SHARED VALUE – IS THIS THE RIGHT DIRECTION?

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Abstract
The debate around the concept of 'value' has a long history. Starting with the great contributions of philosophers Plato and Aristotle which devoted time to unfold the meaning and purpose of 'value' like utility and "value-in-exchange" as basis for the concept until present days when academics, pundits etc. developed several theories like shareholder theory, triple-bottom-line approach, stakeholder theory, 'shared value' in order to see the 'big picture'. The purpose of this paper is to present in an objective way the main approaches regarding the concept of 'value' from the viewpoint of a company, how to create and capture value linked to all the elements involved directly (eg. managers, shareholders etc.) and indirectly (governments, NGOs, community etc.).

Keywords: shared value, company, shareholder, stakeholder, innovation.

JEL classification: G32

1. Introduction

If we search the term 'value' for eg. in the Financial Times Lexicon search engine we will find 80 terms and their definitions containing 'value'. Based on a large number of definitions, and the terms associated with the concept of 'value' represents a challenge in properly defining the concept. From the beginning, we should point out from which perspective we define value.

As a measure for performance, 'value' is useful because it takes into consideration not only the interests of shareholders (short-term expectations) but also the interests of all the stakeholders of the company, Koller, Goedhart and, Wessels (2010) suggest.

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2. Questioning the 'shareholder value' concept

Almquist, Senior and Bloch (2016) conducted a research and identified 30 "elements of value" starting from the Abraham Maslow's "hierarchy of needs". Their model describes the value elements from the perspective of customers.

This research provides great inside about 'value', focusing on the customers and how products and/or services should combine those elements to build a long-term relationship with customers. Although the importance of the customers is crucial, is only one piece of the puzzle.

Martin (2016) suggests that the debate around shareholders value maximization is not over yet. He also claims that even if it seemed logic the argument of the advocates of this concept back in the `70's that having one clear goal will lead companies to better decisions.

Compared with 'Triple-Bottom-Line' approach or 'Stakeholder Theory' which aimed various objectives, it creates confusion for the management team. Martin (2016) asked the following question: "Why does the objective have to be shareholder value maximization?" In his opinion, he would maximize customer satisfaction and at a minimum level focus on employees being treated well and not harming the environment, respecting the laws and regulations, obtain earnings that should be greater than the cost of the capital.

He also suggests that 'shareholder value' is an objective that cannot be treated directly, because it depends on the growth of other elements. Another objective that should be pursued is putting employees first, according to Nayar (2010).

In the end, Martin (2016) argues that by maximizing customers satisfaction, focusing on employees and on environmental concerns with „all being subject to a minimum financial performance".

Barton (2011) claims that a change is necessary. A change in the way companies are managed, their role in the society and how 'value' is seen in the business environment.

He suggests that a "shift" from what he calls 'short-termism tyranny' to a long-term approach is required. Barton (2011) points out that in order to "break free" from short-termism those who hold the money (insurance companies, mutual funds, pensions funds, sovereign funds etc.) and are the 'big players' should change their focus and expectations for short-term results to a long-term perspective.

Based on surveys made by McKinsey&Company in 2008 and 2010 with approximately 2.000 executives and investors, things are going in the right direction. 75% believe that corporate value for long-term is created by initiatives such as “ESG – environmental, social and governance”.

2.1. Towards ‘shared value’ concept

Porter and Kramer (2011) consider that an important source for the environmental, social and economic issues are the companies and the growing business segment overall.

At the expense of the general community, corporations have expanded and increased their wealth. Although companies started to include in their strategy the concept of CSR – “Corporate Social Responsibility” they and their executives are judged for the failures of the society.

Same authors argue that firms carry on their side the big part of the problem because companies failed to adopt new ways of value creation and continued with obsolete approaches. Managers focused on short-term performance, ignoring for eg. customer needs, employees satisfaction or the influence and the benefits of a long-term approach.

According to Porter and Kramer (2011), companies and the society must be brought together, the solution is the concept of ‘shared value’. ‘Shared value’ concept „involves creating economic value in a way that also creates value for society by addressing its needs and challenges.”. Also, the concept „can be defined as 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.”

Based on that, Porter and Kramer (2011) suggest that the companies success goes hand-in-hand with social progress.

The concept of “shared value” aims to achieve economic success but in a new way, being different from other concepts like CSR or sustainability, see figure 1.

In order to enable the benefits of a ‘shared value’ approach, governments should regulate properly and not against it.

Companies like IBM, Google, Nestlé, Johnson & Johnson, Unilever, Wal-Mart started to recognize the importance of ‘shared value’ principles and the advantages of company performance and social benefits.

