**MT 5131 Individual Project 2017-18**

Word Count: 3300

Table of Contents

[Topic: *“Creating shared value (CSV) provides a more effective basis for businesses to go about addressing society’s deepest needs than traditional CSR (Corporate Social Responsibility)”* 3](#_Toc501570705)

[References 12](#_Toc501570706)

# Topic: *“Creating shared value (CSV) provides a more effective basis for businesses to go about addressing society’s deepest needs than traditional CSR (Corporate Social Responsibility)”*

Running successful business is completely dependent on the type of strategy that is being applied. The steps involved and intentions associated with every action help in analysing the impact and effectiveness of a strategy. This essay is primarily focused on understanding the use of creative shared value (CSV) in meeting society’s needs than using traditional corporate social responsibility (CSR) attributes. As per Michael Porter, there are three principle elements of a strategy (Porter and Kramer, 2011). These include developing unique and valuable market position, creating trade-offs and fitting the company actions with one another. It relies on adaptability of organisation’s leader and working members to align either value based strategies or include corporate social responsibility (Porter and Kramer, 2011).

With increasing awareness amongst individuals, business operations have transformed drastically. Performance and competitiveness of a company can be improvised to a great extent when strategies and operations work in parallel (Crane, Matten and Spence, 2013). There is significant role of every employee irrespective of their position in the company in bringing value based strategies. Hence, companies that distribute their focus on every aspect of functioning are more successful in achieving goals as compared to the ones that have single eye perspective. Sustainable development is possible only when business organisations have sound economic stability with continuous efforts towards society and environment (Porter, Hills and Hawkins, 2011).

***Concept of CSV and CSR***

Competitive advantage is a perspective concept which enables a company to reach a state where no negative impact is experienced due to competitor activities. There are several ways in which competitive advantage can be achieved (Pfitzer, Bockstette and Stamp, 2013). Amongst these emerged the concept of corporate social responsibility. Over time, there have been significant deteriorations in environment due to industrialisation and unbalanced use of resources. However, the philanthropists and local activists across the globe raised the issue against industries that do not consider their responsibility for environmental damage (*Building on Creating Shared Value*. 2017). Henceforth, corporate social responsibility emerged as an initiative for corporations to take full responsibility for their actions and impact on well being of society. This doesn’t indicate that enterprises have to compromise profits over social welfare.

Apart from high performance and commitment towards stakeholders, consumers nowadays consider a company’s operational strategies and processes while making a purchase decision. As per a study conducted by Cone Communications, nine in every ten consumers desire that the products and services they consume should come from companies that have better take towards corporate social responsibility (Perry, 2011). There are several categories which help in achieving standards of CSR. These include philanthropy, environmental preservation, volunteering for social causes like poverty eradication, child labour prohibition, etc. Ethical functioning is an integral part of CSR policies. When business goals, missions and vision are oriented with CSR aspects, greater chances of investments are gathered. This helps in improving financial standards and corporate image of an organisation which further leads towards competitive advantage (*What is 'Creating Shared Value'?*. 2011).

The essence of creative shared value is based on mutual dependence of competitiveness of an organisation and health of surrounding or associated communities. Michael Porter and Mark Kramer were two major researchers that have developed algorithms of creative shared value concepts in business (Porter and Kramer, 2011). Innovation and growth are the consecutive fruits of this significant developmental tool. CSV is a strategic step that is perceived by business organisations in the form of opportunities. There are three major methods of acquiring creative shared value: re-conceiving products and markets; enabling local cluster development and redefining productivity in value chains. The use of mentioned techniques helps in enhancing quality and quantity of products which in turn helps in improving consumer experience (Kltuyl, 2014).

The trade-offs between environmental goals and profitability of a company is well stabilised through inclusion of CSV (Crane and et. al., 2014). This implies that the pitfalls acquired by application of CSR in business strategies can be covered with better social value proposition and company is subjected to enhanced opportunities of competitive advantage. Corporate strategies are focused on tangible benefits and recovery from losses that occur due to any unplanned action (Perry, 2011). The strengthening of corporate strategies can be performed through inclusion of principle attributes like CSV and CSR.

