Alf Steinar Sætre, Julie Dahl Benum, Ingeborg Gjærum

Innovation and shared value creation: *Balancing the tensions between short term exploitation and long-term sustainability*

Trondheim, May 2016
Title:
**Innovation and shared value creation:**
*Balancing the tensions between short term exploitation and long-term sustainability*

Project:
**Sustainable Innovation and Shared Value Creation in Norwegian Industry**

Contracting partners:
Norwegian Research Council
SINTEF Raufoss Manufacturing AS

Cooperating companies:
Plasto AS, Hexagon Ragasco AS, Raufoss Water & Gas AS, Molde Kunnskapspark AS, Wonderland AS, Ålesund Kunnskapspark, Forsvarsbygg

Authors:
Alf Steinar Sætre, Julie Dahl Benum, Ingeborg Gjærum

Responsible:
Department of Industrial Economics and Technology Management (IOT), Norwegian University of Science and Technology (NTNU)

Summary:
In this report we give an overview of some central issues in the relationship between society at large and corporations operating in that society. We start by giving a brief historical overview, and focus specifically on issues where the interests of society and the interests of corporations seems to be—and a times are—at odds with one another. We argue that this tension often is rooted in an imbalance between the short-term and the long-term interests of the corporations. Both top executives and young managerial talent today have strong—though different—incentives to emphasize short-term results at the expense of sustainability.

We then argue that the solution for aligning the corporation’s self-interests with interests of all stakeholders and society at large, is to shift the balance in favor of a long-term perspective on corporate strategy and innovation. One of the most promising solutions for this is Shared Value Creation; focusing on how for-profit corporations can generate profits while solving pressing social and environmental issues facing societies around the world today. We conclude our report by offering some preliminary advice to organizational decision-makers on how they can better balance the urgent and the important.

Key words: Innovation, Shared Value Creation

Distribution/access: Open
Innovation and shared value creation: Balancing the tensions between short term exploitation and long-term sustainability

Executive summary

In this report we give an overview of some central issues in the relationship between society at large and corporations operating in that society. We start by giving a brief historical overview, and focus specifically on issues where the interests of society and the interests of corporations seem to be—and a times are—at odds with one another. We argue that this tension often is rooted in an imbalance between the short-term and the long-term interests of the corporations. Both top executives and young managerial talent today have strong—though different— incentives to emphasize short-term results at the expense of sustainability. As a result, the urgent tends to crowd-out the important; and the short-term wins over the long term. We review some of the root causes for this—prioritizing shareholders over other stakeholders, misapplication of corporate resources to less productive forms of innovation, and misuse of financial metrics—as well as the consequences of this short-term preeminence. We suggest that opportunities for innovation—benefitting both business and society—are lost due to short-term pressures driving out long-term considerations.

We then argue that the solution for aligning the corporation’s self-interests with interests of all stakeholders and society at large is to shift the balance in favor of a long-term perspective on corporate strategy and innovation. One of the most promising solutions for this is Shared Value Creation; focusing on how for-profit corporations can generate profits while solving pressing social and environmental issues facing societies around the world today. We show that innovation is the engine that drives Shared Value Creation, and explicate different factors found in literature which can enable this form of value creation.

We conclude our report by offering some preliminary advice to organizational decision-makers on how they can better balance the urgent and the important.
# Contents

Innovation and shared value creation: .......................................................................................................................... 1

Balancing the tensions between short term exploitation and long-term sustainability ........................................... 1

Executive summary .................................................................................................................................................... 1

Introduction .............................................................................................................................................................. 3

Aim of the Report ...................................................................................................................................................... 3

The Relationship Between Business and Society ....................................................................................................... 4

The Emergence and Definition of SVC .................................................................................................................... 5

Drivers for shared value creation ............................................................................................................................ 6

The Battle Between the Long-Term and the Short-Term .......................................................................................... 9

How the Urgent Tends to Crowd-Out the Important ............................................................................................... 9

How Societal Considerations Lost Against Shareholder Profit Maximization .................................................... 12

Maximization of Shareholder Value ........................................................................................................................ 12

Financial Metrics and Short-Term Shareholder Value Maximization .................................................................. 13

How the Expectations Market Overshadow the Real Market ............................................................................. 16

Three Kinds of Innovation and Their Impact on Economic Growth .................................................................. 18

A Financial View of Management .......................................................................................................................... 21

Shared Value Creation –Balancing Societal Needs with Financial Value Creation? ........................................... 23

The Implications of SVC ......................................................................................................................................... 23

Key Factors for Creating Shared Value .................................................................................................................. 26

Critiques of SVC ...................................................................................................................................................... 32

The Relationship Between SVC and Other Concepts ............................................................................................ 33

Balancing the Urgent and the Important ................................................................................................................ 37

Conclusion ................................................................................................................................................................. 40

References ................................................................................................................................................................. 42
Introduction

Aim of the Report

This report is part of the second work-package (WP2) of the Sustainable Innovation and Shared Value Creation in Norwegian Industry (SISVI) program. SISVI aims to provide Norwegian industrial firms with four crucial building blocks for developing their own unique competitive strategy. These are internationalization, innovation, interactions in networks as well as integration and implementation. SISVI emphasizes environmental and green aspects as drivers for innovation. The purpose is to develop knowledge that strengthens the industry’s long-term competitive capabilities in a way consistent with the concept of shared value. This means that value is created in a manner that meets both financial and societal needs where the latter encompasses environmental and social aspects. An important part of the project is implementation and integration of new knowledge. This will enable companies to benefit from the research frontier on shared value creation and innovation.

