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The Effects of Creating Shared Value on Corporate Performance*

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Abstract

Purpose – This study highlights the inter-dependence between business and society. Various business strategies like Corporate Philanthropy and CSR (Corporate Social Responsibility) are introduced to establish better relationship between business and society.

Research Design, Data, and Methodology – This study presents a research model clarifying the role of Creating Shared Value (CSV) and its influence on overall corporate performance. Further, we reveal the mediating role of corporate trust generated by various mechanisms of economic and social values, leading to enhanced corporate performance.

Results – The proposed research model addresses five different proposals indicating that, by incorporating CSV approaches, organizations can create both business and social values. These values help positively influence corporate trust, ultimately facilitating improvements in overall corporate performance.

Conclusions – CSV is currently in its early stage; it is difficult to gather meaningful data to measure its performance. However, this study seeks to connect CSV with other important factors such as corporate trust. The proposed model can be a starting point for a more empirical and formal conceptualization of CSV along with other important links

Keywords: Creating Shared Value, Corporate Social Responsibility, Corporate Trust.

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1. Introduction

Today companies are viewed to be prospering at the expenses of community. These growths might help companies to optimize the short term financial growth. However, in long run these business practices will lead to depletion of natural resources, viability of supplier reduces, limited social progress, and consumer will lose their trust in the company's products. Corporations are trying to ascertain how to create new business opportunities, facilitate growth, how to achieve competitive advantage and at the same time proactively engage with critical societal issues as a part of core strategy. In long run only those companies will survive that recognizes an opportunities to play a positive role in addressing fundamental societal issues and seeing those issues not merely as problems to be addressed through charity only, but seeing it as the opportunity for innovation and growth(Porter and Kramer, 2011).

Few decades ago, the mutual dependence between business and society was perceived with limited scope. Friedman(1970) stated "there is one and only one social responsibility of business- to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud". However, today the situation has been changed; relationship with society is viewed with a broader prospect. If the company's goal is to survive and prosper, it can do nothing better than to take a long term view and understand that if it treats society well, society will return the favor(Falck and Heblich, 2007). Businesses thus have some kind of responsibility to work for the wider societal good, but the precise direction and manifestation depends on the discretion of the corporation(Matten and Moon, 2008). During the course of time most of the firms have recognized the importance of responsibility towards society and implemented various strategies like corporate philanthropy, CSR(Corporate Social Responsibility), inclusive business, social enterprises and now CSV(Creating shared value).

Most of the corporations embrace philanthropic activities and CSR as a response to external social pressure in which corporation tries to solve the societal issues at the periphery, not to the core. Hence, CSR has been a part of the business model but it was never considered as core business strategy. To overcome these situations the principal of 'Shared Value' was introduced by Harvard Prof. Michael E. Porter and Mark R. Kramer. The main concept of Creating Shared Value involves creating economic value in a way that also creates value for society by addressing its needs and challenges(Porter and Kramer, 2011).

This study presents an initial overview on shared value approach and how CSV generates economic and social value. Further, it reveals the mediating role of corporate trust, influencing the overall corporate performance. The concept of CSV is relatively under researched, very few studies has been made under this topic. Porter and Kramer(2011) have presented the approaches of CSV and its positive impact on corporate performance in a broad concept. However, the fundamental premise of our study is that we investigate this phenomenon in the context of corporate trust which directly influences to achieve corporate performance effectively and efficiently. Further, we examine how CSV(Creating Shared Value facilitate) creates positive influence on corporate trust among consumer, suppliers, society and other stakeholders resulting into improved corporate performance. Ultimately, which will help companies to have sustainable business and maintain its legitimacy.

2. Theoretical Framework

2.1. Interdependence between Business and Society

The fundamental background of our study is based on the relationship between business and society. For decades now, the business and society relationship has generated a number of economic, social, ethical, and environmental issues. Though the business system has served society well, criticism of business and its practices has become commonplace in recent years (Carroll and Buchholtz, 2009). Perhaps this is a reflection of the natural tendency to take for granted the beneficial aspects of the relationship and to spotlight the negative or stressful one. Thus, we need to understand the competitiveness of a company and the well-being of the society where it operates are closely interconnected. 'Successful companies need a healthy society and at the same time healthy society needs successful companies' (Porter and Kramer, 2006). Society expects corporations to satisfy their consumers with quality products and generate sufficient profits for their investors. Society needs successful business to provide jobs and wealth creation opportunities. On the other side, business needs society to create demand for its product, regular supply of resources, skilled workforce. Economic profits may be used for social progress but few know that social progress can create highly sustainable economic profits(Maclean, 2011). Companies are increasingly aware that there is an economic perspective to take when helping social and environmental problems(Michelini, 2012). They have learned that applying their energies to solving social issues will stimulate their own business development. This is the main idea behind shared value.

