

# CONTESTING THE VALUE OF THE SHARED VALUE CONCEPT

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## CONTESTING THE VALUE OF THE SHARED VALUE CONCEPT

Creating shared value (CSV), the concept popularized by Porter and Kramer in the Harvard Business Review<sup>1</sup>, seeks explicitly to address the task of regaining trust in business in the current age of crisis. ‘The capitalist system is under siege’, the authors contend, ‘...learning how to create shared value is our best chance to legitimize business again’<sup>2</sup>. In a nutshell, CSV proposes to transform social problems relevant to the corporation into business opportunities, thereby contributing to the solving of critical societal challenges whilst simultaneously driving greater profitability. In the words of Porter and Kramer<sup>3</sup>, CSV ‘can give rise to the next major transformation of business thinking,’ ‘drive the next wave of innovation and productivity growth in the global economy’ and ‘reshape capitalism and its relationship to society’.

It is a seductive promise, and one that has received enormous attention in the business community and among management scholars and educators. In this paper, we seek to analyze and critically evaluate the concept of shared value, both in terms of its stated aims – to re-legitimize business<sup>4</sup>, to redefine ‘the purpose of the corporation’<sup>5</sup>, to ‘reshape capitalism’<sup>6</sup>, and to ‘supersede corporate social responsibility in guiding the investments of corporations in their communities’<sup>7</sup> – and in terms of its overall contribution to understanding the social role and responsibilities of corporations. We suggest that the concept makes some significant progress towards enhancing attention to the social dimensions of business, and may act as a spur for better practice. However, in the way that it is understood by Porter and Kramer, CSV also suffers from a number of serious shortcomings that will erode any real possibility for the more fundamental change aimed at by the authors. We outline these limitations and indicate more fruitful alternative directions that are already underway in the extant literature that CSV is seeking to

supersede. Thus, whilst we acknowledge some useful aspects of shared value, we ultimately see it as a reactionary rather than transformational response to the crisis of capitalism.

### **The emergence of shared value**

The concept of shared value has emerged from a series of Harvard Business Review (HBR) articles written by Porter and Kramer. This began more than a decade ago with work focusing explicitly on the nonprofit sector, specifically an examination of how foundations can create social value<sup>8</sup>. This soon extended into a piece exploring how *corporate* philanthropy can create social *and* economic value, introducing for the first time the authors' ideas around using social programs to enhance the firm's competitive context<sup>9</sup>. By 2006, this had developed into a broader analysis of how to integrate corporate social responsibility (CSR) into core business strategy, where the term 'shared value' was coined for the first time<sup>10</sup>.

Around the same time, Porter and Kramer began working with the global food multinational Nestlé through their consultancy FSG. This led to Nestlé's 2006 report on creating shared value in Latin America<sup>11</sup> and from 2008<sup>12</sup> onwards biannual, global, company-wide 'Creating Shared Value' (CSV) reports. Eventually, some five years after their initial formulation, the fully realized elaboration of shared value was set out by Porter and Kramer in the cover article of the January-February issue of HBR under the themed heading of 'The Big Idea'<sup>13</sup>.

Although the 2011 HBR article did not depart in any significant way from, or advance too far beyond, Porter and Kramer's earlier papers and their work with Nestlé, it did offer a more substantial conceptualization. Specifically, the authors for the first time advanced a definition of shared value, namely 'policies and operating practices that enhance the competitiveness of a

company while simultaneously advancing the economic and social conditions in the communities in which it operates'. By value, they mean benefits relative to cost, not benefits accrued alone. Moreover, three ways of creating shared value were articulated. First, *re-conceiving products and markets* by seeking out social problems where serving consumers and contributing to the common good might be achieved in parallel. Second, *redefining productivity in the value chain* by simultaneously enhancing the social, environmental and economic capabilities of supply chain members. Third, *enabling local cluster development* where various developmental goals might be achieved in cooperation with suppliers and local institutions.

### **The strengths of the shared value concept**

By most typical measures, Porter and Kramer's concept has met with considerable success. As an idea developed for and with senior leaders in large corporations, it is little surprise that it has succeeded in gaining a substantial and positive practitioner audience. It has not only reached this audience through the HBR, but in various newspaper, magazine and web accounts, including the New York Times, The Economist, The Guardian, Forbes, and the Huffington Post. It has been the subject of several CEO roundtables at Davos, and has reached the next generation of business managers through business schools where it is required reading in a variety of MBA and executive courses<sup>14</sup>. The article won the 2011 McKinsey Award for the best article in HBR, and 'shared value' has since been enshrined in the official EU strategy for CSR<sup>15</sup>. With leading companies such as Nestlé<sup>16</sup> and Coca-Cola<sup>17</sup> embracing the concept, CSV has already shown its potential to push forward a broader understanding of corporate responsibility among leading corporations. The success of CSV among (in particular multinational) corporations might result from the ability of Porter and Kramer to frame CSR

activities in appealing managerial language. Others have presented corporate responsibility with regards to social and environmental problems as an ethical duty<sup>18</sup>, a political responsibility<sup>19</sup> or a response to business risks<sup>20</sup>. However, the CSV concept invites corporations to perceive such problems not as a disconnected and externally imposed but as a serious target for genuine business decisions with strategic importance.

