspirations and stakeholder expectations - including numerous global guidelines, codes and standards covering the social, ethical and environmental responsibilities of business - into a credible corporate response, without undermining the viability of the business. Practically, IVC helps a company to integrate its response to stakeholder expectations (using materiality analysis) through its management systems (using best governance practices) and value chain linkages (using life cycle thinking). This integration is applied across critical processes in the business, such as governance and strategic planning, product/service development and delivery, and supply and customer chain management. Ultimately, IVC aims to be a tool for innovation and transformation, which will be essential if business is to become part of the solution to our global challenges, rather than part of the problem.
Integrated Value Creation (IVC) is a concept and practice that has emerged from a long tradition of thinking on the role of business in society (Carroll, 1999). It has its roots in what many today call corporate (social) responsibility or CSR, corporate citizenship, business ethics and corporate sustainability (Visser et al., 2010). These ideas also have a long history, but can be seen to have evolved primarily along two strands – let’s call them streams of consciousness: the responsibility stream and the sustainability stream.

Two Streams Flowing into One

The responsibility stream had its origins in the mid-to-late 1800s, with industrialists like John D. Rockefeller and Dale Carnegie setting a precedent for community philanthropy, while others like John Cadbury and John H. Patterson seeded the employee welfare movement (Carroll, 2008). Fast forward a hundred years or so, and we see the first social responsibility codes start to emerge, such as the Sullivan Principles in 1977, and the subsequent steady march of standardization, giving us SA 8000 in 1997, ISO 26000 in 2010 and many others.

The sustainability stream also started early, with air pollution regulation in the UK and land conservation in the USA in the 1870s (Visser, 2011). Fast forward by a century and we get the first Earth Day, Greenpeace and the UN Stockholm Conference on Environment and Development. By the 1980s and 1990s, we have the Brundtland definition of ‘sustainable development’ (World Commission on Environment and Development, 1987), the Valdez Principles in 1989 (later called the CERES Principles) and the Rio Earth Summit in 1992, tracking through to standards like ISO 14001 in 1996.

Weaving Together a Plait

As these two movements of responsibility and sustainability gathered momentum, they naturally began to see their interconnectedness. Labour rights connected with human rights, quality connected with health and safety, community connected with supply chain, environment connected with productivity, and so on. The coining of the ‘triple bottom line’ of economic, social and environmental performance by John Elkington (1994), and the introduction of the 10 principles of the UN Global Compact in 1999 reflected this trend.

We also saw integration start to happen at a more practical level. The ISO 9001 quality standard became the design template for ISO 14001 on environmental management and OHSAS 18001 on occupational health and safety. The Global Reporting Initiative and the Dow Jones Sustainability Index adopted the triple bottom line lens. Fair Trade certification incorporated economic, social and environmental concerns, and even social responsibility evolved into a more holistic concept, now encapsulated in the 7 core subjects1 of ISO 26000.

Thinking Outside the Box

At every stage in this process, there have been those who have challenged and advanced our understanding of the scope and ambition of corporate responsibility and sustainability. Ed Freeman (1984) introduced us to stakeholder theory, John Elkington (1994) to the ‘triple bottom line’, Rosabeth Moss Kanter (1999) to ‘social innovation’, Jed Emerson (2000) to ‘blended value’, C.K. Prahalad and Stuart Hart to ‘bottom of the pyramid’ (BOP) inclusive markets (Prahalad and Hart, 2002), and Michael Porter and Mark Kramer to ‘creating shared value’ (Porter and Kramer, 2011).

There is a lively academic debate about Porter and Kramer’s shared value concept, including criticism that it is unoriginal; it ignores the tensions inherent to responsible business activity; it is

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1 Organizational governance, human rights, labour practices, environment, fair operating practices, consumer issues, and community involvement and development
naive about business compliance; and it is based on a shallow conception of the corporation’s role in society (Crane et al., 2014). Nevertheless, shifting to the language of value, rather than of responsibility, is important, as is the emphasis on a more strategic and integrated focus (Visser, 2013).