This report is useful for students—in industry, government or academia—of shared value creation and innovation as it gives an overview of the mechanisms that impede and drive shared value creation, while offering an overview of the literature on shared value creation to students—both in organizations and at universities—interested in these topics. We review the academic and practitioners oriented literature on the subject, and briefly review the history of the shared value creation concept. Our aim is not to give a complete review of articles on the subject, but rather to provide helpful input and food for thought for practitioners and policy makers alike.
The Relationship Between Business and Society

The relationship between business and society has been a main topic in business literature for a long time, and has been described as “a paradox of responsibility and profitability” (De Wit & Meyer, 2014, p. 126). It was Adolf Berle and Gardiner Means who in their 1932 book *The Modern Corporation and Private Property* pointed out that society, represented by governments and law, grant corporations the ability to privatize profits while socializing losses (thus attracting risk capital). This has led to a separation of ownership and control in that most shareholders in a large corporation have no control, and those in control have little ownership. One of the main questions in the ensuing discussion has been whether organizations’ purpose is profitability for shareholders or responsibility for a broader set of stakeholders. Margolis and Walsh (2003) describe that the historically dominating view has been that firms’ main purpose is to maximize profits for shareholders. The argument made by proponents of this view, perhaps most famously formulated by Milton Friedman (1970), has been that it is governments role to address social problems, not business’. In his diatribe against the social responsibility of business, Friedman argue that anyone claiming that businesses should not be “concerned ‘merely’ with profit but also with promoting desirable ‘social’ ends ... [are] preaching pure and unadulterated socialism” (Friedman, 1970, p. 33).

In this view, social welfare is maximized when all firms in an economy maximize total firm value. Over the forty years that has passed since Friedman made his argument, the discussion of business’ role in society seems to have shifted: Instead of questioning whether business is expected to contribute, the discussion evolves around identifying a role for the firm that both attends to shareholders’ wish for wealth creation while simultaneously looking beyond it (Margolis & Walsh, 2003). The goal is to find the effective role for business’ contributions which also enables business’ development and growth.

The quest to find a way forward for the corporate community to contribute to societal challenges has resulted in a variety of proposals to how business should contribute towards this end, including integrated reporting (Eccles, 2016; Eccles, Ioannou, & Serafeim, 2014; Eccles, Perkins, & Serafeim, 2012; Eccles & Serafeim, 2013), blended value (Emerson, 2003), base of the pyramid (Hart, 1997; Hart & Christensen, 2002; Prahalad & Hart, 2002), triple bottom line (Elkington, 1994, 1997, 2004), social innovation (Kanter, 1999),
stakeholder management (Freeman, 1984; Freeman, Harrison, Wicks, Parmar & De Colle, 2010)) and shared value creation (Porter & Kramer, 2011). This report takes a closer look at one of these suggestions, namely that of shared value creation (SVC), proposed by Michael Porter and Mark Kramer, and shows how it integrates many elements of the preceding concepts. We also take a closer look at innovation as innovation is not only the driver of performance of firms and the economic growth of societies (Nelson & Winter, 1977, 1982), it is also the engine that drives shared value creation (Kramer, 2014; Pfitzer, Bockstette, & Stamp, 2013).

The Emergence and Definition of SVC

Porter and Kramer define shared value creation 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” (2011, p. 6). They point out that business is being blamed for many of the social, environmental and economic crises facing the world today. Environmental disasters such as Exxon Valdez and Deepwater Horizon are certainly part of it, but perhaps even more importantly the financial malfeasance associated with Enron, WorldCom and the sub-prime mortgage crisis of 2008. Instead of sustaining a narrow, short-term view on value creation, companies must move societal issues from the periphery—where it is used to offset societal and environmental costs incurred by the company’s operations (negative externalities)—to the center of its business—where solving societal and environmental issues is used to generate profits (positive externalities). Because societal needs define markets, and could also inflict internal costs to the companies, Porter and Kramer (2011) argue that “this will drive the next wave of innovation and productivity growth in the global economy” (p. 4). Their idea of shared value creation emerged\(^1\) through several articles published in the Harvard Business Review, starting in the late 1990s.

\(^1\) Shared Value Creation existed as a business principle 13 years before Porter and Kramer used it in their 2011 article. Shared value creation was a shorthand way of expressing the first business principle in Nestlé Corporate Business Principles, written in 1998 by then Chairman Helmut Maucher and CEO Peter Brabeck-Letmathe (http://www.nestle.it/asset-library/documents/pdf_nostri_report/12_theworldofnestle.pdf).
The first article from 1999, “Philanthropy’s New Agenda: Creating Value” focused on how charitable foundations can enhance their impact on society by creating value beyond the purchasing power of their grants. This was followed by an article in 2002, “The Competitive Advantage of Corporate Philanthropy” discussing how corporate philanthropic activity can lead to both economic and social benefits, linking a company’s social programs to improvements of its competitive environment. Four years later, the term shared value was introduced in the article “Strategy & Society – The Link Between Competitive Advantage and Corporate Social Responsibility” (Porter & Kramer, 2006). This article entails an exploration of how CSR activities could be linked to the firm’s value chain and its core business strategy. The authors refer to this as strategic CSR, and suggest that it will “generate opportunity, innovation, and competitive advantage for corporations – while solving pressing social problems” (p. 1). The mentioned articles forms the background for their 2011 article, “Creating shared value”, where Porter and Kramer suggest that the principle of shared value “involves creating economic value in a way that also creates value for society by addressing its needs and challenges” (Porter & Kramer, 2011, p. 5). The article calls for a different approach to business’ concern for societal issues, recognizing that despite increased welcoming of corporate social responsibility within the business community, the responsibility assigned to business for society’s challenges is also increasing. It suggests three paths which can be followed to create shared value, namely reconceiving products and markets, redefining productivity in the value chain and enabling local cluster development (Porter & Kramer, 2011, p. 3).

**Drivers for shared value creation**

What drives the need for shared value creation? We suggest there are several reasons why efforts to contribute in solving societal challenges are important for today’s organizations. First, societies’ challenges are so far-reaching that they might be impossible to solve without business’ involvement: Save the children (2012) states that “Climate change and the global financial crisis have shown us that business as usual is no longer an option” (p. 1) and voice that major development challenges cannot be solved without business’ engagement. UN Global Compact affirms that “Businesses today are expected to be part of the solution to our world’s greatest challenges – from climate and water crises, to
inequality and poverty”². However, the challenges facing societies also influence the foundation on which businesses are built: Resource constraints are potentially harming organizations value chains (Porter & Kramer, 2011) and limit the potential for value creation (Mohammed, 2013).

