accountability. These developments, although broadly positive, are however increas-ingly and problematically at odds with the de jure rules of the game that dictate an intensive focus on shareholders. Argued here is that the second wave of corporate responsibility, largely driven from emerging nations will, unintentionally and using different mechanisms, further deepen extensive accountability in the practice of corporate governance. Crucially, they will take us to the next stage in realigning the formal rules of corporate governance with such a development.

Framed thus, whilst there is an interesting debate to be had as to whether this is a good direction to pursue, there is a critically important debate as to how best to shape a directional shift which is already in motion. Certainly, there is a mixed and often disappointing historical record of nationalized companies. And there is little doubt that political and bureaucratic, discretionary intrusion into the affairs of state-owned and controlled enterprises can have poor outcomes by almost any measure. Furthermore, the possible negative implications of a stronger, developmental state on the political space for civil society to act are very real, and arguably already apparent from China to Russia, and from South Africa to Brazil, raising the likelihood of real trade-offs in the power and influence of different candidates for steward of the public fiduciary (Zadek 2011b). There is, not to put too fine a point on it, no a priori argument that supports the case that state intervention in the economy necessarily improves economic, let alone social and environmental outcomes.

That said, there is also evidence of good and indeed excellent practice in both state-owned enterprises, and more broadly in enterprises with significant state-control. Furthermore, experiments such as B Corporation and new forms of partnership governance all point to the potential for us living through the early stages of a paradigm shift. More than anything else, what is pushing this is the problem of today’s capital markets, the need for a radical change in asset allocation for the public good, and the apparent limits as to what can be achieved by the bullying and seduction of private enterprise into a wider consideration of its impact on society. Certainly some progress has and can continue to be made in establishing policies and regulations that internalize businesses’ negative externalities, but in practice such progress is severely constrained by the lack of autonomy of the state in the face of aggressive corporate and other special interest lobbying.

**Ring Out the Old, Ring In the New**

Today’s business community is simply unable to deliver the required level of public goods from its historically embedded means of creating private value. The
challenge, to reiterate this key point, is not ‘to make progress,’ but to make it rapidly and at scale, something that today’s arrangements make difficult, if not impossible. This community will be our collective Titanic unless we change the rules of the game. Three decades of contemporary ‘corporate responsibility has made a difference, as are surging commodity prices and other regulatory and civil pressures. But it has not been enough, and is unlikely to be so on current trajectories. Macro forces of history, only apparently disconnected from the matter of business in society, may catalyze us to a new and more productive pathway, or else may prove unhelpful in repeating at scale mistakes of the past. Business may yet adapt, or be adapted, to a radically different set of needs and pressures, and carry us forward on its shoulders as Titans.

What will be the balance between these opposing forces and implications is not a matter of theory, but of practice. Furthermore, past practice can only partially inform us as to what might happen, let alone what is possible or desirable. As always, the systematization of knowledge to inform decision-making is challenging at the leading edge of change. What is possible, however, is to consider the limits of what is and can be achieved with the current array of actors, tools and indeed values. With this in mind, it becomes possible to enlarge our understanding of today’s historical context of the changing role of business in society, and in particular the role of new and newly-empowered actors, and the implications for the modalities and pathways that are likely to be central going forward.

Endnotes

Simon Zadek is writing in his independent capacity. He is a Senior Fellow at the Global Green Growth Institute and at the Centre for International Governance Innovation, and Senior Advisor at the International Institute for Sustainable Development. He is the founder and was the Chief Executive of AccountAbility, and was a non-resident Senior Fellow at Harvard’s J. F. Kennedy School for Government. His book, The Civil Corporation, was awarded the Academy of Management’s Social Issues in Management Award.

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3. Italics in original text.

