How Creating Shared Value Differs From Corporate Social Responsibility

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Abstract

Purpose: This study attempts to make a contribution to theory by disentangling the concept of creating shared value (CSV) from corporate social responsibility (CSR). In doing so, the study provides a preliminary outline for CSV analysis.

Approach: This study is conceptual in character. It is based on a review of literature on CSR and CSV and adopts the perspective of economic and social value creation.

Findings: The findings show that 1) CSR comes down to sharing the economic value created in order to build social value and 2) CSV is the process of change of the relation between a firm’s outcomes and inputs that generates social value. In other words, it comes down to economic value creation through creating social value.

Originality: This study provides arguments revealing that understanding the differences between the notions of CSV and CSR, requires adopting the concepts of economic and social value. The study therefore bridges the gap in theory in this respect and outlines a preliminary conceptual basis for CSV analysis. It is expected that the findings of this study will serve as a reliable basis for further discussion and CSV concept development.

Keywords: creating shared value, corporate social responsibility, strategy

JEL: M10, M14, M19

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Introduction

Since its emergence, Porter and Kramer’s articles on creating shared value (CSV) (2006; 2011) have received increased interest among practitioners, think tank leaders, third sector and development organizations (e.g., UNDP, WBSCD, IFC). CSV is defined by the authors 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 they operate” (Porter and Kramer, 2011, p. 66). CSV is a conceptual response to deficiencies in corporate social responsibility (CSR), as emphasized in the scientific literature and by business practitioners. It differs conceptually from CSR in that it unifies different notions under the umbrella concept of CSR by underlining that social engagement must be economically beneficial for a company and by relating it to strategic analysis.

Its biggest contribution is that CSV sees business activity through the lens of value creation in two dimensions: economic and social. The CSV concept may therefore be considered as a voice in the discussion within the business case for the CSR research stream, as it refers to the underlying arguments or rationales supporting why companies consider social concerns. Its primary question is “What do the business community and organizations get out of social/environmental engagement?” (Carroll and Shabana, 2010). However, the CSV concept has rarely gone beyond the practice-oriented magazines and discussion forums. In this respect, academic literature has not provided a deep analysis of the concept, nor has it dealt with its operationalization and measurement. It is argued that this state of affairs may produce conflicting findings regarding the concepts of CSV and CSR.

This study attempts to address this issue and seeks to contribute to the body of knowledge by developing conceptual grounds for CSV analysis and therefore allowing for clearly distinguishing CSR and CSV concepts. The author argues that conceptual work is needed since divergence between these two focal notions have not yet been clearly identified in the scientific literature.

The structure of this study is as follows: First, it characterizes the CSR concept, demonstrating research findings within the business case for CSR stream as a framework within which the CSV concept is grounded and discusses the sources of its critique. Next, based on arguments developed in the previous section, the CSV concept is characterized and juxtaposed with CSR, followed by emphasizing differences between these two. The subsequent section is focused on outlining the basis for further CSV operationalization. It is followed by highlighting potential implications that
the CSV concept has for strategy. The final section presents study conclusions and implications.

Corporate social responsibility as an essentially contested concept

The topic of business’s role in society has been for the long time the subject of a debate between two points of view (the “Freeman-Friedman debate”) (Freeman, 2008). One is rooted in neoclassicism, the ethical foundation for which is utilitarianism. The other reflects a socio-economic perspective grounded in stakeholder theory (Freeman, 1984).

In the first case, the effect of an action is defined in terms of the consequences it has on total social well-being, where self-interest profit-seeking behavior is expected to increase social well-being. This theorem is translated into achieving a Pareto optimum. The sole objective of the firm within this stream of thought is profit maximization. Social issues are seen as peripheral to management challenges.

In contrast, the socio-economic view assumes that “economics is embedded in society, politics and culture, and is not a self-contained system. It assumes that individual choices are shaped by values, emotions, social bonds, and judgments – rather than by a precise calculation of self-interest” (Society for the Advancement of Socio-Economics; cited in Coughlin, 1990, p. 3). It is therefore normative in character. Within its scope, it is argued that one of the main criteria of corporate profitability is the responsiveness to changing values, needs and expectations of the community and society in which it operates (Clarkson, 1991, p. 186), creating in this way the corporate license to operate (Salzmann et al., 2005).

Behind this approach lie several reasons. As Haque (2011) pointed out, externalities – a new type of costs – have appeared. They are generated in the course of business activity and are borne by governments, creditors, societies and the natural environment. Despite that economic progress has improved the overall life quality in societies, it has also been responsible for increased income disparities as measured by the Genie coefficient and deteriorated living conditions in developed economies (Milanovic, 2011). This trend has been experienced since the 1980s (Alverdo, 2011). Some scholars argue that a narrow group of people in the global corporations are partially responsible for this state of affairs (e.g., Porter and Kramer, 2011, p. 67).

