Contesting the Value of “Creating Shared Value”

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This article critiques Porter and Kramer’s concept of creating shared value. The strengths of the idea are highlighted in terms of its popularity among practitioner and academic audiences, its connecting of strategy and social goals, and its systematizing of some previously underdeveloped, disconnected areas of research and practice. However, the concept suffers from some serious shortcomings, namely: it is unoriginal; it ignores the tensions inherent to responsible business activity; it is naïve about business compliance; and it is based on a shallow conception of the corporation’s role in society. [Michael Porter and Mark Kramer were invited to respond to this article. Their commentary follows along with a reply by Crane and his co-authors.] (Keywords: Business and Society, Corporate Social Responsibility, Stakeholders, Philanthropy, Partnerships, Ethics)

Creating shared value (CSV), the concept popularized by Porter and Kramer in the *Harvard Business Review*, 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.” 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 while simultaneously driving greater profitability. In the words of Porter and Kramer, 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 proposition, and one that has received enormous attention in the business community and among management scholars and educators. In this article, we seek to analyze and critically evaluate the concept of shared value, both in terms of its stated aims—to re-legitimize business, to redefine “the purpose of the corporation,” to “reshape capitalism,” and to “supersede corporate social responsibility in guiding the investments of corporations in their communities”—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 Porter and Kramer present it, 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. That is, it is unoriginal, it ignores the tensions between social and economic goals, it is naïve about the challenges of business compliance, and it is based on a shallow conception of the role of the corporation in society. 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, while 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. This soon extended into a piece exploring how corporate philanthropy can create social and economic value, introducing for the first time the authors’ ideas about using social programs to enhance the firm’s competitive context. By 2006, this had developed into a broader analysis of how to integrate corporate social responsibility (CSR) into core business strategy, and the term “shared value” was coined for the first time.

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 and from 2008 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 2011 issue of HBR under the themed heading of “The Big Idea.”

Although this 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: \textit{re-conceiving products and markets} by seeking out social problems where serving consumers and contributing to the common good might be achieved in parallel; \textit{redefining productivity in the value chain} by simultaneously enhancing the social, environmental, and economic capabilities of supply chain members; and \textit{enabling local cluster development} so that various developmental goals can be achieved in cooperation with suppliers and local institutions.

This conceptualization has a number of important strengths, but it is also undermined by a series of weaknesses that threaten the potential of CSV to achieve its aims of re-legitimizing business and reshaping capitalism (see Exhibit 1).

### The Strengths of the Shared Value Concept

By most 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 \textit{New York Times}, \textit{The Economist}, the \textit{Guardian}, \textit{Forbes}, and the \textit{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.\textsuperscript{14} 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.\textsuperscript{15} With leading companies such as Nestlé\textsuperscript{16} and Coca-Cola\textsuperscript{17} 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 corporations (in particular, multinational ones) might result from the ability of Porter and Kramer to frame CSR activities in appealing managerial language. This is particularly important for advancing social causes inside companies. Others have presented corporate responsibility with regards to social and environmental problems as an ethical duty, \textsuperscript{18} a political responsibility, \textsuperscript{19} or a response to business risks.\textsuperscript{20} However, the CSV concept invites corporations to perceive such problems not as disconnected and externally imposed but as real opportunities and serious strategic targets for genuine business decisions.

Beyond the practitioner community, the shared value concept has also made great headway into the academic management literature. In a short space of time, it

### EXHIBIT 1. The Strengths and Weaknesses of the Shared Value Concept

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<th>Strengths</th>
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<tr>
<td>CSV successfully appeals to practitioners and scholars</td>
<td>CSV is unoriginal</td>
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<td>CSV elevates social goals to a strategic level</td>
<td>CSV ignores the tensions between social and economic goals</td>
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<td>CSV articulates a clear role for governments in responsible behavior</td>
<td>CSV is naive about the challenges of business compliance</td>
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<tr>
<td>CSV adds rigor to ideas of “conscious capitalism” and provides an umbrella construct for loosely connected concepts</td>
<td>CSV is based on a shallow conception of the corporation’s role in society</td>
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has become established as an exceptionally highly cited article relative to other HBR articles of note.21 By any reckoning, the Porter and Kramer article is a quite dramatic outlier in terms of the rapid scholarly attention it has gained, although the popularity of a concept does not guarantee its profundity.22 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. However, 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.23