Beyond the practitioner community, the shared value concept has also made great headway into the academic management literature where in a short space of time it has become established as an exceptionally highly cited article including relative to other HBR articles of note<sup>21</sup>. By any reckoning, the Porter and Kramer article is a quite dramatic outlier in terms of the rapid scholarly attention it has gained, although popularity of a concept does not guarantee its profundity<sup>22</sup>. To some extent, the attention given to CSV can be at least partially attributed to a 'Porter-effect', in that most of Porter's HBR articles are relatively well cited. But this would not necessarily explain the overwhelmingly positive reception to the article in the academic literature. Interestingly for a piece deemed quite controversial among scholars in the business and society field whose work is criticized by Porter, of the current citations, only a handful could be deemed a negative or critical assessment of CSV; the vast majority are positive, or in a smaller proportion of cases, neutral<sup>23</sup>.

Beyond its undoubted impact among practitioners and academics, the shared value concept also has some clear strengths as a concept competing for attention amongst others in the business and society field. One of its critical strengths is its unequivocal elevation of social goals to a strategic level. This is a positive response to counter those who have made the claim that management scholars have not sufficiently examined the relevance of broader societal issues for corporate decision making<sup>24</sup> or examined such issues only through the lens of corporate interests,

neglecting the common good perspective<sup>25</sup>. As a result, as Porter and Kramer claim, “[t]he legitimacy of business has fallen to levels not seen in recent history”<sup>26</sup>. With the concept of CSV they present a solution to this challenge that seems to be convincing for many practitioners and scholars at the same time. Although, as we argue below, this is not by any means a novel goal, Porter and Kramer’s approach is a fairly convincing execution of the strategizing of the social.

Porter and Kramer also make a significant step forward in understanding the role of government in the social initiatives of companies. Whilst with a few exceptions, much of the CSR literature has been written with little attention to roles and responsibilities of government.<sup>27</sup> However, Porter and Kramer articulate a clear role for state actors in constructing ‘regulations that enhance shared value, set goals and stimulate innovation.’<sup>28</sup>

By framing their contribution in terms of broader system-level problems – problems of capitalism – Porter and Kramer also bring some much needed conceptual development to debates about ‘caring’ or ‘conscious capitalism’<sup>29</sup>. There has been considerable discussion in recent years about ways to fix capitalism from business leaders such as Bill Gates, Dominic Barton, and Ben Cohen, but understandably without any real attempt to develop a conceptual framework.<sup>30</sup> Porter and Kramer go some way to redressing this with their CSV framework, albeit in ways that – as we will discuss shortly – actually only superficially deal with systemic rather than organizational level issues. CSV purportedly offers a holistic framework to unify largely disconnected debates on CSR, non-market strategy<sup>31</sup>, social entrepreneurship<sup>32</sup>, social innovation<sup>33</sup>, and the bottom of the pyramid<sup>34</sup>. Porter and Kramer contribute here by providing an umbrella construct – CSV – to capture these diverse approaches within a common framework that seeks to re-embed capitalism in society with a dual positive impact. Although umbrella constructs in the business and society field have their own set of problems<sup>35</sup>, a holistic view of all those concepts on the interface of the

market and society through CSV offers some promise for more integrated thinking about the intersection of business and social progress.

### **Weaknesses and shortcomings of CSV**

Despite its strengths and contributions, the shared value concept and its framing is fatally undermined by a number of critical weaknesses and shortcomings. We begin with examining the degree of novelty, and indeed the question whether CSV creates ‘shared value’ in the academic and practitioner community of those with similar concerns as espoused by Porter and Kramer. We move on then to some of the complexities of the field which CSV, perhaps ‘refreshingly’ for many readers, appears to want us to forget. Finally we explore CSV not as a solution to capitalism’s problems but as a symptom of an approach to management scholarship which is itself endemic to the current failings of the capitalist system.

### ***CSV is based on false pretenses about the existing CSR debate***

CSV is presented as a novel contribution by Porter and Kramer yet its core premises bear a striking similarity to existing concepts of CSR, stakeholder management, and social innovation. This argument only holds up because they caricature the CSR literature to suit their own ends and simply rehash the existing stakeholder and social innovation literatures without due acknowledgement.

**CSR as a straw man.** Porter and Kramer’s aim to ‘supersede CSR with CSV’ is only achieved to the extent that they construct a largely unrecognizable caricature of CSR that they can dismiss. For instance, by defining CSR as ‘separate from profit maximization’, they ignore several

decades of work exploring the business case for CSR. Whether or not it pays to engage in CSR has always been one of the main research questions for scholars in the business and society field<sup>36</sup>. As far back as the early 1970s, authors were suggesting that ‘social responsibility states that businesses carry out social programs to add profits to their organization’<sup>37</sup>. The more recent turn towards economic approaches to CSR similarly identifies ‘some level of CSR that will maximize profits while satisfying the demand for CSR from multiple stakeholders’<sup>38</sup>. Porter and Kramer also posit CSR as ‘discretionary or in response to external pressure’ whilst much of the recent ‘strategic CSR’ literature suggests that ‘CSR is strategic when it yields substantial business-related benefits to the firm, in particular by supporting core business activities’<sup>39</sup>. Even Porter and Kramer in their earlier article in HBR claim that ‘CSR can be much more than a cost, a constraint, or a charitable deed – it can be a source of opportunity, innovation, and competitive advantage.’<sup>40</sup> In short then, Porter and Kramer<sup>41</sup> confer the impression that CSR is only ever regarded as ‘bolt-on’ philanthropy, and want to make us believe that a debate on how to make it ‘built-in’ to core strategy<sup>42</sup> has yet to take place. This is, at best, a very narrow reading of a broad literature and, at worst, disingenuous.

