

AMERICAN UNIVERSITY OF ARMENIA

MECHANISMS THAT CREATE SHARED VALUE FOR DEVELOPMENT

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By

Astghik Ghevondyan

Advisor: Dr. Arpie Balian

Yerevan, Armenia

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Abstract

This research investigates how shared values can be created when both public and private organizations collaborate at various fronts. Particular attention was paid on how public-private collaboration would develop through discussions and open communication between government and business so as to contribute to building interest in the strategic development agenda of a state and lead to the adoption of mechanisms that create shared values for government, business, and society. This research used an explanatory research design drawing data primarily relying on a qualitative methodology. Thus, data was collected from in-depth interviews with select leaders in the public and private sectors and aimed at measuring the level of maturity and capacity for collaboration and readiness for making such a paradigm shift. The results of the in-depth interviews revealed that in order to be able to achieve mutually beneficial solutions there is a need to establish focused and strategy-driven working relations between the government and private businesses. The findings from data analysis showed that in order to establish focused and productive working relations between the government and business enterprises, both should come together in constructive dialogue centered on the purpose of resolving specific and strategic public needs. Regular discussions aimed at reaching common ground by better understanding the priorities of both while finding common ground to resolving social problems are key factors for adopting a shared agenda and working toward creating value for all. The study also found that considering the current state of development of the Republic of Armenia, the lead responsibility rests on the government to take the initiative in creating opportunities for dialogue between business and society. At the same time, government should establish policies that are conducive to business development and provide incentives for public-private partnered solutions to public problems. On the other hand, business also has to shift its classic way of profit-maximization strategy and not view the government as merely a regulator or as a source of financing and subsidies, but as a partner with whom mutually beneficial actions can be undertaken.

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INTRODUCTION

This essay investigates the linkages between social capital and state development and aims at creating a model that sets the mechanisms for working toward creating shared values. Particularly, it answers the question as to how shared values are created at the state level when public and private organizations and associations cooperate at different levels and on various fronts. Drawing on the cooperative models and processes in the private sector, how would public private dialogue and strategic collaboration develop meaningful partnerships, including the adoption of mechanisms that create shared values for state development? Considering that the theory of ‘shared value’ has originated in the private sector, are there lessons that the public sector could learn and adopt to benefit government, business and society?

Development is not entirely an economic phenomenon. It includes more than material and financial advances in a multidimensional process, which involves the reorganization and restructuring of state economic and social systems. Studying development helps to understand more about the causes and solutions to social problems to better address deep-rooted triggers that hinder the development process. In order to understand development, it is crucial to consider societal and institutional changes, together with non-economic elements such as social practices, beliefs, values and behaviors. This research attempts to investigate components of development that bring advances to society through the creation of values shared by actors in both public and private sectors.

THEORETICAL FRAMEWORK

In the last twenty years there has been a rise of interest in the phenomenon of social capital. Nonetheless, the social capital literature has paid little attention to studying how the

phenomenon of social capital impacts state development. More recently scholars began to tackle this topic mostly investigating how social capital affects development at a micro level, such as family income, personal growth, etc., falling short of delving into the impact of social capital on development at the macro level (Granovetter, 1995; Portes, 1998; Wilson, 1996; De Graaf and Flap, 1988; Barr, 2000; Lin et al., 1981). Other studies have looked into some features of social capital, such as interpersonal relations, trust, and micro-level cooperation among citizen groups (Fukuyama, 2000; Putnam, 1993; Lin, 1999; Zak and Knack, 2001).

One of the major contributors to studies of social capital is Putnam (1993) who argues that civic communities did not become civic because they were wealthy. To the contrary, they were able to become wealthy because they were civic. He claims that those regions that have dense networks of civic associations and high-level civic engagement are inclined to have good government and a flourishing democracy. While the author tackles the impact of civic societies on transitioning to democratic governance, he does not delve into issues of how civic communities contribute to state development.

Scholars also posit that social capital may impact development both positively and negatively. The existing literature mostly associates social capital with positive outcomes, such as greater economic growth (Gray, 1997; Rupasingha et al., 2002) through improved financial means (Guiso et al., 2004) and higher levels of education attained (Coleman, 1988). In contrast, other studies claim that social capital could also have negative impact on development, by way of constraining the possibilities for those outside the network (Waldinger, 1995) or by limiting individual opportunities to access social networks (Portes and Sensenbrenner, 1993).

The roles of formal and informal associations and institutions are also considered in terms of increasing trust and promoting achievement of public goals. It is argued that polarized societies, in spite of having high levels of trust and strong cooperative norms within

horizontal associations, demonstrate negative relationships among horizontal associations on the national level (Knack and Keefer, 1997; Zak and Knack, 2001). At the same time Pickup et al. (2004) claim that high-level political participation and interpersonal trust do not necessarily lead to penetrating confidence in government. Negative attitudes towards government and strong civic community can exist concurrently. North (1990) discusses the role of formal and informal institutions arguing that these are crucial for understanding development. The density and scope of formal and informal groups and networks to which people belong are factors that lay the foundations for improved distribution of information and social trust by establishing conditions that lead to effective governance and economic development (Fukuyama, 1995; Putnam, 1993).