Beyond its undoubted impact among practitioners and academics, the shared value concept also has some clear strengths as a concept competing for attention among others in the business and society field. One of its critical strengths is its unequivocal elevation of social goals to a strategic level. Partly, this is due to the explicit endorsement by Michael Porter—perhaps the world’s best-known business strategist—of the strategic relevance of social goals. This is a positive response to counter those who claim that management scholars have not sufficiently examined the relevance of broader societal issues for corporate decision making24 or have examined such issues only through the lens of corporate interests, neglecting the common good perspective.25 As a result, as Porter and Kramer claim, “the legitimacy of business has fallen to levels not seen in recent history.”26 With the concept of CSV, they present a solution to this challenge that seems to be convincing for practitioners and scholars alike.

Porter and Kramer also make a significant step forward in understanding the role of government in the social initiatives of companies. With a few exceptions, much of the CSR literature has been written with little attention to roles and responsibilities of government.27 Porter and Kramer articulate a clear role for state actors in constructing “regulations that enhance shared value, set goals, and stimulate innovation.”28 This includes setting clear and measurable social goals, setting performance standards, defining phase-in periods for meeting standards, and putting in place universal performance reporting systems.

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.”29 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.30 Porter and Kramer go some way to redressing this with their CSV framework, albeit in ways that 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,31 social entrepreneurship,32 social innovation,33 and the bottom of the pyramid.34 Porter and Kramer contribute here by offering CSV as an umbrella construct 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,35 CSV’s holistic view of all those concepts
regarding the interface of the market and society offers some promise for more integrated thinking about the intersection of business and social progress.

The Weaknesses of the Shared Value Concept

Despite its strengths, the shared value concept and its framing is undermined by a number of critical shortcomings. We begin by revealing the lack of novelty of CSV. We then move on to some of the complexities of balancing social and economic goals and ensuring compliance that 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 that is itself endemic to the current failings of the capitalist system.

CSV is Unoriginal

Porter and Kramer present CSV as a novel contribution, 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. 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.” 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.”

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.” In short then, Porter and Kramer confer the impression that CSR is only ever regarded as “bolt-on” philanthropy, and they want to make us believe that a debate on how to make it “built-in” to core strategy 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, for instance, which contends that “adherence to stakeholder principles and practices achieves conventional corporate performance objectives as well or better than rival approaches” 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.” 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.” 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 having “an overlap” with Hart’s Capitalism at the Crossroads.

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) that 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,” it is hard to see much difference to CSV. In a similar vein, in a 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.”

This silence on CSV’s overlaps with social innovation is even more conspicuous when Porter and Kramer fail to mention that in the U.S. and other countries, the core tenets of CSV already have their own legal form. For example, between 2010-2013, 20 U.S. states 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.

By ignoring the state of the art in the field that substantially covers the core ideas of CSV, Porter and Kramer fail to genuinely open new conceptual space. Clearly a practitioner-oriented publication such as Harvard Business Review would not want, nor expect, much more than minimal referencing, but it does explicitly seek to be “the source of the best new ideas for people creating, leading, and transforming business” [emphasis added]. Porter and Kramer patently fail to deliver this, prompting one earlier HBR author on the topic, Stuart Hart, to dismiss CSV as “intellectual piracy.” However, not only do Porter and Kramer fail to give due acknowledgement to the ideas that have preceded CSV, but they also choose not to engage in the nuances and contingencies often highlighted in this extant
literature. This leads to some rather naive proselytising about the viability of win-win scenarios that can be achieved through CSV, which suggests another, deeper-level problem with the concept.

**CSV Ignores the Tensions between Social and Economic Goals**

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, largely by (it would seem) ignoring them. While 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. As Vogel has argued, “unfortunately there is no evidence that behaving more virtuously makes firms more profitable . . . the market for virtue is not sufficiently important to make it in the interest of all firms to behave more responsibly.”