2.2. Evolving from Corporate Philanthropy to CSR to CSV

Traditionally, the interests of business and society have been defined in opposition to each other. The core function of business has been seen as creating wealth and profit for the shareholders. Hence, companies have been criticized due to their extensive focus on profit maximization and other business gains. These actions started to create an uncertainty in the sustainability of business. Hence, companies started to give their certain share of profits to the society by charitable donation which became a crucial tool for promoting and shaping organization's image. This brought the idea of corporate philanthropy.

2.2.1. Corporate Philanthropy

Philanthropy, though it is not a responsibility in the literal sense, these are viewed as responsibilities because they reflect current expectations of business by the public and the society. The amount and nature of these activities are voluntary or discretionary, guided only by business's desire to engage in social activities that are not mandated, not required by law, and generally expected by business in an ethical sense(Carroll and Buchholtz, 2009).

Nevertheless, the public has an expectation that business will "give back" and thus this category has become a part of the social contract between business and society. Such activities might include corporate giving monetary donation at the time of natural disaster, product and service donations, employee volunteerism, partnerships with local government and other organizations. In a competitive and global setting companies need to understand the caring for the society and environment as part of their operation(Brorson et al., 2006). To ensure survival and prosperity, a firm must integrate society's interest in its corporate activities. Hence, organizations started to view society's interest not just as a voluntary action rather as a responsibility with a new concept termed Corporate Social Responsibility(CSR).

2.2.2. Corporate Social Responsibility(CSR)

Over the past few decades, companies worldwide have been accepting and recognizing the importance of socially responsible business conduct and the impact it has on their reputation and performance. CSR has been defined in various ways by numerous researchers such as "the idea of social responsibility supposes that the corporation has not only economic and legal obligations, but also certain responsibilities to society which extend beyond these obligations(McGuire, 1963). Over the time, CSR has been described in numerous concepts as business ethics, corporate citizenship etc.

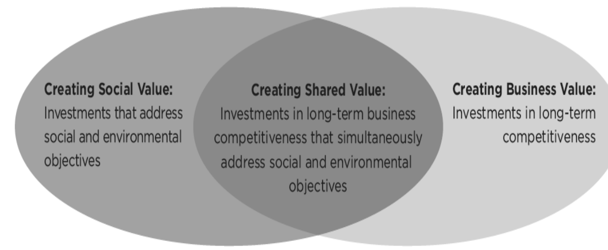
The scope and meaning of CSR has been rather broad and constantly changing to incorporate new elements and portray the extended scope of CSR. Carroll(1991) developed the pyramid of CSR and defined it as "the social responsibility of business encompasses the economic, legal, ethical and discretionary(philanthropic) expectations that society has of organizations at a given point of time". In recent years, CSR has been gaining momentum and expanding its dimension from traditional CSR to a more strategic perspective as 'Strategic CSR'(Kanter, 1999; Visser, 2010; Mahlouji and Anarki, 2009).

Despite the development and acceptance of CSR concept worldwide, there are still discussions of what really counts as socially responsible activity. Simply donating or supporting a charity, conducting business ethically and legally etc. (Lapina, Borkus, Starineca, 2012). Is that the only responsibilities that business has towards society? Companies have limited themselves to making philanthropic grants and managing acute stakeholder concerns, without necessarily linking those activities to core business interests, expertise, and influence(Bockstette and Stamp, 2013). Few companies have achieved significant progress in building their reputation through CSR activities. However, In general, these traditional approaches with limited scope are hindering the huge market opportunity. This is where the concept of creating shared value comes into rise, which tries to overcome the limitations of CSR. And gives a new direction where both business and society are mutually benefited. CSV is much more than philanthropy or CSR, which have evolved from the traditional corporate model of financial and material goods donations to a model in which a corporation leverages all of its assets to make a social impact.

2.3. Overview on CSV (Creating Shared Value)

In early 2002, Porter and Kramer(2002) have suggested an approach requiring companies to use their unique attributes to address social needs in the corporate context. Instead of focusing on the friction of business and society, corporation should look for intersection. Besides economic needs, societal needs also define a market, which is known as the competitive context of the corporation. It is clear that what does not work well for society and increasing we realize that it does not work well for business(Stout, 2012). Social harms or weaknesses create internal costs(Porter and Kramer, 2011), if corporations address these needs, there is a convergence of interests between business and society and the reconciliation of social and economic goals.

