TOPIC 2
CREATING SHARED VALUE

Introduction

In the article "Creating Shared Value," Harvard Business professors and entrepreneurs Mike Porter and Mark Kramer argue that it is possible for a company to solve social justice problems *and* make a profit simultaneously by reworking its business model. Sounds like a fantastic win-win proposition to me! But I must admit that I am always a little skeptical about claims that a new idea is going to solve all the world's problems.

We should also take Steve Denning's critical questions and concerns into account as he presents these in his brief article "Why 'Shared Value' Can't Fix Capitalism." Denning questions whether the Shared Value approach can live up to the extravagant claims of its proponents. But, heck, even if business could solve *some* of the world's social justice problems while making a buck doing it, it would be a good thing. Right? See what you think after you consider what Porter and Kramer have to say.

Porter and Kramer call their new way of thinking about the purpose of business within a capitalist framework "shared value" because two different value propositions are involved. Think of shared value as a way of approaching the intersection of classical profit-oriented capitalism on

the one hand, and progressive ideas about the social responsibility of business on the other. Not a very busy intersection these days, I'm afraid, but maybe that is exactly why it is worth looking at.

Porter and Kramer believe that many companies have been overlooking money-making opportunities by ignoring some underserved markets, especially marginalized groups like the millions of people around the world at the *bottom of the pyramid*. They think that from the perspective of shared value, companies should look to their products and their entire value chain, as well as their organizational and distribution structure, to see where shared value can be created, making a profit while solving social problems like poverty and pollution .

It is worth noting that Porter & Kramer have organized a non-profit consulting business around the concept of shared value called FSG and have a long list of multinational companies as clients; a good example of entrepreneurship, don't you think? Check out FSG's "Reimagining Social Change" website at www.fsg.org to see their Shared Value global consulting startup. It's impressive.

As you read the assigned article, "Creating Shared Value" you should think about the way in which Porter & Kramer wish to rebrand business within a capitalist framework. Why are they against the traditional idea of corporate social responsibility? What is the value of rebranding the purpose of business as shared value? Does this idea help to expand the horizon of commercial and social justice possibility, or is it just another clever way of talking about business-as-usual? Consider carefully the examples they use where they think Shared Value has proven to be a particularly effective business approach. What sets these examples apart from any normal expansion of business operations in a capitalist system?

If thinking about business through the lens of shared value can help a company achieve greater financial success while it simultaneously solves social problems--without exploitation and without creating more social problems down the line or behind the scenes (like pollution or harm to the poorest of the poor)--then I say go for it!

But before you jump too fast at the restructuring of your value chain, you should check out Steve Denning's questions about the limits of what Shared Value might accomplish in his article "Why Shared Value Can't Fix Capitalism"—also included below. As he points out, business reforms like Shared Value have been tried before, such as "business process re-engineering" in the 90s, with only moderate benefit. Is Shared Value really something revolutionary or is it merely a new way of talking about business-as-usual?

Also, Denning points out, tweaking the value chain is an outdated "inside-out" model since marketing now must focus on "delighting the customer" (as Apple does so well), an "outside-in" approach. Besides, Shared Value focuses on objective business functions and processes and doesn't call on managers personally to change the way they go about doing business.

What do YOU think?

Porter & Kramer - Creating Shared Value (5:29)

Shared Value

Michael Porter and Mark Kramer

Creating Shared Value:
How to reinvent capitalism—and unleash a wave of innovation and growth[1]

Mark Kramer

The capitalist system is under siege. In recent years business increasingly has been viewed as a major cause of social, environmental, and economic problems. Companies are widely perceived to be prospering at the expense of the broader community.

Michael Porter

Even worse, the more business has begun to embrace corporate responsibility, the more it has been blamed for society's failures. The legitimacy of business has fallen to levels not seen in recent history. This diminished trust in business leads political leaders to set policies that undermine competitiveness and sap economic growth. Business is caught in a vicious circle.

A big part of the problem lies with companies themselves, which remain trapped in an outdated approach to value creation that has emerged over the past few decades. They continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success. How else could companies overlook the wellbeing of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, or the economic distress of the communities in which they produce and sell? How else could companies think that simply shifting activities to locations with ever lower wages was a sustainable "solution" to competitive challenges? Government and civil society have often exacerbated the problem by attempting to address social weaknesses at the expense of business. The presumed trade-offs between economic efficiency and social progress have been institutionalized in decades of policy choices.

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[1] Porter, Michael E., and Kramer, Mark R. "*Creating Shared Value: How to reinvent capitalism—and unleash a wave of innovation and growth*" Harvard Business Review. Jan-Feb, 2011.