Consequently, stakeholder pressure has become one of the new significant driving forces of fundamental changes in business organizations and has challenged traditional
rules of competition. Companies have begun to integrate sustainable development principles (see UN General Assembly, 2000), CSR guidelines and standards within their operations and strategy and to transform their business models. As a result, corporate responsiveness to social expectations has received a great inflation of interest in academic literature and business practice in the last couple of decades, under the umbrella term of CSR. According to this stream of thought, company performance is defined in terms of the triple bottom line, i.e., in economic, social and environmental terms.

There exists a disparity in terminology and understanding of the CSR term. Its sister notions of business ethics, stewardship, corporate social responsiveness (CSR2) and corporate sustainability tend to be either used interchangeably in the literature or are jointly referred to as CSR. Thus for the sake of brevity, CSR will be treated as a common denominator for the cited notions and defined as “the organization’s commitment to minimizing or eliminating any harmful effects and maximizing the long-run beneficial impact on society” (Mohr et al., 2001, p. 47). In practice, it means meeting changing social expectations in the firm’s strategy process which relies on continuous collaboration with the firm’s stakeholders (Rok, 2012, p. 424).

Despite such popularity of the CSR concept, business experience and prior research have shown that integrating the CSR concept in practice constitutes a challenge from the economic point of view. It is often considered as too postulative and abstract for business practice (e.g., Karnani, 2011). The postulate of necessity has posed the practical problem of how to address social concerns and simultaneously sustain economic value creation potential. Going beyond a profit orientation has for a long time been receiving a significant critique, beginning from Milton Friedman, who claimed that CSR is a “fundamentally subversive doctrine” (1962, p. 133; 1970). As a result, the main problem that has come to the forefront can be brought down to the question of how pursuing CSR principles affects corporate performance.

Answering this question faces major problems. First, the discussion is positioned both within positive and normative arguments. The reason for this is that the CSR concept has attracted academics from various disciplines, often from outside the economic and management fields (Du et al., 2011; Lockett et al., 2006). This has led to CSR nowadays being considered as an essentially contested concept because of the pluralism of approaches (definitional overlap), permanently changing definitions and contextual understanding (Gond and Moon, 2011). CSR is still a source of definitional problems and constitutes to a great extent a source of permanent debate around normative arguments.
Second, prior research does not allow drawing equivocal conclusions, if it comes to the relationship between CSR/CSP (corporate social performance) and CFP (corporate financial performance) or non-financial performance (Marcinkowska, 2010; Orlitzky et al., 2003; Vogel, 2005). Some of the studies reveal positive association between different forms of CSR and corporate performance (Lulewicz and Ejdys, 2009; Malara and Krok, 2012, p. 17; Zieliński, 2004 in the context of Poland; see also Fougère and Solitander, 2009; Waddock and Graves, 1997; Valenzuela et al., 2011 for international context), and some on negative (Bhattacharya and Sen, 2004; Makni et al., 2009).

Other studies reveal contradictory results (e.g. Hart and Ahuja, 1996; Orlitzky et al., 2003; Preston and O’Bannon, 1997) and some others demonstrate a neutral or lack of such association (Griffin and Mahon, 1997; Wójcik, 2013). Another group of studies suggests the existence of a recursive relationship between these two constructs, i.e., that CSR/CSP is both a predictor and a consequence of CFP, thereby forming a “virtuous circle” (Nelling and Webb, 2009). Based on a literature review, Salzmann et al. (2005) suggested the existence of an optimal level of CSR engagement such that there is a positive correlation between CSR/CSP and CFP. In other words, there is an inverted U-shape relationship showing that both too weak and too intensive investment in CSR have a negative impact on a firm’s financial performance.

Modest arguments in favor of the positive impact of business engagement in CSR on economic outcomes has become a motive to engage mostly in short-term “greenwash” marketing initiatives to mask the negative corporate impact, which contribute to economic value deterioration and not creation. It is not rare that companies conduct ad-hoc initiatives instead of introducing systemic organizational changes (Hollender and Breen, 2010). This is why, as some authors claim, CSR has failed in practice (e.g., Karnani, 2011; Visser, 2010), leading to stakeholder prejudice (Kazojć, 2012, p. 36).

