Creating shared value: Revolution or clever con?

By Wayne Visser

The Corporate Social Responsibility (CSR) movement has not delivered a system change. Creating shared value (CSV) can change this as it has challenged the narrow definition of corporate purpose to go beyond profit maximization.

'The capitalist system is under siege. In recent years business has increasingly been viewed as a major cause of social, environmental, and economic problems.' This was the statement made by Harvard professor Michael Porter and management consultant Mark Kramer in *Harvard Business Review* in 2011. The solution they propose is 'creating shared value' or CSV, which they are at pains to point out 'is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success.' At its heart, they say, CSV is the way in which 'businesses must reconnect company success with social progress.'

Porter and Kramer observe that 'companies are widely perceived to be prospering at the expense of the broader community. Worse still, the more business has begun to embrace corporate responsibility, the more it has been blamed for society's failures.' Hence, for them, CSR is something of a red herring, which they describe as a 'mind-set in which societal issues are at the periphery, not the core' and 'a reaction to external pressure—[which has] emerged largely to improve firms' reputations.'

However, the question is whether CSR and CSV are really different? In fact, is CSV even a new concept, or just old wine in new wineskins? Porter and Kramer also argue that CSV is more preferable than fair trade. Is that true? In this brief article, I want to tackle some of these questions, as well as reflect on the true value of CSV and the future of CSR.

The first thing to place on record is that CSV reflects an evolution in Porter and Kramer's own thinking. After a career spent focussing on economic competitiveness devoid of any consideration of social impacts, Porter teamed up with Kramer in 2002 to write about 'the competitive advantage of corporate philanthropy', which they then reframed in 2006 as 'strategic CSR'. Hence, CSV is their third foray into the field of social responsibility – which rather ironically and explicitly disparages the previous two.

The second point is that CSV is nothing new. At the very least, we can say that it strongly echoes the work of C.K. Prahalad and Stuart Hart on serving markets at the 'bottom of the pyramid' (BOP), which dates back to 2002, as well as the idea of supporting 'inclusive business' – something into which the International Finance Corporation (IFC) has channelled $7 billion in over 80 countries since 2005. It is somewhat disingenuous and poor academic form that these foundational concepts were not even acknowledged by Porter and Kramer.

The third aspect of CSV that I take issue with is the way in which the duo characterise corporate social responsibility. I agree that some companies are still practising an immature form of CSR – which I have called CSR 1.0 – that is defensive and risk-based, philanthropic-oriented or PR-driven. However, numerous companies have moved on to a fourth stage – strategic CSR, as exemplified by the ISO 26000 standard – and some have even gone beyond that, to what I call transformative CSR, or CSR 2.0.

Not content to discredit social responsibility alone, Porter and Kramer also launch an attack on the fair trade movement, which they say 'is mostly about redistribution rather than expanding the overall amount of value created.' By contrast, CSV 'focuses on improving growing techniques and strengthening the local cluster of supporting suppliers and other institutions in order to increase farmers' efficiency, yields, product quality, and sustainability. This leads to a bigger pie of revenue and profits that benefits both farmers and the companies that buy from them.' The fact that these aspects are integral to the work that the Fairtrade Foundation seems to have been conveniently overlooked.

Having said all that, if my short critical tirade has given the impression that I am against CSV, allow me to set the record straight: I am a CSV fan, and here are the reasons why: I believe it has injected a new energy into the CSR movement. It has cleverly changed the language of social responsibility into the language of value creation, which business leaders can better understand and it has challenged the narrow definition of corporate purpose to go beyond profit maximization. What is more, it has rightly advocated a better alignment between a company's core strategy and the social problems that it can have an impact on.

At the end of the day, I am less concerned about the labels we use – be it CSR, BOP, corporate citizenship, sustainability or CSV – and more interested in whether the concept and practice are holistic and transformative. This means business has to embrace what I call the four DNA elements of responsibility: value creation, good governance, societal contribution and environmental integrity. It also means applying creativity, scalability, responsiveness, glocality and circularity to the business solutions to society's needs. Lastly, it means calling for a transformation of capitalism – which I am pleased to see Porter and Kramer agree with. For a more resilient capitalism to emerge, I believe all future economic and business activity will need to be guided by five criteria:

- *Responsible investment* – ensuring that money is channelled towards productive and sustainable investments, as the Co-operative and Triodos banks have done, and not into speculative trading in the casino eco
- *Long-termism* – understanding that real wealth is created by adopting a long-term perspective, including the needs of future generations, as Generation Investment and Warren Buffet's Berkshire Hathaway showcase;
- *Transparent disclosure* - embracing transparency in revenues, in line with the International Integrated Reporting Council, Carbon Disclosure Project and Extractive Industries Transparency Initiative (EITI);
- *Full cost accounting* – internalising social and environmental costs (externalities), either through taxes (such as those on carbon and pollution) and social and environmental profit & loss accounts (such as Puma's); and last, but not least …
- *Inclusive development* – serving the 'bottom four billion' markets, as demonstrated by the BOP 2.0 Protocol, and enacting Porter and Kramer's concept of creating shared value.

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