The current research investigates the linkages between social capital and state development creating a model that promotes the creation of shared values. More specifically, how shared values can be created at the state level when both public and private organizations and associations collaborate at various fronts. Learning from collaborative models and processes that exist in the private sector, how would public-private collaboration contribute to social capital, including adoption of mechanisms that create shared values for state development?

LITERATURE REVIEW

Creating Shared Value for Economic Growth

The theory of *shared value* claims that economic values can be created by addressing societal needs thereby creating value for society. Mostly applied to the private sector, the theory focuses on connecting the needs of society for business success. Thus, the success of a company and social development are interdependent. When a business operates following the principle of creating shared value, existing gaps between society and business diminish, and

the latter is elevated by society and accepted as a legitimate enterprise. In that process, shared value addresses societal needs in a participatory manner, such that the positive impact created by business is transferred to society. However, in order to create shared value, the private sector should think in new ways, restructure internal practices and cooperate across sectors to succeed. Considering the new ways of doing business, some scholars posit that shared value initiatives are in a way transforming capitalism and related associations between business and society. Moreover, the theory of shared value is applicable to both developing and developed countries even though particular areas of common interest and mechanisms may vary among countries (Pfitzer et al., 2013; Lenssen et al., 2012; Porter and Kramer, 2011; Pol Longo et al., n.d.). Along those lines, Porter and Kramer (2011) identify three ways for creating shared value: “*Reconceiving products and markets, redefining productivity in the value chain and building supportive industry clusters at the company’s locations*” (Porter and Kramer, 2011: 7).

The first phase in the process of creating shared value is the necessity of classifying what kinds of societal needs and problems exist, what government programs exist, what unmet issues persist, and what types of potential economic profits may be created for business by focusing on solving those unmet and persistent public needs. When the private sector and government jointly undertake specific actions for creating shared value it may also lead to creating new business opportunities and positive outcomes for society. Thus, positive outcomes created in one sector are transferred to other sector or sub-sectors as well (Porter and Kramer, 2011).

In order to achieve development at the higher state level, the public and private sectors should work together toward achieving shared goals. Governments should make investments or promote creating partnerships for implementing shared value initiatives that support development programs. This would place creation of shared value at the center of

state development, thereby reducing or managing social conflicts that arise from social inequalities in health, education and other domains. Generating business profits, but also taking responsibility for solving societal problems is an effective way of operating in the private sector. This would enable governments to achieve their development goals more rapidly provided some state resources are allocated implementing shared value strategies (Pol Longo et al., n.d.). When governments are unable to establish the types of regulations that inspire and encourage private entrepreneurs to implement the principle of shared value into their core business strategies, they lead to the creation of more trade-offs among social objectives and economic values. When the principle of shared value becomes a joint strategic agenda, both public and private sectors work in a more united way toward shared goals. The phenomenon of creating economic value by addressing societal needs will become more widespread, which will lead to development throughout the country (Porter and Kramer, 2011).

Prato (n.d.) in his example of Sub-Saharan Africa argues that when leading actors in the public and private sectors unite their strengths and achieve mutually beneficial solutions, they also encourage other businesses to align their business goals with public issues. He claims that different types of public-private collaborations are an essential part of Sub-Saharan Africa's developmental agenda. Moreover, Prato presents some factors that are necessary for productive public-private partnerships. Although the author identifies a number of factors, two of them are given added importance: *establishing a shared agenda and well-defined incentives*. If the parties of the partnership do not have mutually beneficial goals the partnership will either fail or have a short life.

Further, the principle implies that creating shared value is not philanthropy; it is more about understanding and treating social problems as new business opportunities. Companies that have successfully integrated the principle of shared value were able to significantly

expand their target markets and realize increased profits. In this context, Borgonovi et al. (2011) discuss that government alone does not have enough resources to solve all societal needs. Using the case of India, these authors posit that creating social value is important not only for the business itself but also for development throughout the country. They show how select companies in India working closely with government have created mutual benefits for their own businesses, as well as for government and society by establishing productive government-business collaborations aimed at creating shared value. In addition, those companies that integrated the principle of creating shared value were able to expand faster into new markets. Moreover, they argue that in order to create shared value, the business sector should make the right kind of investments, and the government should take the role of regulating private enterprise in ways that improve the business environment, but also is strategically aligned with state development goals. Governments should encourage those investments that are aimed at creating shared value by stimulating incentives for the business sector to adopting agendas that create value for all. In addition, governments can promote the importance and strategic significance of creating shared value by adopting legislation that encourages and facilitates investments in projects intended to create shared value.

Along the same line of thought, Lenssen et al. (2012) present the case of Brazil in an empirical study that shows how shared value is created. The authors show that adopting a shared value strategy has afforded organizations the opportunity to make higher impact in social, financial and environmental spheres. By creating shared value private sector firms were able to build long-lasting relationships with clients primarily because, in addition to producing economic value, they were generating added value for society.

