

Proposition: Shared Value as an Incomplete Mental Model

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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> (page references are to the PDF available at this URL).

ABSTRACT

Much of the attention of ethics scholars has focused on balancing self interest with the interests of others, equating self-interest with profit, or at least its acquisition, and presenting a dilemma to both companies and the stakeholder groups that socially responsible business practices might serve. We are in significant agreement with Porter and Kramer’s silver bullet to correct decision making based solely on increasing profit: the creation of “shared value.” However, we suggest three significant points of deviation from this thesis, resulting from our discomfort with features of the mental model(s) that Porter and Kramer use to structure their argument.

MUCH OF THE attention of ethics scholars has focused on balancing self-interest with the interests of others. Certainly before Milton Friedman was too narrowly associated with merely the title of his oft-cited *New York Times Magazine* article, and perhaps even before Adam Smith’s natural law principle of the invisible hand was diminished by misreadings, business ethicists have equated self-interest with profit, or at least with its acquisition. Yet, as many have

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realized, this equation presents a dilemma to both companies and the stakeholder groups that socially responsible business practices might serve. On the one hand, firms that see a shrinking bottom line as the outcome of philanthropic activities are less likely to be willing or able to sustain those efforts over the long term. On the other hand, firms that actively seek to increase profit margins through corporate responsibility strategies risk being perceived negatively in an environment that identifies ethical behavior with a willingness to sacrifice profit for the public good.

The silver bullet to correct decision-making based solely on increasing profit for the firm, say Porter and Kramer (2011: 6), is the creation of “shared value.”

The concept of shared value can be defined 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 it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress.

We are in substantial agreement with Porter and Kramer’s discussion in what *Harvard Business Review* calls its “Big Idea” section. We share a commitment to the concept that economic value is linked to social value rather than traditional philanthropy, and thus, that social and economic progress are better served when tied to shared incentives and healthy competition.

However, we suggest three significant points of deviation from this shared value thesis. Each deviation results from our discomfort with features of the mental model(s) that Porter and Kramer use to structure their resulting argument. How we define the world is dependent on the mental models that we use as selective organizing, filtering, and focusing technologies and through which we construct meaning. Thus, all realities are socially structured, socially learned, fragile, and changeable; each is incomplete or unfinished, such that one can never get a totally holistic worldview. However, the more aware we are of our frames and constructs, of their origins and limitations, the more we can learn to compensate for them and thereby to create different mind sets to reconstruct our thinking.

Our challenges may appear counter-intuitive, since Porter and Kramer explicitly frame the theory of shared value as an intervention that aims to revise mental models that have constrained management

thinking for years. They explain (2011: 6) that traditional corporate social responsibility theories have failed, in part, because “companies have overlooked opportunities to meet fundamental societal needs and misunderstood how societal harms and weaknesses affect value chains. Our field of vision has simply been too narrow.” Though we affirm Porter and Kramer’s efforts to expand our field of vision to incorporate social purpose in business decision-making, we propose that these efforts are undermined by the authors’ imprecise conception of “profit,” overemphasis on the novelty of their theory, and broadly negative description of prior attempts to achieve social progress through private enterprise.

Our first concern with Porter and Kramer’s shared value thesis is the presumption of mutual understanding around the term “profits.” While one might not expect it, the concept of profits is a murky one. Porter and Kramer (2011: 4) encourage us to redefine the corporation “as creating shared value, not just profit per se”; yet they do not explain this recalibration. Indeed, it is not clear why value should be conceptualized as something more than, or distinct from, profit. Nor is it obvious that the concept of value can easily be parsed into “economic” and “social” categories, with traditional commerce concerned only with the former. Most businesses view their company’s products or services as contributing value to society in some way, and many public and nonprofit organizations perform work that generates economic benefits for the communities they serve. If the actual aims and practices of for-profit and nonprofit organizations are not – or at least, are not obviously – fully captured by a conceptual division of labor that does not recognize the “social value” creation of the for-profit sector, or the “economic value” created by the public and nonprofit sectors, Porter and Kramer may not have adequately identified the problem that the theory of shared value purportedly solves. Rather than casting shared value as something that is “not just profit per se,” would it not be a more precise statement of their objective to encourage a redefinition of the corporation toward creating shared value, *which shall result* in enhanced profits for a larger circle of stakeholders?