Societal involvement as an interest of business’, beyond that of securing access to resources and potential for value creation, also seems to be widely recognized: As business is viewed as a cause of societal problems (e.g. Porter & Kramer, 2011; Eccles, 2015), organizations are “losing their social license to operate” (Mohammed, 2013, p. 249). The general public expects companies to expand their horizon beyond maximizing profits in the short term, and rather take on a broader view on human needs (Eccles, 2012). Hence, it seems to be imperative not only for society, but also for business, that the risks and challenges facing society are addressed.

Societal problems should not be viewed just as limiting the potential for value creation, but also as sources for value creation. Porter and Kramer (2011) describe that creating value for society “opens up many ways to serve new needs, gain efficiency, create differentiation and expand markets” (p. 7) and Pfitzer, Bockstette and Stamp (2013) suggest that social problems represent “vast opportunities for growth” (p. 5).

Scholars suggest that megatrends such as globalization, environmental challenges and social changes themselves call for innovation. Not only do they cause severe societal challenges, but they also result in a complex and turbulent environment for business (Friedman, 2005; Friedman 2011). Today’s organizations face “new rules of the game” (Lee, Olson, & Trimi, 2012, p. 821), and these dynamic and unpredictable changes make innovation imperative for organizations to survive (McGrath, 2013). Rita McGrath (2013, p. 165) states that “being systematic about innovation will not be optional” in order for companies to endure and grow over time. This underlines the importance of finding ways for organizations to be innovative.

With the importance of innovations in mind, and with myriads of pressing social and environmental issues, both locally and globally, which need to be addressed and solved – a

---

question arises: If these issues also present opportunities for generating profits and economic growth, as is claimed by a range of scholars, why are not many more organizations working aggressively to solve these issues? We suggest this is perhaps not as much a lack of understanding of the topics’ importance, nor a lack of will. Rather, it is due to time and resource constraints – and to the fact that in business as elsewhere; what is urgent tends to crowd-out what is important.
The Battle Between the Long-Term and the Short-Term

We start by introducing the tension between the urgent and the important—a well-known tension for most business practitioners, and a barrier for the ability to innovate and find business opportunities inherent in societal problems. A fundamental issue in this debate is that when strategies—decision making and resource allocations—are focused on maximizing profits in the present or near future, and longer-term business viability takes a back seat; then external stakeholders, local communities, society at large and the environment tend to bear the cost.

How the Urgent Tends to Crowd-Out the Important

The tension between short-term profits and long-term viability of a company is a well-known problem for managers. How these different time frames on organizational goals are balanced and which is preeminent in an organization, drives the firm’s resource allocation and hence its strategy and organization. These tensions are illustrated in Figure 1, below: Any given company must be organized and structured in a way that makes current operations—purchasing, logistics, production, marketing and sales—run as efficiently and with as little waste and redundancy as possible, in order to generate the greatest profits (illustrated by the blue arrows). Here variance (deviance) is not tolerated and must be avoided, as it is inefficient and costly. Having lean and efficient operations also rests upon a culture that supports efficiency. However, if this cycle of incremental fine-tuning and process management is not punctuated by new products, the company might find itself as an efficient producer of products nobody wants.
Therefore, in order for the company to be able to generate revenues in the future, it needs to develop new products and solutions; it needs to innovate. This requires a different structure and a different strategy. Here variance is required in order to generate “newness” and to come up with new and useful innovations (Sætre & Brun, 2012, 2013). Innovation at its best is like a disciplined experiment: When experimenting, failures are inevitable and in fact required for the organization to learn what works and what doesn’t. This is necessary to generate future products and services that will create value for customers, society and other stakeholders (illustrated by green arrows). This requires a different culture, one that not only tolerates variance and the trial and error that follows, but one that supports and encourages it.

Short term pressures - be that, production problems, supply chain troubles, investor expectations, understaffing, overstaffing, declining sales, increasing costs, and so on - often seem high, requiring immediate top-management attention. The consequence is then, that these urgent issues tend to crowd-out executives focus on building the future of the company. For instance, studies of executives’ cognition and decision-making have shown that strategy making comes in five minute intervals in between the pressures of putting out operational and organizational “fires” (Mintzberg, 1973).
Many social ailments and environmental problems have been caused by corporations seeking to maximize short-term profits, while willfully ignoring the long-term effects of their strategy. We need only mention some companies from the extractive industries foray into South-America and Africa, shipping companies continued use of single-hulled tankers and chemical companies ill-fated incursion into India where regulations were laxer. The commission investigating the Deepwater Horizon environmental disaster concluded that cost cutting may have left them with declining knowledge and experience that contributed to the disaster (Stout, 2012). The irreparable damage caused by such strategies is unconscionable, and show how short-term profit maximization of corporations has led to significant social and environmental problems. Given that maximizing only short term profit is problematic – why is it so often favored over a long term view on sustainable profits? We will now look at some important factors explaining this.
How Societal Considerations Lost Against Shareholder Profit Maximization

In the following paragraphs we focus on theories and practices that have pushed a rather narrow view of companies’ responsibilities and value creation. First we take a look at Agency Theory and the ensuing focus on shareholder maximization, then the financial tools developed to support this theory, and third the resulting entanglement of the expectations market with the real market. As we will see, the focus on shareholder maximization has had the unfortunate consequence of shifting the focus of top management towards short-term metrics to the detriment of society and the environment.

Maximization of Shareholder Value

The view that organizations should maximize shareholder value became the paragon of business strategy after the publication of the paper “Theory of the firm: Managerial behavior, agency costs and ownership structure” by Jensen and Meckling in 1976. They argued that when executives’ interests and the interests of shareholders are not always aligned, the result is both bad for shareholders and wasteful for the economy. Instead, the theory goes, the singular goal of a company should be to maximize the return to shareholders. To achieve that goal, the company must give executives a compelling reason to place shareholder value maximization as the singular goal of executives. While it is not possible to entirely eliminate the self-interest of executives, Jensen and Meckling suggested to better align executives’ self-interest with the interests of shareholders; agency costs could be eliminated by giving agents meaningful amounts of stock-based compensation, actually making them shareholders as well as executives. Then the executives’ incentives would be aligned with shareholders.

