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## An Assessment of Customer Shared Value in the Restaurant Industry – a Survey from Sweden

**Sebastian DROZDZ**

Halmstad University, Halmstad, Sweden  
sebdro11@student.hh.se

**Marcus DUFWA**

Halmstad University, Halmstad, Sweden  
marduf12@student.hh.se

**Robiel MECONNEN**

Halmstad University, Halmstad, Sweden  
robief\_m@hotmail.com

**Klaus SOLBERG SØILEN**

klasol@hh.se  
Halmstad University, Halmstad, Sweden

**Abstract.** *The article tries to investigate to which extent the concept of Customer Shared Value (CSV) is relevant for a particular industry, the restaurant industry. We wanted to know if there is a correlation between social benefits and economic benefits for restaurants. We also wanted to know if restaurants already conduct their business according to the concept of Creating Shared Value, but maybe without reference to the concept as such. We found that restaurant companies in Sweden actually work to create economic benefits and social values. However we did not find that there was any clear pattern between economic value and social values. The companies with the highest total shared value are in fact the companies with the highest revenue, but there are also companies with lower revenue which have scored high in total shared value and vice versa. Most of the restaurants implicitly work with several factors of the concept such as having knowledge of the costs and causes of environmental impacts and the notion of how to treat employees fairly. The findings are valuable because they show to what extent CSV is a reality in the restaurant business today. This may have implications about how practitioner and scholars alike view the concept of CSV.*

**Keywords:** Creating shared value, Corporate social responsibility, Corporate social values, Restaurants, Business and Society, Shared value.

**JEL Classification:** M14.

## 1. Introduction

### 1.1. Problem statement

“The capitalist system is under siege” claims Porter and Kramer (2011: 1). This is how the authors introduce their article about Creating Shared Value (CSV). Porter and Kramer (2011) argue that there is a growing perception of companies’ successes being done on the expense of society, the very society which is embedded in social, environmental and economic problems. At the same time companies have adopted Corporate Social Responsibility (CSR) strategies over a number of years already. By doing so they are getting even more blame for society’s failures (Porter and Kramer, 2011). Mohammed (2013) argues that CSR is not an adequate approach to the fundamental challenges of sustainable development.

Porter and Kramer (2011) argue that there are differences between CSR and CSV. While as CSR focuses on “doing good”, as Porter and Kramer (2011) expresses it, CSV is an integration between the companies’ activities and parts of society. The problem with CSR is that it’s a voluntary activity that doesn’t connect with a company’s primary business activities (Macagno, 2013). When creating shared value, the company will not just maximize profits, it will not be mixed up in charity either, but instead integrate a business model that generates both economic value as well as societal benefits (Porter and Kramer, 2011).

According to Porter and Kramer (2011) every company should look at their business and its activities through the eyes of shared value. Every business should understand how it best can address the needs and problems of society with its products. If they do this successfully it can generate innovation, growth and unlock the next wave of global expansion for companies and at the same time also generate benefits for society.

At the same time Porter and Kramer have met much critique for developing a concept that addresses little, if nothing, to the real crisis of capitalism. Critics claim CSV is unoriginal and doesn’t accord for the tension and differences between societal and economic goals (Crane et al., 2014). CSV doesn’t have a specific framework with which shared value creation can be measured (Mohammed, 2013).

The restaurant business is characterized by high risk, and is a hard business for companies to survive in, especially when it comes to new entrants (Hua and Lee, 2014; Noorkhizan et al., 2012). One major factor to the high risk is the sensitivity to economic fluctuations, and the recent economic turmoil has led to tough challenges for the restaurant business (Hua and Lee, 2014; Kim and Upneja, 2014). However, according to Yeap (2011), there are different kinds of demands, and this creates opportunities as well for large restaurant chains as for smaller private restaurants to conduct their business. Restaurants compete on several non-price attributes, not just on price. Such attributes may be quality of the food, service, and the location of the restaurant (Yeap, 2011).

For this study we asked, can Porter and Kramer’s (2011) “Creating shared value”-theory be applied to restaurants as one of these attributes, to help strengthen them in their competitiveness?