**Unacknowledged debts to extant literature.** In addition to caricaturing CSR, Porter and Kramer also fail to acknowledge that their ideas on the simultaneous creation of social and economic value for multiple stakeholders have already been well-developed in the existing literature. First, the framing of the shared value concept appears to ignore a well-developed stream of work around creating value within the stakeholder management literature. Instrumental stakeholder theory<sup>43</sup>, for instance, is largely synonymous with the characterization of CSV as ‘creating economic value in a way that also creates value for society by addressing its needs and



challenges’<sup>44</sup>. Moreover, even the language of value creation has been a major feature of the work of Ed Freeman, stakeholder theory’s leading advocate, over the past decade or so – the key principle here being that ‘creating value for stakeholders creates value for shareholders’<sup>45</sup>. It is difficult to see where CSV differs in any substantial way from this literature, yet it remains wholly unacknowledged by Porter and Kramer in any of their work to date. In a similar vein, The Economist noted that CSV bore resemblance to Emerson’s ‘blended value’ concept ‘in which firms seek simultaneously to pursue profit and social and environmental targets’ as well as ‘an overlap’ with Hart’s *Capitalism at the Crossroads*.<sup>46</sup>

Second, CSV is also a rehash of the debate on social innovation. The idea of re-conceiving products and markets and the encouragement to create partnerships and hybrid organizations (such as microfinance or social enterprises) which blur the profit/nonprofit boundary is anything but new. Just a superficial look at standard definitions in this area raises important questions about the novel character of CSV. If social entrepreneurship, according to a popular definition, is ‘a process involving the innovative use and combination of resources to pursue opportunities to catalyze social change and/or address social needs’<sup>47</sup> it is hard to see much difference to CSV. In a similar vein, in the Harvard Business Review some 12 years prior to the publication of the CSV article, Moss Kanter articulated the notion of ‘social innovation’ as a process where companies take ‘community needs as opportunities to develop ideas and demonstrate business technologies, to find and serve new markets, and to solve long-standing business problems’.<sup>48</sup>

This silence on CSV’s overlaps with social innovation is even more conspicuous when Porter and Kramer fail to mention that in the US at least, CSV in its core tenets already has its own *legal* form. Since 2010, 18 states have enacted ‘Benefit Corporation’ legislation with a

deliberate ‘corporate purpose to create a material positive impact on society and the environment’ where the fiduciary duties of the management include the successful alignment of those goals.<sup>49</sup>

Such organizations then have long existed and have been on the rise in recent years amid a fanfare of publicity, most notably the example of the Grameen Bank in Bangladesh. Such organizations meet Porter and Kramer’s proposal to develop products and services that meet societal needs, and indeed microfinance is specifically cited as a CSV success story<sup>50</sup>. A more critical look at microfinance is a useful indicator of problems facing hybrid organizations, undermining them as a profitable panacea to social problems. The financial viability of microenterprises has been challenged, even in the case of the Grameen Bank<sup>51</sup>. Social impacts have also been found to be wanting, giving rise to negative social contribution in aspects such as inequality and limited advances in terms of poverty alleviation, despite expanding the numbers of clients and amount of funds available.<sup>52</sup> Critically for the shared value concept, Epstein and Yuthas note the extreme difficulty, even impossibility, of maintaining both social and financial goals, even where this is the expressed purpose of the initial mission. They point to diffusion and drift in this dual mission as key causal factors since these, ‘shift focus away from clients and toward funding sources and financial results. Diffusion often results from efforts to address a social problem using a multi-faceted approach. In microfinance, organizations tend to be pulled in many directions, both by the broad range of needs expressed by impoverished clients, and by the multiple, varied interests of donor agencies, board members, and other stakeholders. Drift in this industry typically pressures MFIs to take emphasis away from social impact in an effort to achieve the financial self-sufficiency that enables expanded access to capital and the ability to serve more clients.’<sup>53</sup>

By ignoring then the state of the art in the field which substantially covers the core tenets of CSV Porter and Kramer not only fail to genuinely open new conceptual space, but they also gloss over many of the difficulties in operationalizing such hybrid organizations and maintaining a dual purpose over time . This rather naive assumption about the sustainability of ongoing win-win scenarios leads us to another broader deficit of the CSV concept.

### ***CSV ignores the social and economic tensions in responsible business behaviour***

Beyond the unacknowledged overlaps with other established streams of literature, the CSV concept also suffers from a failure to deal adequately with trade-offs between economic and social value creation, and with any negative impacts on stakeholders. Porter and Kramer claim to ‘move beyond’ any such trade-offs,<sup>54</sup> largely by, it would seem, ignoring them. Whilst seeking win-win opportunities is clearly important, this does not provide guidance for the many situations where social and economic outcomes will not be aligned for all stakeholders.