A plethora of recent works indicate that companies often struggle to integrate a pro-social approach when faced with fierce competition and thus focus on short-term returns, treating business risks related to lowering labor costs and destruction of natural environment as irrelevant (Zadek, 2006) and that managerial decisions directed at socially responsible outcomes are not a viable management approach under prevailing business conditions (Dutta et al., 2012).

The reasons of this state of affairs may be found in theoretical underpinnings. As Quairel-Lanoizelee (2011) remarked, there is a conceptual gap when one juxtaposes CSR and management literature as they differ with respect to the scope of issues considered. While economic and management literature’s main focus is on competitive
advantage, efficiency and competition, CSR mainstream authors implicitly presuppose that business organizations are profitable *per se* and recognize only the social aspect of their activities, such as a need to meet broad stakeholders’ expectations and the necessity to produce the public good (p. 90). However, according to several authors, the prevailing CSR literature has not much answered to the question: “how can social tensions be experienced practically in a business without conflicting with the very economic and competitive nature of the business environment?” (Molteni, 2006, p. 516). Consequently, a recently shaped view is that CSR is mostly sacrificing profits in the social interest (Reinhardt et al., 2008) and the only concern is to what extent the private sector shares its profits to alleviate poverty (Clyde and Karnani, 2015). As a result, new concepts have been sought that are based essentially on the same principles as CSR but adopt different perspective and logic of analysis.

**Creating shared value concept: how it differs from CSR**

One of the theoretical propositions that strives to solve the aforementioned tensions is the concept of creating shared value (CSV), introduced by Porter and Kramer (2006; 2011), as value created by and for a company as well as its stakeholders simultaneously. Although this new concept has already attracted attention among scholars and the business press, its theoretical conceptualization is vague and still lacks a firm empirical grounding. For instance, according to Dembek et al. (2015), it now resembles a management buzzword, provides no clear criteria of implementation for businesses and needs further elaboration. Only a few studies provided a deeper analysis of this theoretical construct. Consequently, no commonly accepted approach to measure CSV exists (e.g., Pfitzer et al., 2013; Spitzbeck and Chapman, 2012; Szmigin and Rutherford, 2013). Taking on this theoretical challenge and building on the extant literature, this study seeks to address this knowledge gap and attempts to make a contribution to the theory development by answering the question: “How do CSV and CSR notions differ?”

To answer this research question, a literature review was first conducted. Relevant literature was systematically identified, selected and critically appraised according to Czakon’s (2011) suggestions. Specifically, the search involved four phases: 1) selecting the database, 2) identifying keywords, 3) selecting articles according to exclusion criteria and 4) analyzing selected literature by title, abstract and content.

First, literature was searched by using the Web of Science database. The search was narrowed to the post-2011 period. The reason behind this is the date of publication of the focal Porter and Kramer’s (2011) article using explicitly the CSV notion. Second
with respect to keywords, Boolean search operators were used to narrow the search and the combination used was as follows: “creating” AND “shared” AND “value” OR “shared” AND “value”. The search returned 74 entries. Third, the criteria used for retaining the literature from the yielded search included type of publication (scientific journals vs. popular press or practice-oriented articles) and scientific domain (under the Business and Management categories). From among the total of 74 entries, 14 were book chapters, 19 were not classified as business or management category and 6 were practice-oriented. Fourth, the remaining papers were screened by title and abstract. If an article passed the preliminary screening, the content analysis was conducted in search for the context used and application of the CSV concept. The in-depth text analysis was conducted, especially with respect to the issue of whether authors wrote about the relationship between CSV and CSR notions and/or value. From 35 remaining articles, 7 were published in scholarly journals ranked by Thomson Reuter’s Journal Citation Reports (JCR) list. Based on the conducted analysis, a few from the identified papers developed the overarching concept on firm theoretical grounds (e.g., Michelini and Fiorentino, 2012; Visser and Kymal, 2015). The findings of the literature review are summarized below.

CSV breaks off with normative and postulative terminology of CSR. It demonstrates social concerns not as disconnected problems but as opportunities linked with business strategy, very often supported by examples of exploiting them in real business cases. Its strength lies in demonstrating that social issues can be approached by business in close liaison with analytical tools such as value chain and “diamond” models. This makes it possible for scholars to advance the business and society stream of research. As Crane et al. (2014) noted, CSV’s advantage is that it offers “a holistic framework to unify largely disconnected debates on CSR, social entrepreneurship, social innovation and the bottom of the pyramid” (p. 133). However, it is also criticized as overlapping to a great extent with the CSR notion, and thus not being novel (Crane et al., 2014). Especially, it reminds of Emerson’s (2003) blended value concept, Hart’s (2005) mutual benefit or Prahalad and Hart’s (2002) bottom-of-the-pyramid market.