According to Mefford (2011) social activists claim that economic profit is irrelevant while addressing societal needs, because firms have a moral obligation towards society. There are stakeholders besides the shareholders, and society at large is one of these. There are also clear obstacles. Companies are not likely to change their way of doing business, their business models, if there are no economic benefits. Is the non-economic benefit an important factor for restaurant customers, which the restaurants should then consider? Thus, this research could have both practical and theoretical implications. Based on this we define the hypotheses:

## 1.2. Hypothesis

**H1.** There is a correlation between social benefits and economic benefits for restaurants.

**H2.** Restaurants conduct their business according to the concept of Creating Shared Value (CSV).

## 2. Literature review

### 2.1. Creating Shared Value

There are several definitions of Creating Shared Value. Aravossis and Pavlopoulou (2013) describe it as a way to prevent the negative impacts that a business might be causing society. They further connect this explanation to innovation of new products and services.

The concept of “Creating shared value” was first introduced by Porter and Kramer (2011). They describe a problem where companies are perceived as leeching on society for their own well-being. At the same time the authors argue that companies are putting an effort to address this problem, but with the wrong approach. By using Corporate Social Responsibility (CSR) and addressing societal problems with activities external to the business model they fail to meet the credentials of society at large, and their reputation is therefore flawed. Porter and Kramer (2011) argue that CSR is used as something improving companies’ reputation, while creating shared values is a way to legitimize businesses again (Porter and Kramer, 2011).

The sudden emerge for CSR, Porter and Kramer (2006) argue, is something that the public started to acknowledge due to bad behaviour of the businesses. Porter and Kramer (2006) draw an example of Nike which faced much criticism because of the unhealthy working conditions their suppliers in Indonesia had. This has led to a raising awareness by many businesses, not to do whatever they want and to take more responsibility.

Porter and Kramer (2011) argue that companies must address the problem by reorganizing their business model in a way that speaks to societal needs as well as the creation of economic values inside the company. Porter and Kramer (2011) define a shared value as operating processes that enhances the competitiveness of the corporation while addressing economic and social conditions. There is a connection between social values and economic values, and a simultaneous connection when creating shared values. Value is defined as benefits in relation to costs. Companies must reevaluate society’s fundamental needs and align themselves according to what role they want to play when meetings these needs.

Porter and Kramer (2011) also lift the problematic question of not addressing societal needs. When not dealing with social harms and weaknesses, internal costs are created for the organization. These can be energy loss, accidents in the workplace and ineffective use of raw materials. Furthermore Porter and Kramer (2011) argue that addressing these problems is not necessarily a cost for the organization. It can in fact generate higher productivity and expand markets with the help of new innovations, technologies, methods and approaches. But to be clear, creating shared value is not in the purpose of social responsibility or sustainability but a new way of conducting business and to achieve economic values. Creating shared value is a process not in the periphery but in the center of the organizations business model (Porter and Kramer, 2011).

Porter and Kramer (2011) points to the importance of the manager for developing a new approach to create shared values. They also argue that the old mindset that only focuses on short-term profitability is prohibiting the company from reaching higher productivity and long-term relationships with external partners. Different management studies have been conducted, for example Chu (2001), which examines two different managerial approaches in Taiwan. In the paper Chu (2001) argues that one of these approaches seeks to maximize economical effectiveness in the organization while the other focus on actions connected to different social shared values and workers in the organization. Chu (2001) concludes that by adapting both approaches this may lead to the best overall economic result.

There is another approach to looking at creating shared value and that is the pricing perspective. Marco and John (2012) argues that a business must consider a pricing approach by not raising the prices on products and services which eventually can harm the customers' loyalty and satisfaction as well as the reputation of the company. Businesses should not consider their customers as wallets but more as persons and by doing so, the company can reach a higher and more sustainable value (Marco and John, 2012).

## 2.2. The five reinforcing elements

Pfizer, Bockstette and Stamp (2013) have through several case studies identified five reinforcing elements in the creation of shared values: embedding a social purpose, defining the social need, measuring shared value, creating the optimal innovation structure, and co-creating with external stakeholders. We want to test and see to what extent these elements are relevant for the restaurant industry. The two first elements should enable us to test hypotheses number one:

### *Embedding a Social Purpose*

According to Pfizer, Bockstette and Stamp (2013) companies need to clarify social purposes, by publicizing it both internally and externally and integrate it with the core of the organization through strategic planning and budgeting in order to pursue shared value opportunities.

