Creating Shared Value –
Theoretical Shortcomings and Ways to Overcome them in Practice

Abstract
In the article the concept of Creating Shared Value (CSV) is shown as a result of an ongoing debate and evolution of the idea of social responsibility of the business. The critical analysis of CSV is presented with the focus on theoretical limitations. The case of Madécasse company is described to illustrate how the weaknesses of CSV can be remedied on a practical level. Basing on the case analysis the four principles can be formulated as a preliminary list of conditions that help introducing CSV by companies: societal values presence, social goals introduction into business architecture, strong relationships with local markets, and wide cooperation net building.

Keywords: Creating Shared Value (CSV), CSR, developing countries.

1. Introduction
The increasing awareness of economic and social inequalities has led to broad discussion about the concept of capitalism and has fostered new approaches to raise the share of global wealth for developing countries
(Fotaki and Ajnesh, 2015; Porter and Kramer, 2011). Today, companies are expected not only to increase their own economic benefits but also to give back to society and increase social value. This trend has led companies to different approaches to balance their business and social goals and to satisfy their stakeholders to this respect. In the first part of this article the concept of Creating Shared Value (CSV) is shown as a result of an ongoing debate and evolution of the idea of social responsibility of the business. Next, the critical analysis of CSV is presented with the focus on theoretical limitations of the concept. In the following section the in-depth analysis of a specific company implementing CSV on the developing market is performed. The managerial tools used in practice to successfully implement CSV concept are discussed. The goal of the paper is to show ways to approach weaknesses of the theoretical concept of CSV. The results may strengthen the understanding of the CSV idea and may serve as advice for companies willing to apply the concept in their businesses.

2. Corporate social responsibility – evolution and definition

Creating Shared Value was developed along a discussion about the origin and scope of businesses’ responsibility. The starting point of this discussion is traced back to the year 1932, when Professor E.M. Dodd (1932) from Harvard University as one of the first academics started a debate about corporate responsibility “to its employees, to the public, and to its stockholders” (Dodd, 1932, p. 1155). In his opinion, companies had to adapt to the changing public demand of his time, from pure economic focus towards an additional social responsibility. But since he perceived managers of a company as “fiduciaries carrying on the business in the sole interest of the stockholders” (Dodd, 1932, p. 1146), legal pressure would be needed to enforce a socially responsible business conduct. Dodd’s theory can be considered as an intellectual basis for the contention that firms have corporate social responsibility. The concept itself however only got increasing awareness in the 1950s with H.R. Bowen, the author of the seminal book Social Responsibilities of the Businessman, considered as the father of CSR (Carroll, 1979). A shift in the understanding of CSR as the compliance of companies with responsible business management that at the same time creates social value has been taken place in the beginning of the 21st century
Creating Shared Value

(Filatotchev and Nakajima, 2014; Cochran, 2007). Today, there is still no broadly accepted definition of CSR. The evolution of the concept has led to many different definitions in literature and an even broader understanding of the concept in practice. The official European Commission’s definition from 2011 defines it as: “responsibility of enterprises for their impact on society” (European Commission, 2011). The definition is further elaborated in terms of how such value should be created. Firstly, CSR should be a part of the companies’ strategy, which means it should be linked to the financial performance and other economic measures. Secondly, the term ‘shared value’ is used, which shows how close the concept comes to what Porter and Kramer defined as Creating Shared Value in the same year.

In the last 20 years, many concepts with a focus on the interrelation of social and economic value have been developed. One of them is Blended Value concept, proposed by J. Emerson (2003). Similar to CSV, it claims that social and economic value should not be perceived as ‘either or’ but go hand in hand. However, in addition to what is defined in CSV, Emerson explicitly mentions environmental performance as one component of the value to be created. Another related concept is the Triple Bottom Line developed by J. Elkington (1998) claiming that it is in companies’ responsibility to operate their business with focus on social, ecological and economic success. Other conceptual propositions are included in S. Hart’s work Capitalism at the Crossroads: Aligning Business, Earth, and Humanity (2005) or in Ramaswamy’s and Gouillart’s article about the “Co-creative Enterprise” (2010).