Despite widespread attention given to Agency Theory, several scholars claim it has had the unfortunate consequence of shifting the focus of top management towards short-term metrics: “Like all good theories, agency theory had limitations and unexpected side effects, a fact its disciples have chosen to ignore, though Jensen himself has acknowledged them” (Martin, 2011, p. 12). Lynn Stout, professor of business law at Columbia describes the many shortcomings of the maximizing shareholder philosophy:
Put bluntly, conventional shareholder value thinking is a mistake for most firms—and a big mistake at that. Shareholder value thinking causes corporate managers to focus myopically on short-term earnings reports at the expense of long-term performance; discourages investment and innovation; harms employees, communities, and investors alike. (Stout, 2012, p. vi)

Her research into shareholder value reveals that shareholder value thinking shifted the focus of organizational decision makers so decisively towards short-term profits that it contributed significantly to both the Enron accounting scandal and the Deepwater Horizon environmental disaster.

Jack Welch while CEO of GE was the poster-boy for maximizing shareholder value. But after his tenure as CEO ended he called maximizing shareholder value “the dumbest idea in the world.” (Guerrera, 2009). Maximizing shareholder value is an outcome, not a strategy. By focusing on delighting their customers and taking care of their employees and other stakeholders, companies will create lasting value that will benefit shareholders.

In the following, we will present two complementary arguments about the sinister impact that Jensen and Meckling’s article (and others like it) have had on management and strategy. One argument is put forth by professor Clayton Christensen of Harvard Business School, while the other is put forth by Roger Martin, former Dean of the Rothman School at the University of Toronto.

Financial Metrics and Short-Term Shareholder Value Maximization

Professor Clayton Christensen (2014) argues that the roots of the problem of short-term thinking lie in a powerful new belief system. About 40 years ago some people established what he describes as “the New Church of Finance”, as it shares characteristics of a well-catechized belief system. These people include finance professors at business schools, several economists as well as partners in hedge funds and private equity funds. For these committed believers it is inconceivable that the catechism isn’t true. According to Christensen, they have formalized their beliefs regarding profit defining profitability mostly as denominated in ratios, such concepts as Return on Net Assets (RONA), Return on
Investment (ROI), Internal Rate of Return (IRR), Earnings Per Share (EPS) and Gross Margin Percentage - all ratios.

Analytical tools such as spreadsheets have become the “fast food of strategic decision making” (Christensen & van Bever, 2014, p. 67), not deep market and business insight. These financial management tools have both advantages and disadvantages: One obvious advantage is that it is now easier to compare the profitability of companies across a wide range of industries, and it is easier to compare the profitability of small and large companies.

However, by standardizing the definition of profitability, corporations lined up to optimize these profitability ratios. RONA provides a good example: A company could improve its RONA by generating more revenue and put that in the numerator. However, the other way to improve this ratio is to reduce the denominator by a company getting rid of

Illustrative Example

A recent example of improving RONA by reducing the denominator is Statoil’s recent sale of their offices in Oslo, Stavanger, Trondheim and Stjørdal. Selling these buildings removes billions of NOK from their balance sheet. When they sell these properties they commonly sign 15-year leases with an option to renew. A quick estimate based on publicly available information shows that Statoil will pay roughly 85-90% of the sale price back to the new building owners in rent for the first 15 years alone. When there are little or no assets on a balance sheet, then this rate of return jumps upwards, and according to this measure, it might seem like such a company is doing better and better. But what is the longer term impact of this strategy? Proponents of the sell-off of buildings might argue that Statoil is not in the property management business. Detractors of the sale might justifiably ask if Statoil is in the business of making money (over the long term).

http://www.aftenbladet.no/energi/Statoil-selger-hovedkontoret-for-2_5-miliarder-3714874.html
http://www.adressa.no/nyheter/okonomi/2015/12/22/Statoil-har-solgt-kontorene-i-Trøndelag-11955744.ece
http://www.nenyheter.no/39040

\[ \text{RONA} = \frac{\text{Net Profit}}{\text{Fixed Assets} + \text{Net Working Capital}} \]
assets. Reducing assets is much easier than increasing revenue. So if the top management team is rewarded for a good RONA ratio, the incentive is to outsource aggressively and sell-off assets; RONA is immediately improved, but long-term performance may well be weakened.

Another example is the IRR\(^4\), the internal rate of return, a ration with profit in the numerator and time in the denominator. IRR can be increased merely by making investments which pay off in the short-term giving managers strong incentives to forgo long-term investments. Thus, this metric biases organizational decision-makers towards returns today over returns tomorrow. How long does the average investor today hold a stock? Less than a year.\(^5\) Yet managers are incentivized to maximize their return. This does not lead to long-term viable strategies. As Jack Welch former CEO of GE pointed out, shareholder value maximization is not a strategy, it is a result. Instead focusing on maximizing shareholder value, Jack Welch now argues that organizational decision-makers should focus on creating products and services that delight their customers, and on taking care of and leading their employees (Guerrera, 2009). Building an organizations capability to innovate for shared value creation—delighting customers and energizing employees—creates long-term shareholder value.

Instead of focusing on increasing revenues and net income, managers can twiddle with the ratios. It should be noted that a case could definitely be made for it being wrong to blame the analytic tools, IRR, RONA and the like, rather than the way that the tools being used. Nevertheless, Christensen (2014) argues that the consequence is that as quick results which are by far the easiest, the consequence is that this is what the belief in ratios is pushing for. The calculation of the IRR or RONA based on a narrow view of costs and benefits assumes that the firm’s ongoing business will continue as is, ad infinitum. The narrowly-defined financial ratio thus misses the costs and benefits of current actions that might systematically destroy the potential for future benefits and profits.

An is when firms calculate the rate of return on a proposal to outsource manufacturing overseas: Often a range of costs are overlooked, including the costs of loosing knowledge,

\[ \text{NPV} = \sum_{t=0}^{T} \frac{CF_t}{(1+IRR)^t} = 0 \]  
\(^4\) The easiest way to calculate the Internal Rate of Return (IRR) is to set Net Present Value (NPV) equal to 0. 
possibly forever, of being unable to innovate in the future because this critical knowledge has been lost – and the lack of profits that could be made from these innovations as well as the consequent cost of its current business being destroyed by competitors emerging who can make a better product at lower cost. The use of measures that included the full costs and benefits would come closer to revealing the true economic cost of asset shedding and outsourcing.