Many corporate decisions related to social and environmental problems, however creative the decision-maker may be, do not present themselves as potential win-wins, but rather will rather manifest themselves in terms of dilemmas<sup>55</sup>. In an ethical dilemma, worldviews, identities, interests, and values collide<sup>56</sup>. Rowley and Moldoveanu have argued that the mere idea of a negotiation over an issue might be unacceptable for some stakeholders such as NGO activists.<sup>57</sup> If such activists fight, for instance, for the eradication of slave labor in cocoa production, they will perceive any kind of compromise as a sellout of their mission and a threat to their identity. In other cases, as in the discussion on decent wages – challenges may remain systematically unsolved and do not result in win-win outcomes. They can be better described as continuous struggles between corporations and their stakeholders over limited resources and recognition.

The simplistic claims made by Porter and Kramer about the promise of the shared value concept are, we argue, distortions at worst and optimistic at best.

Thus Porter and Kramer tend to simplify the complexity of social and environmental issues leading to possible misrepresentation of the relevant investments and outcomes. Operating with a CSV mindset, corporations might tend to invest more resources in promoting the impression that complex problems have been transformed into win-win situations for all affected parties, while in reality problems of systemic injustice have not been solved and the poverty of marginalized stakeholders might even have increased because of the engagement of the corporation<sup>58</sup>. Given the complexity of social and environmental problems, their uncritical analysis as new sources for profit might indeed drive corporations to invest more in easy problems and decoupled communication strategies than in solving broader societal problems.

What Reich has criticized with regard to CSR in general, might be in particular true for CSV: that is, instead of promoting the common good, CSV might promote more sophisticated strategies of greenwashing<sup>59</sup>. This is indeed the main gist of a growing new stream of literature on (predominantly ‘strategic’) CSR from critical management perspective<sup>60</sup>. CSR in this perspective is ‘crucial for realigning the disengaged employees with an awful business model’<sup>61</sup>, or more general, a ‘parasitical logic’<sup>62</sup> which allows corporations to adhere to a self-interested, socially harmful approach to generating economic value while engaging in isolated efforts to create value for employees, suppliers or the environment. With regard to CSV, this development is not just abstract: in a Forbes CSR Blog entry entitled ‘Three Great Examples of Shared Value in Action’<sup>63</sup> the companies in question are Adidas, BMW and Heinz – all companies with some successful CSV projects, but whose past history, current products and wider industries raise a host of unresolved issues concerning their social value.

Porter and Kramer's attempt to whitewash the problem of trade-offs from the walls of CSV, and to disregard the potentially negative impacts of corporations can be seen to resonate through each of the three dimensions of the concept – reconceiving products, redefining productivity, and enabling clusters – as we shall now discuss.

**CSV suggests a myopic focus on reconceiving new products and markets.** In terms of re-conceiving products & markets, Porter and Kramer refer to the need to shift from creating demand to designing products which are good for customers and meet their needs, and organizations which blur the boundaries between profit/non profit, which they call hybrid enterprises<sup>64</sup>. New product and service design is presented as a development of new market opportunities which are both beneficial to the company and to society, including serving emerging and developing economics, i.e. the bottom of the pyramid<sup>65</sup>.

Porter and Kramer's analysis leaves a number of unanswered questions, however, including the problem of companies that produce products which are of questionable social good. Opinions may vary culturally on what these are, but contenders may be the tobacco industry, arms manufacturers, or the petroleum industry. In each of these cases, innovations may be developed to offer shared value, but the fundamental nature of the product has some inherent negative impacts on society. We are prompted to ask how organizational integrity can be claimed if a new innovation is developed for one or even a range of products (imagine fair trade tobacco, recycleable guns, or responsibly sourced oil), but 'business as usual' continued elsewhere in the organization (producing carcinogenic, addictive products, weapons designed to inflict maximum injury in civilian settings, or the extraction of petroleum from bituminous sands in sites of natural beauty). If the organization is redefined in terms of serving needs rather than creating demand, how can they continue to operate on that basis in some arms of their business but not others?

They can only do so if the commitment is superficial and in fact to gain markets that will be abandoned if no longer seen as financially viable. This is arguably illustrated in the processed food industry, where companies such as Coca Cola and Nestlé have been lauded as pioneers of shared value in some aspects of their operations<sup>66</sup> whilst simultaneously castigated for deliberately addicting consumers to high contents of sugar, salt and fat in their main business<sup>67</sup>. Porter and Kramer's approach is to cherry-pick shared value success stories in new markets with little regard for the negative impacts of companies' core products and markets.

**CSV glosses over the complexities of value chains.** Porter and Kramer put considerable emphasis on the role that redefining productivity in the value chain can play in creating shared value. They do this particularly through looking at energy use, logistics, procurement, distribution, and employee productivity which chimes closely with the burgeoning literature on supply chain sustainability<sup>68</sup>.