In order to evaluate the correctness of a corporate strategy, there are three essential tests conducted. These are attractiveness test, cost of entry test and better-off test. The development of product or service which is central to corporate strategy has to be attractive for consumers and involve least possible cost (Michelini and Fiorentino, 2012). Furthermore, the level of competition through this product or service should be enhanced and not degraded. Though a corporate strategy brings in all sorts of wealth to the company, stakeholder needs must also be prioritised for better stability.

The people that hold interest in business activities of a company or enterprise in some way or the other are known as stakeholders. These can be shareholders that invest their money in stocks of a company or the consumers that purchase respective products and services. Government of the operational country, creditors, directors, suppliers, etc. are major stakeholders of very business organisation. The strategies that are developed as per set goals have to be aligned according to stakeholder priorities (Lapiņa, Borkus and Stariņeca, 2012).

An organisation’s current state of functioning is a result of its leadership and strategic management principles. For instance, Starbucks had a major fall out in 2006 because of improper expansion decisions, unplanned branding and lack of good leadership by Jim Donald. The company recovered quite quickly by making strategic changes in leadership and making plans that are focused on investor expectations and customer requirements. Once brand looses trust amongst its stakeholders, it becomes difficult to regain the same. However, efficient leadership helps in meeting requirements of stakeholders. Collins suggests that Level 5 leadership which involves great power to resolve with deep humility is helpful in building good work culture and trust amongst people.

From the provided example, it is quite clear that Starbucks was downtrodden because of shifting focus and improper approaches towards stakeholders. Society is concentrated with individuals from different ethnicities, educational backgrounds and perceptions. This indicates that their choices and decisions for selecting a particular company are made on variable grounds. It is important for the company that visualises sustainable development in the near future to recognise these deep routed choices and decision influencing elements. As quoted by Kitchin (2003), capitalist systems are under siege which can be legitimised by creating shared value systems.

The core of this system revolves around recognition and solution of social problems without compromising over economic welfare and business opportunities (Kramer, 2011). For instance, health and hygiene are two correlated subjects that have catered a lot of attention in past decade. Leading beverages and food brands like Nestle has come up with improvised products and services. Nestle has developed its CSV strategy by repositioning of products in terms of greater focus on nutrition and decreased amounts of sugar. Further, company promotes ethical and sustainable farming. These actions have helped Nestle to put deliver the products with no negative impact over society. Significant reduction in pressures of CSR has helped in enhanced focus over profits for Nestle.

The improvisations made in products and services have helped global organisations to gain excellent integration of prepared strategies and operations. Further, productivity of entire value chain is enhanced and redefined that leads to micro and macro scale developments (Korschun, Bhattacharya and Swain, 2014). Corporate social responsibility in the current age has become an option for improving brand image. It is not necessary that the commitments provided by a company in name of CSR shall actually meet the principles of society. The damage to ecosystem is quite fatal by certain industries like manufacturing, mining, etc. If corporations do not control their activities then indigenous populations and ecosystems shall vanish in no time. Hence, a need for conservation and preservation of natural ecosystems is considered to be a corporate social responsibility of acting corporations (Kim and Kwon, 2017).

A significant example of adaption of CSR principle by global brands is portrayed by Coca Cola Co. This organisation shifted its operational centre from the core of city to outskirts so that pollution and environmental damage can be reduced (Perry, 2011). However, it is not possible for every business organisation to make such huge transformations at the cost of financial instability. Creating shared value helps in building better position for a company in future and strengthens local marketplaces, communities and stakeholders. This concept is mostly replaced by distribution of wealth amongst society for welfare which is not true. Organisations can enhance their work capabilities through philanthropic goals and innovation (Florin and Schmidt, 2011). It simultaneously helps in eradicating social issues to certain extent which in turn is considered to be better than corporate social responsibility.

As stated by Porter in the Harvard Business Review article, CSV more appalling for practitioners and scholars because it helps in enhancing corporate goals and strategies (Crane and et. al., 2014). The role of government in this aspect is also determined with clear behavioural guidelines. However, when practical application is considered, businesses find it difficult because there is a major compliance for the company. Furthermore, company’s role in society is lowered which is less acceptable to regulators and activists. On the contrary, the purpose of creative shared value is focused on re-conceiving of products and services. This indicates that current production of commodities and services is revitalised through identification of local problems. Consequently, common good of society is aligned with upgraded processes and hence deeper identification of societal needs is achieved in parallel to business development (Crane, Matten and Spence, 2013).