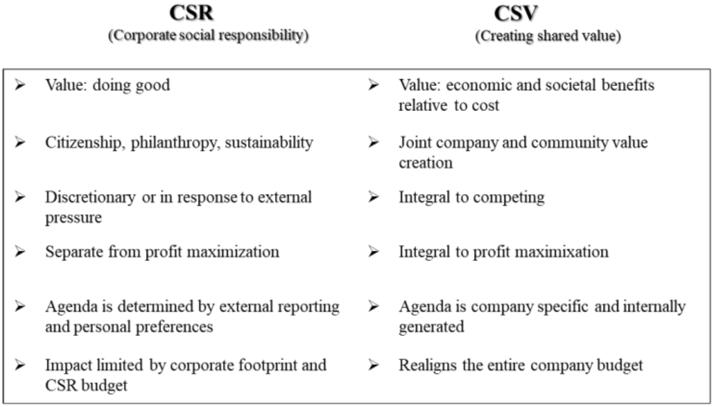
There are three ways by which companies can create ‘shared value opportunities’, according to Porter and Kramer (2011):

a) „by reconceiving products and markets”
b) „by redefining productivity in the value chain”
c) „by enabling local cluster development”

There are voices like Milton Friedman (1970) for eg. who argues that companies have no responsibility, only a person has. The purpose of a company is to maximize profits for the shareholders. By focusing on social and environmental needs will raise costs and reduce profits. Friedman, claims that by paying salaries, taxes, investing, supporting employment is the way in which a company contributes to society.

Similar situation with another concept, externalities, where a company creates costs for the society, for eg. pollution without paying for that. Later these costs were „internalized" by imposing taxes, regulations, and penalties for externalities.

Figure 1: How shared value differs from corporate social responsibility.



CSR (Corporate social responsibility)	**CSV** (Creating shared value)
➢ Value: doing good	➢ Value: economic and societal benefits relative to cost
➢ Citizenship, philanthropy, sustainability	➢ Joint company and community value creation
➢ Discretionary or in response to external pressure	➢ Integral to competing
➢ Separate from profit maximization	➢ Integral to profit maximixation
➢ Agenda is determined by external reporting and personal preferences	➢ Agenda is company specific and internally generated
➢ Impact limited by corporate footprint and CSR budget	➢ Realigns the entire company budget

Source: Porter, M. E., & Kramer, M. R. (2011).

Kramer and Pfitzer (2016) opine that creating 'shared value' has become a necessity for companies due to the link between financial performance and social benefits.

They also argue that that business success and social progress are connected and companies are more and more aware of this fact.

By solving issues like poverty, pollution, diseases, companies profits will grow because they can develop their business in a healthy environment, Kramer and Pfitzer (2016) claim.

For eg., Enel generates almost half of its power from renewable energy sources and prevent huge amounts of CO2 emission annually.

Ikea came up with the “democratic design”, a concept that combines form, function, quality, sustainability and low prices, Ditlev-Simonsen (2015).

MasterCard introduced mobile-banking technology in those countries that are in process of development, solving the problem of financial services necessity.

In order to address those social needs and stimulate social progress, Kramer and Pfitzer (2016) suggest that “solutions require the expertize and scalable business models of the private sector”.

But due to the fact that firms are not operating in isolation, several challenges like cultural norms, societal conditions can have a significant impact in the pursuit of creating ‘shared value’. This challenges, according to the authors it creates the need for a coalition, a new framework because these conditions overcome the power and control of any firm. This type of collaboration involves companies, governments, NGOs, community, working together in their “ecosystems to catalyze change”.

In 2011 Kania and Kramer proposed a movement called “collective impact” in order to facilitate a successful collaboration between companies (private sector) and the social sector.

Although there are clear benefits for a collaboration at this scale, challenges are presents and the authors underline the most important ones:

- the lack of courage and vision from corporate executives to involve the social sector, to address to civil society and cooperate with them for a long-term strategy;
- addressing social problems takes years to solve and for managers who are short-term oriented this effort will not be shown in “quarterly” performance reports;
- cooperations are not always welcomed by NGOs and governments.

2.2. Just creating value is not enough

Michel (2014) claims that many companies are successful in creating value but they stop thinking about the ways of capturing that value they have created.

He also argues that it is very important for a company to find innovating ways of capturing value, especially in the case of new businesses which have great potential and ability to create value but are not focused on how to capture it.

A framework was created by Michel (2014), based on an extensive survey, that will help managers in their path of finding ways to capture value.

Also, Michel (2014) suggests that a common mistake is that companies believe that if ‘value’ is created that is enough and the benefits will come naturally. This mistake is made even by keen innovators who tend to overlook what is the next stage, that of capturing value.

The approaches presented in the framework above can be combined and helps managers to identify innovative ways of capturing value, but they should have in mind that depending on the market, the sector of activity and specificities of every company, the strategies might or might not be applicable entirely.

As a result, the author suggests that top executives must analyze if there is a balance between value creation and value capture. If there is a gap they must find new ways of capturing value. A dedicated team should be assigned to this task.

Due to the implications across all of the company's functions, this team will be formed by employees from R&D, IT, market research, strategic planning and from defining and executing strategy. Using the framework, the team should meet and based on a brainstorming session they should conceive new innovative ideas of capturing value.

2.3. Successful companies in the path of creating ‘shared value’

Pfitzer, Bockstette, and Stamp (2013) argue that for a company which innovates to meet the demands of the society and builds a profitable business, represents the next level in terms of competitivity.