We already know from the various successes and failures of corporations such as Nike, Gap and Walmart that assuring social and environmental value through the global supply chain is fraught with difficulty even where intentions are good. Paying decent prices to first tier suppliers in a bid to ensure workers a living wage might for instance evaporate large parts of the profits in the apparel industry – not to speak of the wages paid further up the supply chain all the way back to the cotton fields. While a Western brand selling apparel or electronic devices wants production to be as cheap and as quick as possible, Chinese workers for a supplier company may want to earn more money and work at a less demanding pace<sup>69</sup>. As with the evidence on the difficulties of operationalizing hybrid organizations noted above, there is extant research which shows how initiatives put in place with the intention of promoting sustainability in supply chains

for social and environmental gains, only survive in economic terms, ensuring longevity of quality supply for the purchasing company over and above social and environmental needs of consumers or suppliers<sup>70</sup>.

**CSV does not deliver on the promise of addressing issues of societal embeddedness of**

**corporations.** The third avenue for CSV for Porter and Kramer is enabling local cluster development. They posit that clusters have been ‘all but absent’ in management thinking. While cluster building has arguably not been a part of the multinational CEO’s contemporary frame of reference, the value of collective local expertise is neither new, original nor surprising to regional policy and regeneration specialists, business support intermediaries, or small business and the associated scholarly literatures. In addition, Porter was a prolific writer on clusters himself in the late 1990s and early 2000s<sup>71</sup>.

The claim made by Porter and Kramer is that cluster formation will create shared value. Martin and Sunley deconstruct the value of the claims made about clusters in almost every respect, including their definition, theorization, empirics, benefits, advantages and employment as a policy device.<sup>72</sup> Clusters, like value chains and hybrid organizations, are thus not unproblematic purveyors of social good. Income distribution due to cluster development, may accentuate local inequalities which may lead to migration issues, overcrowding and precarious dependencies on a particular industry (such as the rise and decline of Detroit in the wake of the motor industry). Most importantly from a CSV perspective, cluster development will be determined by industrial potential rather than social need – social need is unlikely to be a driver as Porter and Kramer suggest, though it may be a deciding factor in determining between two otherwise suitable regions.

Cluster development is not such a new phenomenon as Porter and Kramer suggest, having been common policy in the age of industrialization, where corporations had to create an environment for their suppliers in new products such as the motor car. Still today, the economic rewards of ‘automotive supplier parks’ has been challenged and ‘received wisdom’ on their value questioned<sup>73</sup>.

Furthermore, while claiming to deliver a broad framework to include various discussions on the business and society interface, the concept of CSV remains unconvincing since it avoids any deeper thoughts about the systematic responsibility of corporations in society. As expressed in a New York Times article, the authors position is that ‘the shared-value concept is not a moral stance ... and companies will still behave in their self-interest in ways that draw criticism, like aggressive tax avoidance and lobbying for less regulation.’ ‘This is not about companies being good or bad,’ Mark Kramer is reported as saying<sup>74</sup>. As a result, to use Porter and Kramer’s terminology, the most likely ‘clusters’ CSV may lead to are islands of win-win projects in an ocean of unsolved environmental and social conflicts. While CSV might be a good way of integrating various activities into one social strategy, it fails to deliver orientation for a responsible corporate-wide strategy. It thus fails in Porter and Kramer’s aim to redefine the purpose of the corporation.

### ***CSV is naive about the challenges of business compliance***

As we have seen by now, dealing with the negative impacts of corporations is given short shrift by Porter and Kramer. In particular they appear to harbor rather optimistic assumption about business’ appetite to adhere to external norms, most notably laws and regulation. There is one sentence on this issue, namely: ‘creating shared value presumes compliance with the law and



ethical standards, as well as mitigating any harm caused by the business, but goes far beyond that.<sup>75</sup> It is a remarkable piece of finessing to ‘presume’ such compliance rather than integrating it within the concept itself, especially given their espoused aims of restoring trust in capitalism and re-legitimizing business.

The concept of CSV is simply built on the assumption that compliance with legal and moral standards is given. However as research across the social sciences continues to demonstrate, the absence of compliance with such standards is a key problem of multinational corporations. Such corporations operate in a broad variety of geopolitical contexts where governments are unable or unwilling to regulate them effectively<sup>76</sup>. The sweatshop debate in which corporations are attacked for the working conditions at their suppliers has been in the center of this discussion since the early 1990s when the outsourcing of production to countries with weak regulatory regimes began<sup>77</sup>. Critical deconstructions of value chains with regards to social and environmental side effects can be found for numerous industries and have been described as a key driving force of NGO attacks against corporations<sup>78</sup>. Obviously compliance with hard and soft law standards is hardly a given for many corporations in many industries. Even if companies are seriously engaged to reduce the social problems in their supply chain through audit and certification systems, compliance remains a serious challenge because of the widespread cheating of suppliers<sup>79</sup>. Taking compliance with such standards as ‘presumed’, the CSV concept ignores the most pressing social problems corporations are facing along their globally stretched value chains and motivates corporations to focus on the low hanging fruits of easy win-win projects instead of solving systemic social and environmental problems to which they are connected.

### ***The CSV concept is strategically incoherent***

Despite being co-written by one of the world's most eminent strategy gurus, the CSV concept lacks any real strategic coherence. It seeks to 'transform business thinking' yet makes no mention of the strategy models that might need transforming (only CSR or capitalism are presented as problems that need fixing). It looks to solve the macro systemic problem of capitalism by changing micro firm-level behaviors. It wants to rethink the purpose of the corporation without questioning the sanctity of corporate self-interest. It seeks to restore business legitimacy without considering either adherence to the rules of the game (compliance) or the role of financial markets.