When talking about the theory of shared value one should also underscore the parallels between creating shared value (CSV) and corporate social responsibility (CSR). The main difference is that CSR agendas mostly concentrate on reputation building and are

connected to the business in a narrower way, which makes it less sustainable. In contrast CSV is firmly embedded in the longer-term strategies of a firm and helps generate more benefits while addressing societal needs (Porter and Kramer, 2011).

Establishing Constructive Dialogue

For the business sector, adopting the principle of shared value is a new and creative approach for finding new business prospects and helping the government to cope with such social issues that hinder the development process of the country (which in turn would expand business opportunities in the longer term). There is a viewpoint that when the business sector does not acknowledge that business achievements are closely correlated with social results, it fails to achieve long-term positive results (Porter et al., 2011). But who will show the businesses that solving social issues presents new business opportunities?

Pol Longo et al. (n.d.) argue that government should contribute to the process of creating shared value and boost the social impacts generated by the business sector. For this purpose, government should be able to succeed in engaging select businesses, at the minimum, into a constructive dialogue about the possible ways in which companies could help the government to achieve its developmental goals while advancing their own business interests. Moreover, not only governments, but also non-government organizations, as well as multilateral organizations and civil society should engage the private sector into regular discussions about the major social issues and possible economically beneficial ways for overcoming or resolving them. When governments fail to promote investments that support their development programs, they lose such important instruments as the power of influence on the business sector. Only by engaging the private sector into productive dialogue it becomes possible to create an environment where it is possible to lead the business sector on a path of looking at social issues as attractive business opportunities. Moreover, only with the

diagnosis that occurs through productive dialogues it is possible to accelerate the process of achieving the development goals of a country by amplifying the positive social impacts that the business sector creates. Establishing a constructive dialogue is a way of finding mutually beneficial ways of partnership between the public and private sectors. Moreover, Herzberg and Wright (2005) argue that only in the cases when the public sector understands how the private sector works and what it needs, it will be able to establish policies that are mutually beneficial for both private and public sectors. As the private sector becomes more aware of the main priorities of its government and becomes a part of those state priorities, it will then be ready to support the government in achieving its goals. Continued dialogues and discussions not only facilitate the process of finding out the possible bases for economic development, they also lead to higher chances for the success of policies because they create a perception of being a part of the policies within the private sector. Thus, an environment that is leading to the creation of such phenomena as mutual support, trust and consideration between the public and private sectors makes possible implementation of various policies and achievement of developmental goals.

Social Capital as a Precondition to Development

According to Fukuyama (2001) social capital incorporates a set of informal norms that foster cooperative action among individuals or groups. The author claims that social capital leads to developmental outcomes in both politics and economics. In economics this is achieved by lowering transaction costs, whereas in politics it provides a platform of association, which is conducive to reaching better results for a democracy (Evans, 1996; Putnam, 1993; Zak and Knack, 2001; Beugelsdijk et al., 2004, Knack, 2002).

The question is how is social capital accumulated at the state level? Studies show that states possessing networks of civic associations and high levels of civic engagement are

inclined to have good governance and a flourishing democracy. When social and political networks are horizontal, the level of trust among citizens and civic obedience is higher. In contrast, where social and political institutions have strictly hierarchical structures, public trust is low, and democracy deteriorates.

In that regard, Putnam (1993) argues that communities with high levels of trust and civic engagement are better developed, both economically and socially. The level and nature of communication between formal institutions and communities is a good predictor of the speed of development (Woolcock and Narayan, 2000). Social capital is also related to institutions and, as such, it contributes to development (Nooteboom, 2007). Weak and corrupt political institutions and polarized societies are an impediment to development. When one looks at social capital in an institutional context, it is obvious that organizational characteristics impact the way constituents deal with risks and opportunities (Woolcock, 2001).

Along those lines, Knack (2002) posits that there is a positive relationship between the level of social capital and government performance. Nonetheless, according to him only social capital in the form of community volunteerism and strong social networks has a positive effect on the way government functions, whereas, civic engagement alone does not play a substantial role. Moreover, a higher level of social capital leads to more unified communities, which promote the construction of an environment conducive to preserving and improving public health; in turn, this contributes to development (Veenstra, 2002). The logic of this argument is that unified states are more democratic and democratic forms of government lead to the adoption of policies that guarantee the health and safety of society as a whole (Kawachi et al., 1999).

According to Evans (1996), cooperation among citizens and public institutions increases the effectiveness of government. This is effective and leads to state development

when public institutions and communities work together toward achieving shared goals. Uphoff and Wijayaratna (2000) take this notion further discussing how of the process of creating shared value brings people together to cooperate and achieve various goals that could not be achieved otherwise. These authors hypothesize that there is increased opportunity and drive for collective action toward shared goals and value creation in communities where people work closely together. Moreover, the authors argue that when social capital is not nurtured or used for deriving intended benefits it begins to erode. Cooperating across programs that develop the economy, environment and society is a necessary precondition for the sustainable development of both the private sector and the state.