They claim that after studying more than 30 companies, they found out that executives realized the importance of ‘shared value’ concept, but implementing it represents the real challenge. Companies like Dow Chemical, Nestlé, Mars, Intel, Becton Dickinson, and Vodafone have implemented the ‘shared value’ concept into their business, see figure 2.

Those companies understood that social and environmental issues could harm their operations but on the other side, there are opportunities for development.

In order to create ‘shared value’, Pfitzer, Bockstette, and Stamp (2013) suggest that firms must have a social mission into their corporate culture and to use resources for solving social problems.

Also, companies must define a clear ‘social purpose’, share it inside and outside of the company and incorporate it into their operations, processes, strategic and budgeting planning.

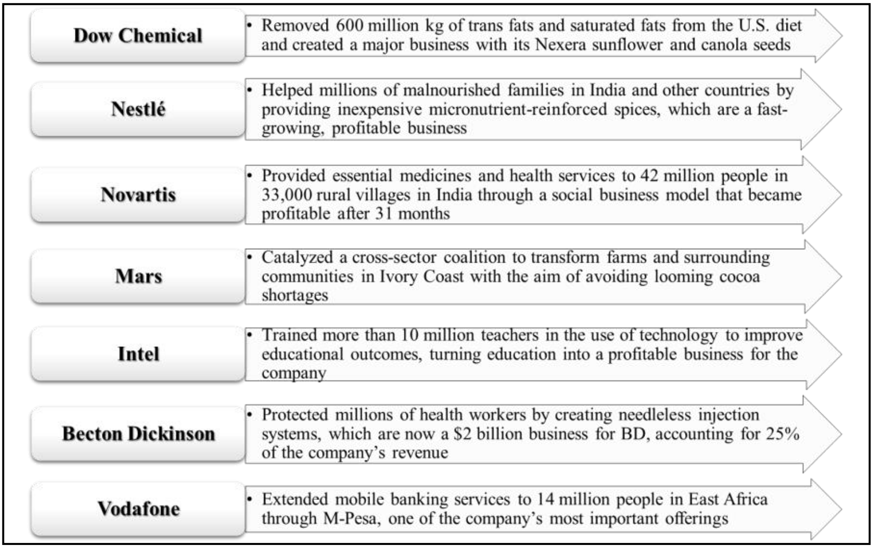
For eg. the CEO of Danone sold those units of the company (meat, beer, and cheese) when he comprehended that the company was moving away from the core business, to make healthy food. After that, he reshaped the business by focusing on water and dairy products and by expanding the business into medical nutrition and baby food.

Defining a social mission is the first step towards ‘shared value’, but it’s not enough, Pfitzer, Bockstette, and Stamp (2013) claim. Companies must understand the social problems and this very often requires time and resources.

To be able to measure and monitor their progress, frameworks (The International Integrated Reporting Council) and industry-based systems (The Sustainability Accounting Standards Board) are developed. For investors and stakeholders, these initiatives will give them the possibility to compare the social and the environmental impacts of their company.

The initiatives above are „work in progress” but as Pfitzer, Bockstette and Stamp (2013) suggest companies can benefit from the processes developed by big corporations like Coca-Cola, Nestlé, Intel, Novo Nordisk, and their success in the path of creating ‘shared value’.

Figure 2: Who’s Creating Shared Value.



Dow Chemical	• Removed 600 million kg of trans fats and saturated fats from the U.S. diet and created a major business with its Nexera sunflower and canola seeds
Nestlé	• Helped millions of malnourished families in India and other countries by providing inexpensive micronutrient-reinforced spices, which are a fast-growing, profitable business
Novartis	• Provided essential medicines and health services to 42 million people in 33,000 rural villages in India through a social business model that became profitable after 31 months
Mars	• Catalyzed a cross-sector coalition to transform farms and surrounding communities in Ivory Coast with the aim of avoiding looming cocoa shortages
Intel	• Trained more than 10 million teachers in the use of technology to improve educational outcomes, turning education into a profitable business for the company
Becton Dickinson	• Protected millions of health workers by creating needleless injection systems, which are now a $2 billion business for BD, accounting for 25% of the company’s revenue
Vodafone	• Extended mobile banking services to 14 million people in East Africa through M-Pesa, one of the company’s most important offerings

Source: Pfitzer, M., Bockstette, V., & Stamp, M. (2013).

3. Conclusions

In this study, I presented the concept of ‘value’ from the company point of view, with different approaches. Being a very important and debated topic by practitioners, academics, I have covered briefly those elements that I considered crucial for a better understanding of the concept. Starting with the debate regarding the ‘shareholder value maximization’ with influential supporters like Milton Friedman on one side and on the other side those who claim that in the nowadays context the approach offers a narrow perspective about the concept of value. By presenting the work of Porter and Kramer, which are well-known advocates of the ‘shared value’ concept I pointed out with facts, examples of corporations that are more successful if they are opened to issues concerning the society, environment, etc. This approach is the foundation of a long-term strategy that has in mind the future of younger generations, a better resources management and at the same time obtain financial performance. As the authors underlined, the balance must be found by the private sector in collaboration with the public sector, both contributing with insights, knowledge, expertise and benefiting from it.

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