**How the Expectations Market Overshadow the Real Market**

Professor Martin’s arguments are very much in-line with Christensen’s but he has a different approach. He argues that agency theory had the unfortunate effect of tying together two markets: The real market and the expectations market. The real market is where factories are built and goods and services are bought and sold. The expectations market is where shares in these companies are bought and sold. The price of these shares are determined by what investors and speculators estimate the company to be worth based on current and expected future earnings. Hence, Martin suggests, CEOs and top corporate executives have strong incentives to spend their time on managing the expectations of the financial market, rather than managing their organizations.

In his book, *Fixing the Game* (2011, pp. 19-20), Roger Martin—using a sports metaphor—writes:

Imagine an NFL coach holding a press conference on Wednesday to announce that he predicts a win by 9 points on Sunday, and that bettors should recognize that the current spread of 6 points is too low. Or picture the team’s quarterback standing up in the postgame press conference and apologizing for having only won by 3 points when the final betting spread was 9 points in his team’s favor. While it’s laughable to imagine coaches or quarterbacks doing so, CEOs are expected to do both of these things.

Imagine also, extrapolating Martin’s analogy, that the coach and his top assistants were hugely compensated, not on whether they won games, but rather by whether they covered the point spread. If they beat the point spread, they would receive massive bonuses. But if they missed covering the point spread a couple of times, the salary cap of
the team could be cut and key players would have to be released, regardless of whether the
team won or lost its games.

Suppose moreover that the whole league was rife with scandals of coaches
“managing the score”, for instance, by deliberately losing games (“tanking”), players
deliberately sacrificing points in order not to exceed the point spread (“point shaving”),
“buying” key players on the opposing team or gaining access to their game plan. If this were
the situation, then everyone would realize that the “real game” of football had become
utterly corrupted by the “expectations game” of gambling. In the expectations market,
investors assess the real market activities of a company today and, on the basis of that
assessment, form expectations as to how the company is likely to perform in the future. The
consensus view of all investors and potential investors as to expectations of future
performance shapes the stock price of the company. Announcing earnings expectations and
adjustments, reporting quarterly results, announcing initiatives, investments, divestment,
sales prognoses, new market initiatives are all as a part of managing expectations. This is
what leads to CEOs today often spending more time working the expectations market
(talking to financial analysts) instead of the real market (where their companies delight
customers with innovative products and services); yet another example of prioritizing short
term performance over long-term viability – and by that loosing opportunities both for
innovation, societal progress and business development.
Three Kinds of Innovation and Their Impact on Economic Growth

We have looked at some of the things that have caused executives to prioritize short-term metrics over the longer-term strategies. Another area where the balancing between short term exploitation and longer term considerations seems to be at odds, are when it comes to allocating resources to innovation. As we will show, the tendency over the last decades has been that financial capital is flowing disproportionately to innovations that do not produce jobs. Again, short term pressures drives forth a focus on the urgent rather than the important – with the consequence that the innovations which entail both long-term business viability and solutions to societal challenges are lost.

The argument we present in the following is brought forth by Clayton Christensen (2014), who suggests that there are three kinds of innovations: Market-creating innovations, sustaining innovations and efficiency innovations. As we shall see; when organizations employ all three kinds of innovations the economy as a whole grows. But when efficiency innovations become dominant the economy as a whole stagnates while corporate profits temporarily soar. In his important article Profits Without Prosperity MIT professor William Lazonick agrees: “Trillions of dollars that could have been spent on innovation and job creation in the U.S. economy over the past three decades have instead been used to buy back shares for what is effectively stock-price manipulation” (Lazonick, 2014, p. 50). Though shares get a short-term boost these tactics have some detrimental long-term effects.

Market-creating innovations create jobs, but require capital. Examples of market-creating innovations include new technologies like the car, the computer, the cellphone etc. These kinds of innovations are market-creating because so many people can own and use these computers or cars. Since more people are buying them, companies have to hire more people to make them, distribute them and to sell them, and to service them. Market-creating Innovations use capital; when a company grows it has to put assets on the balance sheet, such as factories and production equipment.

Sustaining innovations, on the other hand, secures jobs but don’t necessarily create new ones, and does not require a lot of capital. Sustaining innovations are making better cars, or better computers, in other words it is about incremental improvements to existing technologies. The purpose is to make good products better. These kinds of innovations are
important to the economy as it keeps industries efficient; but on average they don’t create jobs. The reason is when we buy an improved product we don’t buy the old one. By their very nature, sustaining innovations—that make good products better—don’t create a lot of new jobs in the economy. And because they tend to replace existing products they don’t use a lot of capital either, so the generally don’t affect corporate balance sheets very much.

Then there are **efficiency innovations**, which destroys jobs and frees capital. Efficiency innovations allows the selling of the same product to the same customer but cheaper. WalMart is an efficiency innovation, Christensen argues: When WalMart puts in a new store they have to hire people. But the number of people working in retail drops because WalMart is so much more efficient in getting stuff from here to there, and then out to the end consumer. The same thing happens in a factory. When companies become leaner and more efficient they need less people to do the same amount of work. Efficiency innovations destroy jobs since less people are needed to do the same amount of work, as it now is done more efficiently.

### Illustrative Example

Before Toyota came to North America it took Detroit 60 days to assemble a car. This lackadaisical pace tied up a massive amount of capital in work-in-progress inventory. To keep this on the balance sheets required a lot of capital. Toyota’s production system reduced the time it took to produce a car from 60 days to 2 days. And because they did it so quickly and efficiently you just didn’t need to have all that work-in-progress inventory on your balance sheet. So all that capital that had been locked-up in you balance sheet was freed up. So you could use that capital to invest in market creating innovations.