3. The concept of Creating Shared Value

In 2002, Porter and Kramer entered the discussion about businesses’ role in society by taking the idea of social entrepreneurship to a new level (Porter and Kramer, 2002). They understood it as a “transitional vehicle toward a new capitalism” (Driver, 2012, p. 315). Social entrepreneurship evolved due to pressing social needs that are not addressed by for-profit organisations while non-profit organisations do not have the resources to address them or are not efficient in doing so (Dees, 2012). In this context, the shift that Porter and Kramer want to achieve

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1 An overview of different definitions is given by Dahlsrud (2008).
with their concept of Creating Shared Value is to focus on “earned income in the pursuit of social change” instead of focusing primarily on the “creation of positive social change” with economic income as a by-product (Phillips and Tracey, 2007). Therefore, CSV is mainly a concept for profit-oriented organisations to restructure their business strategies by searching for solutions on how their businesses can address social needs. It allows the integration of social and economic goals, without distracting a company from its primary purpose of generating profit. According to Porter and Kramer (2011), the primary goal of business should always be profit maximisation, since this creates the highest wealth for society.

The CSV concept is built on the basic assumption that the competitiveness of the company and the health of the social and economic environment around it are closely intertwined. The business needs a successful cluster, not only to create demand for its products but also to provide critical public assets and a supportive environment. It needs customers to buy its products, infrastructure and educated workers to conduct business activities and other organisations and stakeholders for different kinds of support. Therefore, a healthy environment is key for business success. The theoretical foundation behind this idea was developed by Porter in 1990 and is called Porter’s Diamond (Porter, 1990). It describes that a strong local cluster, reflected in strong elements in the Diamond model, increases the competitiveness of the company and is therefore worth to invest in.

At the same time society and the geographic environment of a company can benefit a lot from companies: the business sector creates jobs, increases wealth and delivers innovations that improve the overall standard of living. Positive (but also negative) social impact can be generated in every activity that a company engages in (Porter and Kramer, 2006). A model that is suitable to identify corporate activities with effect on society is therefore the value chain as defined by Porter in 1985 (Porter and Kramer, 2006). To create shared value companies and society must change the way they think about each other and focus on areas where they can benefit from each other. This way, a symbiotic relationship with mutually reinforcing effects can develop.
4. Strengths and weaknesses of the CSV concept

As mentioned above Creating Shared Value is not the only approach to conceptualize the idea of a common value between business and society. At the same time, it has limitations and weaknesses, which may be one reason for academics and practitioners to develop and follow different approaches. The most important strengths and weaknesses of the concept are discussed below.

4.1. Strengths of the CSV concept

(1) Holistic approach to redefine capitalism
With CSV Porter and Kramer managed to initiate a re-thinking in our understanding of capitalism. Academics use the new approach to describe rules of competition and market development from a different perspective, by making social value creation a sustainable strategy. Companies discover new markets, customers and products by following the new approach. Crane, Palazzo, Spence and Matten (2007, p. 133) describe this benefit as a “a holistic framework to unify largely disconnected debates on CSR, non-market strategy, social entrepreneurship, social innovation, and the bottom of the pyramid. Porter and Kramer contribute here by offering CSV as an umbrella construct to capture these diverse approaches within a common framework that seeks to re-embed capitalism in society with a dual positive impact”. So by integrating different unconnected ideas into a holistic concept, Porter and Kramer managed to develop a new understanding of capitalism that is comprehensible and useful for practitioners and academics.

(2) Leverage effect for social goals by integration in corporate strategy
Another strength of CSV is the leverage of the importance of social issues for the company. Social value creation becomes a strategic tool to create a sustainable competitive advantage, which lifts its function to management level. Like this, CSV can have an influence on decisions about new markets, product innovations or adaptations and supply chain optimisation strategies.