The Role of Social Capital in Shared Value Creation

Iyer et al. (2005) claim that, in addition to leading to economic growth, social capital impacts the process of development positively. Social ties that are mutually beneficial for all the agents in social relationships are a necessary factor for achieving development goals no matter if existing in a small village or in larger alliances. Besides, social capital is the last resort for poor people to get out of poverty (Woolcock, 2001). Moreover, Sobel (2002) posits that social capital is beneficial not only because it leads to economic development, but simply because it creates strong bonds among community members, which would translate to social capital. Rupasingha et al., (2002) carries this view further claiming that one of the factors explaining why some countries are economically more advanced than others is social capital.

Social capital is frequently discussed with regard to higher levels of public trust, civic involvement and better government leading to improved economic performance through higher investments. Societies with lower levels of polarization and lower regulatory interventions by government are more inclined to demonstrate higher levels of public trust

and civic cooperation (Knack and Keefer, 1997). When polarization increases, investment decreases producing negative impact on growth (Zak and Knack, 2001). According to Beugelsdijk et al. (2004) trust is a substantial element in explaining the varying levels of economic development of different countries.

Moreover, Gray and Fukuyama (1997) argue that social capital in the form of trust leads to higher levels of economic development by encouraging creation of large firms that significantly contribute to society. The level of cooperation in a given society is one of the major explanatory factors for the varying levels of economic development among countries. Cooperation is triggered as a result of trust. Trust gives a possibility for the creation of large private corporations and various types of cooperative economic behavior, which in turn leads to the development of national economies (Fukuyama, 2000).

Social capital has a meaningful positive impact on development. The function of social capital in development is as important as the role of human capital. High-trust societies are able to innovate better as a result of reduced transaction costs and principal agent problems and through investment in human capital (Whiteley, 2000). Social capital both within and outside the family has a significant role for the creation of human capital which, in turn, has greater impact on development (Coleman, 1988).

The Impact of State and Political Institutions on Social Capital

There is a view in academic literature that political performance is not only a consequence of social capital, but also an important source. Skocpol et al. (2000) posit that the level of development of membership associations reflects the presence of representative governments. Moreover, Levi (1996) adds that political performance is not solely an outcome of social capital, but more importantly, the level of social capital is determined by the state and political institutions. Booth and Richard (1998) argue that repressive regimes of the

states have a negative impact on social capital. They discourage indicators like social capital and trust.

Moreover, governments promote the expansion of trust within society provided the level of trust towards the state is high (Levi, 1998). The relative fairness and openness of political institutions can be said to have connection with the level of trust towards government, which in turn impacts the level of overall trust prevalent in a country (Stolle and Lewis, 2002).

Restrictive Consequences of Social Capital

Studies show that although social capital creates a number of opportunities for associated people and encourages community building, it may also restrict the development process. The same features that generate positive outcomes also could be reason for negative consequences (Portes, 2014). Strong bonds within groups bring benefits to its members, but also serve as barrier for obtaining new knowledge and information for groups outside.

In such cases strong bonds within a group hinder the process of value creation by discouraging collaboration with others and adoption of innovative approaches to finding optimal solutions through shared knowledge (Edelman et al., 2004). Frequently, however, individual freedoms are restricted because of high levels of social ties within groups (Portes and Sensenbrenner, 1993). Moreover, Collier and Garg (1999) posit that although bonds within a kinship group may bring some benefits to its members, they can also foster such phenomena as corruption and rent-seeking.

RESEARCH DESIGN AND METHODOLOGY

This is a qualitative study that uses an explanatory research design. The reason for choosing explanatory research design is that this study aims to connect ideas to understand

cause and effect relationships and outcomes for creating shared value in order to come up with a model that explains how shared values could be created and how public private collaboration would contribute to the creation of shared values.

Using a qualitative approach is most appropriate, considering that the study aims at building understanding of shared value in both the public and private sectors. The study uses in-depth interviews with select leaders in the public and private sectors to measure the level of maturity for collaboration and readiness for making such a paradigm shift. The qualitative approach has made possible the collection of rich sets of data, even when the term *shared value* was not commonly understood by the interviewees.

The sampling strategy is purposive as interviewees were selected to allow collection of the types of data critical to the study. Although a large list of interviewees was assembled, many refused to participate primarily because of not being familiar with the concept. Thus, only twelve interviews were conducted ($N = 12$) with representatives of key actors in both public and private sectors. The interviewees included officials from the RA Ministry of Economic Development and Investments, particularly heads of the units responsible for tourism development and investment policy; the Centre of Strategic Initiatives of Armenia; top management of the RA Ministry of Health; representatives of two leading companies in telecommunication; one commercial bank; one insurance company; one dairy company; and two wine companies. All selected interviewees held useful opinions about the country, in general, as well as about their respective sectors and the current state of development. And finally, one more interview was conducted with an expert in the field of corporate social responsibility.

RESEARCH QUESTION AND HYPOTHESES

The main objective of this study is to draw a model that shows how shared values are created at the state level by way of attaining high levels of social capital that lead to active collaboration between government and private sector entities. Drawing from the topical literature covered and theories reviewed, the following research questions were developed.

RQ1: How are shared values created at the state level?