### *Defining the Social Need*

The company must also devote time and resources in order to understand problems in society. The companies must understand underlying social conditions or they risk addressing the needs with ineffective solutions, which will not help to fix the core of the problem.

### *Measuring Shared Value*

There is yet no universal system in measuring shared value, but companies on their side have a need for monitoring their own progress in this respect. What companies can do is estimate the business and social values by comparing how addressing a social need will affect either productivity or reduce costs. The company has to keep track on their activities to anticipate the link between social and business results. By comparing results companies can evaluate which approaches are successful and which are not. From there on they can measure the ultimate social and economic profits gained and use them as components when expanding further (Pfitzer et al., 2013).

### *Creating the Optimal Innovation Structure*

In today's competitive markets innovation is essential (Lee et al., 2012). The purpose of innovation is to create shared value for the organization and its stakeholders, and if a company wants to survive in the long run, it has to consider the shared value with its stakeholders (Lee et al., 2012). Companies must also consider to which degree new structures and conducts depart from the established business. The company has to take several components as financing, governance, management systems, competence within the organization and geographic location. The company may lack in financial muscles to launch new innovations, but may also be restricted by government policies or geographical barriers. To all of the problems there are different ways to tackle the obstacles. The key is to be innovative, argues Pfitzer, Bockstette and Stamp (2013).

### *Co-Creating with External Stakeholders*

Pfitzer, Bockstette and Stamp (2013) define co-creation as a process involving all stakeholders into identifying problems and solutions in order to understand social needs. Stakeholders may consist of the government, foundations, universities and other organizations, both community-based organizations as well as international organizations.

To create both social and business values in an integrated way, all five components must be considered. Pfitzer, Bockstette and Stamp (2013) also argue that a company's understanding for social problems can motivate employees in their commitment to the job and their employer. This, all together, can contribute to social progress and more profitable companies while creating shared values (Pfitzer et al., 2013).

## **2.3. Critique of the concept of Creating Shared Value**

In contrast to the literature presented above, critiques argue that the concept of creating shared value is unoriginal. Crane, Palazzo, Spence and Matten (2014) argue that Porter and Kramer (2011) ignore the tension between economic and social goals, and don't contribute to anything new with their theory. Corporate social responsibility is according to Crane et al. (2014) still an undiscovered area. Webb (2014) argues that CSR can be more profitable and effective if CSR is originated from core competencies and integrated with communication across teams in the corporation. Hypotheses number two of this study should be able to say if there is more to this critique, where we test to see if restaurant are already using this notion.

### 3. Methodology

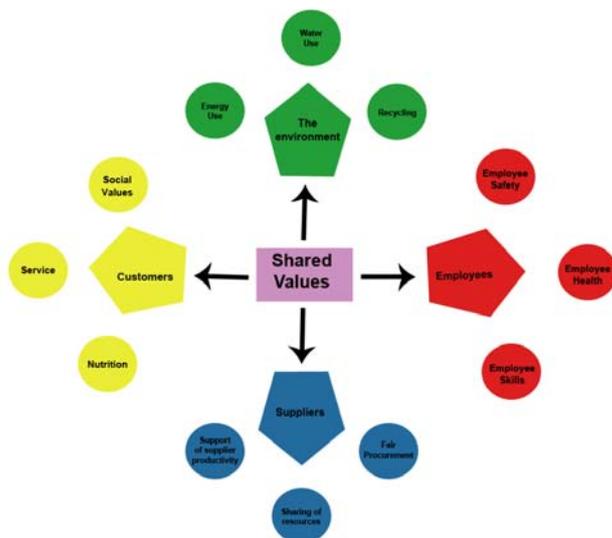
We have chosen to do a quantitative analysis where we try to see if there is a connection, between the different values that we observe and find in the theory and practices in different restaurants in Sweden. The variables give us a way to see if there is a connection between the social- and economical results in the restaurant business aligned with Porter and Kramer's (2011) Creating shared value theory.