References


Revisiting the Role of “Shared Value” in the Business-Society Relationship

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Abstract: This article critically examines Porter and Kramer’s shared value concept to identify its boundaries and limits as a framework for understanding the role of philanthropy and CSR relative to the role of business in society. Cases of implementation and alternative perspectives on innovation reveal that, despite its appeal and uptake in corporate and philanthropic circles, shared value merely advances the conventional rhetoric that what is good for business is good for society. The shared value approach narrows what counts as social value and avoids the friction between business and society. The consequence is that the approach is problematic as a framework for addressing sustainability and development, and an insufficient basis for decision-making about philanthropy and CSR.

Key Words: corporate social responsibility, strategic philanthropy, collaborative governance, decision-making, business value

Revisiting Shared Value: What is the Role of Philanthropy in CSR?

Michael Porter spurred controversy, in 2003 at the second annual European Academy for Business in Society colloquium in Copenhagen, by associating corporate social responsibility (CSR) with corporate philanthropy that serves mostly as image-building public relations. Porter’s provocative comments were directed at what he refers to as the priests of CSR who let the field continue without adequate
theory and evidence, promote ‘feel good’ philanthropy, and substitute promotional value over sound business decision-making as grounds for social and environmental initiatives (Morsing 2003). These comments and reaction exposed an array of complex, on-going tensions underlying CSR that aspiring and current business leaders may confront in their decision-making. The role and place of philanthropy in business, let alone in CSR, continues to be controversial. There are important differences in how philanthropy is understood in different regions of the world, especially in the United States of America and in Europe. Important practical and philosophical differences about whether philanthropy constitutes palliative care, systemic change, voluntaristic action, or strategic action underlie the ferment over its place in business and CSR. Porter and Kramer have developed and promoted the shared value model (SVM) as a comprehensive framework to address the problems they identify with how CSR and corporate philanthropy are understood and practiced by corporations. The purpose is to critically examine the guidance SVM offers for business leaders pursuing corporate social initiatives.

The concept of shared value is the basis for an overarching framework to guide thinking about the relationship between business and society (Porter and Kramer 1999; 2002; 2003; 2006; 2011). The role of philanthropy has been a key focus in the development of SVM. Porter and Kramer (1999) criticize philanthropic foundations for failing to create societal value due to their lack of strategy. A more strategic philanthropy would be mission-focused and emphasize effectiveness in delivering measurable results for social impact. Porter and Kramer (2002) argue that corporate philanthropy should also be strategic for a company by enhancing that company’s competitive context. Porter and Kramer (2006) also argue that a company’s social initiatives must be integrated with core business strategies so that strategic CSR differentiates and distances a company from its competitors. Porter and Kramer (2011) argue that capitalism itself can be reinvented around the pursuit of shared value to advance the economic and social conditions where a company operates while enhancing the company’s competitiveness. The essence of the approach is that companies link competitive advantage with corporate social responsibility (CSR) by seeking the profitable points of intersection between business opportunity and social values.

Before conceding that SVM is a suitable umbrella concept for understanding the business-society relationship and guiding CSR and philanthropic decision-making, it must be examined to reveal what it may also hide, or be used to hide, despite what it highlights or foregrounds about the role of business in creating social value and social impact. Indeed, SVM should be understood according to
its own terms with particular concern about the prospect that it may be conceptually appropriating significant creative, productive actions across business, civil, and governmental sectors that are attempting to address serious social and environmental issues. The SVM approach, despite its appeal and uptake in corporate and philanthropic circles, appears to merely advance a conventional rhetoric about business and society that what is good for business is good for society. This is problematic for addressing sustainability and development primarily because the approach narrows what counts as social value and makes a virtue of avoiding the friction between business and society. Recognizing and explicating SVM’s boundaries, limits, and blind spots is important for current and future business leaders who will chart the path for how business relates to society including the practice of CSR and corporate philanthropy.