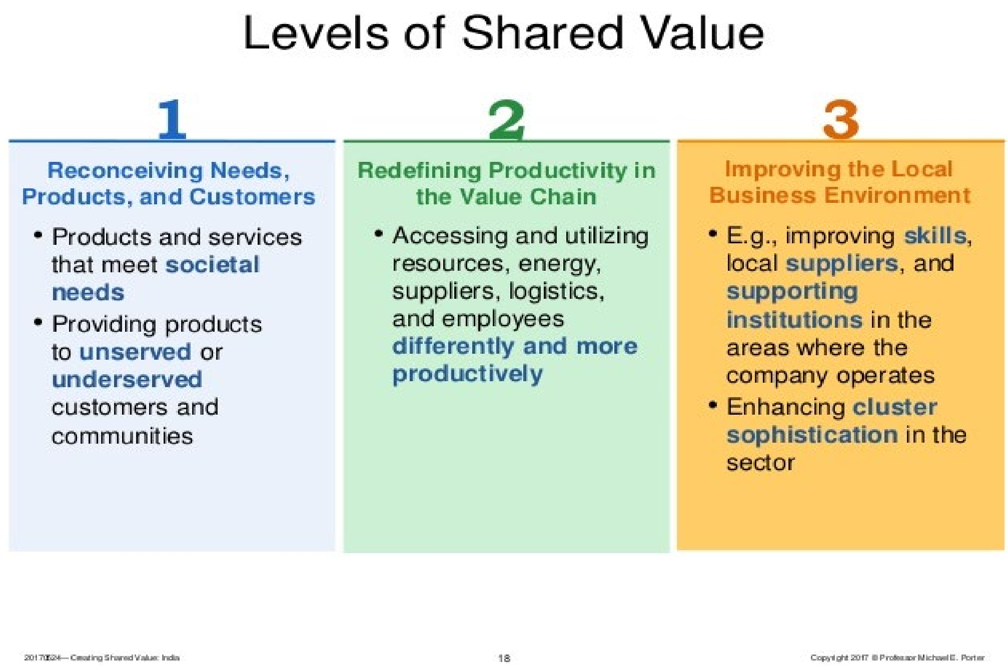
Companies must take the lead in bringing business and society back together. The recognition is there among sophisticated business and thought leaders, and promising elements of a new model are emerging. Yet we still lack an overall framework for guiding these efforts, and most companies remain stuck in a "social responsibility" mind-set in which societal issues are at the periphery, not the core.

The solution lies in the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress. Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center. We believe that it can give rise to the next major transformation of business thinking.

A growing number of companies known for their hard-nosed approach to business-such as GE, Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever, and Wal-Mart-have already embarked on important efforts to create shared value by reconceiving the intersection between society and corporate performance. Yet our recognition of the transformative power of shared value is still in its genesis. Realizing it will require leaders and managers to develop new skills and knowledge-such as a far deeper appreciation of societal needs, a greater understanding of the true bases of company productivity, and the ability to collaborate across profit/nonprofit boundaries. And government must learn how to regulate in ways that enable shared value rather than work against it.

Capitalism is an unparalleled vehicle for meeting human needs, improving efficiency, creating jobs, and building wealth. But a narrow conception of capitalism has prevented business from harnessing its full potential to meet society's broader challenges.

The opportunities have been there all along but have been overlooked. Businesses acting as businesses, not as charitable donors, are the most powerful force for addressing the pressing issues we face. The moment for a new conception of capitalism is now; society's needs are large and growing, while customers, employees, and a new generation of young people are asking business to step up.



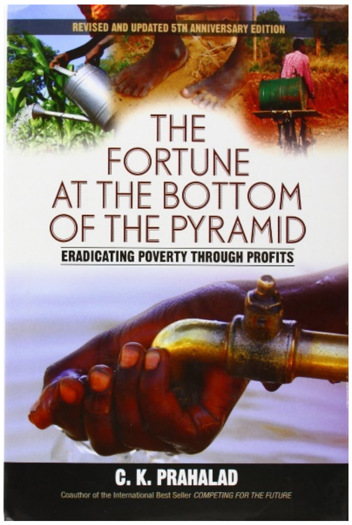
The purpose of the corporation must be redefined as creating shared value, not just profit per se. This will drive the next wave of innovation and productivity growth in the global economy. It will also reshape capitalism and its relationship to society. Perhaps most important of all, learning how to create shared value is our best chance to legitimize business again.