Porter and Kramer do not deny that the shared value approach may increase profits; indeed, their analysis draws attention to the

many ways in which corporate practices that effectively address social problems can create new economic benefits for a broad range of social groups, as well as for the company. However, by depicting these new benefits for social groups in terms of social value and the benefits for business in terms of economic value, these two categories of value remain implicitly opposed. Unfortunately, this opposition works to reinforce the separation thesis (Freeman, et al 2006), the notion that business and ethics are two discrete subject matters that have different modes of reasoning and practice, and implies the conclusion that for-profit companies are in business only to achieve economic value for their owner-investors, leaving the public and nonprofit sectors to serve noncommercial needs and to provide public goods. By their chosen vocabulary, Porter and Kramer shore up a dichotomy that blinds us to the central role of profit to their theory. Our criticism is intended as constructive, as there is much potential in the theory of shared value to erode this troubling dichotomy. In fact, by the structure of their own argument, they contend that the value (profit) created by the corporate practices they advocate shall be shared by businesses and the societies in which they operate. Accordingly, rather than limiting or moving beyond the original motive of profit maximization (popularly, and often disparagingly, attributed to Friedman) it is specifically that motive that drives the shared value business model, which depicts simply a broader – shared – partnership between business and society toward a common goal of profitability, however defined.

Second, Porter and Kramer are not the first to provide an alternative to the single-minded pursuit of shareholder gain in the form of profits. The authors are correct, though not breaking new ground, to point out that firms that deploy the standard mental model of “shareholders first” in decision-making are fundamentally flawed – whether from an ethical, legal, or strategic perspective – as this way of thinking ignores the interconnectedness of the system in which the firm operates. However, the “shared value” model is only one of the alternatives to such single-mindedness. There are myriad other possibilities and countless examples of how to proceed in this era of innovation, many of which merely demonstrate programs that have been in place for some time. Yet Porter and Kramer (2011: 15, 17) assert shared value theory as “defining a whole new set of best practices that all companies must embrace,” which “holds the key” to unlocking “the next evolution in capitalism.” Though the shared value

approach offers an important addition to the existing menu of options, the lens of this conceptual scheme limits their mindset to the extent that they occlude other paths – some well-trodden – from view.

For example, consider Proctor & Gamble's experience in India. The lack of clean, potable water negatively impacts the health and productivity of over a billion people in the world. Certainly, notwithstanding the fact that most potential customers exist at what is termed the base of the economic pyramid, this circumstance would seem to create a significant market opportunity for profit-oriented companies to extend and adapt their product lines to meet this enormous demand. P&G spent \$10 million to develop a powder-based packet (PUR) that could purify ten liters of water at a nominal cost of US\$0.10. PUR appeared to offer an attractive value proposition. Yet, it flopped in urban Indian slums and rural villages; even today, its adoption rates have never exceeded five percent. Why? Because P&G assumed that this demand could be met via a strict for-profit strategy without first *creating* this new economic market, a task that requires the creation of a partnership with new population of consumers. It failed to put consumers first.

P&G correctly assumed that everyone around the world desired clean water, but the company failed to take into account that water in different communities has a unique taste. The purified water had no taste, and this was not acceptable to many communities. Moreover, the packets were initially marketed by P&G managers, most of whom were strangers in these villages. After recognizing the mindset disconnects, P&G realigned their thinking, converted their PUR venture and contributed hundreds of millions of packets to NGO and government programs that were more skilled in information transfer for this new market. Today, P&G engages its philanthropic arm to distribute the packets through local vendors who sell the packets at a favorable price and also earn money from these sales. Although these vendors cannot solve the taste problem, they are local people and are therefore often convincing as to PUR's benefits and safety. The reduced evidence of water-borne diseases has helped to "sell" its widespread usage, particularly in Sub-Saharan Africa (Werhane et al 2009: 112–113). Though P&G had to revise its mental models to realize that, if the PUR venture was to be profitable, consumer relations had to come first, this revision is not easily fitted within Porter and Kramer's shared value model, which requires companies to revise their core

