Business Ethics Journal Review

SCHOLARLY COMMENTS ON ACADEMIC BUSINESS ETHICS

businessethicsjournalreview.com

Cite as: **Bus Ethics J Rev** 1(17): 106–112, http://doi.org/10.12747/bejr2013.01.17

Edited by **Chris MacDonald** & **Alexei Marcoux**

ISSN: 2326-7526

Creating Shared Value: The One-Trick Pony Approach

Thomas Beschorner[1]

A COMMENT ON Michael Porter and Mark Kramer (2011), "Creating Shared Value," ***Harv Bus Rev*** 89(1/2): 62–77, http://hbr.org/2011/01/the-big-idea-creating-shared-value

ABSTRACT

Although Michael Porter's and Marc Kramer's article "Creating Shared Value" is a welcome attempt to mainstream business ethics among management practitioners, it is neither so radical nor such a departure from standard management thinking as the authors make it seem. Porter's and Kramer's criticism and rejection of corporate social responsibility depends upon a straw man conception of CSR and their ultimate reliance on economic arguments is too normatively thin to do the important work of reconnecting businesses with society. For these reasons, prospects for a genuine reinvention of capitalism lie elsewhere.

IN THEIR ARTICLE "Creating Shared Value. How to reinvent capitalism—and unleash a wave of innovation and growth," Michael Porter and Mark Kramer (2011) suggest what they see as a paradigmatic change in management thinking, one that they believe should contribute to nothing less than the reinvention of capitalism. The authors (2011: 64) criticize a too narrow understanding of management that aims at short-term business profits, and they stress the

[1] University of St.Gallen. Email: thomas.beschorner@unisg.ch

importance of "creating shared values, and not just profit per se." The authors, by contrast, aim to (re)connect businesses with society.

The meso-macro-link and needs

Porter and Kramer emphasize the relevance of possible positive contributions by businesses to society. Indeed, corporate social responsibility (CSR) often deals with rather "defensive" approaches – mainly under the label of (reputational) risk management – to prevent "bad business practices," such as corruption, cooking the books, or fraud. Positive contributions regarding how to realize "good business practices" are much less well represented in the current debate. Porter and Kramer (2011: 77) address this issue very directly, and suggest that corporations should "utilize their skills, resources, and management capability to lead social progress." In this context, it is also worth mentioning the authors' focus on "needs," which is a basic category in neoclassical economics but which has been often neglected over the years and replaced by a problematic shortcut: 'products and services.' Starting the business analysis and the search for opportunities with needs instead of concrete products or services, however, can make a big difference (in both theory and practice). The automotive industry, for example, deals with cars and trucks that are concrete products aimed at satisfying "mobility" needs. If needs are the normative end, as well as the basis unit of analysis, while particular products and services are mere means to this end, new opportunities may arise: corporations such as Volkswagen or Toyota might define themselves as mobility enterprises and not just automotive companies, which might lead to new markets (e.g., car sharing concepts, mobility passes) (Beschorner and Hajduk 2013: 295).

Conceptualizing businesses as proactive actors allows the authors to link their argument to the systemic macro level of societal governance (within the triangle of markets, state, and civil society). Here, they are warning of too-strict regulation. Instead, they recommend that states "set performance standards but do not prescribe the methods to achieve them—those are left to companies" (Porter and Kramer 2011: 74).

Stressing businesses as proactive societal actors, although not a new proposal (see, e.g., Matten and Crane 2005; Scherer and Palazzo 2007; Zadek 2001), definitely points in the right direction. Indeed, CSR should not merely be designed to correct symptoms on the meso-level, but should also be linked with systemic changes on the macro-level. In other words, CSR concerns the question about how to change the moves of the players (e.g., businesses) to change the game. The rules of the game (e.g., laws and regulations), however, are not obsolete: there is no game without rules.

Mainstreaming business ethics

Publishing their ideas in the *Harvard Business Review*, Porter and Kramer have chosen their audience (namely management practitioners, partly management scholars) carefully. The authors make clear that their standpoint has nothing to do with charity or moral chitchat about justice, duties, responsibility, or a greater good, but is rather an (extended) economic approach to normative issues that will pay off for businesses in the long run. The economic line of argumentation the authors present may be convincing for the readership of the *Harvard Business Review*; it is still relatively close to mainstream management thinking and, thus, can probably connect to the mindset common among scholars and practitioners in the field of management. One might argue that this, added to the prominence of the authors and the coverage of the publishing journal, is a particular strength of their contribution. Indeed, the article is widely quoted and has resulted in the "Shared Value Initiative."[2]

Critical examination

In the following paragraphs, I want to undertake a more critical examination of some ideas Porter and Kramer develop in their article. My thesis is that the article includes several terminological and conceptual misunderstandings. The authors approach the topic with an overly narrow economic perspective and, as Paul Simon sang, this "one trick is all that horse can do." As a consequence, the shared value perspective regards companies as players with the ability to calculate benefits, but they cannot be conceptualized as actors beyond the economic ideology. This is both normatively inadequate and empirically wrong.