Moving Beyond Trade-Offs

Business and society have been pitted against each other for too long. That is in part because economists have legitimized the idea that to provide societal benefits, companies must temper their economic success. In neoclassical thinking, a requirement for social improvement-such as safety or hiring the disabled-imposes a constraint on the corporation. Adding a constraint to a firm that is already maximizing profits, says the theory, will inevitably raise costs and reduce those profits.

A related concept, with the same conclusion, is the notion of externalities. Externalities arise when firms create social costs that they do not have to bear, such as pollution. Thus, society must impose taxes, regulations, and penalties so that firms "internalize" these externalities—a belief influencing many government policy decisions.

This perspective has also shaped the strategies of firms themselves, which have largely excluded social and environmental considerations from their economic thinking. Firms have taken the broader context in which they do business as a given and resisted regulatory standards as invariably contrary to their interests. Solving social problems has been ceded to governments and to NGOs. Corporate responsibility programs—a



> **"The purpose of this book … is to illustrate that the typical pictures of (global) poverty mask the fact that the very poor represent resilient entrepreneurs and value-conscious consumers. What is needed is a better approach to help the poor, an approach that involves partnering with them to innovate and achieve sustainable win–win scenarios where the poor are actively engaged and, at the same time, the companies providing products and services to them are profitable."**
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> C.K. Prahalad   Wharton School Publishing, 2006

reaction to external pressure—have emerged largely to improve firms' reputations and are treated as a necessary expense. Anything more is seen by many as an irresponsible use of shareholders' money. Governments, for their part, have often regulated in a way that makes shared value more difficult to achieve. Implicitly, each side has assumed that the other is an obstacle to pursuing its goals and acted accordingly.

The concept of shared value, in contrast, recognizes that societal needs, not just conventional economic needs, define markets. It also recognizes that social harms or weaknesses frequently create internal costs for firms—such as wasted energy or raw materials, costly accidents, and the need for remedial training to compensate for inadequacies in education. And addressing societal harms and constraints does not necessarily raise costs for firms, because they can innovate through using new technologies, operating methods, and management approaches—and as a result, increase their productivity and expand their markets.

Shared value, then, is not about personal values. Nor is it about "sharing" the value already created by firms—a redistribution approach. Instead, it is about expanding the total pool of economic and social value. A good example of this difference in perspective is the fair trade movement in purchasing. Fair trade aims to increase the proportion of revenue that goes to poor farmers by paying them higher prices for the same crops. Though this may be a noble sentiment, fair trade is mostly about redistribution rather than expanding the overall amount of value created. A shared value perspective, instead, 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. Early studies of cocoa farmers in the Côte d'Ivoire, for instance, suggest that while fair trade can increase farmers' incomes by 10% to 20%, shared value investments can raise their incomes by more than 300%. Initial investment and time may be required to implement new procurement practices and develop the supporting cluster, but the return will be greater economic value and broader strategic benefits for all participants.

At a very basic level, the competitiveness of a company and the health of the communities around it are closely intertwined.

The Roots of Shared Value

A business needs a successful community, not only to create demand for its products but also to provide critical public assets and a supportive environment. A community needs successful businesses to provide jobs and wealth creation opportunities for its citizens. This interdependence means that public policies that undermine the productivity and competitiveness of businesses are self-defeating, especially in a global economy where facilities and jobs can easily move elsewhere. NGOs and governments have not always appreciated this connection.

In the old, narrow view of capitalism, business contributes to society by making a profit, which supports employment, wages, purchases, investments, and taxes. Conducting business as usual is sufficient social benefit. A firm is largely a self-contained entity, and social or community issues fall outside its proper scope. (This is the argument advanced persuasively by Milton Friedman in his critique of the whole notion of corporate social responsibility.)

This perspective has permeated management thinking for the past two decades. Firms focused on enticing consumers to buy more and more of their products. Facing growing competition and shorter- term performance pressures from shareholders, managers resorted to waves of restructuring, personnel reductions, and relocation to lower-cost regions, while leveraging balance sheets to return capital to investors. The results were often commoditization, price competition, little true innovation, slow organic growth, and no clear competitive advantage.

In this kind of competition, the communities in which companies operate perceive little benefit even as profits rise. Instead, they perceive that profits come at their expense, an impression that has become even stronger in the current economic recovery, in which rising earnings have done little to offset high unemployment, local business distress, and severe pressures on community services.