Typically, all these new conceptions build on what went before, but call for greater integration and an expansion of the potential of business to make positive impacts. For example, Hart’s (1997) ‘sustainable value’ framework incorporates pollution prevention, product stewardship, base of the pyramid (BOP) and clean tech. Emerson’s (2000) ‘blended value’, much like Elkington’s (1994) ‘triple bottom line’ looks for an overlap between profit and social and environmental targets, while Porter and Kramer’s (2011) CSV focuses on synergies between economic and social goals.

*Figure 1 – The Concept of Sustainable Value*

![Sustainable Value Portfolio](image)


**The ‘How To’ of Integration**

Integrated Value Creation (IVC) takes inspiration from all of these thought pioneers that have gone before and tries to take the next step. IVC is not so much a new idea – as the longstanding trend towards integration and the ubiquitous call for embedding of standards testifies – but rather an attempt to work out the ‘how to’ of integration. When companies are faced with a proliferation of standards (StandardsMap.org alone profiles over 160 sustainability standards) and the multiplication of stakeholder expectations, how can they sensibly respond?

We have analysed some of the most important global guidelines, codes and standards covering the social, ethical and environmental responsibilities of business – such as the UN Global Compact, OECD Guidelines for Multinational Enterprises, ISO 26000, GRI Sustainability Reporting Guidelines (G4), IIRC Integrated Reporting Guidelines, SA 8000, UN Business & Human Rights Framework and Dow Jones Sustainability Index.
What we see are large areas of overlap in these guidelines, codes and standards across what we might call the $S^2Q^3E^3L^2H^2$ issues, namely:

- **S**: Safety & Social issues
- **Q**: Quality issues
- **E**: Environmental, Economic and Ethical issues
- **L**: Labor issues
- **C**: Carbon or Climate issues
- **H**: Health and Human rights issues

Our experience of working with business shows that most companies respond piecemeal to this diversity and complexity of $S^2Q^3E^3L^2H^2$ issues (let’s call them SQuELCH for short). A few large corporations use a management systems approach to embed the requirements of whatever codes and standards they have signed up to. Even, so they tend to do this in silos – one set of people and systems for quality, another for health and safety, another for environment, and still others for employees, supply chain management and community issues.

**Knocking Down the Silos**

IVC, therefore, is about knocking down the silos and finding ways to integrate across the business. In short, IVC helps a company to integrate its response to stakeholder expectations (using materiality analysis) through its management systems (using best governance practices) and value chain linkages (using life cycle thinking\(^2\)). This integration is applied across critical processes in the business, such as governance and strategic planning, product/service development and delivery, and supply and customer chain management.

And what about *value*? Most crucially, IVC builds in an innovation step, so that redesigning products and processes to deliver solutions to the biggest social and environmental challenges we face can create new value. IVC also brings multiple business benefits, from reducing risks, costs, liabilities and audit fatigue to improving reputation, revenues, employee motivation, customer satisfaction and stakeholder relations.

**Pursuing Transformational Goals**

Our experience with implementing and integrating existing standards like ISO 9001 and ISO 14001 convinces us that, in order for IVC to work, leaders need to step up and create transformational goals. Without ambition ‘baked in’ to IVC adoption, the resulting incremental improvements will be no match for the scale and urgency of the global social and environmental crises we face, such as climate change and growing inequality.

One of the most exciting transformational agendas right now is the Net Zero/Net Positive movement (Elkington, 2012) which extends the ‘zero’ mind-set of total quality management to other economic, social and environmental performance areas. For example, we see companies targeting zero waste, water and carbon; zero defects, accidents and missed customer commitments; and zero corruption, labour infringements and human rights violations. These kinds of zero stretch goals define what it means to be world class today.