By taking aim at CSR, Porter and Kramer appear to be identifying a very unconvincing culprit for the problems of capitalism. Clearly there are more fundamental models of strategy that need to be addressed, both to restore trust in our economic institutions, and indeed, to build a case for shared value. Critically, Michael Porter's own models of competitive strategy would need to be overturned in order for shared value to flourish, a point on which he and Kramer are, thus far, silent.

For example, looking at his classic model of the Five Forces, which he revised and updated in HBR in 2008, stakeholders such as customers and suppliers are regarded not as participants in a shared value enterprise but in 'competition for profits' with firms<sup>80</sup>. 'The strength of the five competitive forces', he argues, 'determines how the economic value created by the industry is divided'<sup>81</sup>. This means that rather than urging firms to bolster the economic capability of stakeholders such as suppliers through shared value initiatives, Porter warns that 'powerful suppliers capture more of the value for themselves'<sup>82</sup>. And even when, in a revision to the original formulation, Porter acknowledges that it is possible to expand the overall amount of

value created to open up ‘win-win opportunities for multiple industry participants’, he then goes on to explain that ‘the most successful companies are those that expand the industry profit pool in ways that allow them to share disproportionately in the benefits.’<sup>83</sup>. As such, the business fundamentals that underpin Porter’s view of strategy would seem to undermine the very broad goals that the shared value project purports to seek to achieve.

In many respects, the CSV concept is actually just as corporate-centric as Porter’s ‘old’ strategy models. It explains how the corporation can transform (some) of its social and environmental problems into win-win solutions. In this sense it largely follows the logic of the traditional model of competitive strategy, which demands that corporations establish barriers against the market entry of competitors. A true societal perspective, however, would consider many of the problems corporations try to deal with on a local and controlled level as systemic problems of injustice which require broader solutions embedded in democratically organized multi-stakeholder processes<sup>84</sup>. The perspective cannot only be the creation of additional profit opportunity for the corporation but rather the common good of society<sup>85</sup>. For Porter, CSV is a next step in his traditional concept of differentiating the corporation from its competitors while a common good oriented approach would aim for standardized solutions that are valid for all players and thus neutralizes differences between their respective CSR strategies. CSV will manifest in projects corporations do on their own or in cooperation with selected partners, while keeping the ownership over their projects. Societal responsibility in a broader sense would rather manifest in industry-wide solutions and multi-stakeholder initiatives where corporations would perceive themselves as a stakeholder of the problem rather than as the center of a stakeholder network.

Finally, although it is hard to disagree with Porter and Kramer’s observation that the

current economic system and its actors are in a deep legitimacy crisis, their logic regarding the necessary response is again confused. This goes to the heart of the question of why corporations do what they do. Although management scholars traditionally argued that business decisions tend to reflect the motivation of being as efficient and profitable as possible, DiMaggio and Powell<sup>86</sup> have offered an alternative perspective. Corporations want to be perceived as legitimate in their societal context. This can be understood as following ‘socially acceptable goals in a socially acceptable manner’ even if this leads to less efficient and less profitable decisions<sup>87</sup>. The concept of CSV is giving a purely efficiency oriented answer to a widely normative question. While this might be sufficient in some contexts, it will be counterproductive in others. Within a CSV framework, it would be possible to seriously engage in some local win-win stories while pursuing an aggressive self-interested lobbying strategy. In their respective institutional settings, corporations have to comply with the rules of the game or engage in creating such rules where they are absent, whether it pays or not.

## **Conclusion**

Ultimately, shared value does add some value to the debate on business and society, and in garnering such admirable attention may well contribute to the emergence of socially beneficial business practices. However, in its basic premise, and its many strategic exclusions and diversions it also provides yet more fuel to fan the fires of capitalism’s critics who are looking more for a retreat from corporate self-interest, rather than a simple restatement of it. Porter and Kramer also fail to acknowledge or create any ‘shared value’ in that most collaborative of enterprises, the development of scholarly knowledge. Thus, shared value is not such a social ‘innovation’ as its proponents contend, and it may prove counterproductive in its aims to create a

better world by reshaping capitalism.

Moreover, as the latter points of our critique have also surfaced, CSV is symptomatic of wider misconceptions and shortcomings which have mired not just academic work in the area of CSR but have cast shadows on the role of business schools in their teaching and research in general. Rather than providing a critique of just one contribution – however influential it may be – we want to close our analysis with some general implications for management research and practice in general.

A first implication starts with Porter and Kramer's choice of terminology. If 'creating shared value' is really a novel idea worthy of publication in one of the most prestigious outlets for academic research targeted at a practitioner audience then it must be really something new. In other words, the tacit assumption behind CSV is – if we follow those who consider the foundation of Harvard Business School as the birth of modern management education and research – that for roughly a century everybody in management academia just took it for granted that business should not create any value for society at all. 'Shared' value as a novel idea only makes sense if indeed hitherto the only purpose of the firm has been to create 'economic value'. Porter and Kramer in this sense refer to companies that 'view value creation narrowly, optimizing short term financial performance in a bubble'<sup>88</sup>.