(3) Clear role allocation for firms, NPOs and governments
One part of the CSV concept is the clear definition of the role companies should play in the society. For the concept to be complete, an additional important aspect is however the clear definition of the role NPOs and governments have to play. The interaction of these
three players and the allocation of responsibilities between them is a key strength of CSV. Companies have to focus on their competitive strengths and create societal value in line with their long-term strategy. At the same time the government should support these activities by building an infrastructure that facilitates this activities. NPOs on the other hand are very important as supporters for companies on socially challenging markets and experts in areas business has no experience. Adding to this, some kind of societal problems cannot be solved by companies, because of too high financial risk or too long run of the investment needed (Porter and Kramer, 2011).

(4) Popularity of the concept

Although the authors themselves acknowledge that their concept is not original as it uses many elements previously proposed by other researchers the CSV model undoubtedly is the one that caught broad awareness in academic and business environment (Ennes, 2014). Especially the application of CSV in leading companies increase the general confidence in the success of the concept. Porter and Kramer cooperated with leading companies such as Coca Cola and Nestlé to prove that CSV is not just a strategic concept but can be applied in reality. This goes along with high reach in media and increases the faith in CSV considerably².

4.2. Weaknesses of the CSV concept

Despite the striking advantages of CSV, the concept also has a number of shortcomings that limit its effectiveness.

(1) Attempt to preserve capitalism and power imbalance

The model of CSV is based on neoclassical theory, saying that the highest wealth is created if every market player focuses on own profit maximisation (Landreth and Colander, 2002). Critics of capitalism as an economic system can see CSV as a desperate attempt to preserve it as a valuable concept (Crane et al., 2014). Moreover, the neoclassical theory includes the assumption of a perfect market with balanced supply and demand conditions. In developing countries however, these conditions are often not given. Cultural, political, legal or structural differences can create high barriers for business activity. This creates a huge market power for single companies who managed to enter such a market and therefore leads to a power imbalance that infringes the

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² Examples can be seen in: Klein, 2011; Lohr, 2011.
perfect market. Imperfect market conditions in return allow investors to enforce their own interests at the expense of local customers (Miracle, 1970). It means that markets that need CSV the most, are at the same time most vulnerable to failure in its introduction.

(2) Low focus on tensions between social and economic goals and ignoring short-term perspective

One of the points of criticism is that CSV neglects the tensions between social and economic goals that appear in reality. Even if a company has anchored social goals in its strategy attempting to use it for a long-term competitive advantage, it often drifts towards more short-term economic goals. The reason is seen in the growing importance of investors’ interest in company’s strategic decisions since firms often are dependent on funding. A frequently mentioned example in this context is micro-financing: initiatives in this industry are said to be pressured to achieve the financial self-sufficiency rather than create social impact (Epstein and Yuthas, 2010). While CSV emphasizes that a strategic long-term orientation is key to generate a competitive advantage, a practical approach for day-to-day business and short-term responses to market changes is missing.

(3) Missing experience-based component of CSV

Even though CSV is often commended for its proximity to practice it remains a conceptual approach. This is on the one hand reflected in a missing short-term perspective as described above; on the other hand, it becomes apparent in the weak elaboration on implementation issues that are experience-based (Ramaswamy and Gouillart, 2010). From the economic perspective it appears easy for a company to enter a new market with an adapted product or to find a new subsidiary in a foreign market since from this perspective it is daily business for multi-national companies. The difficulty in these actions however is to gain experience in how to deal with completely different cultures, values and traditions, political situations or economic systems. This might be an important reason for CSV activities to fail.

(4) Low measurability of success

The problem that makes the whole evaluation of concepts in the area of common value creation difficult is the measurability of outcomes achieved with any kind of CSV activities. This is due to a couple of reasons. First, the time frame of measurement is very long. Since value is intended to be created permanently, effects must be measured for many years to allow a final evaluation. Second, positive or negative
changes in a certain region of analysis are difficult to attribute to a fixed set of CSV activities since there are always different influence factors. Similarly, failing CSV activities do not necessarily need to be related to a failure in the concept itself but can also happen due to strategic mistakes of a company or unforeseen changes in the target market. It is therefore questionable to judge the overall concept based on single practical examples, neither in a negative nor in a positive way. At the same time, it is difficult for companies to measure their own benefits coming out of CSV activities making it also difficult to sell strategic changes to their investors (Porter and Kramer, 2011).