**Stepping Up To Change**

*Figure 2 – Integrated Value Creation Process*

\(^2\) It is interesting to note that the revised ISO 14001 being planned for release in 2016 includes a life cycle perspective for all aspects of operations including product design and delivery.
In practice, IVC implementation is a 7-step process, which we can be described as: 1) context analysis, 2) stakeholder assessment, 3) leadership review, 4) risk assessment, 5) breakthrough analysis, 6) process redesign, and 7) systems integration. Each step is captured in Figure 2 and briefly explained below. Of course, the process must also remain flexible enough to be adapted to each company context and to different industry sectors.

**Step 1: Context Analysis**

The first step of the IVC process is Context Analysis. Many business leaders are conscious of the crucial role of context in sustainability leadership (Visser and Courtice, 2011). For example, Jeff Immelt (2007), CEO of General Electric says: “The most important thing I’ve learned since becoming CEO is context. It’s how your company fits in with the world and how you respond to it.” Similarly, José Lopez (2010), Executive Vice President Operations and GLOBE of Nestle, believes that “the context is that sustainability processes in place today are not trending in the right direction.”

The Context Analysis, therefore, takes stock of all the relevant societal trends, disruptive technologies, changing legislation, responsible business codes and standards, cross-sector partnerships and competitor activity. During this stage, the company is using the SQuELCH lens to identify what are the most critical pressures that are shaping its operating environment. This is in line with the new ISO High Level Structure for management systems, which states that: “The organization shall determine external and internal issues that are relevant to its purpose and that affect its ability to achieve the intended outcome(s) of its management system.”
Step 2: Stakeholder Assessment

Stakeholder Assessment is an iterative process that systematically identifies, categorises and prioritises all stakeholders – including customers, employees, shareholders, suppliers, regulators, communities and others – before mapping their needs and expectations and analysing their materiality to the business. The new ISO High Level Structure for management systems requires that: “the organization shall determine the interested parties that are relevant to the management system; and the relevant requirements of these interested parties.”

There are various methods for prioritising stakeholders. For example, they can be rated and ranked based on their power, legitimacy and urgency (Mitchell et al., 1997). After identifying, categorising and prioritising stakeholders, companies must enter into an active and systematic process of engagement to find out what they “material” issues of concern are for these groups. AccountAbility, the standards organisation, was among the first to identify the need for “redefining materiality” to include stakeholder perspectives, especially in the context of non-financial reporting (Zadek and Merme, 2003).

The process of engagement to determine material issues, if done properly, could take months, since it should be inclusive and comprehensive. In practice, however, many companies hold annual stakeholder forums to which they invite key representatives for a few days of intensive consultation. For example, Coca-Cola's global stakeholder forum held in Budapest in 2014 solicited feedback on the key issues of water, obesity and women’s empowerment.

The output of this process is often a stakeholder materiality matrix, popularised by the Global Reporting Initiative, in its G3.1 Sustainability Reporting Guidelines in 2011 (GRI, 2011). For example, Nestle's 2014 stakeholder materiality matrix identifies the following high priority issues: water stewardship, over- and under-nutrition, climate change, food safety and business ethics.

Figure 3 – Stakeholder Assessment Tool
Step 3: Leadership Review

The context analysis and stakeholder assessment should create a filter that distils the most material strategic issues for the business and its industry. Based on these insights, top management should review (and if necessary, revise) its values, vision and mission to ensure that they are truly aligned with the priorities identified in the first two steps. The material issues then need to be translated into strategic goals and targets.

Companies can use established frameworks like the balanced scorecard (Kaplan and Norton, 1992) to capture these strategic sustainability goals (Figge et al., 2002; Möller and Schaltegger, 2005), linking it to the growing practices around sustainability accounting and sustainability reporting (Schaltegger and Wagner, 2006), or the goals can simply be integrated with existing strategic performance measurement systems in the company (Gates and Germain, 2010). These goals will then act as another filter, leading to the identification of critical business processes that will enable the achievement of the strategic goals.