Porter and Kramer(2006) brought the idea of 'Shared Value' in their journal(Strategy & Society: The link between Competitive Advantage and CSR). Later in 2011, they finally introduced the concept of 'Shared Value' in the Harvard Business Review- "Creating Shared Value", as an attempt to transform the business practice and address some of the criticisms being charged at CSR. The most recent definition of shared value proposed by Porter and Kramer(2011) is "the policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates". CSV enables companies to not only meet legal requirements and fulfill its social responsibilities, but also provides an opportunity to reassess the way business are operating along with a sustainable economic growth (Bockstette and Stamp, 2011).



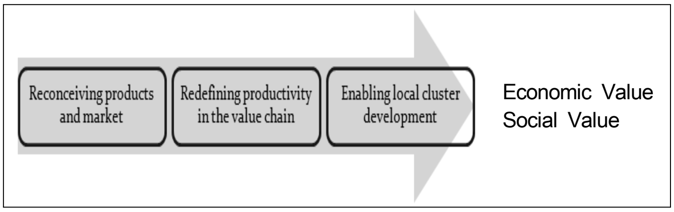
Source: Bockstette and Stamp(2011)

<Figure 1> Creating Shared Value

Shared value creation focuses on identifying and expanding the connection between societal and economic progress. Shared Value does involve some initial investments, but these investments will results in the long-term business competitiveness that simultaneously benefit business as well as the society.

Shared value recognizes that social harms or weaknesses frequently create internal costs for companies(Porter and Kramer, 2011), so by examining societal impacts, companies' costs can be reduced. Further, companies can use new technologies, operating methods and management approach- and as a result, increase their productivity and expand their markets. In CSV, business generates profit not at the expenses of the consumer or the community but, by the benefiting the consumers(Porter and Kramer, 2011). Corporate interests cannot and will not provide a sufficient basis for solving the pressing social issues we are facing. For this, there need to be changes in markets and their framework conditions. However, CSV should help to make some improvements in this direction.

Today, CSV is no longer a new theory rather it have been evolving and working with corporations to prove these concepts. There are numerous large global companies like Google, Nestle, GE, J&J, IBM etc. have proven and measured the enormous economic and social benefits of creating shared value. For Example, Nestle worked to build cluster, which made its new procurement practices far more effective. It set out to build agricultural, technical, financial, and logistical firms and capabilities in each coffee region, to future support efficiency and high-quality local production. Peter Brabeck-Letmathe (Chairman & CEO - Nestle Creating Shared Value Report 2011) says "It is our firm belief that, for a company to be successful over time and create value for its shareholders, it must also create value for society." These corporations has already recognized that the legitimacy of their business community had fallen to an all time low, this has forced them to reexamine their core strategies in order to regain the corporate trust and improve corporate performance.



<Figure 2> Approaches to Create Shared Value

Creating Shared Value provides an opportunity to transform the purpose of business in the society. Business acting as a business, not as charitable donors will give a new purpose to business, along with making more effective impact to the society. This transformation of business practice will drive a new wave of innovation, productivity and economic growth (Porter and Kramer, 2011). Driving economic success and at the same time creating social value is not only a responsibility but also an opportunity to rethink the way we are doing business and drive sustainable economic growth(Bockstette and Stamp, 2013).

There are mainly three basic approaches to create shared value:

a. Reconceiving Products and Market.

Companies should focus on unmet needs of society; innovate new products through which business get significant level of opportunities and society gains greater benefits. Prahalad and Hart(2002) also emphasize a great opportunities for companies by fulfilling the unmet needs based on the bottom of pyramid(BOP) model. The real source market is not the few wealthy in the developing world, or even the emerging middle-income consumers: It is the billions of aspiring poor who are joining the market economy for the first time(Prahalad and Hart, 2002). CSV will help the companies to find a new market in the countries that still don't have the modern infrastructure or products & services to meet basic human needs.

b. Redefining productivity in value chain.

A holistic evaluation of the value chain productivity in terms of energy use, logistic, resource use, procurement, distribution, location and employee productivity is carried out(Spitzeck and Chapman, 2012). Companies can improve the quality, quantity, cost and reliability of inputs and distribution while they simultaneously act as a steward for essential natural resources and drive economic and social development. Shared value thinking can transform the value chain by offering new ways to innovate and unlock new economic value which lead to competitive advantage(Porter and Kramer, 2011).

c. Enabling local cluster development.