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 manifest themselves in terms of dilemmas. In an ethical dilemma, worldviews, identities, interests, and values collide. Rowley and Moldoveanu have argued that the mere idea of negotiation over an issue might be unacceptable for some stakeholders such as NGO activists. 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 distortions at worst and optimistic at best.

A good example is provided by microfinance, which is specifically cited by Porter and Kramer as a CSV success story in developing products and services that meet societal needs. A more critical look at microfinance, however, is a useful indicator of problems facing organizations seeking to achieve simultaneous social and economic goals. The financial viability of microenterprises has been challenged, even in the case of the Grameen Bank. Social impacts have also been found to be wanting with regard to equality and there have been limited advances in terms of poverty alleviation, despite expansion in the numbers of clients and amount of funds available. Critical to 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 microfinance initiatives 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.60

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.61 Given the complexity of social and environmental problems, their uncritical analysis as to new sources for profit might indeed drive corporations to invest more in easy problems and decoupled communication strategies than in solving broader societal problems.

This failure to acknowledge, let alone address, social and economic tensions is not unique to CSV. Much of the CSR and stakeholder management literature has done likewise, particularly the strategic CSR literature that Porter and Kramer have reproduced as CSV. Therefore, 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.62 This is indeed the main gist of developing a new stream of literature on (predominantly “strategic”) CSR from a critical management perspective.63 CSR in this perspective is “crucial for realigning the disengaged employees with an awful business model”64 or, more generally, a “parasitical logic”65 that 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”66 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.

CSV Suggests a Myopic Focus on Reconceiving New Products and Markets

In terms of re-conceiving products and markets, Porter and Kramer refer to the need to shift from creating demand to designing products that are good for customers and meet their needs.67 New product/service design is presented as a development of new market opportunities that are both beneficial to the company and to society, including serving emerging and developing economies, i.e., the bottom of the pyramid.68

Porter and Kramer’s analysis leaves a number of unanswered questions, however, including the problem of companies that produce products that are of questionable social good. Opinions may vary culturally on what these are, but
contenders could 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 compelled 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, recyclable 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). This is 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 while simultaneously castigated for deliberately addicting consumers to high contents of sugar, salt, and fat in their main business. 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 by focusing on energy use, logistics, procurement, distribution, and employee productivity that chimes closely with the burgeoning literature on supply chain sustainability. 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. In the apparel industry, paying decent prices to first-tier suppliers in a bid to ensure workers a living wage might, for instance, evaporate a large part of the profits—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. Research shows that 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.

CSV Does Not Deliver on the Promise of Addressing the 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, nor original, nor surprising to regional policy and regeneration specialists, business support intermediaries, and small business practitioners and scholars. In addition, Porter was a prolific writer on clusters himself in the late 1990s and early 2000s.
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, benefits, advantages, and employment as a policy device. 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 that 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 automobile 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 automobile. Still today, the economic rewards of “automotive supplier parks” has been challenged and “received wisdom” on their value has been questioned.

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.” Mark Kramer is reported as saying: “This is not about companies being good or bad.” 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 assumptions about business’s appetite to adhere to external norms, most notably governmental 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.” 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.

As we noted earlier, Porter and Kramer emphasize the critical role played by governments in ensuring the success of CSV: “regulation will be needed to limit the pursuit of exploitative, unfair, or deceptive practices in which companies benefit at the expense of society.” However, the concept of CSV is simply built on the assumption that compliance with these legal and moral standards is a given.
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. 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. 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.

Compliance with hard and soft law standards is therefore hardly a given for many corporations in many industries. Even if companies are seriously engaged in reducing the social problems in their supply chain through audit and certification systems, compliance remains a serious challenge because of the widespread cheating by suppliers. 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 it 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. Therefore, Porter and Kramer undo much of the good work they contribute to enhancing our understanding of the role of governments by simply presuming compliance with the rules and regulations.