For example, Unilever identified improving health and wellbeing, reducing environmental impact and enhancing livelihoods as their three most material issues, calling this their Sustainable Living Plan (see Figure 4). These were then converted into nine strategic goals covering: health & hygiene, improving nutrition, greenhouse gases, water use, waste & packaging, sustainable sourcing, fairness in the workplace, opportunities for women and inclusive business. Each goal has a timeline (2020) and measurable target. For example, Unilever is committed to help more than a billion people to improve their health and hygiene, thus reducing the incidence of life threatening diseases like diarrhoea. By the end of 2013, they had reached 303 million people.
Step 4: Risk Assessment

In parallel with the Stakeholder Materiality Analysis, the risks to the business are analysed through an Integrated Risk Assessment. This means the identification and quantification of quality, cost, product, environment, health and safety and social responsibility risks, in terms of their potential affect on the company’s strategic, production, administrative and value chain processes. As Sexton and Linder (2014) observe, different risk assessment methodologies have evolved for different types of risks. For integration, however, the risk measures developed need to be valid and comparable for all the different types of risks and different entities of the business, and mitigation measures identified.

The key to integrated risk assessment is to understand that risk is always a function of severity times occurrence (R = S x O). Severity should be evaluated as the highest risk event that can take place when a quality, environmental, occupational health & safety or social responsibility failure takes place without any controls. Residual risk is the amount of risk left over after current controls are applied. Current controls are the controls used by the organisation to reduce occurrence and/or prevent or detect the failure. For each risk, a severity, occurrence and detection (D) score is assigned (usually, from 1=high to 10=low), and a risk priority number calculated (S x O x D), as illustrated in Figure 5. (Kymal et. al, 2015).

Figure 5: Integrated Risk Assessment Process
For example, if an integrated risk assessment were performed on the purchasing process, risks may be identified for quality (e.g. unqualified suppliers, poor quality products, late delivery), environment (e.g. excessive or non-recyclable packaging, leaks contaminants), health & safety (product contains allergens, may cause injury) and social responsibility (e.g. supplier uses sweatshops, product discriminates against women).

It is worth noting that the first two steps of Stakeholder Analysis and Risk Assessment are requirements of the new ISO 9001, ISO 14001 and ISO 45001 (formerly OHSAS 18001) standards slated to come out in the next few years. For example, in the new ISO 9001 that is planned for release in 2015, it is called ‘Understanding the Needs and Expectations of Interested Parties’ and ‘Actions to Address Risks and Opportunities’. The evolution of the ISO standards is indicative of a shift in global mind-set (since ISO represents over a 100 different countries) to prioritising stakeholder engagement and risk management.

**Step 5: Opportunity Analysis**

Step 5 entails the Innovation and Value Identification element. It recognises that not only is technological innovation booming, but it is rapidly shifting towards sustainable solutions. For example, many of the World Economic Forum’s top ten most promising technologies have a clear environmental and social focus, such as energy-efficient water purification, enhanced nutrition to drive health at the molecular level, carbon dioxide (CO₂) conversion, precise drug delivery through nanoscale engineering, organic electronics and photovoltaics.

For specific clean energy technologies—including wind, solar and biofuels—the market size was estimated at $248 billion in 2013 and is projected to grow to $398 billion by 2023, according to the 2014 Clean Energy Trends report (Clean Edge, 2014). In fact, the rapid growth in eco-innovation is being actively supported by the European Commission, OECD and UNEP (2015). For example, 125 eco-innovation projects supported by the EC, each employing around 8 people, resulted in the impressive benefits: 609,000 tonnes less waste, 170 million m³ of water saved, €20 revenue per €1 invested, 1.4m tonnes of material reduced, and 11.6 m tonnes of CO₂ avoided – adding up to €1.6 billion in environmental and economic benefits (EICA, 2013).