We chose a sample size of 30 restaurants with the highest revenue as it was assumed that smaller restaurants are not as focused on CSV. The population is all restaurants in the region of Halland, Sweden. A fixed questionnaire was used for all restaurants and names of restaurants kept anonymous.

One methodological problem with using the concept of Creating Shared Value by Porter and Kramer (2011) is that it's a relatively new term and uncertain to which degree it is understood by businesses. Thus we also explained the idea in other words to the businesses. In the survey a Likert-scale with five alternative score-answers were used. By using odd numbers in answering alternative we allow for neutral answers.

From Porter and Kramer (2011) we identified several possible Shared Values that can be relevant for the restaurant business. We chose the identified Shared Values from the literature groups integrating with our selected industry, according to a new model as described below.

**Figure 1.** *Shared Value: Groups and components*



**Source:** Authors.

As Porter and Kramer (2011) suggests, the company's social needs should not be external from the main activities in the organization. Therefore we are just examining groups of factors directly integrated with main activities in the business. The groups we extracted from the literature corresponding with our selected business are: *Employees, the*

*environment, suppliers, and customers.* Shared values were then conducted from each of the integrating groups as shown in figure above.

For the *employees* we identified; *employee safety, employee health, and employee skills,* as shared values, which bring social value beyond the economic gains achieved by the company (Porter and Kramer, 2011). For example, restaurants which train their employees can achieve greater employee satisfaction and reduced staff turnover (Ballesteros-Rodríguez et al., 2012). Webb (2014) proposes that employees can enhance economic productivity as well as efficiency by pursuing social responsibility.

For the *environment* we identified; *energy use, water use and environmental recycling* as shared value-components. Addressing the social needs pollution-containment was once thought to be something that would just increase costs, but today there is an increased consensus that environmental improvements also generate economic benefits, with cost savings and enhanced process efficiency (Porter and Kramer, 2011).

For the *suppliers* we identified following shared values; *fair procurement, sharing of resources and support of supplier productivity.* Porter and Kramer (2011) argue that oppressed suppliers won't be good for business. Instead the company should support suppliers with sharing technology, knowledge and fair terms, which will benefit both parts and create synergies as well as shared values. Mefford (2011) argues that the company can receive increased profitability, competitiveness and increased valuation in the firm by focusing on the supply chain. According to him there are social benefits such as better working conditions, improved morale, enhanced competence, for the employees in the supply chain. There are also economic benefits such as reduced costs, higher productivity, reduced risk and higher quality which are relevant.

Marketing effects result from greater customer loyalty and brand equity, which leads to higher revenue and profits. On the production side, the implementation of lean manufacturing results in better working conditions, improved employee morale, more training and higher skills, which, in turn, result in higher quality and productivity, and reduced costs. Financial effects occur because of the greater predictability of cash flows and reduced risk, resulting in a lower cost of capital.

The shared values for *customers* are not well defined. Porter and Kramer (2011) talks of societal needs for the customers and we have identified the following shared values between customers and restaurants; *nutrition, service, and social values.*

We created a table that consists of the shared values that we have identified and the results from the respective restaurants that will allow us to test the hypotheses. Each of the thirty selected restaurants' scores on each of the shared values is entered in the table (Table 1). Thereafter, we calculate to see if there is a correlation between the restaurants' total scores of shared value and selected financial ratios.

**Table 1.** Methodological framework for data gathering

Shared Values	Restaurant A	Restaurant B	Restaurant C	Restaurant ...
Employee Safety				
Employee Health				
Employee Skills				
Recycling				
Energy Use				
Water Use				
Fair Procurement				
Sharing of Resources				
Support of Supplier Productivity				
Nutrition				
Service				
Social Values				
<b>Total Shared Value:</b>				

Source: Authors.

#### 4. Empirical Research

The different scores from the companies in each section is presented in Table 2 below. Each section represents a shared value. The scores are from 1-5, where 1 is the lowest and 5 is the highest. From the scores of the companies we have summarized them into a total score for each section, where the highest section value is 15, and the lowest is 3. We have then summarized the sections scores into a Total Shared Value for each company as shown in Table 2, where the highest Total Shared Value is 60, and the lowest is 12.