CSV is Based on a Shallow Conception of the Corporation’s Role in Society

Despite the major ambitions articulated by Porter and Kramer to “reshape capitalism,” CSV does little to tackle any of the deep-rooted problems that are at the heart of capitalism’s legitimacy crisis. It seeks to “transform business thinking” yet makes no mention of the strategy models that might need transforming (only CSR and 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. “The strength of the five competitive forces,” he argues, “determines how the economic value created by the industry is divided.” 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.” 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.” 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 seeks 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 that require broader solutions embedded in democratically organized multi-stakeholder processes. This perspective cannot only be the creation of additional profit opportunity for the corporation, but rather the common good of society. For Porter, CSV is a next step in his traditional concept of differentiating the corporation from its competitors while a deeper conception of the social role of the corporation would aim for systemic solutions that are valid for all players and thus neutralize 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 of their projects. Societal responsibility in a broader sense would instead 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 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. The concept of CSV gives 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 it may well contribute to the emergence of socially beneficial business practices. However, in its basic premises,
and in its many strategic exclusions and diversions, it also provides yet more
evidence for 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 novel
idea as its proponents contend, and it may actually prove counterproductive in its
goal to create a better world by reshaping capitalism.

Moreover, CSV is symptomatic of wider misconceptions and shortcomings
that have hindered not just academic work in the area of CSR, but teaching and
research in business schools in general.

A first implication for management research and practice starts with Porter
and Kramer’s choice of terminology. If “creating shared value” is really a novel
idea then it must be saying something new. In other words, the tacit assumption
behind CSV is 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.
Presenting CSV as an innovation 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.”93

It is fair to argue then that the most fundamental problem of CSV is indeed
its view of the firm as an entity whose only legitimate purpose is the generation of
economic value for the firm and its owners. As mentioned, Porter’s earlier work
was very much characterized by this intellectual constraint—and reinforced it.
CSV cannot deliver on the idea 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 the entire firm. There is ample proof that this narrow view
of the purpose of the firm is still dominant in business academia—most recently
demonstrated by Porter’s Harvard colleague Robert Simons arguing that compet-
ing for customers’ and investors’ interests is “the essence of business.”94

CSV never leaves the confines of this paradigm. Porter and Kramer are seeking
to solve a system-level problem (the crisis of capitalism) with merely organizational-
level changes. A fundamental conclusion of our analysis is that Porter and Kramer
can only celebrate their innovation at the expense of discounting all those circumstan-
ces and constraints that hinder the pursuit of “shared” value at the expense of
economic value creation. However, this is also the point where our analysis moves
beyond just taking two authors to task. In fact, when we refer to the existing manage-
ment scholarship on CSR (and related labels such as business ethics, sustainability,
and citizenship) 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.”95 If CSR leads to more revenue,
cuts costs, or (more indirectly) reduces risks and 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 the economic purpose of the firm.96

The point at which Porter and Kramer deserve credit is that, in the opening
parts of their paper, they make an eloquent case for the idea that the social impacts
of corporations are now so clearly obvious that it is impossible for business to ignore them any longer. As we have argued, this is an ongoing, broader debate that has taken on particular resonance during a financial crisis where banks have been considered “too big to fail” for their wider social role even when they have fallen short on their main economic purpose. The question that CSV raises for the community of management scholars—particularly those with an interest in the role of business in society—is how can we overcome this reductionist view of the purpose of business?

Such questions are by no means new. Lee Preston, in his rather skeptical review of the CSR literature between 1953 and 1975, identified the main reason for an apparent lack of progress to be an underdeveloped assessment of “society.” In other words, to study CSR properly, or for that matter CSV, we cannot start with a notion of what a business is and let its role in society just follow from this. 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.” 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 by ignoring significant parts of social reality.

Critiques of the purely economic purpose of the firm and of the ideology of shareholder value maximization abound. Moreover, there are numerous approaches in the current management literature that have attempted a more encompassing view of social reality and that have in turn informed a broader perspective of the purpose of the firm.

First, as noted above, stakeholder theory is probably the most longstanding approach to reconceptualizing 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). The considerable success of stakeholder theory in terms of scholarly and practitioner impact, however, has to do with the fact that (on the descriptive and instrumental level) it can still be made compatible with a corporate-centric, economic purpose-oriented view of the firm. If society has such a strong influence on the firm, it makes sense for managers to accommodate all those stakeholders when it comes to pursuing the 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, it is characteristic of the social innovation literature to assume that there are firms, or activities within firms, which deliberately follow social, environmental, or ethical objectives—either exclusively or alongside economic ones. This literature may not seek to develop a new theory of the firm, but does attempt to marry 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 generalization of their concept.