Business is not conducted in isolation. Multiple players must be involved including local governmental authorities, non-governmental organizations(NGO's), communities, financial institutions and other companies. The success of every company is affected by the supporting companies, suppliers, local resource provider(farmers) and logistic infrastructure around it. Hence, organizations must be willing to experiment, collaborate, empower locals, and create a new source of competitive advantage benefiting both company as well as the other supporting clusters. Cluster can be build to improve company productivity while addressing gaps or failures in the framework conditions surrounding the cluster(Porter and Kramer, 2011). The local cluster can be developed by providing necessary knowledge & technology transfer to the supporting companies and suppliers. Also, providing training, developing skills and improving the ease of infrastructure will boost the productivity.

2.4. CSV vs. CSR

Currently, most of the people believe that CSR and CSV have same concept with different titles. CSV is considered as an extended concept of CSR. And both the concepts have a similar objective as performing social responsibility in order to achieve long-term corporate goals. Even though, these concepts have a common ground as maintaining good relationship with society, there is huge difference in the way things are done in these concepts.

In this section we try to highlight how these two concepts are fundamentally different to each other. CSV starts from a different view than CSR or corporate philanthropy; rather than considering how a portion of corporate profits can be used to address social issues, shared value identifies and uses business strategies to find solutions to social problems and simultaneously achieve economic goals(Porter and Kramer, 2011).

<Table 1> CSR vs. CSV

CSR	CSV
● CSR is a response to external social pressure. Hence, it is considered as a cost oriented, not a profit oriented business activity	● CSV is core business strategy making effort to join company and community to create value for both
● The idea in CSR represents sharing your profit with society	● CSV is based on the idea of expanding profit with society.
● CSR mainly focuses on corporate citizenship, corporate image and reputation. It has limited connection with company's core operations	● CSV is an integral part of profitability and competitive positioning.
● Example: Philanthropic activities, Fair trade purchasing	● Transforming the procurement process to increase the quality and productivity.

2.5. Building Trust Builds Corporate Performance

In this study we investigate the CSV theory in the context of corporate trust and its impact on corporate performance. The term trust is not a new phenomenon in the business world. Trust as a concept has gained a firm foothold in management and marketing research(Garbarino and Johnson, 1999; Schoorman et al., 2007). Trust has emerged as a central construct in a wide range of organizational studies including those focusing on performance(Kramer, 1999). Today, the success of any organization is not just measured in terms of tangible assets(such as property, plant, and equipments) rather; success is determined by the intangible assets. The intangible assets such as reputation, loyalty, brand identity, employee commitment, relationship setc. among these, trust is one of the main factors which plays an essential role to improve corporate performance and achieve its long term goals.

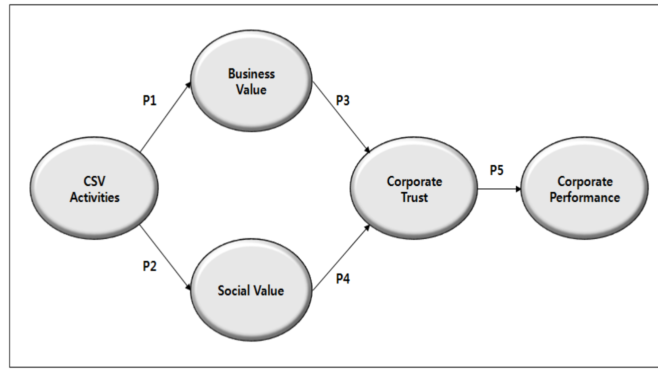
The diminished trust in business leads government to set polices that undermine competitiveness and sap economic growth(Porter and Kramer, 2011). Hence, Consumer's trust, in turn, helps the corporation maintain favorable relationships with consumers(Morgan and Hunt, 1994; Valchos, Tsamakos, Vrechopoulos, Avramidis 2009). Building trust ensures that stakeholders will listen to company's side of story in times of crisis as well as increase marketing efficiency among consumers. Thus, it leads towards healthy relationship with stakeholders and overall growth in the performance.

Trust is a topic that has been studied a lot lately. Extremely high uncertainty in the market has become the institutional context of every field in business, and therefore there is a great need for trust. Many previous researches have emphasized the importance of trust for achieving organizational success. This paper will give an overview of major issues in trust and identifying foundations of building trust in organizations. Also it deals with aspects of CSV which generates the link between organizational trust and organizational performance.

3. Research Model Proposition

In this proposed model, we can see that by incorporating CSV activities in an organization we can achieve both economic and social value. We have already discussed above as how shared value helps business to identify and initiate in those areas where they can create business value as well as social value. In the above proposed research model, we have selected only few important variables under business value(innovation, productivity) and social value(social benefits, supporting local cluster). In the proposed model, we can see how CSV has been able to create social and economic value and its positive influence on corporate trust which ultimately facilitates in improving overall corporate performance.

