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Porter and Kramer's (2006) "Shared Value"



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Synonyms

Strategic CSR

Definition

The Creating Shared Value (CSV) concept focuses on “policies and operating practices that enhance the competitiveness of a company while simultaneously advancing social and economic conditions in the communities in which it operates” (Porter and Kramer 2011, p. 6). Its authors, Porter and Kramer, suggest that social needs, similar to more traditional market needs, define markets and create business opportunities, while social harms are not always externalized by the company, but often create internal costs, e.g., wasted energy, raw materials, costs related to on-the-job accidents or high employee turnover. Thus, it is not only desirable but, more importantly, possible to form business strategies that lead to the creation of social and economic values at the same time. By value, the authors mean not just benefits, but benefits relative to costs.

Although the idea of value creation has long been recognized by business, social progress was rarely approached from this perspective. The notion of value was based rather on short-term financial gains with social issues treated as peripheral to core business. With their conceptual framework, Porter and Kramer hope to “redefine the purpose of the corporation” and “reshape capitalism and its relationship to society” (Porter and Kramer 2011, p. 4). The authors assume that the new purpose of a business constructed around shared value and not just profit has the best chance to rebuild trust and the legitimacy of the business.

CSV has emerged on the wave of increasing criticism of corporate social responsibility (CSR), which is more widely viewed as an empty promise, a mere response to anti-corporate movements, an egoistic exercise, and even a passing fad (Mullerat 2010, pp. 443–452). As an alternative concept, CSV has received attention and positive feedback in the business community, which finds it very appealing, as well as among some management scholars and teachers (Crane et al. 2014). The shared-value approach to business and society relations also has been recognized by the European Commission and incorporated in the new CSR definition as a concept through which companies voluntarily integrate social, ethical, and environmental concerns into their business operations and core strategy in close cooperation with their stakeholders with the aim of, one, identifying, preventing, and mitigating possible adverse impacts in these areas, and two,

maximizing the creation of shared value for their owners/shareholders and for their other stakeholders and society at large (COM 2011).

Porter and Kramer's Criticism of CSR

Porter and Kramer (2011) argue that the more companies have become engaged in CSR, the more its legitimacy has fallen. The authors' criticism relates to the way CSR is understood and implemented in business practice. Companies have remained trapped in an outdated and narrow approach to value creation focused on optimizing short-term financial performance and ignoring environmental and social drivers of the firms' long-term success. Further, the authors point out that the dichotomy between social and business interests has been strongly institutionalized in the CSR concept itself. The classical approach to CSR has been based on a deontological perspective focusing on profit-sacrificing activities motivated by social altruism (Horrigan 2010, pp. 34–35). Within this approach, CSR has been defined as "situations where the firm goes beyond compliance and engages in actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (McWilliams et al. 2006) (see ► [Altruistic CSR](#)). The separation of business goals and societal needs, as argued by Freeman and McVea (2001), led to the marginalization of CSR in the eyes of many managers and scholars. As a result, "most companies remain stuck in a "social responsibility" mindset in which societal issues are at the periphery, not the core" (Porter and Kramer 2011, p. 4). Some critics assert that although the CSR concept is built on good intentions, corporate leaders often misuse it to produce benefits only for their firms (Yunus 2007). Business has co-opted the language of social responsibility to allow it to continue to focus almost single-mindedly on profit maximization (Horrigan 2010, p. 35). Fleming and Jones (2013) argue that what has come to be called "corporate social responsibility" has become a key marketing and branding tool for most large and medium-sized companies. Many activities in the area of CSR are accompanied by

hypocrisy on the part of the companies and are mere attempts to contain civil pressure. Porter and Kramer (2006) note that in many companies, CSR is limited to cosmetic actions, centered on glossy reports of questionable credibility (Broomhill 2007). CSR has been widely used as a PR or even whitewashing tool (Faust 2006), or as a strategy for avoiding regulation (Mullerat 2010, pp. 448–449), leading to a substantial decrease of trust among stakeholders.

Porter and Kramer (2011) argue that CSV as an approach integral to a company's competitive position should supersede reputation-driven CSR in guiding corporate social and environmental investment. The proposed concept is hoped to open up new opportunities for innovation and growth in global economies, become the next evolution of capitalism, and help companies regain legitimacy.