Much of the work in the area of CSV is either focused on discussion of its novelty and opportunities to reconcile social and business goals (e.g., Orr and Sarni, 2015), or is practice-oriented (e.g., Kania and Kramer, 2011), often documenting case studies with poor methodological rigour (e.g., Ghasemi et al., 2014; Hills et al. 2012).

The most significant differences between CSR and CSV notions may be distinguished when their conceptualizations are analyzed. By investigating the most recognized definitions, one may derive that CSR has been for a long time defined in terms of
creating solely social benefits and not explicitly exposing the economic aspect of business engagement in social and environmental issues (for definitions, see Basu and Palazzo, 2008; Campell, 2006; Carroll, 1979; Frederick, 1986; Matten and Crane, 2005; McWilliams and Siegel, 2001; Sethi, 1975).

As Kramer (2011) notes, this is the main argument against social engagement by business organizations and the reason why the concept itself is perceived as a potential source of value deterioration. Also, definitions provided by international organizations consider business responsibility this way. For instance, the European Commission in its Green Paper, defined CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission, 2001, p. 6). In turn, the World Business Council on Sustainable Development (2000) considered this term as “the commitment by business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.” More recently, in response to the perceived conflict between business and social goals, the European Commission put forward a new understanding and defined business responsibility as “the responsibility of enterprises for their impacts on society” (European Commission, 2011, p. 6), which means integrating social concerns into companies’ business operations and core strategy “with the aim of maximizing the creation of shared value” (p. 6). This definition for the first time underlined explicitly the balance between firm goals and social goals. The new European Union’s CSR strategy therefore noted the importance of the problem of the difficulty of reconciling business and social goals and refers indirectly to the CSV concept.

According to Porter and Kramer, “CSV rests on the premise that both economic and social progress must be addressed using value principles [and] value is defined as benefits relative to costs, not just benefits alone” (Porter and Kramer, 2011, p. 66). They argue that executives, when considering social engagement of business organizations, more often think in terms of benefits achieved or money expended, rather than in terms of relation between these benefits and costs incurred. Therefore, the CSV concept constitutes a significant step forward in business responsibility as it views both a firm’s performance and social concerns from the value creation perspective, a phenomenon that constitutes a central point in economics and management.

CSV can be seen as an equivalent to Visser’s (2011) CSR 2.0 notion, referring to “the age of responsibility” characterized by introducing systemic changes and being as a next step in CSR evolution. From this perspective, CSV seeks to supersede or extend CSR. The latter can be seen as a philosophy of doing business and as a field of scholar-
ship embracing multiple concepts that contribute to its ambiguity. CSV is an action-oriented concept that attempts to translate CSR postulates into business practice. Introduction of the new term may thus be seen as a willingness to detach from the dysfunctions that have arisen when CSR principles have been implemented in practice. This encouraged researchers to seek conceptual solutions that could be better understood and accepted by managers providing a potential for integration of social aspects within traditional performance measures and economic tradition.

As (2011) notes, despite that both CSV and CSR refer conceptually to “doing well by doing good,” there exists a significant difference between these two notions. CSR is traditionally defined and understood as generating social benefits without referring to costs of effort, i.e., the phenomenon is focused on sharing the value created by business and transferring it to the society. Instead CSV means creating new opportunities and creating new value. Instead of being forced by external factors, a company is motivated internally to pursue shared value creation. Using’s Laszlo et al. (2005) sustainable value framework, one can conclude that CSR initiatives represent unsustainable value with little or no business benefits and some social gains, while CSV would reflect a sustainable value with significant business and social benefits.

According to Porter and Kramer, CSV is self-regulated in that no government is needed to mitigate the externalities generated by business. It is therefore not necessary to impose constraints on firms to deal with social concerns as Karnani (2011) argued. The authors emphasize that companies cannot address whichever social issue but “the task is to identify those areas of social context with the greatest strategic value” (Porter and Kramer, 2006, p. 6). Social concern may become a source of shared value creation only when the criterion of the greatest possible benefits relative to costs (both for a company and society) is met. What follows is that the more the social issue relates to the core business, the greater the possibility to leverage the firm’s resources and capabilities with mutual (socio-economic) benefit (Porter and Kramer, 2006, p. 10). According to CSV’s line of argument, firms are therefore proactive and driven internally, while according to the CSR perspective, firms are responsive, i.e., are driven externally. The conducted literature review enabled making several conclusions that are summarized in Table 1.
Table 1. Differences between CSV and CSR concepts