(5) Weak definition of market preconditions for CSV
Even though Porter and Kramer (2011, p. 77) mention in their work that “not all societal problems can be solved through shared value solutions”, they do not go into details in what this exactly means. Companies should only tackle societal problems that have an impact on their long-term strategies. It is therefore clear that the set of social problems differs a lot between companies. However, there are certain preconditions that are a necessary basis for any kind of company to approach a social issue. In return social problems that cannot be solved by business remain in NPOs’ and governments’ responsibility. In some cases, they might even be transferable to business by new governmental regulations. So, a clear definition of the kind of social problems that can be tackled by companies is also important to facilitate the CSV implementation.

5. CSV in practice – the case of Madécasse

In order to recognize ways to facilitate the introduction of the CSV approach an in-depth analysis of a real company that follows the CSV values was undertaken. The investigation was based on the in-depth semi-structured interview with the co-founder of the company located in Madagascar. Moreover, internal company materials were used, and publicly available information was collected. The results of the analysis allowed to create a preliminary list of strategic and tactical ways of overcoming the CSV weaknesses illustrated before on a practical level.

5.1. Background and the funding story
Madagascar is one of the poorest countries in the world with about 50% illiteracy rate and 80% unemployment rate, with rising inflation
and worsening quality of life. More than 90% of Madagascar’s population live below the international poverty line and with extremely low access to financial services (International Monetary Fund, 2016). The transportation infrastructure is poor and interruptions in power supply are frequent. The political situation of the country is not stable which increases the perceived risk for any kind of investment. This goes along with high corruption level that infringes business. At the same time the country is known for the unique variety of heirloom cocoa beans and for its mineralized and nutritious soil that allows to grow high quality cocoa. Most of cocoa farmers in Madagascar sell unprocessed, fresh, low quality crops to multiple resellers and distributors that cooperate with chocolate producers outside the country (www.madecasse.com; World Food Programme Madagascar, 2016).

The co-founder and co-CEO of Madécasse came to Madagascar as a Peace Corps volunteer in 1999 and decided – together with a partner – to build a company that adds value to local business partners in the value chain and takes advantage of the unique natural resources of the country. The firm started in 2008 with headquarters in New York and main operations in Madagascar.

5.2. Business model and strategy
Madécasse implements a ‘Direct Trade’ way of doing business by tight collaboration with its suppliers i.e. four farmer cooperatives as strategic supply chain partners. The products are manufactured in Madagascar and are sold as high premium in USA, Europe and Australia. Close cooperation with the farmers, locally performed production and strategic cooperation with different organisations allow the company to obtain high margins from the product that serve the company, the farmers and the community. The higher income and better living conditions allow in turn to further increase the quality of cocoa and strengthen the company offer. Madécasse is in the process of opening the second production plant in Madagascar.

5.3. Value chain organisation
The ‘Direct Trade’ logic of the value chain is a bottom-up approach, which differentiates it from ‘Fair Trade’ system. The biggest focus of the company is on the direct work with farmers. Ongoing trainings on cocoa harvesting and processing are performed with the support of non-profit organisations, and effective communication on every-day
basis is set as priority. Farmers obtain assistance on fair trade and organic certification procedure that allows them to sell cocoa also to other parties for higher price. The production process of Madécasse chocolate is organised in a simple, labour-intensive way with hand-tight packaging. It creates new jobs for low-skilled workers and allows flexibility – product innovations are introduced quicker than competition and the process gives space for unique packaging and original add-ons to be used. Moreover, the production line is immune to electricity shortages.