The contradiction that arises here is aptness of CSR for achieving sustainable development. CSV has a challenge of ecological accounting which means that land management activities especially those that are beyond the corporation boundaries (Reyes, Scholz and Smith, 2017). In order to decrease the liabilities of a shared process, there has to be significant support by insurers, governments, processing units, etc. Overall positive accountability is gained in this manner through shared responsibility towards the society. Despite of same eccentricity of performing activities with a positive notion, there is major difference between CSR and CSV. Kramer has provided this difference in the form of perseverance. CSR denotes only responsibilities while CSV is based on creation of value (Crane, Matten and Spence, 2013).

Flip Factory’s leader Darlene Traviss has developed distinctive strategy which helps in understanding company’s aim to serve the under-served sections of market. The value chain of this organisation is based on motivated activities and expansion of contacts and relationships amongst stakeholders. This undermines organisation’s ethical responsibility towards its employees and consumers. This organisation can fulfil its legal and philanthropic responsibilities through extended actions and strategies towards ecosystem. However, reinventing the business model is quite a crucial process. It can also lead to disruption of current market base if not properly planned. On the other hand, developing extended strategies through the concept of CSV helps in smoothly deploying changes.

It wouldn’t be incorrect to state that CSV i.e creating shared value is a transformation and expansion of business activities in relevance to CSR. Companies that become corporate citizens definitely have an advantage over their strategies. However, those organisations that transform into better capitalists have exemplary benefits. There are three stages in which companies that operate on traditional CSR can transit to CSV. From becoming defensive, charitable and strategic to transformative in working shared value can be achieved. This helps in recognising societal issues and effectively reducing the evils of society with economic development. Reyes, Scholz and Smith, (2017) stated that CV in many aspects supersedes CSR because it helps business organisations to achieve competitive advantage with competitive capitalistic markets. There is less pressure over the company to do good for the society and profits are consecutively maximised.

Apart from complete contribution of companies in creating shared values, there is an important contribution of governments in developing a better value chain. They have to develop regulations that help in promoting shared values and innovation stimulated environment. Performance standards have to be defined so that measuring aspect is achieved by companies while deploying strategies oriented with CSV principle (Reyes, Scholz and Smith, 2017). The conceptual frameworks like social entrepreneurships, non-market strategy, social innovations, etc. have been embedded in a common framework which is termed by CSV by Mark and Porter. This implies that companies that wish to achieve sustainable development without shifting their focus completely on society have to create shared value strategies.

Real time competition includes financial aspects which are often compromised by companies to implement CSR successfully (Lapiņa, Borkus and Stariņeca, 2012). However, competitiveness is directly proportional to the market changes. This implies that adequate practises in CSR can help in achieving philanthropic sympathy from the society but profit margins can reach quite low. On the other hand, shared value helps in attaining internal stability which provides an edge to invest in societal benefits as compared to CSR (Korschun, Bhattacharya and Swain, 2014). The collaborative development is more stable and less vulnerable to defects as compare to single handling of change management by companies.

Dow AgroSciences is a major name amongst the businesses that have been contributing their bit towards social benefits by applying CSV. Being a subsidiary of Dow Chemical Company, this organisation has developed Canola and Sunflower oils which have zero trans fats and least saturated fats which led to significant reduction in trans fat from American foods since 2005 (Kltuyl, 2014). This depicts that one action of a company initiated a chain of awareness amongst other food processing units to produce healthier items. On the other hand, Nestle has improvised its corporate strategies by advanced supply chain. This organisation has invested in renewable sources of energy which has benefited society and ecology simultaneously (*Building on Creating Shared Value*. 2017).

Lack of empirical evidences available for CSV had led to several criticisms. There have been contradictions over concept’s similarity with blended value model proposed by Jed Emerson. A challenge of lack of tangible improvement was also recognised under CSV. However, creating shared value helps businesses to evaluate their actions beyond the Triple Bottom Line concept (Kim and Kwon, 2017). Social innovation and stakeholder management is possible for companies that strive for competitive advantage through use of CSV strategies. The significant advantage of understanding and approaching deeper needs of the society is acquired by businesses because of lack of pressure to perform socially better.