**Table 2.** SCV Scores for restaurants in Sweden

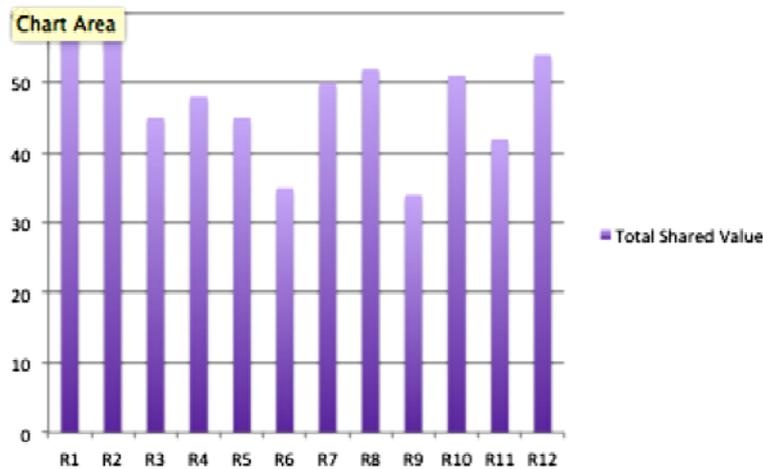
Restaurant ID	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10	R11	R12
Health of employees	5	5	4	5	4	2	4	5	4	4	2	5
Employment security of employees	5	5	4	4	4	4	5	4	4	5	5	4
Competence of employees	5	4	4	5	5	4	4	5	4	5	4	5
<b>Total Employees</b>	<b>15</b>	<b>14</b>	<b>12</b>	<b>14</b>	<b>13</b>	<b>10</b>	<b>13</b>	<b>14</b>	<b>12</b>	<b>14</b>	<b>11</b>	<b>14</b>
Recycling	5	5	4	2	4	4	5	3	4	5	5	5
Water-saving	5	5	3	4	2	1	3	2	2	3	1	4
Energy-saving	5	5	3	3	2	2	4	4	2	4	1	5
<b>Total Environment</b>	<b>15</b>	<b>15</b>	<b>10</b>	<b>9</b>	<b>8</b>	<b>7</b>	<b>12</b>	<b>9</b>	<b>8</b>	<b>12</b>	<b>7</b>	<b>14</b>
Nutrition to customers	5	5	2	5	5	2	4	5	1	2	5	5
Service-level to customers	5	5	5	5	5	5	5	5	5	5	5	5
Social values to costumers	5	5	4	4	5	4	4	5	3	5	5	4
<b>Total customers</b>	<b>15</b>	<b>15</b>	<b>11</b>	<b>14</b>	<b>15</b>	<b>11</b>	<b>13</b>	<b>15</b>	<b>9</b>	<b>12</b>	<b>15</b>	<b>14</b>
Profitability of suppliers	4	5	5	4	2	2	4	4	1	5	1	4
The living conditions of the suppliers' workers	4	3	4	5	3	3	4	4	3	3	3	4
Sharing of resources with suppliers	4	5	3	2	4	2	4	5	1	5	5	4
<b>Total suppliers</b>	<b>12</b>	<b>13</b>	<b>12</b>	<b>11</b>	<b>9</b>	<b>7</b>	<b>12</b>	<b>14</b>	<b>5</b>	<b>13</b>	<b>9</b>	<b>12</b>
<b>Total Shared Value</b>	<b>57</b>	<b>57</b>	<b>45</b>	<b>48</b>	<b>45</b>	<b>35</b>	<b>50</b>	<b>52</b>	<b>34</b>	<b>51</b>	<b>42</b>	<b>54</b>

Source: Authors.

The companies are listed according to revenue, with company R1 having the highest revenue, and company R12 the lowest revenue in the sample.