To outline some of the boundaries, limitations and blind spots, we focus on SVM’s perspective on the role of philanthropy in business and corporate social responsibility. Both philanthropy and CSR remain controversial concepts for addressing the business-society relationship. The changing dynamic among NGOs, governments and corporations opens the door for new models of collaborative action. While SVM may be one pathway to follow, a critical examination of the concept relative to examples used to advocate SVM and alternative perspectives on innovation may highlight the importance of exploring the prospects for philanthropy in solving social problems, fostering innovation, and contributing to governance.

**Shared Value: A Framework for the Business-Society Relationship**

Porter and Kramer offer SVM, in part, as an antidote to many of the reputational problems encountered by the business community in the last decade. It does not take great imagination to link the intensified preoccupation with unfettered profit maximization to the breaches in ethical behavior that have become commonplace in corporate culture of the past twenty years. We do not question that Porter and Kramer have made a substantial contribution for understanding the business-society relationship. To make sense of what they have contributed, however, the discussion here begins with value creation and calls into question the role of values in SVM’s view of the business-society relationship.

The shared value model (SVM) poses that two kinds of value—business and social—should be brought together through corporate strategy. SVM draws upon Porter’s widely known ideas about competitive strategy and competitive advantage. Porter and Kramer articulate SVM in a series of articles that primarily appear
in the *Harvard Business Review*. Over the course of their essays, philanthropy provides both a target of criticism and an opportunity to reframe the relationship between business and society for the contemporary era. The framework posits an alternative view of the relationship between a company’s economic interests and the social context that attempts to overcome the primary criticism of corporate philanthropy from a business perspective, as most popularly articulated by Friedman (1970).

SVM recognizes that a company’s success depends in important ways on the context in which it operates and that it is imperative for a company to shape its context to optimize competitive advantage. SVM rehabilitates philanthropy, in the eyes of business, from Friedman’s (1970) infamous line of criticism regarding philanthropy and CSR. As Porter (2003, 4) points out, SVM recognizes, in contrast to Friedman, that the contributions to the social do not necessarily detract from the economic interests of the company and that such contributions may in fact enhance the company’s economic interests. Moreover, a company’s philanthropic activities can be much more impactful than those of an individual due to the core competencies it has developed.

According to Porter and Kramer, a company’s social responsibility happens through the sustained success of business activities that simultaneously generate business and social value. The corporation should identify lines of business that can return a profit while delivering something of social value, its philanthropy, and other CSR initiatives, should aim to shape the competitive context of the company (Porter and Kramer 2002; 2006; 2011). If business and social value are visualized as two different circles, the argument is that these two circles can and should be made to overlap through corporate strategy that brings its philanthropic and CSR activities into alignment with the core activities of the company’s value chain.

The fundamental strategic challenge for corporations pursuing SVM is to recognize that: “Corporations are not responsible for all the world’s problems, nor do they have the resources to solve them all. Each company can identify the particular set of societal problems that it is best equipped to help resolve and from which it can gain the greatest competitive advantage” (Porter and Kramer 2006, 92). Thus, philanthropy can play a strategic role for a company, if two principles are followed in disciplining philanthropic decision-making: “[f]ocus on the areas where social and economic interests intersect, and apply your distinctive corporate resources, not just your money, to solving social challenges” (Porter 2003, 4).

Porter’s ideas about competitive advantage spawned new practice and research while also leading to the formation of highly sought after and lucrative
consulting practices including the Monitor Group and The Center for Effective Philanthropy. The shared value concept inspired the formation of a consulting group known as Foundation Strategy Group (FSG) that Mark Kramer and Michael Porter originally founded in 1999 as a for-profit entity and then converted to non-profit status in 2006. SVM has become the cornerstone of a consulting enterprise which aims to right corporate social responsibility and reconstitute its practice Porter and Kramer see as unfocused, reactive, limited in impact, public relations driven, and disconnected from community issues. The theory of shared value and the FSG consultancy aim to give legitimacy to business by showing that business can act responsibly as business without acting as charity in delivering social value. According to FSG’s web site, its clients include more than forty major corporations, more than fifty major foundations, over thirty community foundations, nearly twenty school systems, over thirty non-profit organizations, and ten national and international governmental units (see http://www.fsg.org/). In the past few years, SVM has been successfully marketed through associations with the Council on Foundations, The Committee Encouraging Corporate Philanthropy, professional conferences (including a leadership summit on shared value sponsored by Nestlé in June, 2011), webinars, and affiliations with credible publications such as the Stanford Social Innovation Review and the Harvard Business Review.