These three kinds of innovations, and the virtuous growth cycle they collectively create are illustrated in Figure 2 below: Capital is invested in market-creating innovations. Sustaining innovations develops the product further and efficiency innovations generates substantial profits which are then again invested into market creating innovations, and more people are working and the economy and the company grow.
This dynamic of market-creating innovations followed by sustaining innovations followed by efficiency innovations freeing up capital that is then re-invested in new market-creating innovations almost becomes a perpetual motion machine. Executives taking a long-term view of the growth of their companies see that this is the way to create growth and prosperity. As long as the capital feed up by efficiency innovations are invested in market-creating innovations, and as long as disruptive and market-creating innovations creates more jobs than efficiency innovations destroys, it just keeps going. Clayton Christensen argues that for about 150 years (about 1840 to 1990) this was the way the economy worked. He further argues that something has gone wrong with this economic engine. Instead of being a circle it has become a straight line, as too little capital flows from efficiency innovations back to market creating innovations. The problem with a line is that it has a beginning and an end, and we are left with an important question: Why is financial capital flowing disproportionately to innovations that do not produce jobs?

Looking at how the virtuous growth cycle already described has been broken and why financial capital is disproportionately flowing to innovations that do not produce jobs, one finds that we have moved from a manager’s view of growth to a financial view of management: Out of efficiency innovations comes capital. Then the executive has to decide what to do with this capital? Governed by financial ratios, investing in long-term market-
creating innovations will ruin the ratio and can hurt their careers. But what if this capital is spent on another round of efficiency innovations? This pays off in 1-2 years and frees more capital, and gives the opportunities to invest. And, the ratios look great.

Clayton Christensen argues that in America in the last 20 years the number of market creating innovations that has occurred is about 1/3 of the market creating innovations that occurred in the 50’s, 60’s and 70’s. So the American economy is taking more jobs out than it is creating. Further exacerbating this short-term focus is the way corporate careers and promotions work: A talented young manager has only 2-3 years in each place to prove that he or she can deliver results; adding further bias towards resource allocations that pay off in the short term. This is illustrated in Figure 3 below.

---

**Figure 3: Breaking the Growth Cycle**

---

Adapted from (Christensen, 2014).

---

**A Financial View of Management**

When business is viewed from a financial perspective, analysts, investors (recall that investors on average own a company for less than 1 year) and speculators, use spreadsheets
to analyze financial data; and management increasingly becomes sourcing assembling and shipping—not goods and manufactured products to order and on time—but numbers and financial data. Since the focus now is less on the real market and more on the expectations market, to use Martin’s (2011) terms, economic growth slows. Companies then are driven towards spending the capital freed up by the latest round of efficiency innovations on share buy-backs and dividends that further constrain their ability to invest in market-creating innovations. This new cycle of slowing economic growth is illustrated in Figure 4 below.

Figure 4: Moving From a Managers View of Innovation and Growth to a Financial View of Management

Adapted from (Christensen, 2014).

When capital—not people, not good ideas, not new market opportunities—is viewed as the scarce resource then husbanding capital becomes the order of the day. As we move on to look at shared value creation, we see that the potential for creating solutions which allows for satisfactory economic performance and societal progress is based on the importance of innovation. Hence, we argue that the described pressure for short-term

---

6 Figures 2, 3 & 4 are adapted from a lecture given by professor Clayton Christensen at NTNU in September 2014.
performance, the potential for substantial innovations – and hence shared value creation – is weakened.

**Shared Value Creation – Balancing Societal Needs with Financial Value Creation?**

We started by introducing shared value creation, and important drivers for this approach to innovation and value creation. In the previous sections we have argued that a short term view on performance is a barrier for value creation that benefits both companies in the long run and the society. As we return to Porter and Kramer’s concept, we now take a closer look at what Porter and Kramer suggestions for achieving shared value creation, but we also illuminate suggestions by other scholars.

**The Implications of SVC**

The premise on which Porter and Kramer’s 2011-article rest, is that business has taken the blame for many of the social, environmental and economic challenges facing the world. They argue that “Companies must take the lead in bringing business and society back together” (Porter & Kramer, 2011, p. 4). The shared value creation concept could be seen both as a mindset guiding strategic decisions regarding how to perceive and relate to societal challenges, but also – on a more operational level – as business activities and tools for value creation. The latter perspective, concerning ways forward to actually create shared value, will be illuminated in the next section. First, however, we will show how Porter and Kramer’s article has at least three important implications for companies’ view on their own responsibility as parts of the society, and how to attain to it: Societal considerations should be understood as a source of business opportunities, these considerations should be moved from the periphery to the heart of companies’ business, and that this both enables and requires innovation.

**Societal Challenges as Opportunities for Business**

The first of these implications means that companies should leave behind the perception that their own economic performance and societal needs are at odds with each other. Already in their 2006-article Porter and Kramer state that “CSR can be much more than just a cost, constraint, or charitable deed. Approached strategically, it generates opportunity, innovation, and competitive advantage for corporations—while solving pressing social
problems” (2006, p. 1). Five years later, in the 2011-article, they argue that shared value is neither philanthropy nor is it about responsibility. Rather, they suggest it can lead to economic success. This view is shared by other scholars who in various ways have proposed that societal challenges can lay a foundation for business opportunities. A recent example is Robert Eccles who argues that new policies, such as the UN sustainable development goals, are good news for business: “Indeed, the 2030 Agenda”\(^7\) is very good news for the corporate community. Its goals represent clear business opportunities for those companies that understand sustainable change can be met through innovative products and services”\(^8\).

Shared value creation writings tends to focus on positive externalities. That is generating profits while solving societal challenges. But in teaching Shared Value Creation Porter and Kramer also talk about curbing negative externalities, that is reducing the negative impact of a company’s current operations on society and the environment. We concur and advocate that companies need to both reduce the negative impact of their current operations while at the same time working on developing new technologies and solutions that focus directly on solving social and environmental issues.

*Societal Issues from the Periphery to the Core*

The second strategic implication of Porter and Kramer’s article is that rather than sustaining a narrow, short-term view on value creation, companies must move societal issues from the periphery to the heart of its business. This is a perspective which is also found in the CSR-debate, which could be said to provide the basis for Porter and Kramer’s concept: Jørgensen and Pedersen (2011) in their development of a typology of approaches to CSR, draw an “integrative dividing line” (p. 130) where they distinguish between the companies where CSR-activities influence central business activities, and those where they do not to assess whether CSR-activities influence central business activities or not. Porter and Kramer make it clear that shared value creation requires the latter approach, arguing “it is not on the margin of what companies do but at the centre” (p. 1). To illustrate the difference, one can consider the popular shoe label Toms who, for every pair of shoes they

---

\(^7\) “Agenda 2030” refers to the UN’s Sustainable Development Goals, approved by the 193 member states in September 2015 (https://www.unglobalcompaкт.org/what-is-гc/our-work/sustainable-development/sdgs).