It was not always this way. The best companies once took on a broad range of roles in meeting the needs of workers, communities, and supporting businesses. As other social institutions appeared on the scene, however, these roles fell away or were delegated. Shortening investor time horizons began to narrow thinking about appropriate investments. As the vertically integrated firm gave way to greater reliance on outside vendors, outsourcing and offshoring weakened the connection between firms and their communities. As firms moved disparate activities to more and more locations, they often lost touch with any location. Indeed, many companies no longer recognize a home—but see themselves as "global" companies.

These transformations drove major progress in economic efficiency. However, something profoundly important was lost in the process, as more fundamental opportunities for value creation were missed. The scope of strategic thinking contracted.

Strategy theory holds that to be successful, a company must create a distinctive value proposition that meets the needs of a chosen set of customers. The firm gains competitive advantage from how it configures the value chain, or the set of activities involved in creating, producing, selling, delivering, and supporting its products or services. For decades businesspeople have studied positioning and the best ways to design activities and integrate them.

Companies have overlooked opportunities to meet fundamental societal needs and misunderstood how societal harms and weaknesses affect value chains. Our field of vision has simply been too narrow.

In understanding the business environment, managers have focused most of their attention on the industry, or the particular business in which the firm competes. This is because industry structure has a decisive impact on a firm's profitability. What has been missed, however, is the profound effect that location can have on productivity and innovation. Companies have failed to grasp the importance of the broader business environment surrounding their major operations.

How Shared Value Is Created

Companies can create economic value by creating societal value. There are three distinct ways to do this: by reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters at the company's locations. Each of these is part of the virtuous circle of shared value; improving value in one area gives rise to opportunities in the others.

The concept of shared value resets the boundaries of capitalism. By better connecting companies' success with societal improvement, it opens up many ways to serve new needs, gain efficiency, create differentiation, and expand markets.

The ability to create shared value applies equally to advanced economies and developing countries, though the specific opportunities will differ. The opportunities will also differ markedly across industries and companies—but every company has them. And their range and scope is far broader than has been recognized.

Reconceiving Products and Markets

Society's needs are huge—health, better housing, improved nutrition, help for the aging, greater financial security, less environmental damage. Arguably, they are the greatest unmet needs in the global economy. In business we have spent decades learning how to parse and manufacture demand while missing the most important demand of all. Too many companies have lost sight of that most basic of questions: Is our product good for our customers? Or for our customers' customers?

In advanced economies, demand for products and services that meet societal needs is rapidly growing. Food companies that traditionally concentrated on taste and quantity to drive more and more consumption are refocusing on the fundamental need for better nutrition. Intel and IBM are both devising ways to help utilities harness digital intelligence in order to economize on power usage. Wells Fargo has developed a line of products and tools that help customers budget, manage credit, and pay down debt. Sales of GE's Ecomagination products reached $18 billion in 2009—the size of a Fortune 150 company. GE now predicts that revenues of Ecomagination products will grow at twice the rate of total company revenues over the next five years.

In these and many other ways, whole new avenues for innovation open up, and shared value is created. Society's gains are even greater, because businesses will often be far more effective than governments and nonprofits are at marketing that motivates customers to embrace products and services that create societal benefits, like healthier food or environmentally friendly products.

Equal or greater opportunities arise from serving disadvantaged communities and developing countries. Though societal needs are even more pressing there, these communities have not been recognized as viable markets. Today attention is riveted on India, China, and increasingly, Brazil, which offer firms the prospect of reaching billions of new customers at the bottom of the pyramid—a notion persuasively articulated by C.K. Prahalad. Yet these countries have always had huge needs, as do many developing countries.

Similar opportunities await in nontraditional communities in advanced countries. We have learned, for example, that poor urban areas are America's most underserved market; their substantial concentrated purchasing power has often been overlooked. (See the research of the Initiative for a Competitive Inner City, at icic.org.)

The societal benefits of providing appropriate products to lower-income and disadvantaged consumers can be profound, while the profits for companies can be substantial. For example, low-priced cell phones that provide mobile banking services are helping the poor save money securely and transforming the ability of small farmers to produce and market their crops. In Kenya, Vodafone's M-PESA mobile banking service signed up 10 million customers in three years; the funds it handles now represent 11% of that country's GDP. In India, Thomson Reuters has developed a promising monthly service for farmers who earn an average of $2,000 a year. For a fee of $5 a quarter, it provides weather and crop pricing information and agricultural advice. The service reaches an estimated 2 million farmers, and early research indicates that it has helped increase the incomes of more than 60% of them—in some cases even tripling incomes. As capitalism begins to work in poorer communities, new opportunities for economic development and social progress increase exponentially.