Third, integrative social contract theory (ISCT) has received considerable attention in the management and CSR literature as it attempts to understand the moral imperatives in society that businesses might face. Unlike the two previous approaches, it is less business-focused and more society-focused, conceptualizing the different moral values of different constituencies with which business might interact. 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. 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 that could simultaneously create economic value.

Finally, a more recent strand of CSR research has focused on the “political role” of the firm. 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, corporations are often involved in governance alongside governments. This strand of research sees companies in a situation where their decisions are not just related to the pursuit of economic goals, but also 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 is that corporations are actively entering social spaces that hitherto were the prerogative of (democratic) governments. While Porter and Kramer simply assume compliance with rules and regulations set by governments, this recent discussion on CSR highlights the fact that corporations increasingly are active in engaging with their regulatory environment. Be it the deliberate influencing of regulation or the strategic exploitation of geopolitical contexts where governments are either unable or unwilling to enforce strict regulations, this strand of the CSR literature has carved out a rather complex picture of corporate engagement with social and environmental regulation. In some cases, under pressure from governments or civil society, corporations are even pursuing private or hybrid forms of regulation as part of their CSR engagement. This means that attention shifts from the role of government to the role and processes of governance in societies, of which corporations are one part. Creating “shared value” in this context might require 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 that 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 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 recently gained such traction in CSR research 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.  

CSV and its shortcomings 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 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

3. Ibid.
4. Ibid.
5. Ibid.
6. Ibid.
7. Ibid. p. 76.
14. 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,” <www.mcgill.ca/isid/executive>, accessed May 2, 2013.
21. 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.


23. We conducted an analysis of a sample of 250 (approximately one third) of the citations of Porter and Kramer (2011). In total, we assessed 89% as broadly positive, 9% as neutral, and only 2% as negative.


30. See, for example, Bill Gates talking about “creative capitalism” in 2008: <www.time.com/time/video/player/0,32068,1697222543_0,00.html>. Also see reports of Cohen’s approach to “caring capitalism”: <www.entrepreneur.com/article/197626>.


42. D. Baron and D. Diermeier, Corporate Social Opportunity: Seven Steps to Make Corporate Social Responsibility Work for your Business (Sheffield: Greenleaf, 2004).


44. Porter and Kramer (2011), op. cit., p. 64.


50. Harvard Business Review, “Guidelines for Authors”: <http://hbr.org/guidelines-for-authors-hbr>. These guidelines also suggest that the kinds of questions that will be asked of prospective HBR articles include “On what previous work (either of your own or of others) does this idea build?” “Is this idea new? If not, does it offer a new and useful perspective on an existing idea?” and “What is it based on? What are its antecedents?” None of these questions are adequately addressed in the published article.
68. Prahalad and Hammond, op. cit.


78. Lohr (2011), op. cit.

79. Ibid., p. 446.


86. Ibid., p. 86.

87. Ibid., p. 82.

88. Ibid., p. 92.


99. Ibid., p. 446.


A response to Andrew Crane et al.’s article by Michael E. Porter and Mark R. Kramer

Andrew Crane’s critique of Creating Shared Value acknowledges the wide and positive reception our article has received, but at the same time contends that we have said nothing new. This is puzzling, especially given the substantial changes in behavior in corporations around the world, both large and small, that have come as a direct result of the article. Clearly something about this article has moved companies to embrace the idea and act in ways that previous literature has not.

We think the reason our article has drawn so much attention is that it provides an overall, strategic view of how to think about the role of the corporation in society, which not only incorporates and extends past scholarship on corporate philanthropy, CSR, and sustainability, but also distinguishes CSV as a distinct, powerful, and transformational model that is embedded in the core purpose of the corporation. We ground the opportunity for CSV in new learning about the effect of externalities on the firm, including our own work on the environment, urban poverty, global health, and other social issues over the past 20 years. We also operationalize CSV and make it concrete with a three-level framework that illustrates its potential to drive innovation and opportunity in many aspects of the firm’s product, value chain, and business environment.