<table>
<thead>
<tr>
<th>Corporate social responsibility</th>
<th>Creating shared value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normative stance</td>
<td>Positive approach to business in society issues</td>
</tr>
<tr>
<td>Treats social issues as separated from company’s core business</td>
<td>Treats social issues as potentially beneficial for the company.</td>
</tr>
<tr>
<td>Company’s actions are driven externally (i.e. by external pressure)</td>
<td>Company’s actions are driven internally (i.e. managers are economically motivated to seek for uncontested space of social issues to address)</td>
</tr>
<tr>
<td>Assumes generating profits (economic value) implicitly</td>
<td>Profits (economic value) pursued and not obvious</td>
</tr>
<tr>
<td>Implicitly assumes sacrificing the profits in the social interest (sharing the economic value created)</td>
<td>Includes those social concerns (issues) which relate to the company’s core business in the business model (creating economic value through creating social value)</td>
</tr>
<tr>
<td>Detached from strategy framework</td>
<td>Involves strategy analysis tools (“diamond” model, value chain)</td>
</tr>
</tbody>
</table>

Source: own work.

Towards CSV operationalization: a preliminary outline

Clearly, distinguishing between CSV and CSR is hindered because no universal operationalization has been adopted (Dembek et al., 2015). To address this issue, the current study seeks to contribute to CSV concept development by setting a conceptual basis for CSV measurement. Recently, many scholars have called for greater emphasis on value creation in general as well as within the context of business responsibility (e.g. Wheeler et al., 2006). This study suggests reformulation of the problem of the relationship between corporate engagement in social issues and corporate performance. It adopts the lens of value creation and includes two dimensions of this process, economic and social, to help identify shared value creation.

The ultimate purpose of the firm, according to five different theories of the firm, as well as the resource-based view as identified by Conner (1991), is either to maximize profits, while setting the boundary of the firm, or to achieve and sustain abnormal returns. Such a viewpoint raises the question of what really makes a given business activity profitable, allowing it to exist? According to several authors, seeking to maximize
value creation rather than maximizing profit is the major motivation for firms and should occupy the central point in the business activity analysis (e.g. Bowman and Ambrosini, 2000; Jensen, 2001). A significant body of literature indicates the multidimensionality of value creation (e.g. Freeman, 1984). Going beyond the narrow neoclassical view, scholars have emphasized non-economic business functions (Brickson, 2007) and have called for a reconceptualization of the analysis of the relationship between the firm and the society. Within this view, business organizations are seen as institutions that manage relationships between a company and its environment (Jensen, 2001). Stakeholders are thus considered as potential social beneficiaries or payers (Hart, 1995), while firms are institutions that seek to allocate resources and develop capabilities in the multi-actor environment that involves competing claims (Dunfee, 2008). Externalities, or side effects of the business activity, are costs (or benefits) that are generated by members of the value system and borne by third parties; i.e., stakeholders that do not directly participate in the process of economic value creation. They have been traditionally reduced on a macro level through public policy programs (e.g., redistribution of wealth by taxation) or on micro and meso levels through corporate social programs, non-governmental organizations’ activities and charity foundations, but also in the form of CSR-like policies and initiatives. These efforts, as some scholars indicate, are ineffective when it comes to solving social problems (Becerra, 2009, p. 225; Visser, 2005).

It can be derived that the process of value creation, within the context of stakeholder management, takes the form of seeking ways to continuously innovate and improve in two aspects: economic and societal. The ability to generate positive externalities by the company (i.e., to create social value) derives from its ability to create economic value. This can be considered as a producer’s residual value that allows it to transform resources and address societal challenges in the course of seeking opportunities to maximize economic value (Auerswald, 2009).

Given the problematic nature of the relationship between the firm and the society analysis, the CSV concept constitutes a promising theoretical perspective. However, as it is still in statu nascendi, it needs further development. The author believes that focusing on the very nature of creating and capturing wealth (economic value) by business organizations as well as focusing simultaneously on social value creation will enable making a contribution to the theory by 1) moving forward with CSV analysis and 2) helping distinguish CSV from CSR. The following sections attempt to make this clear by unveiling the nature of economic and social value creation.
Economic value creation

The common interpretation in the field of strategic management is that economic value occurs when a difference between a consumer's perceived benefits (maximum willingness to pay) and a firm's economic cost arises (Peteraf and Barney, 2003). This view assumes that two sides are present in the process of economic value creation: the “producer” (firm) and the consumer (Priem, 2007). Price level motivates the producer but also affects a consumer's willingness to buy. Total value (total surplus) can be divided into the consumer's and producer's surplus (see Figure 1).

