Creating Shared Value – Critical remarks from a European perspective[1]

Gabriele Faber-Wiener[2]

On first sight, the concept of "Shared Value" sounds revolutionary. It triggers thoughts, encourages discussions and opens up minds. However, looking into the details, there are a series of doubts and downsides that need to be reflected and further elaborated:

- Not new

The concept of Shared Value is not new: It goes back to old times, among others to the German idea of the "honourable merchants" (Ehrbarer Kaufmann) from the middle ages that considered responsibility for the society an integrated part of economy. Even further back, Aristoteles already distinguished between two forms of economy: Chrematistice vs. Eukonomia – one is intrinsic, integrated into households and being seen as natural and positive for society, and the other one was perceived to be out of control and negative for society.

- Outdated assumption of CSR

The concept of "Shared Value" was derived from a comparison with Corporate Social Responsibility (CSR). The surprising fact here is the outdated and limited definition of CSR: it is narrowed down to Corporate Citizenship or even Corporate Philantrophy which does not reflect the current status quo (e.g. looking at the definition in ISO 26000). This is not just a step back in development of CSR, it is also a step back from the authors perspective, considering that they have described CSR many times before, e.g. in HBR 2006 where they elaborated on the development of CSR towards a more strategic and integrated approach.[3]

- No mention of Ethics and Integrity

Ethics play no role in the "Shared Value" concept, it is not mentioned at all. However, many of the main problems we are facing today have their roots in Ethics and the lack of time or space given to reflect and discuss the key questions of right and wrong. As a consequence, there is hardly any ethics management in business - neither in business education nor in management structures or processes. As long as decision makers do not integrate ethical aspects – and ethics management - into their decisions and processes, things will not change for the better. With Shared Value I do not see progress into this direction, on the contrary, it could make it even worse. An indicator of this assumption is the unreflected introduction of Adam Smiths ethically very problematic "Invisible Hand" into the concept of Shared Value.

[1]This paper is a discussion paper to trigger thoughts, it is on purpose not written as a scientific paper.
[2] Gabriele Faber-Wiener has more than 20 years management experience in the NPO-sector as well as in communication and consulting. She has a double degree in responsible management and business ethics and is teaching CSR and CSR Communication at different universities.
[3] Porter, M.E. / Kramer, M.R. (2006): "Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility", in: *Harvard Business Manager*, Dec. 2006

- Limited concept

There is not a market for everyone and everything. Having said that, I disagree with the assumption that just by following the principle of Shared Value, society's overall interests would be served. As we see with many social issues and problems, not everything can be solved with market forces. Being a communication expert, I know that there are factors that make a story interesting to follow up and some that do not. What happens with those social issues that are not interesting enough for a company? Are they "left" to the public area to be dealt with?

- Externalities

What happens with the responsibility of the company for its externalities, i.e. the problems it causes that presently have to be dealt with by the public? This major problem is still not solved but in fact turned around. Shared Value could make it worse, since it does not trigger a change of mindset but focuses on the need for self interest.

- Money-driven

The concept of Shared Value is a very utilitarian concept. It is money-driven instead of needs-driven. What does that mean? If money rules and not the needs of people, decisions are not being taken with the main focus "What would be the best solution for the needs of the people?" but "What could we do best for our money?" – The outcome of this creates dangerous dynamics, as can be seen in the NGO sector where this way of thinking has led to very negative examples (e.g. the after-effects of the Tsunami in Indonesia and the overflow of money available).

- Efficiency vs. Effectivity

Business is driven by the need for efficiency. Developing solutions for social needs however have to do with effectiveness, very often they involve open discourse and a long time of thinking and reflecting before positive results turn out. In business time is money, so open discourse is neither appreciated nor encouraged in companies. How does that go together?

- Profit Maximization vs. Profit Orientation

Shared Value strengthens the principle of Profit Maximization. By definition of mathematics, one can only maximize one thing, not more. I would rather see the future in Profit Orientation which would NOT undermine productivity but incorporate ethics in decision making and management (e.g. Management by Ethics by Peter Ulrich) and by that could and probably would lead to an indirect business case as well.