There are numerous other writers who made important contributions to the body of thinking in this broad area, such as Jed Emerson’s blended value, Stuart Hart’s mutual benefit, C.K. Prahalad and Hart’s bottom of the pyramid, John Elkington’s work along with Andrew Savitz and Karl Weber’s work on sustainability and the triple bottom line, David Schwerin’s and John Mackay’s work on conscious capitalism, and many, many others. We acknowledge these streams of work in our seminars and teaching—the HBR format does not permit footnotes and is not the place for a literature review.

But related work does not mean that the concepts are the same. Jed Emerson emphasizes the need to blend the social, environmental, and economic value created by both for-profit and nonprofit enterprises, so that enterprises and capital markets can maximize the sum of all forms of value created. CSV, however, is about solving societal problems in order to create economic value, not about blending or balancing...
different types of value. Stuart Hart’s framework for sustainable value creation includes pollution prevention, clean tech, bottom of the pyramid, and product stewardship, all of which overlap but are not the same as the levels of CSV. Prahalad and Hart’s path-breaking work on selling to the bottom of the pyramid can also be an aspect of CSV, however, as Hart and Kash Rangan have separately written, BOP products and services only create sustainable value when they benefit the communities they serve, and not all BOP initiatives do so. A similar point about the overlap with CSV can be made about sustainability, which has been defined in many ways ranging from a focus on environmental improvements that reduce costs or improve products and create shared value, to a broad call for the protection of future generations through systemic changes that would distort capitalism and undermine competitiveness.

Mr. Crane is mistaken when he claims we believe that corporations always follow the law and behave ethically. The quotation from our article he selects, that “creating shared value presumes compliance with the law and ethical standards, as well as mitigating and harm caused by the business, but goes far beyond that,” is misunderstood. We actually say that legal compliance and a narrow sense of social responsibility are prerequisites to creating shared value, but the concept of shared value takes company behavior much further.

Finally, Mr. Crane utterly misses our point when he objects to our “corporate-centric focus” on “creating economic benefits for the firm and its owners” consistent with “corporate self-interest” and “old strategy models.” Mr. Crane seems to advocate addressing “systemic problems of injustice [with] broader solutions embedded in democratically organized multi-stakeholder processes.” Such a vision may be appealing to many, but it is not reality. The reason that creating shared value has gained so much traction and led to real change is exactly because it aligns social progress with corporate self-interest in a concrete and highly tangible way, including with those “old strategy models” that capture the reality of competition and prevailing corporate practice.

It is precisely the wishful thinking of writers like Mr. Crane that has led to so many corporate responsibility and sustainability arguments falling on deaf corporate ears, by insisting that profit-seeing enterprises need to abandon their core purpose for the sake of the greater good. Such a perspective merely drives further the wedge between society and business, to the detriment of both. As we state in the article, business cannot cure all of society’s ills—and as Mr. Crane points out, not all businesses are good for society nor would the pursuit of shared value eliminate all injustice. But using the profit motive and the tools of corporate strategy to address societal problems, a practice that is growing rapidly in part motivated by the shared value concept, can contribute greatly both to the redemption of business and to a better world.

Notes
Andrew Crane, Guido Palazzo, Laura J. Spence, and Dirk Matten reply:

We would like to thank Michael Porter and Mark Kramer for taking the time to respond to our critique of their “creating shared value” (CSV) concept. However, there is little in their response to assuage any skepticism one might have about the value of their framework. We would like to comment on four points in particular that were raised in their response.

First, there is the question of originality. We are glad to hear that Porter and Kramer are acknowledging in their talks some of the ideas that CSV builds on. However, there is little in their response to assuage any skepticism one might have about the value of their framework. We would like to comment on four points in particular that were raised in their response.