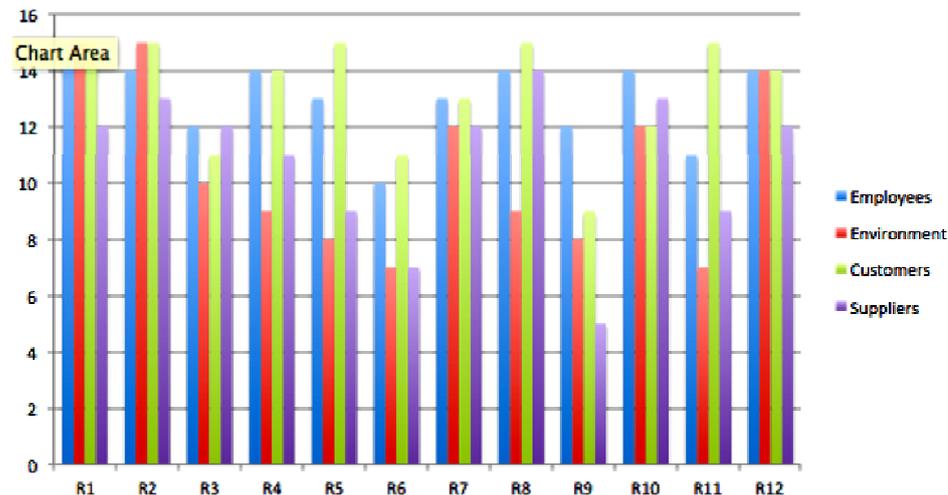
It can be seen that there is a certain spread in the different Total Shared Value but none of the companies fall beneath the average which in this case is a score of 30. The companies with the highest total scores are in general also the companies with highest revenue. The specific companies with the highest revenue in this sample are company R1 and R2, as illustrated in Table 3. The company with the lowest score from the sample is company R9. The major deviation is company R12, with the lowest revenue, but scoring one of the highest in Total Shared Value. A closer analysis finds that R12 is a subsidiary of R1, which may explain the relationship between revenue and total shared value.

**Table 3.** Total Shared Value scores for Restaurants in Sweden



**Source:** Authors.

In Table 4 we shown each of the companies with four colors, that represent each of the shared value groups for this study. In the table Employees is represented with the color blue, Environment with the color red, Customers with the color green, and Suppliers with the color purple.

**Table 4.** Values for each group of factors among Swedish restaurants

Source: Authors.

When it comes to customers, the majority of companies in our sample show high scores. The median value for the customer-section shared value is 14, and the average customer-section shared value is 13.33. 41% of the companies in the sample score the highest possible score in the customer-section of shared value. Company R9 has the lowest score in this section. It also scored the lowest possible in encouragement of nutrition for customers too. R9 is the company with the lowest score in total shared value. The company R7 explains that they try to be as service minded as possible, and argue that it is important to listen to customers and identify their needs.

The employee section of the shared value model is an area where companies also had high scores. The median shared value for the companies is 14, and the average shared value of the section is 13. Company R10 has the lowest score, a score of 10. Most of their employees are hour-based employees. It may not be as relevant for them to take action to encourage good health or they may not have the power to do so. R12 has a score of 14 in this section. They explain that the industry is dependent on different seasons of the year, which explains the ups and downs in demand. This complicates staffing and makes it difficult to write long term contracts with employees. R12 also state that they strive for good contracts for their employees and that they see competence as an important factor. R10, with a score of 14 in this section, points out that they make efforts to strengthen employee's competences by giving different kinds of education such as: education about products and also how they can improve service towards the customers.

As for the environment section, the scores are well spread out. The median score is 9.5, and the average score 10.5. Company R2, with a score of 15, points out that a simple thing as awareness of the environment by turning of lights is an important factor for energy savings, as they have many light sources in the restaurant. Energy savings as an important factor for saving money. Company R4, with a score of 9, points out that they could recycle more, but is not obligated to do so, and therefore they don't do it to the

extent to which they could. Recycling is more time-consuming, which is seen as costly and negative. According to R12, there are intentions to do more about the environment, but since the company doesn't own the facility in which it operates, it cannot always influence the water and energy consumption and recycling to the extent to which it would like to.

For the suppliers section the scores are well spread out and none of the companies reach the highest score. The median score here is 12 and the average score is 10.75. Both company R5 and R11 which had one of the lowest scores, of 9, clearly express that they do not care about their suppliers more than for the reason that they have the lowest price possible. Company R10, with a score of 13 had one of the highest scores in the study and pointed out the importance of having a good relationship with the suppliers. Thus benefits can go both ways, as the supplier has better pricing, which causes the company to buy a higher quantity.