For a company, the starting point for creating this kind of shared value is to identify all the societal needs, benefits, and harms that are or could be embodied in the firm's products. The opportunities are not static; they change constantly as technology evolves, economies develop, and societal priorities shift. An ongoing exploration of societal needs will lead companies to discover new opportunities for differentiation and repositioning in traditional markets, and to recognize the potential of new markets they previously overlooked.

Meeting needs in underserved markets often requires redesigned products or different distribution methods. These requirements can trigger fundamental innovations that also have application in traditional markets. Microfinance, for example, was invented to serve unmet financing needs in developing countries. N ow it is growing rapidly in the United States, where it is filling an important gap that was unrecognized.

Redefining Productivity In the Value Chain

A company's value chain inevitably affects—and is affected by—numerous societal issues, such as natural resource and water use, health and safety, working conditions, and equal treatment in the workplace. Opportunities to create shared value arise because societal problems can create economic costs in the firm's value chain. Many so-called externalities actually inflict internal costs on the firm, even in the absence of regulation or resource taxes. Excess packaging of products and greenhouse gases are not just costly to the environment but costly to the business. Wal-Mart, for example, was able to address both issues by reducing its packaging and rerouting its trucks to cut 100 million miles from its delivery routes in 2009, saving $200 million even as it shipped more products. Innovation in disposing of plastic used in stores has saved millions in lower disposal costs to landfills.

The new thinking reveals that the congruence between societal progress and productivity in the value chain is far greater than traditionally believed (see the exhibit "The Connection Between Competitive Advantage and Social Issues"). The synergy increases when firms approach societal issues from a shared value perspective and invent new ways of operating to address them. So far, however, few companies have reaped the full productivity benefits in areas such as health, safety, environmental performance, and employee retention and capability.

But there are unmistakable signs of change. Efforts to minimize pollution were once thought to inevitably increase business costs—and to occur only because of regulation and taxes. Today there is a growing consensus that major improvements in environmental performance can often be achieved with better technology at nominal incremental cost and can even yield net cost savings through enhanced resource utilization, process efficiency, and quality.

In each of the areas in the exhibit, a deeper understanding of productivity and a growing awareness of the fallacy of short-term cost reductions (which often actually lower productivity or make it unsustainable) are giving rise to new approaches. The following are some of the most important ways in which shared value thinking is transforming the value chain, which are not independent but often mutually reinforcing. Efforts in these and other areas are still works in process, whose implications will be felt for years to come.

a. Energy use and logistics

The use of energy throughout the value chain is being reexamined, whether it be in processes, transportation, buildings, supply chains, distribution channels, or support services. Triggered by energy price spikes and a new awareness of opportunities for energy efficiency, this reexamination was under way even before carbon emissions became a global focus. The result has been striking improvements in energy utilization through better technology, recycling, cogeneration, and numerous other practices—all of which create shared value.

We are learning that shipping is expensive, not just because of energy costs and emissions but because it adds time, complexity, inventory costs, and management costs. Logistical systems are beginning to be redesigned to reduce shipping distances, streamline handling, improve vehicle routing, and the like. All of these steps create shared value. The British retailer Marks & Spencer's ambitious overhaul of its supply chain, for example, which involves steps as simple as stopping the purchase of supplies from one hemisphere to ship to another, is expected to save the retailer £175 million annually by fiscal 2016, while hugely reducing carbon emissions. In the process of reexamining logistics, thinking about outsourcing and location will also be revised (as we will discuss below).

b. Resource use

Heightened environmental awareness and advances in technology are catalyzing new approaches in areas such as utilization of water, raw materials, and packaging, as well as expanding recycling and reuse. The opportunities apply to all resources, not just those that have been identified by environmentalists. Better resource utilization—enabled by improving technology—will permeate all parts of the value chain and will spread to suppliers and channels. Landfills will fill more slowly.

For example, Coca-Cola has already reduced its worldwide water consumption by 9% from a 2004 baseline—nearly halfway to its goal of a 20% reduction by 2012. Dow Chemical managed to reduce consumption of fresh water at its largest production site by one billion gallons—enough water to supply nearly 40,000 people in the U.S. for a year—resulting in savings of $4 million. The demand for water saving technology has allowed India's Jain Irrigation, a leading global manufacturer of complete drip irrigation systems for water conservation, to achieve a 41% compound annual growth rate in revenue over the past five years.

c. Procurement

The traditional playbook calls for companies to commoditize and exert maximum bargaining power on suppliers to drive down prices— even when purchasing from small businesses or subsistence-level farmers. More recently, firms have been rapidly outsourcing to suppliers in lower-wage locations.