RQ2: How would public-private collaboration contribute to creating shared value?

The hypotheses derived from the purpose of the research and research questions are:

H₁: Establishing persistent working relations between government and business will lead to adopting shared agendas thereby creating shared value for all.

H₂: Adopting a shared agenda and common platforms will produce shared value.

DATA ANALYSIS AND DISCUSSION

Analytical Framework and Coding Scheme

The analysis of interview transcripts used the following coding scheme, which derived from the available literature on this topic.

Creating shared value — words or phrases such as creating public value; economic value; public needs; public priorities; generating added value for society; solving social problems with a business perspective; connecting the needs of society for business success; creating mutual benefits for government, business and society; achieving mutually beneficial solutions; shared public agenda; pursuing common goals; identifying critical public goods; focus on public preferences.

Public-private collaboration — words or phrases such as discussing common concerns; adopting shared agenda; establishing working relations between government and business; identifying common interests and platforms; engaging in cooperative arrangements; working for mutual benefits; working together toward achieving shared goals; conducting constructive dialogue; holding regular discussions; promoting policies conducive to business development.

Analysis of In-depth Interviews

A total of twelve ($N = 12$) people were interviewed representing key government officials and business representatives. The interview transcripts were analyzed using the coding scheme described earlier in an effort to identify the most critical elements required for a successful “*shared value model*” that would derive the best from a government-business relationship. In that process, the interviews also explored the necessity for public-private collaboration, but more importantly, the level of readiness of public/private organizations to make the paradigm shift this would require.

The analysis of in-depth interviews revealed that all interviewees ($N = 12$) agreed that the government and businesses should first identify common interests and platforms that would bring them together to engage in cooperative agreements to achieve mutually beneficial solutions. When the parties reach a common understanding of public problems, it becomes possible to adopt collaborative approaches to solving those problems through actions that benefit all parties, which delivers added value for society. In that context, one interviewee explained that “... *if government and business are able to find common interests in solving public problems, mutual benefits will be created for the government, business and the society.*”

The content analysis of transcripts also showed that six interviewees believe that creating productive and mutually beneficial working relations between government and businesses starts with constructive dialogue between them. In order to engage in cooperative agreements, the private sector should be able to feel that they are an integral part of the process of finding feasible solutions to public problems through constructive dialogue with the government. As articulated by one interviewee “... *in order to establish focused working relations between government and business it is necessary to hold regular discussions on common concerns.*” Only by holding regular discussions it would be possible to gain a thorough understanding of public needs and identify their relative criticality.

Five ($N = 12$) interviewees emphasized that in the absence of constructive dialogue the gap between the state agenda and business interests widens. Further, one interviewee argued “... *frequently the business does not understand how the government works and in what strategic direction it is going. The same is also true for the opposite side.*” In most cases the government is unaware of the key issues prevalent in the private sector, and conversely business does not have a grasp of critical public issues so as to be able to take action in mutually beneficial ways that contribute to the creation of shared values.

Moreover, four interviewees representing the government stated that if the government gets a handle on the major concerns of businesses it will be able to develop policies conducive to the development of the private sector. As mentioned by one of the interviewees “... *if the business sector succeeds in coordinating and explaining the major issues that they face, we will be able to establish policies that are conducive to development of the business sector.*”

As a result of regular public discussions that identify common interests for the public and private sector, it will also be possible to identify the most pressing issues and top priorities for the both business and government regardless if diverse priorities find common

ground. By adopting a shared platform, the public and private sectors will be able to arrive at workable solutions on critical issues that will simultaneously create benefits for the government, business and society.

Another factor that was emphasized by all the business representatives interviewed is their readiness to engage with government in cooperative agreements provided their business interests are not undermined. As one of the interviewees articulated “... *the business sector is always ready to cooperate with government and various public sector agencies provided the cooperation is based on just grounds and fair principles that aim at pursuing shared goals and are derived from constructive and continuous dialogue between various business sectors, sub-sectors and government.*” These same interviewees also pointed out that whenever the government adopts policies that are conducive to business development while requiring conditionalities of cooperation with government, the business sector would be ready to cooperate.

This suggests that the private sector will undertake solving social issues only when they find a business opportunity in solving those issues. According to one of the respondents “...*The overarching purpose of any business enterprise is to maximize profit. Businesses usually pursue filling public demand for goods and services that increase satisfaction. Aside from that, businesses would be interested to solve social problems provided that does not stand in the way of their business strategies and expectations. This would enable them to connect the needs of society with their business success.*” This will automatically connect the needs of society for business success. In other cases, even if businesses may give some assistance for solving social issues it will not have a sustainable nature.

One third of respondents who were all from the public sector emphasized that not looking to government as simply a source of financing or subsidy is a critical success factor for achieving mutually beneficial solutions. One of the interviewees stated that “... *For a*

long time the business sector has looked at government as purely a resource from which to draw assistance, whether monetary or otherwise. This mindset should be changed. The business sector should consider projects that consider working with the public sector toward achieving shared goals instead of consistently asking for monetary or other types of assistance for implementing projects that only benefit them or just the private sector.” It is possible, they claim, to establish effective working arrangements between the government and the private sector, when businesses pay attention to and, aside from focusing on their profit-making priorities they should also focus on public preferences and priorities to be able to partner with the government to generate public value for society.