The company hires local staff for all positions, including management level. To do so the company provides training in computer skills, accounting or in working online. It also cooperates with a local university to get access to students as potential employees. Additionally, knowledge in food sciences is gained by cooperating with US universities. Hiring local workers is good for the local economy. It also results in lower transaction costs for the company and limits internal and external conflicts on cultural or language ground that is exceptionally important for smooth cooperation with cocoa suppliers.

5.4. Overcoming CSV limitations
Madécasse company is successfully running the business with CSV rules implemented. The for-profit activity is strategically bonded with social goals and as a result additional value for both the company and the society is produced. In this case the power imbalance and domination of the company over the other actors in the value chain is constrained by strong ties with the farmers. This relation gives the company huge competitive advantage in a form of direct and stable access to the best quality raw material, which makes at the same time Madécasse dependent from its suppliers. The farmers on the other hand do benefit from the relation as they get ongoing training, good revenues and long-term selling contracts. They also build their position as cooperatives with high farming skills, good quality products and valuable certificates which makes them attractive for other buyers and lowers the dependency from Madécasse. The power balancing mechanisms are built into the core of the business model and this, as stressed by the CEO, would not be possible without the societal values of the founders.

Although the company set the business in Madagascar having long-term vision and goals, meeting short term financial requirements was a big challenge. Economic and political instability of the country
was, as mentioned before, a factor that made standard food industry investors not interested in supporting the business. In this case, the process of finding the right investor had to be carefully planned and required a lot of effort. Only companies deeply understanding the local environment or particularly interested in social impact may be good partners for the development. Perfect match between the company’s and investors’ expectations seem to be the key to overcome the “short-term goals trap”.

Thorough knowledge of the cocoa plantation specificity as well as deep understanding of the local conditions, culture and language were mentioned as key skills needed to operate in cocoa business in Madagascar. All these experience-related issues were solved by implementing two principles – building close relations on every-day basis with local suppliers and hiring local workers on all levels of the value chain. Both principles are inherent parts of Madécasse business model and strategy that works for the company and society.

While the business outcomes of Madécasse activities can be easily measured by revenues or sales dynamics tracking, the social value is much harder to assess. In this matter non-profit organisations have developed better knowledge as they deal with hard to measure social services in most of the cases. The company entered into the partnership with Wildlife Returns organisation that helps in tracking the environmental and social impact of Madécasse’s activity. As the result the first impact report was published in 2017 (Madécasse Impact Report, 2017). The third-party assessment is not only easier for Madécasse, but also gives more transparency and reliability to the social activities of the for-profit company.

Madécasse is a small company that runs the business by addressing some of the pressing needs of local society in Madagascar. It is obvious for the co-founders that none of them will be solved entirely, moreover, many other issues will not be tackled at all. Nevertheless, the company believes that constant work on one area opens new opportunities for relief in other fields. The protection of Madagascar endemic species threatened with extinction is one of those issues. In 2016, Madécasse started the cooperation with Conservation International organisation and the Bristol Zoological Society to monitor and research lemurs living in cocoa plantations. It is believed that there is a big potential in improving the agro-forestry for the benefit of the wildlife (Conservation International, 2016).
6. Final conclusions and recommendations

The concept of Creating Shared Value is an approach with the potential to solve many societal problems in an efficient and sustainable way. However, it is still in its genesis when it comes to its implementation. It will require time for managers as well as stakeholders to rethink their understanding of fair and valuable business activities.

As a conclusion to the case of Madécasse activities four principles can be drawn on how to overcome main limitations of the CSV concept. First, societal values must be the base while planning and setting the business model. Second, these values reflected in social goals must be built into the core business architecture and strategy. Third, strong relationships with local markets where the societal issues are to be solved must be developed and tied to the core business model. Four, wide cooperation net should include entities that share similar societal values and can support the company, starting with mission-oriented investors, through scientific and educational centres and non-profits to cause sensitive end customers. The four abovementioned principles can be seen as a preliminary list of conditions that help introducing CSV by companies. It may serve as a base for further quantitative research that would show the correlations between the four principles and successful CSV implementation.

Bibliography


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