It is fair to argue then that the most fundamental problem of CSV is indeed its intellectual birthplace: modern business schools and their view of the firm as an entity whose only legitimate purpose is the generation of economic value for the firm and its owners. As we mentioned before, Porter's earlier work was very much characterized by, and indeed reinforced, this intellectual constraint. And as we have argued above, CSV cannot deliver on the article's subtitle that 'the purpose of the firm must be redefined' because what Porter and Kramer offer is largely

confined to specific projects and products, rather than really addressing the complexities of questioning the purpose of the entire firm. And there is ample proof that this narrow view of the purpose of the firm is still dominant in business academia – most recently rehearsed by Porter’s Harvard colleague Robert Simons arguing that competing for customers’ and investors’ interests is ‘the essence of business’<sup>89</sup>.

CSV never leaves the confines of this paradigm. A fundamental conclusion of our analysis then is that Porter and Kramer can only celebrate their innovation at the expense of discounting all those circumstances and constraints which hinder the pursuit of ‘shared’ value at the expense of economic value creation. But this is also the point where our analysis moves beyond just taking two authors to task. In fact, when we refer to the existing management scholarship on CSR (and related labels such as business ethics, sustainability, citizenship etc.) and argue that this literature is largely caricatured by Porter and Kramer, it is also fair to add that most of this literature similarly rarely moves beyond the economic purpose of the firm. Much of CSR has entered the agenda of business academia in the Trojan horse of the ‘business case’<sup>90</sup>. If CSR leads to more revenue, cuts costs - or more indirectly – reduces risks or protects the license to operate there is really no longer the question ‘whether’ CSR is legitimate – it just becomes a question of ‘how’ to make it serve this economic purpose of the firm<sup>91</sup>.

The point at which Porter and Kramer deserve credit then is that in the opening parts of their paper they make an eloquent case for the fact that at least the social impacts of corporations are now so clearly obvious as to be impossible to ignore by business any longer. And as we argued, this is a currently ongoing broader debate, especially during a financial crisis, where just for their wider *social* role banks are being considered ‘too big to fail’<sup>92</sup> even when they have fallen short on their only hitherto legitimate economic purpose. The question then which CSV

really raises for the community of management scholars – particular those with an interest in the role of business in society - is how we can overcome this reductionist view of the purpose of business.

These questions are by no means new. Lee Preston in his rather skeptical review of the CSR literature between 1953 and 1975 identifies the main reason for an apparent lack of progress in a view of the corporation which is insufficiently informed by developed understandings of ‘society’<sup>93</sup>. In other words, to study CSR or for that matter CSV, properly we cannot start with a clear notion of what a business is and let its role in society just follow from this (and like CSV, just ignore all cases where this view is just not adequate). Preston concludes with the still timely demand for a ‘rigorous and comprehensive conception of both the corporation and society; and these conceptions must be articulated in comparable or at least translatable terms’<sup>94</sup>. CSV is a good example of why this dual analysis of business and society is so important. Porter and Kramer start with a fairly frank and open analysis of current society, and this may be part of its wide acclaim. It then however continues with a very narrow, dated notion of what the purpose of a corporation is, and CSV as the ‘solution’ is predominantly compatible with this economic set of firm objectives. As a result the proposed solution can only be maintained at the expense of simply ignoring significant parts of social reality.

As for future research and practice it is fair to say that there are numerous approaches in the current management literature which have attempted a more encompassing embrace of social reality and which have in turn then informed a view of the firm which has significantly enlarged the perspective on the purpose/s of the firm.

First, as noted above, stakeholder theory is probably the most longstanding approach seeking to reconceptualise the firm as a multi-purpose entity. At its different levels stakeholder

theory embraces the social reality that corporations affect and are affected by society (descriptive level), that sound management takes the linkages to all those groups in society into account (instrumental level) and that the rights of those groups provide them with some legitimate ‘stake’ in how the firm is run (normative level).<sup>95</sup> The considerable success of stakeholder theory, however, has also to be credited to the fact that in particular on the descriptive and instrumental level the concept can still be made compatible with a corporate-centric, economic purpose-oriented view of the firm: if society has obviously such a strong influence on the firm it is only sound for managers to accommodate all those stakeholders when it comes to pursuing the ultimate economic goals of the firm. Ultimately, CSV is just another example of this approach: society and its needs are seen as something the firm can cater to successfully in economic terms.

Second, social innovation is also a strand of literature that we have mentioned above. Characteristic of this work is the assumption that there are firms, or activities within firms, which deliberately follow social, environmental or ethical objectives - either exclusively, or alongside economic ones. It is fair to say that this literature by and large never had the ambition to develop a new theory of the firm in general, but rather highlights a new form, new opportunities, of marrying the efficiency of business with the attainment of wider societal objectives. CSV, as argued above, could be very well located in this tradition – if it were not for the rather more sweeping claims Porter and Kramer make with regard to the generalisation of their concept. It is unsurprising that much of the social innovation literature pays attention to contexts which hitherto have not been in the purview of large corporations, such as business activities in the so-called developing world.