The factor of identifying common interests and platforms was mentioned most frequently by the interviewees from both public and private sectors. The most important requirement for engaging in cooperative agreements and connecting the needs of society for business success is identifying common interests and platforms. Only in those cases when business and government have common interests, they will establish focused working relations with each other and adopt shared agendas for achieving mutually beneficial outcomes. As stated by one of the interviewees “... *each approach that is directed to establishing effective or constructive cooperation usually moves toward finding common interests. ... And that is not bad, it is good! Similarly, at the state level, identifying and nurturing shared interests and platforms is the most important factor for establishing focused working relations between the government and business.*” The idea behind this argument is that the main purpose of business is to derive as much revenue and profit, as possible, whereas the main purpose of the public sector is to solve as many social problems, as possible. Government has the added mandate to deliver public goods and attend to public demand efficiently, effectively, and equitably. That is why only in those cases when the

government and business are able to hold constructive dialogue and find mutually beneficial solutions they will be able to work together toward achieving shared value.

The issue of maintaining focus on public priorities, critical needs and preferences was pointed out by all the interviewees from the government sector. They emphasized that when discussing common concerns with the private sector, there should be an added focus on public preferences. After all, as much as the public sector, the business sector also should make every effort to meet public demand, focusing on preferences vis-à-vis products. When the private sector keeps all that in mind and also collaborates with government to better keep abreast of strategic public priorities, the country is able to achieve win-win results. In line with this argument, 40 percent of interviewees similarly indicated that the government should establish the strategic priorities of the public and assume a leading role in linking the needs of society for business success.

As articulated by one of the interviewees “... *Governments should identify the areas that would stimulate business interests while presenting an action point in the government’s strategic agenda. Also, based on that, government should take the initiative to get the attention of businesses onto those areas that need most attention and/or invite businesses from respective industries or sectors for dialogue.*” Another interviewee added that “... *the only way of motivating the private sector to take ownership of public needs is to prove that solving social issues with a business perspective will directly lead to the development of a stronger private sector.*”

However, in order to be able to find appealing prospects for solving social problems with a business perspective, social problems should be better understood by all, but especially by businesses; this suggests that the government should assume a leading role in connecting the pressing or important social problems with business interests. In that regard, government should partner with the private sector in defining the most critical public issues and jointly

defining social problems and priorities, make them publicly available to all and include possible solutions in the national strategies and plans. The idea behind this argument is that when the businesses have a clear understanding of the social problems, they know how many people are affected and they are able to establish such solutions that will connect the needs for business success.

Furthermore, the government should develop and promote policies conducive to business development that will simultaneously connect the needs of society for business success. After all, this also will help grow the private sector, especially the small and medium-size enterprises, which in turn would help develop the economy and increase the middle class (elements very crucial for moving developing countries forward). As one of the interviewees mentioned *“The government should set up a clear strategy that will unify the interests of business, government and the society.”* In the same line of thought another interviewee brought up the point that *“government should identify the most critical public goods and avail businesses with such vital information that are bound to stimulate new interests in the private sector and bring together government and business to share the achievement of the state development agenda.”*

The same interviewees who stated that the government should take a leading role in bringing together the interests of the government, business and society also mentioned that in the current state of development solving social problems with a business incentive is perhaps the only effective way of achieving mutually beneficial solutions and attaining development at the state level. One of the interviewees added that *“... the single most essential element in government-business collaboration leading to development lies in establishing focused working relations between government agencies and businesses working in respective domains. Only by engaging in constructive discussion and continuous dialogue would it be*

possible to reach agreements that produce collaborative arrangements between government and business geared to solving public problems.”

Concerning the factor of promoting policies that are conducive to business development, four interviewees ($N = 12$) emphasized that the government has the critical role in the process of creating shared value. In that context, when developing policies, rules and regulations, the government should take into account the major issues prevalent in the business sector and look to alternative solutions to those issues while simultaneously attracting businesses to collaborate in addressing public needs.

Another factor that was emphasized by three interviewees ($N = 12$), all three being from the private sector, is the key reason that keeps the private sector interested but not engaged in solving social issues is driven by their own operational budgets and revenue targets. Although the business sector may project additional revenues from solving a specific social issue, they often do not commit because of the business risks involved. If the business sector were to have confidence in government support, it would work more seriously with the government to achieve mutually beneficial solutions.

Although all the interviewees representing both the private and public sector agreed that it is possible to connect the needs of society for business success and solve social problems with a business perspective, only one interviewee presented a case that was using this strategy. *“We have developed a loan package with interest rates partially subsidized by the government. This loan is directed to helping applicants acquire household appliances and targets only one segment of society. To qualify for this type of loan, the borrower must have more than two infant children. Considering the subsidy, the interest rate charged to the borrower is considerably lower than market rates.”*

This indicates that the concept of creating shared value is comparatively new and not yet so clearly understood and developed in Armenia. But, once its benefits become visible, both for government as well as for business, both private and public sectors would be able to see the potential it offers and would want to pursue various arrangements to reap benefits.

