Chapter 24
Creating Shared Value (CSV) and Creating Competitive Business

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ABSTRACT

Shared value concept could reshape capitalism and its relationship to society. It's not just about corporate social responsibility or philanthropy. It's a new approach for business strategy regarding social issues. It could also drive the next wave of innovation and productivity growth in the global economy as it opens managers' eyes to immense human needs that must be met, large new markets to be served, and the internal costs of social deficits—as well as the competitive advantages available from addressing them. But our understanding of shared value is still in its genesis. Attaining it will require managers to develop new skills and knowledge and governments to learn how to regulate in ways that enable shared value rather than work against it. A big part of the problem lies with companies themselves, which remain trapped in an outdated, narrow approach to value creation. Focused on optimizing short-term financial performance, they overlook the greatest unmet needs in the market as well as broader influences on their long-term success. Why would companies ignore the wellbeing of their customers, the depletion

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of natural resources vital to their businesses, the viability of suppliers, and the economic distress of the communities in which they produce and sell? Companies could bring business and society back together if they redefined their purpose as creating "shared value"—generating economic value in a way that also produces value for society by addressing its challenges. A shared value approach reconnects company success with social progress. Firms can do this in three distinct ways: reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters at the company's locations.

BACKGROUND

In the past, companies rarely perceived themselves as agents of social change. Yet the connection between social progress and business success is increasingly clear. (Kramer & Pfitzer, 2016). The focus of the first generations of business persons and early companies were just making money and get profit from business. The British proverb that "Business is business, nothing else!" was a popular business thinking. But some company owners and entrepreneurs, after getting rich and making wealth, tried to have philanthropic helps for solving social issues. We see this tendency in most of wealthiest company entrepreneurs such as Bill Gates or Warren Buffet and even Jeff Bezos of Amazon.

After some bad social and environmental consequences of business activities, a tendency for corporate social responsibilities raised. Society was more sensitive about these results and companies, mostly large corporations, determined some resources for fixing social problems. When companies do not understand or rigorously track the interdependency between social and business results, they miss important opportunities for innovation, growth, and social impact at scale. (M. Porter, Hills, Pfitzer, Patscheke, & Hawkins, 2012)

Creating shared value (CSV) should supersede corporate social responsibility (CSR) in guiding the investments of companies in their communities. Philip Kotler and Nancy Lee exposed CSR as a "new way of doing business," linking value creation to a responsible attitude towards stakeholders (Kotler & Lee, 2005). Furthermore, corporations should embrace practices that are morally right or fair, and avoid those that are of questionable value for society. (Carroll, 2008)

Society does not require but rather expects corporations to be ethically responsible and merge philanthropy into the ethical responsibilities of a firm (Schwartz and Carroll,2003). CSR programs focus mostly on reputation and have only a limited connection to the business, making them hard to justify and maintain over the long run. In contrast, CSV is integral to a company's profitability and competitive position. It leverages the unique resources and expertise of the company to create economic value by creating social value. (M. E. Porter & Kramer, 2011)

Frequently, though CSR efforts are counterproductive for two reasons. First, they pit business against society when, in reality, the two are interdependent. Second, they pressure companies to think of corporate social responsibility in generic ways instead of in the way most appropriate to their individual strategies (M. E. Porter & Kramer, 2006).

As shown in Figure 1, the third approach in this journey, named Creating Shared Value (CSV) in the article in the January 2011 issue of Harvard Business Review by Harvard Business School's Michael E. Porter and FSG's Mark R. Kramer. In this article, they debut the shared value concept and the new approach for linking strategy and society.

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