There are situations for organisations when social and economic goals are not aligned with stakeholders’ expectations and needs (Reyes, Scholz and Smith, 2017). The solutions or guidelines for addressing such situations have not been included in CSV’s framework which results in a major challenge of application. Certain trade-offs cannot be ignored by businesses which means that win-win situation is not possible every time. Hence, complete reliability over creating shared value strategies is quite questionable. Awale and Rowlinson, (2015) has stated that virtuous behaviour of companies cannot guarantee maximum profitability. Ethical dilemmas occur in situations that are associated when businesses consider their profits before environmental or social problems. A major reason behind this is difference in interests and collision of values (Florin and Schmidt, 2011).

The point of argument is based on achieving greater effectiveness in business functioning through CSV as compared to traditional CSR techniques. As per Porter and Kramer, businesses hold greater opportunities when products and services are reconceived. However, opportunities to develop products and services leads to finding of new markets which is beneficial for company as well as the respective society. This indicates that bottom of the pyramid of corporate social responsibility denoted by Carroll is accomplished by the company. The target markets if focused on emerging and developing countries or markets helps in eradicating certain social issues of that community (Kim and Kwon, 2017). Hence, creating shared value strategies for business profits do help in deeper need fulfilment.

On the contrary, the concepts of CSV are not applicable in every aspect. The organisations that are involved in tobacco production and manufacturing may plan their developmental projects in new markets through creative shared value. But this kind of expansion is socially unacceptable. The cultural opinions and social activists consider selling of tobacco products contagious for health. Furthermore, manufacturing of recyclable guns and sourced oils are some of the industrial sectors which cannot be completely included in CSV applications. The vision of sharing success from businesses in societies is an aspect which can be achieved only if every stakeholder is benefited in a positive manner.

Global brands like Nike, Walmart and Gap had been responsible in the past for their irresponsible behaviour and manufacturing choices. The issues like child labour, improper disposal of waste and uncontrolled use of resources have highlighted these organisations for lack of social and ethical responsibilities. CSV overlooks the complexities of strategic actions of businesses associated with supply chain. The inclusion of corporate social responsibility includes stage wise production and management of operations. However, CSV doesn’t include elaborate conceptual framework for managing supply chain. For instance, the fashion and apparel industry includes certain levels of production. The consumer pays moderate amount to first tier of suppliers. The amount of leverage acquired by workers and lower members of the supply chain is quite low (Florin and Schmidt, 2011). Further, the raw material producers are least benefited from this amount. Hence, creative shared value overlooks the complexities of supply chain which also weakens its application in the long run.

Philanthropy is integrated in business strategies in the form of donations to needy and consecutive volunteering for social causes (Crane, Matten and Spence, 2013). When corporate social responsibility of organisations is considered in philanthropic aspect then there is significant enhancement of reputation amongst consumers. Inclusion of creating shared value principles in business operations helps in addressing needs of society as well as overcoming the challenges associated. This is achieved through profits acquired from business. However, societal inclusion of corporations is not completely fulfilled through CSV. Local cluster development is possible when regional policies are not cooperative. For instance, social good like distribution of business income for clusters in supply chain may cause inequalities like overcrowding in certain places or excessive immigration (Boulouta and Pitelis, 2014).

As mentioned before, the benefits of creating shared value system is overlapped by a challenge of lack of business compliance. Assumptions acquired by businesses to follow government policies and adhere to norms of external environment must be optimistic in nature. However, these assumptions may or may not be ethical which results in detrimental actions towards the society (Awale and Rowlinson, 2015). Despite of government’s role to produce regulations for companies as ethical standards of functioning, deceptive practises can still be existent. The entire concept of business functioning through CSV is based on unproved assumptions.

Legal and moral aspects of business functioning are helpful in building trust amongst stakeholders. There are certain opportunities associated with CSV which include efficient use of energy, distribution of knowledge, enhancing worker safety, developing affordable housing, improvising health standards, etc. The productivity of a business is also transformed. Societal deficits which are simultaneously conquered help in producing economic stability. However, there is lack of literature and conceptual frameworks provided for businesses to improvise their strategies according to CSV.

There are certain aspects which can cause significant negative impact over the society. For instance, the provision of access to improvised products to unserved and undeserved communities can cause increased crowding in the particular marketplace. Additionally, demographics are disturbed due to excessive business investments in one particular area. The deficiency of government policies and regulatory norms is also a threatening factor in use of CSV as compared to the traditional CSR practises. Henceforth, claims of CSV providing a better basis for business in addressing the social needs with deeper approach are not that apt.