FINDINGS

The content analysis of and results from in-depth interviews afforded the information necessary to create a model of how shared values could be created at the state level. By analyzing the data, it was possible to find out the critical factors that are necessary for creating cooperative agreements between the public and private sectors that will lead to achieving mutually beneficial solutions. More importantly, the data obtained from in-depth interviews helped to validate the assumptions embedded in the theory of “Creating Shared Value” according to which economic values can be created by addressing societal needs thereby creating value for society (Porter and Kramer, 2011).

The content analysis of in-depth interviews showed that the critical element necessary for creating shared value at the state level is the identification of common interests and platforms and adopting a shared agenda. This finding is identical with the argument brought by Pol Longo et al. (n.d.), which states that in order to achieve development at the higher state level the public and private sectors should work together toward achieving shared goals. When public and private sectors have common interests they will work together in order to achieve mutually beneficial solutions.

Likewise, the analysis of the data revealed that establishing a constructive dialogue between the government and business enterprises is a critically important factor for identifying common platforms and interests that will consequently lead to adopting shared agendas. Adopting shared agendas will lead to establishing focused working relations

between the public and private sectors and creating shared value while simultaneously promoting the process of development throughout the country. This finding is supported by the argument brought by Borgonovi et al. (2011), which claims that government alone does not have enough resources to solve all societal needs.

Moreover, the analysis of data from in-depth interviews also revealed that besides identifying common interests and platforms, the government is responsible for establishing public priorities. When the public priorities are in place, the government should take the lead in establishing policies that promote solving social issues with a business perspective and create incentives for connecting the needs of society for the business success. This finding is identical to the argument brought by Pol Longo et al. which argues that governments should make investments or promote creating partnerships for implementing shared value initiatives that support development programs.

Furthermore, the content analysis of in-depth interviews disclosed the fact that solving social issues with a business perspective is way of achieving mutually beneficial solutions for the government, business and the society. This finding corresponds to the viewpoint discussed in the literature review according to which solving social issues with a business perspective is a way of addressing societal needs in a participatory manner, such that the positive impact created by business is transferred to society.

CONCLUSION

Based on the literature review and theories reviewed two research questions with their corresponding hypotheses were developed. The existing literature on the topic gave an opportunity to understand the concept of shared value in depth and to draw some connections between the phenomenon mostly practiced in the private sector to the level of social capital

and creating shared value with a focus on solving public issues as part of the strategic state development agenda.

The results of the in-depth interviews revealed that in order to be able to achieve mutually beneficial solutions there is a need to establish focused and strategy-driven working relations between the government and the private businesses. As mentioned by Pol Longo et al. (n.d.) when public and private sectors have common interests they will work together in order to achieve mutually beneficial solutions. However, there is a requirement that should be met: In order to establish focused working relations between the government and the business enterprises, both of them should come together in constructive dialogue centered on the purpose of resolving a public need.

Moreover, this dialogue should not be a one-time event. Regular discussions aimed at reaching common ground by better understanding social problems are key factors for adopting a shared agenda that will create value for all. In addition, this study shows that in the current stage of development, the lead role rests on the government of Armenia to create opportunities for connecting business and society at the same time establish policies that are conducive to business development. However, similar to the argument brought by Porter and Kramer (2011), the analysis of in-depth interviews revealed that business also has to shift its classic way of thinking and restructure its internal policies. The business sector should stop looking at government as merely a regulator, or a source of financing and subsidies, but as a partner with whom mutually beneficial actions can be undertaken.

Moreover, the study showed that the best way for achieving development goals for a country with limited resources requires joining forces and putting to optimal use the strengths of both public and private sectors. Working closely and strategically together, government and business will be able to achieve mutually beneficial outcomes, which will improve the quality of life while achieving the national development agenda. Such mechanisms also hold

promise for economic growth and sustained development. As mentioned by Pol Longo et al. (n.d.) for achieving development at the higher state level the public and private sectors should work together toward achieving shared goals.

Thus, this research confirmed the assumptions stated in the theory of shared value put forth by Porter and Kramer (2011), according to which economic values can be created by addressing societal needs thereby creating value for society.