\(^8\) http://www.forbes.com/sites/bobeccles/2015/10/20/un-sustainable-development-goals-good-for-business/#2aaeea819a67 (paragraph 8)
sell, give a new pair of shoes to child in need⁹. Though this could without doubt be considered valuable for all those children who are granted free shoes, it can hardly be said to influence the core activities of the company, as is the case with many CSR-programs. Meanwhile, Pfitzer et al. (2013) describe another initiative where Nestlé through thorough research on micronutrient deficiencies in India, launched a spice product for low-income consumers which was reinforced with important micronutrients. This demonstrates that business efforts directed towards societal challenges can be performed along a spectrum: Initiatives are performed both at the periphery and center of the main business activities; however, an important feature of shared value creation is that it is placed at the center.

**Innovation as a Source and Consequence**

A third implication for companies seeking to create shared value is that innovation becomes a necessity. As we have shown, innovation is a prerequisite for companies who aim at achieving long-term performance. For companies who in their long-term planning also aim at basing their strategies also on considerations of societal challenges, the importance of innovation is only increased. Shared value creation calls for new business approaches to value creation: Reconceiving products and markets and redefining the value chain challenge the status quo and demand new and innovative ways for business to create value. The importance of innovation for business to contribute in solving societal problems is confirmed by several other scholars; Eccles and Serafeim (2013) argue that creating a sustainable society will be a task for the world’s most innovative firms. Also, Kanter (1999) suggests that “innovators build a reputation of being able to solve the most challenging problems” (p. 123).

As societal needs define markets, and could also inflict internal costs to the companies, Porter and Kramer (2011) argue that societal needs “will drive the next wave of innovation and productivity growth in the global economy” (p. 4). Hence, innovation is not only necessary for shared value creation, the search for societal value could also provide new sources for innovation. For instance, value chain innovation is emphasized as a valuable consequence of the search for societal progress: A recommendation from Porter and Kramer is that shared value creating companies should “redefine productivity in the value

---

chain” (p. 5). As there is considerable congruence between societal progress and value chain productivity (Porter & Kramer, 2011), this redefining give rise to new opportunities for innovation and value creation (Porter & Kramer, 2011; Moon et al., 2011; Schmitt & Renken, 2012).

Despite these claims of the importance of innovation, there are also initiatives found in literature where the level of innovation is modest. For instance, a supply chain initiative by Wal-Mart aiming to reduce packaging waste by up to 5% has been used as an example of shared value creation (Maltz, Thompson, & Ringold, 2011). This example has also received critique, for instance by Brown and Knudsen (2012) who asks: “But no matter how many miles the Walmart fleet does not travel, or how many energy efficient light bulbs it sells, its business model to extract the lowest possible costs in the supply chain, will restrict the ability to achieve social gain. (…) we can say that there have been ‘win-wins’, but has the value created for society really been sufficient?” (p. 5). A similar argument is brought forward by Fearne and Martinez (2012) who suggest economic sustainability and efficiency might well cause cost and waste reduction, but falls short of creating shared value. Our stance, as we move forward, is that minor, incremental improvements whether in the value chain or in product features, are not sufficient for claiming that shared value is created. If this concept is to “drive the next wave of innovation” (Porter & Kramer, 2011, p. 4) we suggest there should be considerable innovative features of the project. Making the term more substantial and possibly harder to achieve, also makes it a strategic tool for companies aiming at enhancing both innovation and societal progress.

**Key Factors for Creating Shared Value**

Porter and Kramer’s article suggests three ways to create shared value: reconceiving products and markets, redefining productivity in the value chain and enabling local cluster development. A literature review on shared value creation (Dahl Benum & Gjærum, 2015) revealed that scholars present several suggestions on additional factors and measures organizations should consider in order to create shared value. This section illuminates six factors which are suggested to enable shared value creation found in literature.
**Factor 1: Reconceiving Products and Markets**

In order to create shared value, products and services which allow for societal progress are increasingly needed (Porter & Kramer, 2011). Reconceiving products and markets means offering innovative products and services, and offering these products and services in new markets. Shared value creating companies should continuously identify societal needs which might be included in the company’s portfolio of product or services (Porter & Kramer, 2011). This identification of possible new products and markets could also be ignited by suggestions of new regulations and policies which might, if realized, open up new markets. This can be illustrated with the example of a car manufacturer who met new emission regulations by innovating and producing more environmentally friendly cars, whereas other car companies at the time oppose these regulations (Moon et al., 2011).

It should be noted that a barrier for shared value creating companies is customer’s unwillingness to change or to pay if the societal value offered also entails extra costs (Eccles, 2016). Products and markets might well be reconceived, but the crux of the matter is that these products are actually sold in the proposed markets for economic value to be created. Porter and Kramer (2011) claims that this is where business comes in: “Businesses will often be far more effective than governments and nonprofits are at marketing that motivates customers to embrace products and services that create societal benefits, like healthier food or environmentally friendly products” (p. 7). Companies must deliver products and services not only valuable for the end customer, but also for the society as a whole – an idea which akin to Muhammad Yunus and his colleagues’ description of social business models: “the value proposition and constellation are not focused solely on the customer, but are expanded to encompass all stakeholders” (Yunus, Moinegeon and Lehmann-Ortega, 2010, p. 318). The consideration of stakeholders is crucial to shared value creation.

**Factor 2: Recognition and Inclusion of Stakeholders**

Scholars emphasize the importance of a broad consideration of relevant stakeholders for shared value creation. As we show in our section on terms closely related to shared value creation, stakeholder theory – as advocated by R. Edward Freeman - is closely related to Porter and Kramer’s term. Freeman seeks to “revitalize the concept of managerial capitalism by replacing the notion that managers have a duty to stockholders with the concept that managers bear a fiduciary relationship to stakeholders” (Freeman,
Within the literature stream following Porter and Kramer (2011), there are two aspects of stakeholder management which seem to be recurring themes: Identification and recognition (“who” should be considered), and inclusion (“how” they should be considered and included). Also, the importance of long term engagement of external stakeholders rather than temporal relationships with different actors is suggested to increase the likelihood for shared value creation (Lee et al., 2014).

