
**REFERENCES**

www.hec.edu/sno

This Executive Factsheet was produced by the Society & Organizations (S&O) Institute of HEC Paris, and the Movement for Social*Business Impact (MSBI)
Creating shared value is a popular business concept that companies may use to generate simultaneously benefits for business and society. Despite criticisms, it adds value to the debate about how firms can improve their understanding about markets, competition, and business management.

The idea in a nutshell

Creating shared value (CSV) is a concept developed by Michael E. Porter and Mark R. Kramer in 2011 focusing on the relationships between economic and societal progress. According to CSV, companies can drive innovation, global growth, and create benefits for society in three ways.

- By rethinking their products and the markets they serve, companies can help society to meet the needs of disadvantaged communities in developing countries.
- By redefining productivity in the value chain, firms may improve their own business processes through social or environmental innovations.
- By supporting the development of industry clusters, companies can strengthen their supplier networks and improve societal conditions.

CSV vs. philanthropy and CSR

In comparison to other concepts such as corporate philanthropy or corporate social responsibility (CSR), Porter and Kramer argue that CSV is about creating shared value, i.e., generating both economic and societal benefits instead of merely donating money to a certain cause or defining business’ responsibilities to address societal challenges. In lieu, CSV places environmental and social issues at the centre of how businesses operate.

The link between competitive advantage and CSR

CSV has different origins. Yet, already in 2006, Porter and Kramer introduced the notion of companies creating meaningful benefits for society and businesses. Back then, the authors deemed existing approaches to CSR as disconnected from business strategy. Hence, they introduced a framework that outlines a way for companies to create CSR initiatives maximizing the competitive value of resolving social problems. Based on the idea that companies can do both; solve a social problem and gain competitive advantage, the authors proposed a roadmap for firms to identify win-win situations for their businesses and societies. In order to create CSR activities that are beneficial to society and help firms to gain an edge over their competitors, managers should:

1) Identify the points of intersection between their business and society.
   - By mapping the social impact of the value chain, i.e., analyzing a firm’s value chain, managers can identify the positive and negative social impacts of their business-related activities. Such issues may, for example, relate to a firm’s infrastructure, operations, logistics, and sales services.
   - By determining the social influence on a firm’s competitiveness, managers can gain a better understanding of the factors that affect a firm’s ability to compete in a market. This step requires the analysis of a company’s external environment and the identification of areas that may concern the quantity and the quality of available business inputs, the rules and incentives that govern competition, local demand characteristics, and the availability of supporting industries. Based on the various identified social issues, subsequently, managers are able to:

2) Choose which social issues to address.
   Making a distinction between generic social issues, value chain social impacts, and social dimensions of the competitive context can help managers to select strategically important social issues.
   - Generic social issues are important to society but are neither affected by the firm’s operations nor do they influence its long-term competitiveness.
   - Value chain social impacts are issues that are significantly affected by the firm’s everyday activities.

- Social dimensions of competitive context are the external environmental factors considerably affecting firms’ ability to compete in the market. Based on this prioritization of issues, managers may subsequently:

3) Create a corporate social agenda by distinguishing between two types of CSR.
   - Responsive CSR includes mitigating harm from value chain activities and acting as a good corporate citizen. Such CSR activities are unrelated to a company’s core business.
   - Strategic CSR, instead, consists in transforming business-related value chain activities in such way that at the same time it benefits the society and reinforces the firm’s strategy. It is an engagement towards an important social or environmental cause that improves a company’s capabilities in crucial areas of external competitive context. Such CSR activities are directly related to a company’s core business and may help companies to solve a social problem and gain competitive advantage.

The criticism

Today, CSV is rather contested. Among others, critics argue that CSV ignores the tensions between social and economic goals and, for example, does not provide guidance about how companies should balance competing stakeholder claims. Moreover, CSV is said to be naïve about the challenges of business compliance as it assumes that businesses always comply with legal or moral standards. This is not however the case. Moreover, CSV keeps profit making at the root of the definition of a firm. Thus, it offers only a mildly amended version of profit maximization. Yet, despite these points, CSV is still appealing to many practitioners around the world.