The Emergence and Evolution of the CSV Concept

The concept emerged from a series of articles by Porter and Kramer for the *Harvard Business Review*. The first of the papers, published in 2002 (Porter and Kramer 2002), focused on **strategic corporate philanthropy** as an answer to the dilemma faced by many executives caught between critics demanding ever higher levels of donations and investors' expectations to maximize short-term profits. Corporate charitable efforts limited to small donations generating no social value and ad hoc actions or cause-related marketing and sponsorship campaigns used as a popular branding tool have become the subject of broad criticism from both civil society and shareholders. The authors argue that corporations can use philanthropy in a strategic way, as an investment to improve their competitive context, understood as the quality of the business environment. In this way, companies are able to integrate social and economic goals and drive their long-term competitiveness, and by leveraging their core competences, generate virtual social change.

In the second article in the series (Porter and Kramer 2006), where the term "shared value" was

coined, the new approach to corporate philanthropy was extended to the integration of other CSR activities into the core business strategy. Although companies recognized the growing stakeholder pressure for more responsible business conduct, their response has been limited to cosmetic actions focusing largely on public relations and media campaigns. In a world of open, knowledge-based competition, social and business goals form a symbiotic relation (Porter and Kramer 2006); "CSR and competitiveness are not opposed but rather link in a synergic relationship" (Perrini et al. 2006, p. 6). Thus, the distinction between these elements is a false dichotomy (Porter and Kramer 2002). This mutual dependence in business-society relations implies that both business decisions and social policies must follow the principle of shared value and engage in strategic CSR activities. The latter focus on value-chain social impacts and social issues influencing a company's competitive context.

Finally, in 2011, Porter and Kramer (2011) published their seminal article offering a more substantial conceptualization of CSV. First, the authors proposed the definition of shared value as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing social and economic conditions in the communities in which it operates" (Porter and Kramer 2011, p. 6). In other words, not only must the shared-value strategies support core business objectives – a postulate often raised in previous publications on strategic CSR (Lantos 2002; Husted and Allen 2007) (see ► [Strategic CSR](#)) – but also meaningfully contribute to social progress. What is more, as shared value is defined as benefits relative to costs, the concept focuses on maximizing social impact per dollar spent (Spitzeck and Chapman 2012). Second, the paper outlined mechanisms of shared-value creation (explained below). Each requires concrete and company-specific metrics. Successful CSV strategy is "data-driven, clearly linked to defined outcomes, well connected to the goals of all stakeholders, and tracked with clear metrics."

An additional contribution to shared-value research has been made by Pfitzer et al. (2013), who identified five reinforcing elements that

companies creating shared value rely on: (1) embedding a social purpose, i.e., setting and communicating a clear social mission that is integrated with the corporate culture of the firm, (2) defining a social need the firm can address by gaining a deeper understanding of the underlying social conditions, (3) measuring shared value, for example, through integrated reporting (Adams 2015), (4) creating the optimal innovation structure, for example, by integrating with current firm units, creating semiautonomous units, getting support from governments, or funding external businesses (5) cocreating with external stakeholders, such as other companies (including major competitors), universities, foundations, NGOs, and governments.

Creating shared value requires a close link between CSR activities and core business strategy (Husted and Allen 2007). On the one hand, it allows a firm to use its unique resources and competences, which increases the efficiency and effectiveness of social programs. On the other hand, it stimulates the development of new resources that may become part of the organization's competitive advantage.

CSV Mechanisms

There are three mutually reinforcing mechanisms of shared-value creation: (1) reconceiving products and markets, (2) redefining productivity in the value chain, and (3) enabling local cluster development (Porter and Kramer 2011). The first one is based on enabling local cluster development aimed at improving the company's competitive context. CSR is seen here as a social investment or strategic philanthropy (Porter and Kramer 2002) that improves: (1) access to high-quality business inputs (e.g., highly qualified employees, efficient infrastructure, access to research institutions, relevant technology, and capital); (2) demand conditions (e.g., by increasing the size of the market or sophistication of demand); (3) strategy and rivalry context or, in other words, rules and incentives that govern competition (e.g., transparency, intellectual property protection, fair and open local competition,

rule of law); (4) availability of supporting industries (e.g., reliable local suppliers, service providers, presence of clusters) (Porter and Kramer 2006). One example of CSV programs that aim at developing local clusters are corporate initiatives focused on education. Providing support to universities to build a strong base of highly qualified staff is less expensive than investment in in-house training. Success in tackling social and environmental issues involving cluster development often requires collaboration with third parties, including other companies (Porter and Kramer 2011).