Second, there is the question of where obeying the law and behaving ethically fit into CSV. Porter and Kramer suggest in their response that what they meant was that these are “prerequisites” for CSV. We’re very happy to see this spelled out. It gets to the heart of one of our other main criticisms of CSV—that it ignores the tensions between social and economic goals. Let’s be clear: a prerequisite is something that is required as a prior condition for something else to be attempted. That is, before companies start designing their CSV programs, they have to meet the legal and ethical demands placed upon them—or at least all the reasonable ones. If that is the case, which companies are ever going to get to all that nice CSV stuff? Which managers can honestly say that they’ve got all their ethical dilemmas licked? Realistically, are we confident that all legal requirements are un-problematically being met across the world?

The so-called “prerequisites” are where Porter and Kramer are hiding all the tough challenges. It is a classic economist’s trick of assuming away all the messy stuff that is difficult to deal with. But it is exactly in these “prerequisite” legal and ethical obligations that the complex “trade-offs” between economic and social value need to be faced. These are the ones that keep managers awake at night. Porter and Kramer may want to “go beyond” such trade-offs but all they are really doing is saying: “Fix these yourselves. When you’re done, come see us and we can help sprinkle some CSV sugar on top.” It is not only intellectually misleading, it is doing a major disservice to all the serious-minded executives that are seeking realistic solutions to the major social problems facing their businesses.

Do Porter and Kramer really think this kind of cherry-picking will help address the devastating loss of trust in business? It only takes a quick look down the list of companies supporting Porter and Kramer’s “Shared Value Initiative” to see how problematic this is for real businesses. While, for instance, Chevron or Novartis may happily indulge in CSV pet projects, their reputational challenges lie elsewhere—such as the 2013 court rulings on pollution in Ecuador (Chevron) or patent protection in India (Novartis).

This takes us to our third point, which is about “wishful thinking.” Porter and Kramer suggest that it is wishful thinking on our part to “insist that profit-seeking enterprises need to abandon their core purpose for the sake of the greater good.” To start with, this is a willful caricature of what we think is a fairly nuanced position in our article on the need to rethink the role of business in society. In the first few paragraphs of their original article, even Porter and Kramer appear to agree that such a discussion needs to happen.

Where the wishful thinking really comes in though is in Porter and Kramer’s naïve belief that the role of business in addressing the world’s major social problems can, or should, only be addressed through the lens of corporate self-interest. The debate on the limits of such win-win solutions has been so well rehearsed in the serious academic literature already that there is little point in us restating it here. The bottom line is that some social initiatives will benefit some firms, under some conditions, some of the time. There is no magic bullet. As one of the anonymous
reviewers for our original article wrote: “At its worst, the ‘shared value’ concept becomes a kind of Happy Land in Business dream, in which no concessions to traditional business models such as Agency Theory must be made, and in which clever managers can always effect a ‘win-win’ outcome for profit and values. The land of sugar and honey, perhaps, but not the land of real-world business.” So yes, there’s a lot of wishful thinking happening around the CSV concept, but it is not ours.

Our fourth and final point concerns Porter and Kramer’s views on the “reality” of what is really happening out there in the business community. They seem to believe that their HBR piece has triggered “substantial changes in behavior in corporations”…“as a direct result of the article”. This is quite an extraordinary claim, and one for which some measure of evidence should be required. However, we doubt this is feasible. There is no realistic way to distinguish a CSV initiative from, say, a strategic CSR initiative, except for its label. As we have shown, there is no real conceptual distinctiveness in CSV as a specific corporate practice.

But even if such a claim were provable, then we can also point to a rather clearer set of facts that demonstrate the reality of our alternative of “democratically organized multi-stakeholder processes” in contemporary business practice. Multiple stakeholder initiatives such as the Forest Stewardship Council, the Roundtable on Sustainable Palm Oil, or the Extractives Industries Transparency Initiative, are not just “wishful thinking” on our part, but real and effective collaborative business solutions to major social problems. Critically, they are based on democratic governing principles and the adoption and enforcement of new rules for all participating companies, rather than attempts to beat the competition with go-it-alone shared value projects. These are the kind of genuinely new models of strategy that will be needed to tackle the crisis in capitalism. CSV, in contrast, is just an attempt to reinvent the past.

Notes

1. [http://sharedvalue.org].
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