

Approaches to Shared Value Creation: CSR 2.0 or Something More? Insights and Issues about the New Sustainability Perspective

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Abstract

This editorial focuses on the discussion of the concept of shared value creation, which has been recently added to the debate on corporate sustainability. The purpose of the article is to provide significant insight on shared value creation, how this approach is interacting with the existing literature on Corporate Social Responsibility and to present some cases of corporations that included societal needs in their core value propositions.

Introduction

Over the last two decades, an increasing number of corporations and businesses are embracing and becoming interested in social impact and sustainability. However, recent business scandals and environmental disasters are emphasizing dislocations with the current model of capitalism and the need to understand the inherent social nature of markets. A new approach is emerging among business scholars and professionals: shared value creation, a concept which aims at addressing real societal needs under a competitive advantage perspective. Shared value enthusiasts argue that the new approach goes beyond the arena of Corporate Social Responsibility by regenerating the missing link between business and society.

Although sustainability theory and practice has been broadly studied and investigated, there is little evidence of an overall business perspective on shared value creation. Therefore, it is timely and important to understand how the concept of shared value has been developed and how is interacting with existing literature, as well as to provide some interesting cases of companies and organizations which have started to leverage such an approach.

Creating Shared Value

Shared Value is a managerial concept, which was introduced in 2011 by Porter and Kramer[1]. It is defined as a system of “policies and operating practices that enhances the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates” [1]. Shared value is a management strategy that focuses on identifying and expanding the connections between societal and economic progress by addressing social problems that intersect with the business. Such strategies have to be developed using a value approach, consistent with Prof. Porter’s previous studies on competitive advantage creation, by including societal needs in their value propositions.

Because a company’s growth depends on the features of the region and the communities in which it operates, there is a mutual dependence between business and society. Both corporate decisions

and social policies must follow common principles and become harmonious.

Shared value can be created when a strategy leads to investments in long-term business competitiveness that simultaneously addresses social and environmental objectives; this strategic perspective may include [2]:

- Reconceiving products and markets
- Redefining productivity in the value chain
- Enhancing local cluster development

These activities include rethinking the rules of the game (i.e. the nature of intellectual property rights), the quantity and quality of business inputs available (i.e. the quality of human resources), the size and quality of local demand (i.e. product safety standards) and local availability of supporting industries (i.e. level of local machinery). Devoting resources to developing a shared value approach should be viewed as a long term investment just like R&D expenditure.

Economic value arises from different sources, but recent short-term focus on stock market returns, impressive management bonuses and other narrow views cannot lead to long term sustainability. According to Porter’s view, “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” [1].

Consequently, companies should drive financial results by increasing community prosperity. In conclusion, that presumes compliance with the law, regulations, and ethical standards, as well as mitigating any harm caused by the business.

CSR 2.0 or Something More?

Professionals and scholars around the world are debating if there are any differences between the concepts of Creating Shared Value (CSV) and the concepts and theories incorporating by Corporate Social Responsibility (CSR). Is shared value just a modern version of ordinary CSR concepts?

Indeed, CSR practices have been investigated from different perspectives and scholars have often criticized the excessive self-concern by business elites which encourage companies to bring more attention and resources to address issues across a range of topics such as the natural environment, workers' needs and security, sexual harassment, mobbing, outsourcing of jobs, education, etc.

CSR propositions have been often founded on stakeholder theory assumptions, however, according to Phillips et al. [3], the concept of stakeholder is not synonymous with 'citizen' or 'moral agent' as some wish to interpret it; stakeholder status requires the presence of a particular and much closer relationship between an organization and a constituency group [4,5]. Furthermore, it isn't clear the extent to which a stakeholder, through their involvement within a business, tries to improve society and not harm the environment outside its business linkage. In other words a company's CSR awareness is often not completely shaped by society or environmental activists, but by what stakeholders seek as utility through their cooperation and interactions with the business.

Porter and Kramer [1] argued that a shared value approach is different from ordinary CSR programs focused mostly on reputation, with limited connection to the business. Traditional CSR rationales are often hard to justify and maintain over the long run because they don't critically examine how the competitive context can be merged with long term social incentives that focus on profit increases [6].

The European Commission in its policy for sustainability issued in 2011, defines Corporate Social Responsibility as "the responsibility of enterprises for their impacts on society" by specifically addressing social, environmental, ethical, human rights and consumer concerns by incorporating them into their business operations and core strategy in close collaboration with their stakeholders community. The EC stresses that corporations should maximize the creation of shared value by adopting a long-term, strategic approach to CSR, and to explore the opportunities for developing innovations that contribute to societal wellbeing and lead to higher quality and more productive jobs [7]. The EC also suggest some guidelines (i.e. UN Global compact, ISO 26000 and OECD Guidelines for MNE) which already incorporate such concepts and could help enterprises to adopt a shared value creation vision in developing their CSR practices. Besides Scagnelliet al. [8,9] focused investigated multi-ethical enterprise behaviors and found that related environmental, ethical and social practices were strategic and already driven by the specific societal and public needs. Initially, corporations approach and adopt shared value initiatives from a bottom line perspective which has been usually related to decreasing social and environmental footprints, in other words, common and well-studied CSR practices. Porter and Kramer [10] in their initial study presented several examples: Unilever's innovation in developing new products with smaller package sizes and distribution systems to meet the needs of the poorest populations; Nestlé's sustainable approach to working with small farmers and their development of milk districts in India.