**Figure 1. Graphical interpretation of the economic value**

![Graphical interpretation of the economic value](image)

Based on the proposed interpretation, a firm's economic profit (rent) equals a firm's surplus and derives from value created for the consumer in the course of business activity. Total economic value created (total surplus) may thus be noted by the following equation:

\[
\text{Total EV} = V - C = (V-P) + (P-C) = \text{Consumer's Surplus (CS)} + \text{Firm's surplus (FS)}
\]  

Based on the above analysis, economic value creation is necessary but not a sufficient condition for profitability unless a firm is able to capture this value in the form of profits (Bowman and Ambrosini, 2000; Porter, 1991). The pursuit to maximize value creation may take three different forms: 1) to meet consumers’ needs better than competitors at the same or similar costs, 2) to satisfy consumers’ needs at lower costs than rivals and 3) to satisfy consumers’ needs that are not yet addressed by competitors (Porter, 1985).
Following the existing conceptualization, creating economic value is a dynamic process and may be reflected, from the producer’s perspective, as a change in the relation between a firm’s surplus (economic profit) (FS) and a firm’s cost (FC) between two points in time, thus:

\[ \Delta EV = \frac{FS_n}{FC_n} - \frac{FS_{n-1}}{FC_{n-1}} \quad \text{or:} \quad \Delta EV = \frac{FS_n}{FC_n} - \frac{FS_{n-1}}{FC_{n-1}} \] (2)

Going further, economic value creation could be considered in terms of efficiency and could take the more general form of a change in relation between a firm’s outcomes and inputs.

**Social value creation**

Welfare economics analyzes social welfare from the Pareto efficiency point of view. It implies that the most efficient allocation of resources is such that it leads to an increase in at least one individual’s well-being without diminishing the others’ well-being. Social value analysis in management literature tend to follow welfare economic arguments and has received significant interest in past years.

The demand for metrics is especially visible from non-governmental organizations, policymakers and public institutions, but also from investors and business organizations, as they are interested in assessing corporate social impact and social value created. This has challenged researchers to think of this issue through the lens of stakeholder management. These efforts have led to a proliferation of approaches and measurement methods. The diversity of methods and the tendency to report social impact pushed Miller et al. (2007) to the conclusion that “with no one established standard against which to evaluate or assess the social dimension, current social reporting is often disparagingly described as a public relations exercise with limited accountability, consistency or comparability” (p. 223).

For instance, Juraszek-Kopacz and Tyrowicz (2008) noted that social reports in Poland provide information on how many trainings or for how many people the trainings were delivered without informing what social impact such activities effectuated, i.e., whether they contributed to solving the problem or how efficient in social terms they were. Social value creation identification may be conducted in numerous ways, using at least dozens of tools and techniques. The New Economics Foundation, a British think tank promoting social, economic and environmental principles, identified over 20 approaches for measuring social impact (New Economics Foundation, 2015). Mulgan (2010) provided
an overview of existing social value evaluation methods relying on different viewpoints, grouped into 9 categories, including a cost-benefit analysis, a revealed and stated preferences approach or a social return on investment (SROI) assessment.

The most recognizable and proliferated methods are those that try to capture the financial value of social or environmental impact, among which SROI is one of the most popular. Basically, they are useful for external reporting purposes but the question remains to what extent such approaches are justified. For instance, the LM3 tool considers business expenditures and streams of payments without analysing how efficiently, from the local communities’ point of view, these payments are spent; thus, what is the real impact made due to financial flows? In turn, the CESPI framework does not allow making business decisions on how to minimize negative social impact made by organizations. Another approach is presented by the Global Reporting Initiative (GRI) in its G4 Guidelines. Economic, environmental and social indicators are separately reported. For instance, social indicators (GRI, 2013) are revealed as workplace indicators (total number and rate of employee turnover by age group, gender and region), supplier assessment (e.g., “significant actual and potential negative impacts for labour practices in the supply chain”), or human rights performance (“operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights”). However, a great number of them either express numeric data on employee turnover without referring those numbers to subjective welfare or are just descriptive to a great extent.