Reconsidering the Social Value Model

What is problematic with SVM lies less with what it highlights about the business-society relationship and more with what it hides. SVM’s operational premise that a company should strategically influence its competitive context requires further scrutiny as a basis for reasoning about the business-society relationship and for inventing strategic business practice. Conceptually, SVM begs important questions about how attention is paid to endemic social issues (e.g., poverty and its relationship to health issues) and how decisions about social value and social impact are made.

First, social and environmental issues for SVM are understood as opportunities for influencing a company’s competitive context and potentially its cluster (i.e., the interconnected businesses in its geographic location). Philanthropy, according to Porter and Kramer (2003, 7–11), can be used in various ways that influence inputs into a company’s operations such as labor and talent, the conditions of demands for products and services, the norms of its competitive operating contexts, and the local supportive industries. In order to achieve this influence, corporate philanthropy must be pursued thorough analysis of the competitive context that identifies the
potential for philanthropic activity to influence it. As Porter and Kramer say: “The acid test of good corporate philanthropy is whether the desired social change is so beneficial to the company that the organization would pursue the change even if no one ever knew about it” (2003, 15).

The same logic of context analysis applies to how companies should use CSR or to assess participation in broad initiatives aimed at creating shared value. In terms of CSR, a company should perform a full analysis of the impacts of its value chain, select the most advantageous issues to address, and then create a social agenda around those issues or attempt to find a way to build those social issues into the company’s value proposition (Porter and Kramer 2006, 83–91). As Porter and Kramer say: “The essential test that should guide CSR is not whether a cause is worthy but whether it presents an opportunity to create shared value—that is, a meaningful benefit for society that is also valuable to the business” (84). In terms of the impact a company should have on society, social value analysis must bear on any social initiative such that

[v]alue is defined as benefits relative to costs, not just benefits alone. Value creation is an idea that has long been recognized in business, where profit is revenues earned from customers minus costs incurred. However, businesses have rarely approached societal issues from a value perspective but have treated them as peripheral matters. This has obscured the connections between economic and social concerns. (Porter and Kramer 2011, 6)

Porter and Kramer provide numerous examples throughout their essays that they take to be positive evidence of SVM in action. They point to at least thirty-two different companies in these essays whose initiatives are presented as either using or exemplifying the principles of SVM. The companies are predominately U.S.-based with a handful of non-U.S.-based companies. The predominant types of examples about the strategic uses of philanthropy to shape a company’s competitive context involved initiatives directed at educational institutions in the United States, in particular primary and secondary education. The Cisco Networking Academy is the paradigmatic example of SVM as it is used to highlight how the program hit the sweet-spot between social value and business value because the philanthropic activity became a strategic asset for shaping the company’s competitive context (Porter and Kramer 2006, 12–13). The main negative example is of Avon’s support of breast cancer research, which is used to show a purely reputational approach with no contribution to improving the company’s competitive context.
The examples for strategic CSR, and for what Porter and Kramer refer to as the reinvention of capitalism, focus on revising the operations of a company’s value chain and on product/service innovations. In these examples, the mention of strategic philanthropy basically disappears while illustrations of “self-interested behavior to create economic value by creating social value” prevail (2011, 17). The paradigm case is Nestlé’s “milk district” in India. They use the example to illustrate how Nestlé’s efforts to secure a stable supply of commodities led to a symbiotic and positive economic growth for an otherwise impoverished area within India (2006, 90). In terms of reinventing capitalism, the Nestlé example is portrayed as a wealth creating activity in contrast to the Fair Trade movement, which Porter and Kramer characterize as a wealth redistributing activity (2011, 5).