[2] See http://www.sharedvalue.org

The straw man

Porter and Kramer offer a comparison between corporate social responsibility (CSR) and creating shared value (CSV) approaches. CSR is characterized as essentially philanthropic, and as disconnected from a company's core businesses—in the authors' words "separated from" versus "integral to profit maximization" (2011: 76). This, of course, is a very particular and limited understanding of CSR, one that neither reflects the academic debates of the past few decades nor captures most of today's CSR practices adequately. CSR is not an end-of-pipe practice, but an integral part of business practices, including the supply-chain and the market side. It is not about how businesses spend their profits but, indeed, about how they earn them. In fact, CSR would not only be insufficient but also quite boring if limited to philanthropy. This standard CSR perspective must be what Porter and Kramer have in mind, but it also unmasks the authors' empty critique of CSR. Instead of dealing with a contemporary understanding of CSR, corporate social responsibility seems to be used instead as a straw man to rhetorically justify the authors' contribution and its proclaimed originality.

The limits of economic arguments

Porter and Kramer ground their arguments on a purely economic logic. Profit maximization has not just practical significance – companies need to act according to the principle of profit maximization due to market forces – but also normative significance: it is good that they do so. Consequently, the authors also identify markets – in comparison to regulations – as a superior mode of coordination in modern societies. Apart from profit maximization, Porter and Kramer (2011: 76) introduce other normative orientations merely vaguely by assuming "laws and ethical standards." It remains fairly open what kind of ethical standards the authors have in mind. One might argue that "social needs" could represent another normative idea in addition to profit maximization, and that the authors try to bring together both perspectives. A closer look shows, however, that Porter and Kramer understand social needs not as ethically important ends, but rather as (economically smart) means for successful companies.

The authors' argument here raises the question: What ought to be done if the creation of business value and social value do not go hand in hand? Given their line of argumentation, Porter and Kramer would need to answer that as long as business practices do not harm the business performance in the long run, and the company complies with law and ethical standards, and as long as the business gains sufficient legitimacy in the eyes of its stakeholders, then all business practices are fine. This can be regarded as a reformulation of a classical strategic stakeholder approach that tends to prioritize the relevance of stakeholders according to their influence on the business' activities (including designating first, second, and third degree stakeholders, and so on). The more powerful a stakeholder is, the more the company needs to take that stakeholder's stake into consideration. From a normative perspective, pure strategic stakeholder management has been criticized due to the fact that it prioritizes stakeholders based on power, an approach that can hardly support ethical justifications. Justifiable management practices also need to consider the claims (and not just the stakes) of less powerful or non-powerful actors. Companies need to consider not just stakeholders, but also "claimholders" that might have legitimate claims on the business (Waxenberger and Spence 2003). Porter and Kramer clearly and correctly proclaim the necessity of regaining societal legitimacy, in the sense that companies need to be regarded as contributing pillars of our society. The approach suggested by Porter and Kramer, however, has the potential to make the company more "acceptable" to particular stakeholders without increasing societal "legitimacy."

What would be needed here instead is a normative corporate philosophy that could provide a deontological basis for corporate policies, corporate strategies, and concrete business activities and by which companies develop, describe, and articulate themselves not just as economic but also as societal actors. This entails questions such as: what does our company stand for? What is our contribution to society? What are our fundamental values and what business strategies emerge out of them? Such corporate philosophies should not be misused as "corporate makeup" (it is indeed dangerous for companies' reputations if they do not walk the talk) but should be the authentic basis for doing business. To be clear at this point: CSR in the sense described can result in greater profits for businesses. Profit-seeking and self-interest is not *per se* bad, but profit maximization without any ethical basis leads to some serious shortcomings. Again, doing good business needs to be grounded on a deontological foundation upon which benefit and cost calculation can take place.

If companies really want to gain back trust and legitimacy in the eyes of society, they need to deal with normative issues. Porter and Kramer basically tell the old story of economic rationality as the one and only tool of smart management, with faith in innovation and growth, and they celebrate a capitalism that now needs to adjust a little bit. But there is little chance that an increasingly critical civil society will buy into such a story.

Reinventing capitalism: some steps further

A reinvention of capitalism would need to go several steps further than Porter and Kramer suggest. In addition to the aspects mentioned above, I would like to briefly suggest some directions:

Firstly, the re-localization and re-embedding of businesses in society requires companies to engage in a broader spectrum of societal governance. Market transactions and bargaining – with which companies are familiar – add up to just one governance mode. Societal discourses and deliberative processes represent other modes of societal governance that are becoming increasingly important for businesses.

Secondly, globalization has not just led to greater competition but also to an increase of cooperation. The management of more complex supply chains and the increase of merger and acquisition activities are just two indicators of this development. A successful business in times of globalization is not merely a good market actor but also an organization that is able to cooperate. It is should be noted that from a theoretical point of view cooperation is a non-economic mode of social interaction (in opposition to exchange and competition) that, however, is highly relevant for concrete business practices since it might lead to positive economic consequences.

Thirdly, management scholars traditionally emphasize economic skills in a narrow sense that is based on benefit and cost calculation. This, however, does neither reflect the actual repertoire of firms' capabilities; nor is this single-minded orientation fruitful from a normative perspective. In companies we find de facto multiple language games. Firms do not merely speak and listen in economic terms but they also use, for example, technical, legal, social, and moral languages that are reflected in particular practices. With respect to re-embedding businesses in society, it is important that companies activate or develop certain capabilities – e.g., moral imagination, communication, and practices (Hartman and Werhane, 2013) – beyond the dominant economic discourse.

Companies need to develop moral capabilities and specific skills to be both "fit" for and contributing to new societal contexts that demand legitimate business practices. This cannot be realized with a one-trick pony approach embodied in overly narrow economic perspectives.

Received 13 August 2013 / Posted 13 September 2013

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