Within the CSR stream of research, a number of social impact measurement methods have been used, although no commonly accepted one has been established to date. Wąsowska and Pawłowski's (2011) literature review identified four CSR measurement methods: charity expenditures, sustainability indices (e.g., KLD, DJSI, Domini, FTS-E4Good), databases (e.g., Sustainalytics Platform, CSRHub, Thomson Reuter's ESG research data), survey method (managerial perception of the role of sustainability) and CSR disclosures by non-governmental organizations (e.g., reporting standards by GRI Initiative or UN Global Compact). Pawłowski and Wąsowska (2012) provided an interesting alternative method of operationalization of CSR by using content analysis of CEOs’ letters to shareholders, followed by external validation using the Respect Index database for the Polish stock market. But again, although environmental impact disclosures such as GRI are considered to be reliable and objective, social impact measures rely on data concerning money expenditures or perception that hardly reflect objective social impact. Yet for efficiency of money spent, such as delivering trainings for people in need, it is unclear how these actions translate into social outcomes, i.e., how efficient these actions are in social terms.
Taken together, prevailing frameworks focus on social program inputs and rarely on reliable social outcomes. But these approaches lack measures relating outcomes to inputs incurred, do not address the problem of how these outcomes progress over time or whether they produce any social impact. Simply put, the literature rarely adopts efficiency logic. Thus, social value creation will be interpreted, for the purpose of this study, from the cost-benefit point of view. Analysis will therefore imply a dynamic approach, as in the case of economic value creation. Phills et al. (2008, p. 39) define creation of social value as “creation of benefits or reductions of costs for society – through efforts to address societal needs and problems – in ways that go beyond the private gains” in the course of entrepreneurial activity that “accrues primarily to society as a whole rather than to private individuals” (p. 36). It thus involves comparison of values between two points in time. Social benefits and social costs are understood here respectively as positive and negative externalities involving certain groups of stakeholders. Therefore, social value creation by business organizations (social value added), may be conceptualized as additional social benefits generation or social costs reduction for stakeholders, not necessarily involved directly in an economic value creation process. It can be depicted as in Figure 2.

**Figure 2. Graphical interpretation of social value creation**

(1) social benefit (SB) increase

\[
\Delta SB > 0 \\
SB_1 = 0 \\
t = n-1 \\
t = n
\]

(2) social cost (SC) reduction

\[
\Delta SC < 0 \\
SC_1 > 0 \\
t = n-1 \\
t = n
\]

Source: own work.

It thus involves comparison of relation between outcomes in the social sphere over time. This can be denoted as follows:

\[
\Delta SV = \begin{cases} 
\frac{\Delta SB}{SB_{n-1}} & \text{where: } \Delta SB = SB_n - SB_{n-1} \\
\text{if } SB_{n-1} = 0 \Rightarrow \Delta SV = SB_n > 0 & \\
\text{or} & \\
\frac{\Delta SC}{SC_{n-1}} & \text{where: } \Delta SC = SC_n - SC_{n-1} \\
SC_{n-1} > 0 & \\
\text{if } \Delta SC > 0 \Rightarrow \Delta SV < 0 & \\
\text{if } \Delta SC < 0 \Rightarrow \Delta SV > 0
\end{cases}
\]

(3)
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where:
\[ n=0, 1, 2..., N \] – time period

What follows from these equations is that social value creation can be identified when either social benefit increases or social cost decreases. If social benefit increases (\( \Delta SB > 0 \)), it means that social value is created (\( \Delta SV > 0 \)). The social cost (SC) indicates social/environmental harm, while \( \Delta SC \) reflects how this state has changed over time. For instance, reduction of CO\(_2\) emissions between two points in time means emergence of social value (\( \Delta SV > 0 \)).

**Figure 3. Logic of CSV operationalization preliminary outline**

![Logic of CSV operationalization preliminary outline](image)

Source: own work based on Lulewicz and Ejdys (2009).

Business activity, if intentionally aimed at shared value creation, in order to be effectuated, needs inputs of resources to be incurred. It gives rise to outcomes that have implications both for stakeholders and the firm itself. Ultimately, key outcome performance indicators (KPIs) for social, environmental and economic dimensions, gives rise to social benefit (SB)/social cost (SC) and a firm’s surplus (FS) identification for using respective measures. The question remains on which particular KPIs to use to reveal SB and SC as well as FS. One may consider the SB/SC component using life satisfaction assessment, percentage of infant/child malnutrition in a given area for the human dimension, and Planetary Boundaries Framework variables (Whiteman et al., 2013) for the environmental dimension (e.g., amount of CO\(_2\), NO\(_2\) emitted, water used or waste produced). The firm’s surplus may relate to conventional economic goals such as profitability, sales growth, market share and operational efficiency. Figure 3 depicts this reasoning.
As such, by relating the outcomes (i.e. SB, SC, FS) to inputs incurred (FC), these measures may constitute a basis for further CSV operationalization (two-sided arrow). In this respect, it provides interpretation that remains in line with Porter and Kramer's (2011) arguments that value created involves relations between outcomes and inputs. It therefore constitutes a conceptual ground for identification of whether social value creation accompanies creation of or sharing the economic value.