# References

Books and Journals

Awale, R. and Rowlinson, S., 2015, September. A CSV concept to address health and safety issues and achieve firm competitiveness in the Hong Kong construction industry. In *CIB W099-International Health and Safety Conference on Benefitting Workers and Society through Inherently Safe (r) Construction* (pp. 10-11).

Boulouta, I. and Pitelis, C.N., 2014. Who needs CSR? The impact of corporate social responsibility on national competitiveness. *Journal of Business Ethics*, *119*(3), pp.349-364.

Crane, A., Matten, D. and Spence, L.J., 2013. Corporate social responsibility in a global context.

de los Reyes Jr, G., Scholz, M. and Smith, N.C., 2017. Beyond the “Win-Win” Creating Shared Value Requires Ethical Frameworks. *California Management Review*, *59*(2), pp.142-167.

Florin, J. and Schmidt, E., 2011. Creating shared value in the hybrid venture arena: A business model innovation perspective. *Journal of Social Entrepreneurship*, *2*(2), pp.165-197.

Kim, H.L., Rhou, Y., Uysal, M. and Kwon, N., 2017. An examination of the links between corporate social responsibility (CSR) and its internal consequences. *International Journal of Hospitality Management*, *61*, pp.26-34.

Kitchin, T., 2003. Corporate social responsibility: A brand explanation. *The Journal of Brand Management*, *10*(4), pp.312-326.

Korschun, D., Bhattacharya, C.B. and Swain, S.D., 2014. Corporate social responsibility, customer orientation, and the job performance of frontline employees. *Journal of Marketing*, *78*(3), pp.20-37.

Kramer, M.R., 2011. Creating Shared Value. *Harvard Business Review, Jan-Feb*.

Lapiņa, I., Borkus, I. and Stariņeca, O., 2012. Corporate Social Responsibility and Creating Shared Value: Case of Latvia. *World Academy of Science, Engineering and Technology*, *6*, pp.1605-1611.

Michelini, L. and Fiorentino, D., 2012. New business models for creating shared value. *Social Responsibility Journal*, *8*(4), pp.561-577.

Pfitzer, M., Bockstette, V. and Stamp, M., 2013. Innovating for shared value. *Harvard Business Review*, *91*(9), pp.100-107.

Porter, M.E. and Kramer, M.R., 2011. Creating shared value: Redefining capitalism and the role of the corporation in society. *Harvard Business Review*, *89*(1/2), pp.62-77.

Porter, M.E., Hills, G., Pfitzer, M., Patscheke, S. and Hawkins, E., 2011. Measuring shared value: How to unlock value by linking social and business results.

Online

*Building on Creating Shared Value*. 2017. [Online]. Available Through:< https://www.nestle.com/csv/what-is-csv/>. [Accessed on 20th December, 2017].

Crane and et. al., 2014. Contesting the Value of “Creating Shared Value”. [PDF]. Available Through:< http://www.dirkmatten.com/Papers/C/Crane%20et%20al%202014%20in%20CMR.pdf>. [Accessed on 20th December, 2017].

Kltuyl, M., 2014. *A New Approach to Profits: Creating Shared Value for Business and Society*. [Online]. Available Through:<https://www.huffingtonpost.com/mukhisa-kituyi/a-new-approach-to-profits\_b\_5959616.html>. [Accessed on 20th December, 2017].

Perry, M., 2011. *Corporate Social Responsibility: “A Fundamentally Subversive Doctrine In a Free Society,” Friedman*. [Online]. Available Through:< http://www.aei.org/publication/corporate-social-responsibility-a-fundamentally-subversive-doctrine-in-a-free-society-friedman/>. [Accessed on 20th December, 2017].

Porter, E, M. and Kramer, R., M., 2011. *The Big Idea: Creating Shared Value.* [Online]. Available Through:<https://www.huffingtonpost.com/michael-e-porter/the-big-idea-creating-sha\_b\_815696.html>. [Accessed on 20th December, 2017].

*What is 'Creating Shared Value'?.* 2011. [Online]. Available Through:< https://www.forbes.com/sites/csr/2012/06/04/what-is-creating-shared-value/amp//>. [Accessed on 20th December, 2017].