Today some companies are beginning to understand that marginalized suppliers cannot remain productive or sustain, much less improve, their quality. By increasing access to inputs, sharing technology, and providing financing, companies can improve supplier quality and productivity while ensuring access to growing volume. Improving productivity will often trump lower prices. As suppliers get stronger, their environmental impact often falls dramatically, which further improves their efficiency. Shared value is created.

A good example of such new procurement thinking can be found at Nespresso, one of Nestle's fastest- growing divisions, which has enjoyed annual growth of 30% since 2000. Nespresso combines a sophisticated espresso machine with single-cup aluminum capsules containing ground coffees from around the world. Offering quality and convenience, Nespresso has expanded the market for premium coffee.

Obtaining a reliable supply of specialized coffees is extremely challenging, however. Most coffees are grown by small farmers in impoverished rural areas of Africa and Latin America, who are trapped in a cycle of low productivity, poor quality, and environmental degradation that limits production volume. To address these issues, Nestlé redesigned procurement. It worked intensively with its growers, providing advice on farming practices, guaranteeing bank loans, and helping secure inputs such as plant stock, pesticides, and fertilizers. Nestlé established local facilities to measure the quality of the coffee at the point of purchase, which allowed it to pay a premium for better beans directly to the growers and thus improve their incentives. Greater yield per hectare and higher production quality increased growers' incomes, and the environmental impact of farms shrank. Meanwhile, Nestlé's reliable supply of good coffee grew significantly. Shared value was created.

Embedded in the Nestlé example is a far broader insight, which is the advantage of buying from capable local suppliers. Outsourcing to other locations and countries creates transaction costs and inefficiencies that can offset lower wage and input costs. Capable local suppliers help firms avoid these costs and can reduce cycle time, increase flexibility, foster faster learning, and enable innovation. Buying local includes not only local companies but also local units of national or international companies. When firms buy locally, their suppliers can get stronger, increase their profits, hire more people, and pay better wages—all of which will benefit other businesses in the community. Shared value is created.

d. Distribution

Companies are beginning to reexamine distribution practices from a shared value perspective. As iTunes, Kindle, and Google Scholar (which offers texts of scholarly literature online) demonstrate, profitable new distribution models can also dramatically reduce paper and plastic usage. Similarly, microfinance has created a cost-efficient new model of distributing financial services to small businesses.

Opportunities for new distribution models can be even greater in nontraditional markets. For example, Hindustan Unilever is creating a new direct- to-home distribution system, run by underprivileged female entrepreneurs, in Indian villages of fewer than 2,000 people. Unilever provides microcredit and training and now has more than 45,000 entrepreneurs covering some 100,000 villages across 15 Indian states. Project Shakti, as this distribution system is called, benefits communities not only by giving women skills that often double their household income but also by reducing the spread of communicable diseases through increased access to hygiene products. This is a good example of how the unique ability of business to market to hard- to-reach consumers can benefit society by getting life-altering products into the hands of people that need them. Project Shakti now accounts for 5% of Unilever’s total revenues in India and has extended the company’s reach into rural areas and built its brand in media-dark regions, creating major economic value for the company.

e. Employee productivity

The focus on holding down wage levels, reducing benefits, and offshoring is beginning to give way to an awareness of the positive effects that a living wage, safety, wellness, training, and opportunities for advancement for employees have on productivity. Many companies, for example, traditionally sought to minimize the cost of “expensive” employee health care coverage or even eliminate health coverage altogether. Today leading companies have learned that because of lost workdays and diminished employee productivity, poor health costs them more than health benefits do. Take Johnson & Johnson. By helping employees stop smoking (a two-thirds reduction in the past 15 years) and implementing numerous other wellness programs, the company has saved $250 million on health care costs, a return of $2.71 for every dollar spent on wellness from 2002 to 2008. Moreover, Johnson & Johnson has benefited from a more present and productive workforce. If labor unions focused more on shared value, too, these kinds of employee approaches would spread even faster.

f. Location

Business thinking has embraced the myth that location no longer matters, because logistics are inexpensive, information flows rapidly, and markets are global. The cheaper the location, then, the better. Concern about the local communities in which a company operates has faded.

That oversimplified thinking is now being challenged, partly by the rising costs of energy and carbon emissions but also by a greater recognition of the productivity cost of highly dispersed production systems and the hidden costs of distant procurement discussed earlier. Wal-Mart, for example, is increasingly sourcing produce for its food sections from local farms near its warehouses. It has discovered that the savings on transportation costs and the ability to restock in smaller quantities more than offset the lower prices of industrial farms farther away. Nestlé is establishing smaller plants closer to its markets and stepping up efforts to maximize the use of locally available materials.