The second mechanism of shared-value creation focuses on the redefinition of productivity in the value chain to depict all activities that a company engages in while doing business. The value chain can be used as a holistic framework to identify positive and negative social impacts in terms of energy use, logistics, resource use, procurement, distribution, location, and employee productivity (Porter and Kramer 2006). Opportunities for CSV may occur from process innovation that helps to reduce internal costs inflicted by externalities connected with poor management of natural and human resources. Reduction in GHG emissions, use of renewable raw materials, reduction of product packaging, cooperation with local suppliers, investment in the health and safety of workers, or diversity in the workplace serve as examples of initiatives leading to the simultaneous reduction of social and business costs. Major improvements in social and environmental performance not only can often be achieved with better technology at a nominal incremental cost but also can yield net cost savings through enhanced resource utilization, process efficiency, and quality (Porter and Kramer 2011).

The last mechanism enables reconceiving products and markets. CSV broadens the firm's perspective and helps to identify unmet social needs. In this sense, it creates opportunities for differentiation (Spitzeck and Chapman 2012), product and business model innovation, and growth (Porter and Kramer 2011). What is more, the shared-value approach offers greater gains for society, as companies have the potential to be more effective than governments and nonprofit organizations in marketing solutions to social

problems. As companies look for opportunities for innovation, Porter and Kramer (2011) suggest thinking in terms of societal needs instead of "products" and "services." Social and environmental issues increasingly define markets in developed economies, where conscious consumers make decisions based not only on price but also on sustainability-related attributes of products and services. Additionally, societal needs create business opportunities in emerging markets, where the greatest global growth potential is concentrated (Tidd and Bessant 2011). The majority of consumers in these markets form the so-called "base of the pyramid" (see ► [Base of the Pyramid](#); ► [Prahalad's Bottom of the Pyramid](#)), i.e., "the low-income socioeconomic segment" (London and Hart 2011, p. 8) that, due to the growing income gap between rich and poor, is not well integrated with the global market economy. The base of the pyramid is believed to represent a multitrillion-dollar market full of underserved social needs (Prahalad 2006).

Criticism

Although the CSV concept has gained much of the attention from both practitioners and academic community, it has also become a subject of criticism. Crane et al. (2014) identify four major weakness and shortcomings of CSV. First, the authors argue that the concept is based on unjust criticism of CSR. Porter and Kramer contrast CSV with an outdated understanding of CSR and do not acknowledge there is broad consensus in the existing literature that CSR is not a supplement to core business strategy but rather an integral element (Beschoner and Hajduk 2017). Second, CSV is based on a win-win assumption about business-society relations and as such does not provide any guidance for situations in which a win-win solution cannot be reached and moving beyond trade-offs between social and economic value creation is impossible. Porter and Kramer are criticized for grounding their arguments in purely economic logic and arguing that the primacy of profit maximization is not only necessary

due to market forces but also morally good (Beschoner 2013). Some authors argue that given the complexity of social issues, which usually involve a number of different stakeholder groups with conflicting interests, strategic CSR concepts, including CSV, will only reinforce neo-liberal logic (Brown and Dillard 2014; Thomson 2015). Third, CSV is built on the controversial assumption that business compliance with legal and moral standards is given. The concept neglects the fact that the absence of compliance is one of the key problems of multinational corporations operating in various countries often with extremely poor regulation and in complex supply chains that are hardly possible to be fully controlled. Fourth, the CSV concept is strategically incoherent. CSV aims at creating additional profit opportunities and differentiating the company from its competitors. However, generating virtual social change requires multi-stakeholder cooperation and the creation of standardized solutions that could be scaled up across organizations, sectors, and countries and, as such, cannot be a source of competitive advantage for a single company.

Cross-References

- Strategic CSR
- Strategic Management and CSR

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