Approaching shared value creation is the opportunity to leverage such CSR 2.0 practices within actual organizational processes, starting from a clear strategy which addresses social needs for improving the core business throughout support processes and operations. Indeed, it's a pragmatic approach which involves specific skills to plan, measure and track such shared value increase despite other important forms of measurement, including compliance, sustainability, and impact assessments [2].

In order to measure shared value, Maltz et al. [11] propose the adoption of a resource based approach, as given by Wernerfelt [12]. Their methodology assesses shared value creation by linking it to specific social initiatives and managers should be able to measure [11]:

- Reduction of the uncompensated use of societal resources (i.e. negative externality reduction)
- Generation of benefits that accrue to the broader society as opposed to the business (positive externalities)
- Investments and maintenance costs.

Literature on social benefit-cost analysis could help to better understand the previous tasks. Several research centers, forums and other non-commercial initiatives have been formed to gather and leverage the knowledge about shared value concepts. Such initiatives are the starting point for specific resources, cases, research, training and networking opportunities.

Since the concept of shared value and its potential applies to all business and industries around the world, an increasing number of organizations have already modified their core strategies in the past two years and some of the successful cases are presented in the following section.

Approaches to Shared Value Creation

Examples of companies that aim at improving their competitive advantage by addressing and including societal needs in their core value proposition are presented below.

Enel green power:

Enel Green Power is dedicated to developing and managing energy generation from renewable sources at an international level, with a presence in Europe and the Americas. It is a division of Enel Group, an Italian electric corporation employing more than 75,000 people, an installed capacity of 97,838 MW and net sales accounted of \$25 billion.

In terms of shared value creation, Enel adopts a proactive approach to anticipate needs and possible conflicts between the business and the communities. The aim is to use listening and analyzing tools to identify and understand local needs and to define the action to be taken for the tangible development of the areas in which the company operates.

For example, when carrying out technical studies, together with political-economic analyses, Enel is introducing a social analysis, which includes indicators of the wellbeing of communities, so as to implement a business model intended to enhance social and environmental factors, not only the economic ones.

Another example is using an innovative training approach to teach semi-literate "grandmothers" to install and maintain small solar photovoltaic systems in less developed countries. After they become "solar engineers", they will electrify the isolated rural villages and the neighboring communities.

In Panama, Enel carried out some rural electrification projects that helped improve the quality of life and sustainable development. Moreover, it has implemented projects for the construction of infrastructure in communities living around the Fortuna plant.

Snam rete gas:

Snam Rete Gas (For further reference see <http://www.snam.it/en/Sustainability/index.html>) is an Italian company which operates in the regulated natural gas industry by supplying families, companies and public organizations. It employs more than 6,000 people and in 2012 its annual net sales accounted for \$5.4 billion. Snam pursues a sustainable model of growth, according to shared value principles.

For example, within its relationships with suppliers, Snam shares value by making corporate know-how available through a knowledge-sharing IT platform that supports the supply chain actors for continuous improvement. This increases the competitiveness of the supply chain as well as the reliability of the linkage with Snam, this enhances service quality. Specifically, the last achievements in this area include: providing workshops targeted at suppliers on the subjects of workplace health and best safety practices; distributing legal compliance protocols in order to disseminate universal principles of legality; launching the Suppliers Portal, a web platform designed to facilitate information exchange focused on sustainability topics.

As it makes new investments, Snam shares value with the involved territorial areas, distributing knowledge of corporate best practice. Local players get trained in order to apply naturalistic engineering techniques on particularly sensitive and complex ecosystems, such as parks and protected zones. Recently, a report has been published which describes the construction of natural gas pipeline in the Parco dei Nebrodi in Sicily. This is an example of the combination of sustainable economic development and environmental improvement.

Sanpellegrino group:

Sanpellegrino Group (For further reference see <http://www.sanpellegrino-corporate.it/valore-condiviso-progetto.aspx>) is an Italian water company controlled by Nestlé. It employs 1,833 people with annual sales revenue of \$1.1 billion (2012).

Sanpellegrino started adopting strategies for shared value creation several years ago and in 2012 it distributed more than \$1b of shared value (0.10% of the Italian GDP) to all the players involved in its production. Its production chain involves more than 4,550 companies which have benefited from Sanpellegrino's shared value policies by hiring 7,000 people for new job positions.

Sanpellegrino is focused on water sustainability and has created a permanent Forum on sustaining research, reports and other initiatives to support the territory and society.

Conclusions

Businesses need to change their core strategies to create value in social, environmental and moral terms. Negative externalities can be reduced by developing an integrated approach, driven by ethical and sustainability principles, which lead to risk mitigations and defense of the company's reputational capital; in the meantime, positive externalities will increase by blending societal development and business competitiveness.

Corporations have often seen Corporate Social Responsibility as a threat to their profitability. Today they face a great opportunity to become active players in providing wealth among communities, decreasing poverty and increasing wellness.

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