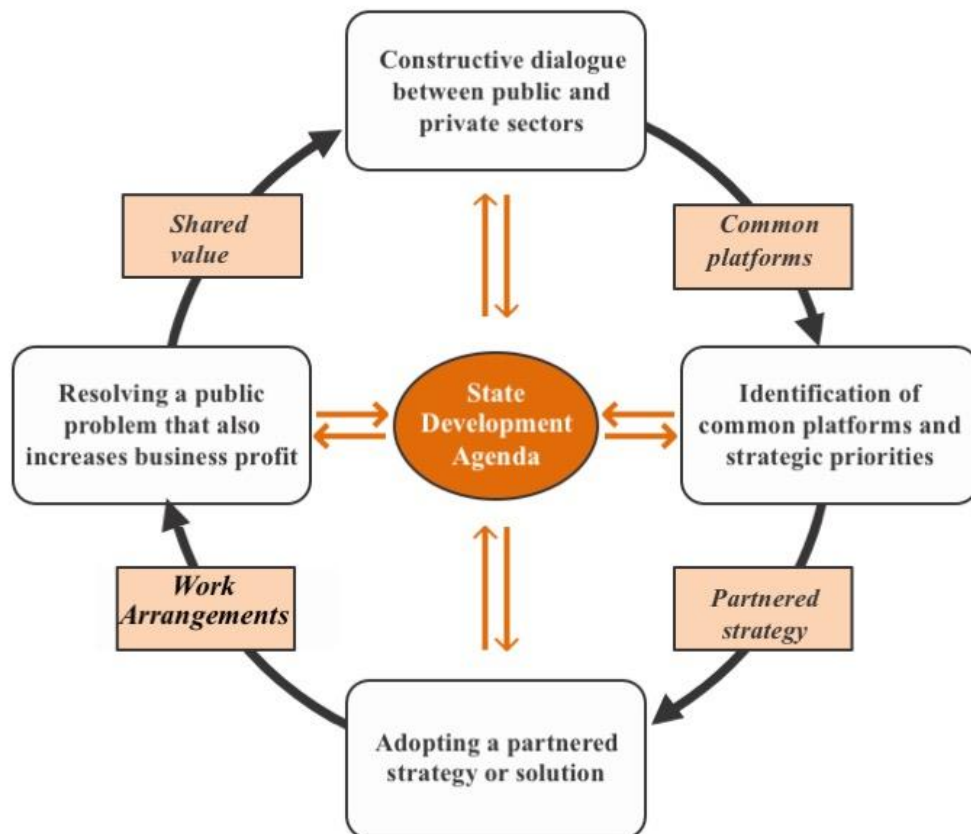
The research also showed that it is possible to link and find common understanding of the needs of society for business success. This can be achieved through constructive dialogue on strategic development issues and critical public needs on a continuous basis.

The findings of the current research have shown that the first assumption that was hypothesized as “*Establishing persistent working relations between government and business will lead to adopting shared agendas thereby creating shared value for all*” is accepted. Similarly, the second hypothesis that “*Adopting a shared agenda and common platforms will produce shared value*” is also accepted. The mechanisms developed from these government to business relationships are presented in the below diagram.

As the proposed model shows, only through continued dialogue and discussions around the state development agenda can priority public needs be resolved through partnered arrangements of government and select business enterprises in respective sectors/sub-sectors. As stated by Herzberg and Wright (2005) continued dialogues and discussions not only facilitate the process of finding out the possible mutual platforms and strategies for economic development, they also make possible the successful implementation of policies because they create a perception of being a part of the policies within the private sector.

An environment that leads to the creation of such phenomena as mutual support, trust and consideration between the public and private sectors makes possible the implementation

of various policies and achievement of developmental goals. Moreover, as indicated by Borgonovi et al. (2011) in the current age of development it is possible to solve social problems and to maintain equilibrium of economic and social benefits only in those cases when the government and businesses are cooperating on the sustainable basis.



LIMITATIONS OF THE STUDY

One of the limitations of the study is its small sample size. Although a larger sample of interviewees was assembled because of the fact that many interviewees were not familiar with the concept after getting familiar with the interview questionnaire, they refused to take the time to learn and explore possible mechanisms with the interviewer. To generalize the results, the research could have included participants from civil society organizations. The next limitation is that the study had to rely on the data gathered by the interviewer and could

have elements of subjectivity. One more limitation is that there was very limited prior research on this topic.

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APPENDICES

Interview Questionnaire for Government

1. In your opinion, what are the critical factors necessary for establishing results-driven working relations between government and business? [We are not talking here about public participation in policy-making.]
2. Are you familiar with any models that have worked in other countries or in Armenia?
3. Do you think models of government-business partnerships could be beneficial in creating shared values, i.e. values that are beneficial both for the businesses and the public (through government programs)?
4. What should the government do to promote creating practical/working partnerships with the private sector/individual businesses? Could such arrangements be made possible through business incentives and other policies?
5. Do you think that the business sector is ready and willing to cooperate with the government in solving specific social problems, which will directly contribute to boosting business interests at the same time?
6. Is it possible for private sector to advance their economic interests by creating new value through initiatives that contribute to society as a whole?
7. Do you think that the public sector can help maximize the social impacts of the private sector by engaging businesses in cooperative arrangements that contribute to the country's prosperity?

Interview Questionnaire for Business

1. What approach should government use to bring businesses around the table to identify and discuss common interest platforms or working arrangements?
2. What approaches or programs by the government would motivate the private sector to take ownership of public issues and contribute to achieving sustainable solutions?
3. What would a private business expect from the government in order to go into partnership with it?
4. Would public-private partnerships be feasible for solving public issues, while not causing new burdens for the businesses?
5. Would public-private partnerships be feasible for solving public issues while not causing additional budgetary burden for the government, rather alleviating the budget burden?