The logic of SVM advises companies to focus on their business interests, to seek legitimate business opportunities within social problems, and to make philanthropy more strategic. Porter and Kramer’s advice seems eminently sensible and yet it is not without its critics. One of the criticisms of SVM is that it is not an entirely new idea. As pointed out in the Economist’s March 10, 2011 Schumpeter Blog: “There is a striking similarity between shared value and Jed Emerson’s concept of blended value, in which firms seek simultaneously to pursue profit and social and environmental targets. In addition, there seems to be crucial overlap with Stuart Hart’s (2005) book, Capitalism at the Crossroads.” The rhetoric around shared value is also reminiscent of C.K. Prahalad’s and Allen Hammond’s (2002) work on serving the world’s poor. Of course, the Brundtland Report (United Nations World Commission on Environment and Development 1987) and Elkington’s people, planet, profits (1997) were the early innovators in conceptualizing how business activity could lead to social and environmental improvement. It seems, as Elkington (2004) points out, that shared value has not advanced the concept of CSR practice but simply indicates that a leading business theorist is now paying attention to environmental risks as business opportunities.

Secondly, there may be a deeper critique of Porter and Kramer’s effort to build an umbrella framework about the business-society relationship than the position that they have simply repackaged innovative ideas from the late twentieth century. Indeed, it may be that Porter and Kramer’s emphasis on finding the business and social value sweet spots, leads to blind spots about what societies value. This may be especially true in regard to addressing the adverse harms of business conduct. Has the shared value concept and its underlying rationale gone any further than the 1950s mantra that what is good for business is good for society?
While the SVM essays make extensive use of a variety of examples, it is not clear that these are best explained by the principles of SVM. In particular, their account of the Cisco Networking Academy (Porter and Kramer 2002, 12–13) actually highlights the serendipitous rise of an initiative from a simple charitable act by Cisco into an expansive, innovative program. Whether it was an act of strategic philanthropy that came about from instrumentally rational analysis proposed by SVM is not at all clear. Beyond the rhetoric of competitive context, the Academy is simply a good idea with tangible business benefits. On the other hand, many corporations provided philanthropic support to launch and sustain Teach For America, another great idea. However, corporate philanthropists eager to improve the U.S. education system, provide and continue to provide support that has enabled Teach For America to become the nation’s largest provider of teachers for low-income communities. In the case of Cisco, the company identified the business need which happened to benefit a broader public. In the case of Teach For America, the community identified a problem and a potential solution while the corporations were asked to be funders (Crutchfield and Grant 2008, 179–180). These instances actually illustrate alternatives to SVM reasoning about the business-society relationship.

It is easy to reinterpret the past in terms of a linear analysis but that may not be an adequate explanation for how something happened. Porter and Kramer’s account of the Nestlé example portrays a fortuitous fit between the principles of SVM and the supposed underlying decision-making that gave rise to Nestlé’s milk district in India. Their claim that Nestlé came to build a business not to engage in CSR constructs a false dichotomy and an ambiguity in their overall point about how social values are taken into account about decision-making. It may also be that Nestlé was searching for a novel way to overcome reputational issues that have plagued them for decades.

The SVM is primarily built on positive cases without much if any consideration of potential contradictory examples or the negative implications of the examples given. There is the distinct possibility that adherence to SVM would lead to socially distorting decision-making. Porter and Kramer’s acid tests for SVM decision-making and the processes for choosing social initiatives privilege the business imperative which has the potential for overly narrowing or limiting the types of contributions a company could actually make while also framing social and environmental problems in ways that leave out other equally or more important problems.
Following the rationale of SVM, for instance, the local community college benefits if they are involved in training people for the company’s new business. Similarly, the local community benefits if the company’s new business requires infrastructure the company helps to fund. Here is where the pursuit of a value proposition for business comes into contact with the values and needs of the community. The social improvements happen if it helps the company achieve its business goals. The value proposition is based on a negotiation with other parties interested in supplying the needs of the company’s value chain. Some interested parties from the community get to strike a bargain with the company while others do not. The SVM implies that the corporation identifies the issues to address as well as selecting the NGO partners. While this is great for the NGO partners chosen for partnerships, what happens to those other community partners? (Roper and Cheney 2006, 265).