**Implications for strategy**

The proposed preliminary outline of CSV operationalization and its line of argument have implications for strategy. As the pace of competition becomes faster, breaking inertia, creativity and innovation become of fundamental importance. This comes down to continuously seeking new ways of improving a company’s value creation potential. The opinion that is gaining importance in the literature states that the intra-industry competition transits towards category/arena-based competition with new business models fulfilling atypical customer needs (Davenport et al., 2006; McGrath, 2013). Companies thus require new capabilities enabling them to manage disruptive value innovation for survival and prosper in a dynamically changing environment (e.g., Ciszewska-Mlinaric et al., 2013). Such an approach for shaping a strategy comes down to recognizing a market space not yet addressed by competitors and creating its own “strategic area of competition,” which results in adopting new forms of a focus or differentiation strategy, known from classic works of Porter (1980, 1985).

CSV by reconceiving products and markets, reconfiguring the value chain or cluster development (Porter and Kramer, 2011) are potentially such niche competitive strategies that aim at improving quality of life by generating economic benefit. This direction has been taken by several companies that have gone into areas undefined previously by competitors. Examples are the Body Shop, Innocent Drinks, Starbucks\(^2\) or SAP (Austin and Sonne, 2014)\(^3\). These new forms of competition may also be considered as a variation of the “Blue Ocean” strategy (Kim and Maugborne, 2005; see also Malara and Kroik, 2012, p. 15). Value innovation derives from this perspective from competing in the uncontested space and making the competitors irrelevant. It means seeking issues important for the company’s core business, therefore creating economic value through providing social progress (creating social value). This is done either by serving the

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\(^2\) Starbucks has made investments and bought a farm in Central America to conduct research on coffee crops and seeds since due to climate change, coffee species began to become extinct, thus threatening Starbucks’ business. Retrieved from: http://www.businessweek.com/articles/2014-02-13/to-stop-the-coffee-apocalypse-starbucks-buys-a-farm (access 04.12.2015).

\(^3\) SAP hires people with less intense variants of the Asperger syndrome to provide higher quality in its software tests.
bottom-of-the-pyramid markets profitably (reconceiving products and markets), implementing a closed product life-cycle in line with the concept of circular economy (reconfiguring the value chain), or joining resources and capabilities through collective/network business models (cluster development) (see Wójcik, 2015). The proposed outline of economic and social value creation analysis may in turn serve as a starting point for evaluation of shared value creation strategies.

**Conclusions**

This study sought to extend the current knowledge by disentangling the CSV and CSR concepts and to provide a preliminary conceptual framework for CSV analysis. Specifically, by highlighting theoretical links not previously addressed in the literature, this study dealt with the problem of the unclear relationship between business social engagement and performance. Until recently, it has been approached mostly from the CSR perspective. However as Visser (2010) claims, CSR logic cannot serve anymore as an analytical framework, nor as an approach that could conceptually reconcile business and social goals. The CSV concept addresses this issue by reconceptualising the role of business in the society and offering a theoretical solution through the prism of value, i.e., a notion that can be more effectively analyzed than through the CSR concept. However, because CSV originates from the CSR debate, it is often confused with the latter. This study aimed at unraveling the confusion about the differences between CSV and CSR. It also attempted to demonstrate an original line of argument that hopefully can contribute to the body of knowledge by highlighting the main points of difference between CSV and CSR.

The novel concept of CSV also has implications for strategy. Its importance can also be discussed from the perspective of competitive strategy. Kim and Maugborne (2005) suggested that the purpose of strategy is to seek value innovation. Experimenting and innovation thus become an integral part of everything a company does. An important role is played in this process by the company’s ability to create economic value through creating social value.

Based on the literature review, the CSV concept is still in its nascent stage and its relationship with the CSR umbrella term has not been consistently explained. Very often, usage of both terms overlap. Hopefully, this work has contributed to theory development by seeking to delineate a borderline between the notions of CSR and CSV. Also by drawing from strategy literature and adopting the value perspective, this study complements the existing body of knowledge by proposing a preliminary
conceptualization of CSV measurement that can facilitate distinction between CSR and CSV.

The author invites scholars to extend these initial study findings by addressing the issue of further operationalization of the CSV construct or verifying it in the course of qualitative research. This seems to remain a fundamental matter since measurement relates directly to the definition of CSV (Dembek et al., 2015). The findings of this study lay groundwork for future studies and suggest potential directions for further research. They may serve as a basis for a more in-depth analysis of economic and social value creation involving CSV measurement through case study research. Future research could also investigate shared value creation in the context of social entrepreneurship or adopting a marketing perspective on shared value creation (Krzyżanowska and Tkaczyk, 2014).

References


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