All of these - and other social and environmental innovations – are a result of breakthroughs in technology or processes. However, in order for companies to capture the value of such innovation,
they have to build a capability to create breakthroughs repeatedly – and the only way they do that is to form a management system for innovation (O'Connor et al., 2014). Using the Net Zero/Net Positive strategic goals (Elkington, 2012), as illustrated in Figure 6, or others like Stuart Hart’s (1997) sustainable value framework, Opportunity Analysis takes looks at each of the business’s critical processes for opportunities to innovate.

Opportunity analysis is comprised of idea generation and screening and the creation of a Breakthrough List. This is the chance for problem solving teams, Six Sigma teams, Lean teams, and Design for Six Sigma teams and others to use improvement tools to take the company towards its chosen transformational goals (Fargani et al., 2014). The improvement projects will continue for a few months until they are implemented and put into daily practice. If opportunity analysis is taken as a business strategy, as in the case of Interface, it can take decades to implement. For example, their Mission Zero strategy for 2020, which began in 1994, has seven steps: 1) zero waste, 2) benign emissions, 3) renewable energy, 4) closing the loop, 5) resource-efficient transportation, 6) sensitivity hookup, and 7) redesign commerce.

Figure 6 – Examples of Net Zero/Net Positive Strategic Goals

<table>
<thead>
<tr>
<th>Quality</th>
<th>Environmental</th>
<th>Social</th>
</tr>
</thead>
<tbody>
<tr>
<td>•Zero Defects</td>
<td>•Zero Energy</td>
<td>•Zero Human Rights</td>
</tr>
<tr>
<td>•Zero Accidents</td>
<td>•Zero Carbon</td>
<td>Violations</td>
</tr>
<tr>
<td>•Zero Missed Customer Commitments</td>
<td>•Zero Water</td>
<td>•Zero Labor Infringements</td>
</tr>
<tr>
<td></td>
<td>•Zero Waste</td>
<td>•Zero Corruption</td>
</tr>
</tbody>
</table>
Step 7: Systems Integration

In Step 7, the requirements of the various SQuELCH standards most relevant for the organization, together with the transformational strategic goals, are integrated into the management system of the organization, including the business processes, work instructions and forms/checklists. The new Annex SL of the ISO Directives provides useful guidance on the key components of integrated management systems and is illustrated in Figure 8.

Figure 8: High Level Structure of an Integrated Management System
This goal of integrating management systems for quality, environment, health and safety and social responsibility is well established in the literature (Almeida et al., 2014; Kymal et al., 2014; Mohamad et al., 2013). In practice, process owners must work with cross-functional teams to ensure that the organizational processes are capable of meeting the requirements defined by the various standards and strategic goals (Zhang et al., 2014). This is followed by training to ensure that the new and updated processes are understood, implemented and being followed.

Integration must also include the crucial steps of integrated reporting, auditing (internal and external) and management review, which creates the feedback and continuous improvement loop that is essential for any successful management system (Bebbington et al., 2014). This means integrating the value creation process into the governance systems of organization, including strategic planning and budgeting, management or business review, internal audits, and corrective actions (Eccles et al., 2014). This is what will ensure that implementation is happening and that the company stays on track to achieve its transformational goals.

**Words Count, Actions Matter**

To conclude, we believe Integrated Value Creation, or IVC, is an important evolution of the corporate responsibility and sustainability movement. It combines many of the ideas and practices already in circulation, but signals some important shifts, especially by using the language of integration and value creation. These are concepts that business understands and can even get excited about (whereas CSR and sustainability tend to be put into peripheral boxes, both in people’s heads and in companies themselves).

More critical than the new label or the new language is that IVC is most concerned with implementation. It is a methodology for turning the proliferation of societal aspirations and stakeholder expectations into a credible corporate response, without undermining the viability of the business. On the contrary, IVC aims to be a tool for innovation and transformation, which will be essential if business is to become part of the solution to our global challenges, rather than part of the problem.

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