mission to reflect the pursuit, not of “profit per se,” but “profits involving social purpose” (2011: 15). PUR surely serves a social purpose, but this social purpose did not need to move from the periphery of P&G’s strategic thinking to the core of its mission for the initiative to succeed.

Third, though we agree with Porter and Kramer’s disappointment in early-phase CSR campaigns, we are uncomfortable characterizing the entirety of prior corporate CSR investments as “outdated” (2011: 4). Porter and Kramer explain that business has borne the brunt of blame for many of society’s failings over the past decades and is thus caught in a vicious circle: “this diminished trust in business leads political leaders to set policies that undermine competitiveness and sap economic growth.” However, they generalize business’ response to this cycle in a manner that we suggest perpetuates, rather than helps to untangle, the mental models that create this mindset (2011: 4):

They [businesses] continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success. How else could companies overlook the well-being of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, or the economic distress of the communities in which they produce and sell?

While Porter and Kramer respond that “the solution lies in the principle of shared value,” we would offer that the solution instead lies in a menu of options generated through moral imagination—that is, the ability to step back from one’s operative mental models and envision new alternatives heretofore unconsidered. In this way, business decision-makers are encouraged to expand their alternatives rather than to bind them by limited mental models. The myriad options did not begin with but were stimulated in their development by C. K. Prahalad, referenced only in passing in Porter and Kramer’s discussion. They continue with Bill Gates’s call for creative capitalism (Kiviat and Gates 2008), profitable partnerships (Werhane, et al 2009), caring capitalism (Entrepreneur 2008); and global action networks (Calton, et al forthcoming). We are skeptical that any one of these options – including the shared value approach – is suitable for all cases. Our concern is that the mindset that presumes a single, uni-

versal model must be adopted by all businesses that seek to move beyond the “shareholders first” mentality is overly limiting.

Further, while Porter and Kramer may retort that we are only identifying here the exceptional examples, we contend to the contrary that it is the industry leaders – both in reputation and in profits – that prove Porter and Kramer’s mindset regarding the narrow of vision of business to be the one that is outdated. For example, consider that Cemex, the large Mexican cement provider, established its *Patrimonio Hoy* program in 1998. The program is extraordinary not only in its provision of technical housing assistance to people living in poverty in Mexico, but in doing so for more than 1.5 million people while becoming self-sustaining and bringing profit growth to Cemex (Skibola 2010; Herbst 2002). Cemex’s work has been recognized and praised in both the business and nonprofit communities (Cemex 2012; el Norte 2007). Like P&G’s PUR venture, Cemex exemplifies the success that many companies have had in addressing social problems through profitable business ventures without need of the shared value approach, contrary to Porter and Kramer’s dismissal of prior models of corporate investment as ineffective.

Porter and Kramer’s strong advocacy for creating shared value is both salient and influential. As we noted at the outset, we are aligned in our commitments to expanding the role that for-profits are able to actualize at the intersection of social and economic progress, positively impacting vast stakeholder groups, including – notably – themselves. However, we suggest a reformulation of Porter and Kramer’s definition of the place of “profit” in the corporation. We encourage a recognition that shared value is not quite as novel a concept as Porter and Kramer believe it is, and instead propose that moral imagination be engaged in exploring alternative approaches. We honor the efforts of many organizations that have engaged in these efforts for some time, rather than dismissing them as a class. Pragmatic solutions to messy system problems require co-creative acts of morally imaginative initiatives to overcome conceptual “blindness” that keep firms from developing context-appropriate new solutions. “Shared value” is just one of the many viable means to reconstruct a corporate worldview to tackle new-world social, environmental and economic problems.

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