The calculus of locating activities in developing countries is also changing. Olam International, a leading cashew producer, traditionally shipped its nuts from Africa to Asia for processing at facilities staffed by productive Asian workers. But by opening local processing plants and training workers in Tanzania, Mozambique, Nigeria, and Côte d'Ivoire, Olam has cut processing and shipping costs by as much as 25%—not to mention, greatly reduced carbon emissions. In making this move, Olam also built preferred relationships with local farmers. And it has provided direct employment to 17,000 people—95% of whom are women—and indirect employment to an equal number of people, in rural areas where jobs otherwise were not available.

These trends may well lead companies to remake their value chains by moving some activities closer to home and having fewer major production locations. Until now, many companies have thought that being global meant moving production to locations with the lowest labor costs and designing their supply chains to achieve the most immediate impact on expenses. In reality, the strongest international competitors will often be those that can establish deeper roots in important communities. Companies that can embrace this new locational thinking will create shared value.

As these examples illustrate, reimagining value chains from the perspective of shared value will offer significant new ways to innovate and unlock new economic value that most businesses have missed.

Creating Shared Value in Practice

Not all profit is equal—an idea that has been lost in the narrow, short-term focus of financial markets and in much management thinking. Profits involving a social purpose represent a higher form of capitalism—one that will enable society to advance more rapidly while allowing companies to grow even more. The result is a positive cycle of company and community prosperity, which leads to profits that endure.

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. The opportunity to create economic value through creating societal value will be one of the most powerful forces driving growth in the global economy. This thinking represents a new way of understanding customers, productivity, and the extremal influences on corporate success. It highlights the immense human needs to be met, the large new markets to serve, and the internal costs of social and community deficits—as well as the competitive advantages available from addressing them. Until recently, companies have simply not approached their businesses this way.

Creating shared value will be more effective and far more sustainable than the majority of today's corporate efforts in the social arena. Companies will make real strides on the environment, for example, when they treat it as a productivity driver rather than a feel-good response to external pressure….

Inevitably, the most fertile opportunities for creating shared value will be closely related to a company's particular business, and in areas most important to the business. Here a company can benefit the most economically and hence sustain its commitment over time. Here is also where a company brings the most resources to bear, and where its scale and market presence equip it to have a meaningful impact on a societal problem.

Ironically, many of the shared value pioneers have been those with more-limited resources—social entrepreneurs and companies in developing countries. These outsiders have been able to see the opportunities more clearly. In the process, the distinction between for-profits and nonprofits is blurring.

Shared value is defining a whole new set of best practices that all companies must embrace. It will also become an integral part of strategy. The essence of strategy is choosing a unique positioning and a distinctive value chain to deliver on it. Shared value opens up many new needs to meet, new products to offer, new customers to serve, and new ways to configure the value chain. And the competitive advantages that arise from creating shared value will often be more sustainable than conventional cost and quality improvements. The cycle of imitation and zero-sum competition can be broken.

Shared value holds the key to unlocking the next wave of business innovation and growth. It will also reconnect company success and community success in ways that have been lost in an age of narrow management approaches, short-term thinking, and deepening divides among society's institutions.

Shared value focuses companies on the right kind of profits—profits that create societal benefits rather than diminish them. Capital markets will undoubtedly continue to pressure companies to generate short-term profits, and some companies will surely continue to reap profits at the expense of societal needs. But such profits will often prove to be short lived, and far greater opportunities will be missed.

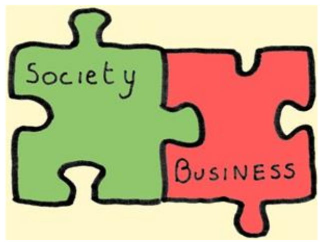
The moment for an expanded view of value creation has come. A host of factors, such as the growing social awareness of employees and citizens and the increased scarcity of natural resources, will drive unprecedented opportunities to create shared value.

We need a more sophisticated form of capitalism, one imbued with a social purpose. But that purpose should arise not out of charity but out of a deeper understanding of competition and economic value creation. This next evolution in the capitalist model recognizes new and better ways to develop products, serve markets, and build productive enterprises.

Creating shared value represents a broader conception of Adam Smith's invisible hand. It opens the doors of the pin factory to a wider set of influences. It is not philanthropy but self-interested behavior to create economic value by creating societal value. If all companies individually pursued shared value connected to their particular businesses, society's overall interests would be served. And companies would acquire legitimacy in the eyes of the communities in which they operated, which would allow democracy to work as governments set policies that fostered and supported business. Survival of the fittest would still prevail, but market competition would benefit society in ways we have lost.