## 5. Discussion

From the material gathered in this study there is a correlation between the literature and the empirical results for restaurants in Sweden. In general the companies have scored high on total shared values. The high score can depend on different factors such as the high revenue of the companies but it's also important to look more critically on this because the values of the scores depend on what the company itself believes or say they work with the different shared values (perception), not how they actually work. Total shared values can also depend on the size of revenues; the companies with the highest revenue such as R1 and R2 also have the highest total shared value. The high revenue of these companies may depend on the fact that they have more capital to start with. The companies may therefore have better possibilities to work with different kinds of shared values such as suppliers and the environment in their struggle to reach even better competitiveness and productivity.

The opposite can be considered with the R6 and R9, with low scores of total shared values. The lack of capital may cause them to prioritize harder what and where they should focus their capital and efforts. We found that there was a disregard and a lack of awareness of conducting business according to the factors "suppliers" and "the environment", to mention the two most striking examples. As Porter and Kramer (2011) points out, companies are failing to understand the importance of the business environment that surrounds them. As an example company R11 hardly care about their supplier as long as they do not raise their prices. This stands in contrast to company R10, which points out that both supplier and company can make higher profit in the form of exchanges for mutual benefits.

Companies with the highest turnover show a high score in the suppliers' variable. It may be that companies with higher revenue tend to work more closely with suppliers and care more about their business in general. However, from Table 3 it can be seen that companies with lower revenue also achieve a high score on the supplier's area, for example R8 and R10. The results are in other words too spread in this area too draw any

major conclusion in that direction. Some companies want to be fair with their suppliers and consider terms and agreements with them that benefit and strengthen both companies' profitability. Other companies in the survey just want to get the lowest purchasing price without regards to long-term relationships.

The customer area of the survey gets a high score by all companies. But since the restaurant industry is by definition service driven, this may be no surprise. Again, we are also just measuring perception. Restaurants know it's important for them to listen to their customers and hear their needs in order to make better offers. Switching-costs for customers are low and this makes it easy for customers to choose another restaurant if they are unsatisfied with the current one. This trend is enforced by new mobile phone application services with ratings.

For some companies nutrition isn't a top priority. It may be a result of the kind of food that they are offering. Some companies give more priority to the food's taste, and therefore the nutrition part is not considered to be as important. Another reason why companies don't care about nutrition could be costs.

Some companies (R10 and R17) only have hour-based employees, which mean that most of their employees work during a particular season, for example during the summer when tourists come. Due to high employee turnover, it's not considered relevant to take actions to encourage the improvement of employees' health.

## 6. Conclusion

### *Basic research*

We have developed a model which can be used for other similar studies in the service sector. This is one step forward in basic research related to CSV. This answers a problem raised by Porter and Kramer (2011) who suggest that shared values must be identified for each and every business, as it has to go in hand with different business models.

### *Applied research*

The pattern that can be seen from the data is that there are higher shared value scores in areas where companies actually see the connection between advantages for themselves (economic benefits) and doing good for others (social values). In areas where the connection isn't clear, the shared value-scores are lower. On this basis we draw the conclusion that companies don't engage themselves in charity, which is what CSR is "doing" according to Porter and Kramer (2011). Instead, they make sure that what they make benefits the company and strengthen their competitive power, which is what CSV is about. Therefore we find support for hypothesis 2 - that companies in the Swedish restaurant business actually work to create economic benefits and social values.

However, we do not see any clear pattern which supports hypothesis 1; that economic value and social values is correlated. The companies with the highest total shared value are in fact the companies with the highest revenue, but there are also companies with lower revenue which have scored high in total shared value and vice versa.

Most of the restaurants showed high total shared values and even though they did not have the full knowledge of the concept of CSV they implicitly work with several factors of the concept such as having knowledge of the costs and causes of environmental impacts and the notion of how to treat employees fairly. From the data gathered we conclude that companies in the restaurant business in Sweden say they show high concern for society and social factors around them. They say they do this not just to be good, but because it's good for business as well.

## 7. Recommendations for future research

It is valuable to go from perception to actual behaviour in future studies. It is also of value to study other countries and make comparative studies. We could also suggest that companies are studied over longer periods of time to detect changes in values. Future studies could also be supported with deeper interviews to get deeper into the reasons for company behaviour.

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