For any business to sustain and remain competitive in the market it is very essential to maintain its corporate trust among stakeholders(consumer, suppliers, society, government, shareholders). CSV helps to transform the way business is done by building long-term relationships based on trust. These corporate trusts motivate and push corporation forward to maintain and improve their corporate performance. Based on above facts we have made five different proposals indicating how CSV has a positive effect on corporate performance. The proposals are as follows:



<Figure 3> Proposed Model

Proposition 1: CSV and Business Value

Companies are being able to identify new business opportunities within social challenges through CSV(Porter and Kramer, 2011). The potential of unexplored markets and untapped opportunities sparks the interest of both multinational and local companies- not only for commercial reasons, but also for the sustainability of the market mechanisms. The new area of market encourages companies to develop new innovative products to meet the unmet social needs. Further, improving company operations (production processes, distribution system) improve efficiency, reduce costs, mitigate risks and boost productivity.

P1: CSV will have a positive effect on business value through improved productivity and new innovation.

Proposition 2: CSV and Social Value

CSV encourages corporations to make a positive impact on the society by solving social problems such as unfulfilled needs, unemployment and climate change. Also, companies making effort to support and strengthen the local clusters like suppliers, distributers, farmers, and academic institutions etc. by providing necessary training, transfer of knowledge and technology. Only by reinvesting in the communities in which we operate business can ensure the long-term success of the business(Porter and Kramer, 2011) as well as the sustainability of the communities that supply companies the required resources.

P2: CSV will have positive impact on social value through providing benefit to the society and supporting local cluster.

Proposition 3: Business Value and Corporate Trust

Companies stepping forward with an innovative products and services in the underprivileged area of community will build the trust among stakeholders. The improved quality and productivity will help companies to mark their presence in the market with growth in corporate trust among stakeholders.

P3: The improved business value will have positive impact on

the building and maintaining corporate trust among stakeholders.

Proposition 4: Social Value and Corporate Trust

Companies taking necessary steps to serve the customer groups that have been poorly served or overlooked and fulfilling the societal needs will strengthen the business and build the trust toward corporation by the society. The corporate trust in society is further improved by its simple action of ‘help others to grow, to help your company’. The corporation assisting- supporting companies, suppliers, distributers will definitely boost the corporate trust among those parties.

P4: The effort made to improve social value will positively impact on corporate trust.

Proposition 5: Corporate Trust and Corporate Performance

The success of any company depends on many factors and in many cases companies with the best product, technology, skilled workforce and other resources are also being unable to sustain in the competitive market. One of the important reasons that determine the company’s success is how it is perceived by the community in which it operates. The perception of the community towards the company can be made favorable by building its corporate trust. The corporate trust helps them to establish the positive relationship with the society and its consumer. And this positive relation between business and society will help the companies to increase its performance and build its strong base to sustain in long run.

P5: The corporate trust will have positive impact on corporate performance.

4. Conclusion

The findings of this study are interesting, but it should be consider in the light of its inherent limitations. CSV is currently in its early stage and thus it is difficult to gather meaningful data to measure the performance. CSV may still be in doubt for many business practitioners, in terms of its feasibility and effectiveness. Lack of meaningful and measurable data hinders the wide implementation of CVS in this study. Even though many companies have started using CSV as a core strategy and its positive impact has also been seen. But, we also have to see in coming years as how companies will cope with this strategy and up to which extent companies can take CSV into practice.

This paper seeks to make a connection towards bridging the ends of CSV and other important links. The contribution of this study is the identification of corporate trust as a sub-process regulating the effect of CSV on corporate performance. The central role of trust found in this research indicates that to assess the effectiveness of CSV actions, companies should routinely measure how much these actions create corporate trust. This study presents both theoretical and practical perspectives. Theoretically, a framework is proposed for empirical studies to show the link between CSV, corporate trust and corporate performance. This framework may be used as a small stepping stone for future research on CSV. It can also be a starting point for a more empirical and formal conceptualization of CSV with other important links. From practical point of view, the relationship between society and business can be made much stronger through implementation of CSV. Furthermore, the economic and social value created by CSV provides a clue as how firms can build and maintain its trust to sustain their performance.

Previously, there are many studies addressing CSR variables mediating through trust and reflected its impact on brand image & reputation and consumer loyalty etc. However, this study suggests that when CSV is mediated through trust, its outcome is not limited with individual business goal; rather CSV actions will have greater positive impact on overall business goals and simultaneously benefit society.

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