No doubt a profitable deal that ripples through the rest of the community can happen through an SVM approach, but depending on the size and number of deals the value proposition could come to dominate the community or the activity. There is, after all, the trouble that can result from creating “company towns” that are overly dependent on one company or cluster. Too big to fail can become an issue at any scale and becomes apparent when a company goes out of business or moves to pursue a better tax break somewhere, or to avoid a mess that it has created.

At the same time, the terms of any of the agreements to become part of a company’s value chain, will influence how other choices are made. What needs attention may be at odds with the terms offered by the value chain. The production of drugs and therapies for one disease that has captured the imagination of some may result in a stockpile that is useless for another disease that is not as popular and that may be more fundamental to overall public health. Business-driven campaigns targeted to specific health issues risk obscuring broader health needs, such as systems strengthening, and thus putting other populations at risk.

Many of the examples cited by Porter and Kramer are, not surprisingly, clients of the FSG group or affiliated with the Harvard Business School. General Electric’s Ecomagination initiative is another primary case of implementing the shared value model to innovate products and services. Under Immelt’s leadership GE has attempted to make the conduct of their business the expression of their CSR. As a popular topic for Harvard Business School case studies, GE is shown to re-invent itself with a new socially responsible image meant to focus its corporate decision-making and business strategy development around solving social problems profitably (Bartlett 2006).
GE’s embrace of this new model of CSR has not led to improved reputation as is evident in its precipitous slide from number one in 2005 to number eleven in 2008 in Barron’s World’s Most Respected Companies ratings (Santoli 2009). Beyond Barron’s, it has not led to improved NYSE financial performance. GE is still ranked as one of the top world’s ten greenwashers by watchdog groups and stakeholder media (e.g., CorpWatch, 24/7 Wall St., Clean Air Watch). Its investments in coal and oil raise questions about its commitment to operating in a more sustainable environment. Perhaps, most interesting, is that while consistently avoiding the topic of its role in dumping PCBs (Gargill 2009) into the Hudson River, and lobbying for legislation that further stalled cleanup efforts, Ecomagination initiatives have delivered little innovation that would solve this major problem created by industrial production in the twentieth century. Such innovation would send an important signal of corporate social responsibility and the pursuit of shared value.

Philanthropy and CSR initiatives can serve as a strategic bridge to bring the community into the company’s production process, its value chain. However, the SVM model proposes a model for social innovation that is skewed toward the corporate interest. Chesbrough and Appelyard (2007) point out that traditional views of business, such as Porter’s competitive advantage, emphasize ownership of resources for creating value and control to exclude others from copying any innovation. Traditional business strategy guides companies to develop defensible positions against competition and power in the value chain, implying the importance of constructing barriers rather than promoting value creation through openness. Porter and Kramer’s discussion of how to organize for shared value reveals just this point in their emphasis on bringing the “outside in” to the organization so that the organization can innovate its business. The fundamental concept of shared value places the company in the center node of any network of stakeholders. Any value for others is essentially spillover from the company’s success. This is a key source of the potential for social distortions from SVM-style decision-making.

A fundamental issue for SVM is that market-based approaches will only ever be piecemeal solutions primarily driven to position one company over another in the market, legislative, regulatory, or reputational processes (Vogel 2005). The systemic need is for businesses responsibilities to include “strengthen(ing) civil society and the capacity of governments to require that all firms act more responsibly” (Vogel 2005, 172). To the degree that SVM guides companies to be aware of their self-interest when engaging in social initiatives, it makes sense, but SVM