- Homo Oeconomicus or Balance

In the last decade(s) we have experienced an "economization" of society in all aspects, from education to politics. With the concept of Shared Value, there is a strong tendency that this "Homo Oeconomicus" is in fact being strengthened, since by taking on social problems the role of business would become even stronger. This leads to the question: What does society need from business and what not?

There is a reason why we have three different sectors that form society: Politics, Economy and Civil Society. All three are needed, all three have to be in balance with the others (see Fig. 1 and 2).

Fig. 1:

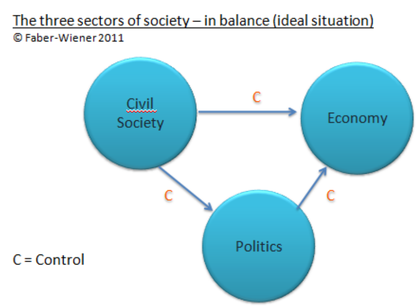
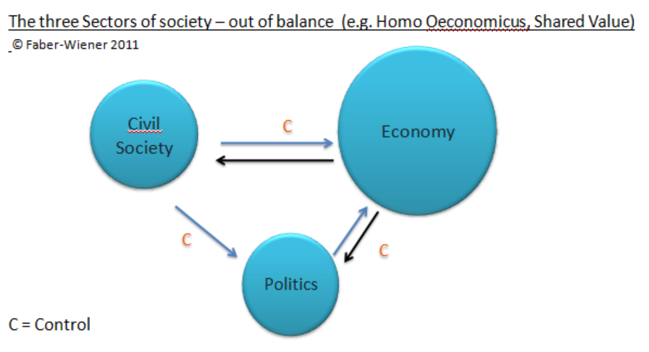


Fig. 2:



CONCLUSIONS

- Keep sectors in balance

For the future it is crucial to keep the three sectors of society in balance: to keep the civil society active and independent (which it is not in most cases, it depends more and more on sponsoring of companies or public funds) and to have transparent mechanisms for power and control.

For that we need active governments that do not prevent but “outbalance” the Business Thinking[4]. Nowhere in history business has been able to prevent or even control itself from bad dynamics – it needs regulation, but it has to be regulated properly.

- Different business education and “out of the box-thinking”

I agree with Kramer and Porter that managers have limited understanding of social and environmental issues. However, the solution to that problem is not the continuation of this rather sad situation and the use of this mindset in order to make markets out of social issues - the most important approach would be to install rapid changes in business education and through that trigger a change of mindset.

I presently make an MBA and a Master in Ethics and Responsibility Management, and doing both courses – as well as being a lecturer since 15 years myself - I see the crucial importance to integrate Ethics and Responsibility Thinking in MBA and other economic studies.

In times of globalization and unlimited communication, combined with a serious innovation problem that the “developed” world, especially Europe is facing, such a wider and “out of the box”-thinking is desperately needed.

[4] E.g. with the creation of incentives such as the creation of the “Rare Disease Act of 2002” that encouraged R+D for orphan diseases in the USA.

- Shared Value in combination with Ethics Management and Profit Orientation

I agree that CSR as a voluntary concept is not a solution to the present problem. Responsible Management, i.e. management by ethics, is a solution in my opinion. It would probably lead us “back” to profit orientation versus profit maximization, since it creates a different mindset of managers. Admittedly, this is a very idealistic view, but in my opinion it is the only solution that really leads to sustainable development. The concept of Shared Value could fit into this approach, provided it is based on and connected with ethics and ethics management and taking on the points mentioned above.

There are a series of developments going in this direction – the rapid development of social businesses worldwide, welfare economics and others. The question is whether they are being seen as irrational, naive and risky for the development of human mankind – or whether they are being taken and discussed seriously.

This is where important people such as Michael Porter and Marc Kramer come in – you have the power and possibility to change and influence people on a big scale – do it!

Gabriele Faber-Wiener