Third, integrative social contract theory (ISCT) has received considerable attention in the management and CSR literature as it attempts to understand the moral imperatives out there in



society which businesses might face<sup>96</sup>. Unlike the two approaches so far it is less business and more society focused, conceptualizing the different moral values of different constituencies with which business might interact. As such then ISCT is predicated on the existence of norms in society and treats those as the ‘input’ for the ‘contracts’ that govern the relations of firm and societal actors. The link to economic imperatives (the ‘integrative’ element of this approach) is then also seen by some as the weakest link in ISCT<sup>97</sup>. It implicitly assumes that business will, or will have to, follow these moral norms in their relations to society regardless of economic implications as these ‘contracts’ essentially are social in nature. The creation of ‘shared value’ in this perspective would therefore be seen as a necessary condition for business activities with the result that firms face a rather more limited set of options which could simultaneously create economic value.

Finally, a more recent strand of CSR research has focused on the ‘political role’ of the firm<sup>98</sup>. This literature starts from the observation that corporations have become active players in the wider governance of societies and, most critically, at the global level, where corporations are involved in governance often next to the traditional actors, namely governments. Using a number of theoretical avenues this strand of research sees companies in a situation where their decisions are not just the pursuit of economic goals, but also related to the interests and rights of those who are governed by those decisions. Like ISCT, this approach starts with conceptualizing a shifted social reality and analyzes its impact on the firm. The key insight of much of this work then is that corporations are actually actively entering social spaces which hitherto were the prerogative of (democratic) governments. Creating ‘shared value’ in this perspective might ask corporations to apply self restraint, such that the economic interests of a responsible corporation would ultimately be aligned with the rights and interests of those parts of society which are governed by

them.

While we are aware that these avenues of research are just some prominent examples, a common thread for future inquiry seems to emerge. Businesses are social actors with an economic purpose but the degree to which their goals are moderated by certain opportunities or constraints depends on the specific social reality in which business operates. Novel perspectives on reconceptualizing the purpose of the firm and restoring faith in capitalism therefore ultimately have to overcome a functionalist view of the firm, in which responsible relations to societies can be a residual of the economic imperatives of individual actors. One of the reasons institutional theory has gained such traction in CSR research more recently has to do with the simple fact that even the economic goals of firms in themselves are already shaped by society – let alone the fact that what is considered responsible is shaped by societal rules and norms beyond the mere economic rationale of businesses<sup>99</sup>.

CSV and its shortcomings then ultimately are, if anything, a stark reminder that this task of understanding the firm as a multi-purpose venture is still an unresolved issue not just in CSR research, but in the wider management discipline in general. CSV promises much, but ultimately takes us not closer, but further, from the solution to a challenge that we are already struggling to address.

## Notes

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<sup>2</sup> Porter and Kramer (2011), op. cit., p. 64.

<sup>3</sup> Porter and Kramer (2011), op. cit., p. 64.

<sup>4</sup> Porter and Kramer (2011), op. cit., p. 64.

<sup>5</sup> Porter and Kramer (2011), op. cit., p. 64.

<sup>6</sup> Porter and Kramer (2011), op. cit., p. 64.

<sup>7</sup> Porter and Kramer (2011), op. cit., p. 76.

<sup>8</sup> M.E. Porter and M.R. Kramer, "Philanthropy's new agenda: creating value," *Harvard Business Review*, 77(1999): 121-131.

<sup>9</sup> Porter, M. E., and Kramer, M. R., "The competitive advantage of corporate philanthropy," *Harvard Business Review*, 80 (December, 2002): 56-68.

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<sup>11</sup> <http://www.unglobalcompact.org/COPs/detail/336>

<sup>12</sup> [http://www3.weforum.org/partners\\_documents/SP\\_Nestle\\_Am2011.pdf](http://www3.weforum.org/partners_documents/SP_Nestle_Am2011.pdf)

<sup>13</sup> Porter and Kramer (2011), op. cit.

<sup>14</sup> The article is required reading on a wide range of undergraduate and MBA courses at business schools across the world including Harvard Business School, New York University, University of Zurich, Schulich School of Business, Tel Aviv University, and many more. A good example at the executive education level is the program in CSR at McGill University, branded 'Corporate Social Responsibility Strategy and Management: Creating Shared Value through Collaborative Sustainable Development', <http://www.mcgill.ca/isd/executive> (accessed May 2, 2013).

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<sup>16</sup> <http://www.nestle.com/CSV> (accessed May 2, 2013).

<sup>17</sup> <http://www.coca-colacompany.com/our-company/the-journey-to-shared-value> (accessed May 2, 2013).

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- <sup>20</sup> C. Fombrun, N. Gardberg and M. Barnett, “Opportunity Platforms and Safety Nets: Corporate Citizenship and Reputational Risk,” *Business and Society Review*, 105/1 (2000): 85-106; D. Spar and L. La Mure, “The Power of Activism: Assessing the Impact of NGO on Global Business,” *California Management Review* 45/3 (2003): 78–101.
- <sup>21</sup> As of June 2013, the 2011 HBR paper had received 746 citations on Google Scholar. By way of comparison, the next four highest cited articles in the same issue of HBR had received 59, 46, 17, and 11 citations respectively. In the issue immediately following Porter and Kramer’s article, the ‘Big Idea’ piece by the management guru Clayton Christensen and colleagues had garnered just 12 citations. In this subsequent issue, another piece on the crisis in capitalism, this time by McKinsey & Co Managing Director, Dominic Barton, had received 63.
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