Creating shared value represents a new approach to managing that cuts across disciplines. Because of the traditional divide between economic concerns and social ones, people in the public and private sectors have often followed very different educational and career paths. As a result, few managers have the understanding of social and environmental issues required to move beyond today's CSR approaches, and few social sector leaders have the managerial training and entrepreneurial mind-set needed to design and implement shared value models. Most business schools still teach the narrow view of capitalism, even though more and more of their graduates hunger for a greater sense of purpose and a growing number are drawn to social entrepreneurship. The results have been missed opportunity and public cynicism.

Business school curricula will need to broaden in a number of areas. For example, the efficient use and stewardship of all forms of resources will define the next-generation thinking on value chains. Customer behavior and marketing courses will have to move beyond persuasion and demand creation to the study of deeper human needs and how to serve nontraditional customer groups. Business and government courses will examine the economic impact of societal factors on enterprises, moving beyond the effects of regulation and macroeconomics. And finance will need to rethink how capital markets can actually support true value creation in companies—their fundamental purpose—not just benefit financial market participants.



There is nothing soft about the concept of shared value. These proposed changes in business school curricula are not qualitative and do not depart from economic value creation. Instead, they represent the next stage in our understanding of markets, competition, and business management.

Not all societal problems can be solved through shared value solutions. But shared value offers corporations the opportunity to utilize their skills, resources, and management capability to lead social progress in ways that even the best-intentioned governmental and social sector organizations can rarely match. In the process, businesses can earn the respect of society again.

Same old thing in new wineskins?

Steve Denning

Steve Denning

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Why 'shared value' can't fix capitalism

"Shared value" is presented as the antidote to Corporate Social Responsibility (CSR) programs, which, Porter says, typically involve making random donations to charity. His approach, he says, is an improvement on those programs, although one is tempted to think that he has offered a caricature of CSR programs so as to make his “new approach” look like a clear improvement.

The real problem with the argument is that “shared value” and “expanded value chains” that include socially worthwhile opportunities have yet to come to terms with the problems afflicting capitalism.

In the marketplace, there has been an epochal shift in the power from seller to buyer. As a result, the “inside-out” perspective of value chains (“we make it and you take it”) is failing fast and needs to be replaced by an outside-in perspective (“we want to understand the customers and their problems and find ways to solve those problems”).

Thus, the “shared value” argument has yet to come to terms with the fact that we are now entering "the age of customer capitalism” as defined in Roger Martin’s landmark article of that name in *Harvard Business Review* of January 2010 and further elaborated in his book, *Fixing the Game* (2011). Following periods of “managerial capitalism” and “shareholder capitalism”, which one might call respectively “Capitalism 1.0” and “Capitalism 2.0” we are entering a new and very different third era of capitalism - "customer capitalism" or “Capitalism 3.0”. "Shared value" is still mired in Capitalism 2.0….

A real fix to capitalism

A real fix to capitalism entails the embrace of Capitalism 3.0 and the profound revolution in management thinking focused on "delighting customers" and redefining managerial roles, coordination mechanisms, values and communications so that everyone and everything in the firm is oriented towards accomplishing this goal.

It means reversing the mental framework implicit in the value chain and starting from what would delight the client and focusing the entire organization on that goal.

When this is done, as Apple has shown, the returns can be extraordinary. Compare that to GE and Walmart, firms that doggedly work on tweaking their supply chains: Wal-Mart's' share price is roughly what it was a decade ago and GE's is less than half. There's a big difference between Capitalism 2.0 and Capitalism 3.0.[2]

THE TRIPLE BOTTOM LINE

The phrase "the triple bottom line" was first coined in 1994 by John Elkington, the founder of a British consultancy called SustainAbility. His argument was that companies should be preparing three different (and quite separate) bottom lines. One is the traditional measure of corporate profit—the "bottom line" of the profit and loss account. The second is the bottom line of a company's "people account"—a measure in some shape of form of how socially responsible an organization has been throughout its operations. The third is the bottom line of the company's "planet account"—a measure of how environmentally responsible it has been. The triple bottom line thus consists of the three P's: Profit, People, and Planet.

[2] Denning, Steve. "Why 'Shared Value' Can't Fix Capitalism." *Forbes / Leadership.* December 20, 2011 https://www.forbes.com/sites/stevedenning/2011/12/20/why-shared-value-cant-fix-capitalism/#6e36b8cd44d1