**Recognition of Stakeholders**

Porter and Kramer (2011) emphasize the importance of local clusters for shared value creation, thereby applying a broad definition of which stakeholders that should be identified and recognized as contributors to the value creation process. In this context, clusters are defined as consisting of firms, related businesses, suppliers, service providers and logistical infrastructure, institutions, trade associations and standards organizations (Porter & Kramer, 2011). Cooperation with actors from governments and civil society is also highlighted as important when creating shared value, in the words of Kanter (1999) “a new paradigm for innovation is emerging: a partnership between private enterprise and public interest that produces profitable and sustainable change for both sides” (p. 124).

Subsequent articles suggest an even broader recognition of the relevant stakeholders for shared value creating companies: Due to “the ever-increasing importance of internationalization in today’s global economy” (Moon et al., p. 60), it is suggested that companies should create *global* clusters. Moreover, Spitzek and Chapman (2012) find that a shared value creating chemical company they evaluated considered stakeholders as those affected by the life-cycle of the product. Using this approach, stakeholders included “employees, the international community, future generations, consumers as well as local communities” (Spitzek & Chapman, 2012, p. 505).

**Inclusion of Stakeholders**

Shared value creating companies should not only recognize who their stakeholders are, they should also include the stakeholders in the value creation processes. This is important as stakeholders possess unique information and knowledge that is needed in order to “identify all the dimensions of a problem” (Pfitzer et al., 2013, p. 8). The inclusion might be done through deliberately including external stakeholders for example through...
funding their research, getting them to serve as consultants and hire people with experience from the social sector (Pfitzer et al., 2013). Among those stakeholders who can provide important knowledge, customers and what is suggested to be non-traditional partners such as NGOs and competitors are highlighted (Schmitt & Renken, 2012), providing what Schmitt and Renken (2012) refer to as a “redefining of the competitive rivalry of the market” (p. 93).

Porter and Kramer (2011) suggest that innovation, and eventually shared value creation, is influenced by the firm’s ability to collaborate with the cluster participants. As we showed previously when introducing the concept of shared value creation, the enabling of local cluster development is one of the three ways forward to create shared value according to the two authors. We draw from this that not only recognizing, but also closely include actors from the local cluster is an important feature of shared value creation. Collaboration will “improve company productivity, while addressing gaps or failures in the framework conditions surrounding the cluster” (Porter and Kramer, 2011, p. 12). Lee et al. (2012) focus on the use of external stakeholders in innovation efforts, arguing that innovation has gone through several stages, where stakeholders outside the company play an increasingly important role. This “new paradigm”, ‘Co-innovation’, they suggest, is “where new ideas and approaches from various internal and external sources are integrated in a platform to generate new organizational and shared values” (Lee et al., 2012, p. 817). Emphasis is put on co-creation with customers, as this results in value creation beyond customers’ needs, and also provide value to society on a broader scale, where social and environmental issues are also addressed (Lee et al., 2012).

**Factor 3: Internal Knowledge and Capabilities**

Creating shared value is knowledge-intensive (Schmitt and Renken, 2012). This makes the third identified factor closely related to the former described factor on stakeholders: For companies with limited resources, possessing and gaining all this knowledge and capabilities is a challenge. Therefore, in order to access this knowledge, collaborative capabilities are crucial (Schmitt & Renken, 2012; Maltz & Schein, 2012).

Three types of knowledge are emphasized as necessary for companies to create shared value: Traditional product and process knowledge, knowledge about the commercial processes needed to earn money as well as knowledge about the social and environmental
issues the company tries to address (Schmitt & Renken, 2012). The last point is also emphasized by Porter and Kramer (2011) who suggest that shared value can be created through a better understanding of the social or environmental problem at hand. In order to achieve this understanding, companies need to gain knowledge of not only the customers needs, but also of the society’s needs. Pfitzer et al. (2013) suggest distinct steps in order to gain such knowledge: “conduct extensive research to develop a comprehensive view of the problem, the people affected and their numbers, the barriers to progress, the options for driving change, and the parties that can help” (p. 4).

Factor 4: Supporting Structure and Management Practices

The fourth factor important for shared value creating companies is the importance of a good innovation structure, due to the strong link between innovation and shared value creation (Pfitzer et al., 2013). Moreover, this factor is also closely connected to the second strategic implication described in the previous section, i.e. moving societal issues from the center. It is suggested that the crucial success factor for shared value creating companies, is to “take the idea of integration seriously”, and make CSR a “core element of strategy and structure” (p. 13) (Brown and Knudsen, 2012). The impetus for focusing on solving societal issues needs to come from the top of the organization, and the executive level need to show a strong commitment. It is also shown that firms which succeed with high sustainability strategies assign responsibility for sustainability to executives levels in the organization, for instance to the board of directors (Eccles et al., 2014).

Factor 5: Measuring Value

Scholars emphasize the importance of measuring the social and economic value generated from shared value efforts. For instance, Eccles and Serafeim (2013) suggest: “Companies need to consider an expanded definition of value that takes into account the environmental and social worth of a project and what that means for a company’s brand, ability to attract employees” (p. 10). However there is currently no comprehensive universal system available for doing this (Pfitzer et al., 2013), and the measuring of social value is suggested to be challenging (Driver & Porter, 2012). In want of standards, “rules of thumb” and estimates are suggested to be valuable (Pfitzer et al., 2013; Eccles & Serafeim, 2013).

10 Note that Brown and Knudsen use the term CSR, but refer to shared value creation as defined by Porter and Kramer (2011).
Several shared value creating companies are found to have different forms of frameworks used to measure impact of the activities done by the companies, the value created or both.

Different measuring frameworks are also pointed to as analysis tools to assess where improvements could be made, such as a socio-eco-efficiency analysis evaluating triple-bottom line indicators at the Brazilian company BASF (Spitzek & Chapman, 2012). The “triple bottom line” was suggested by John Elkington in 1994, and proposes to measure both corporate profit, socially responsibility, as well as a final line of the company’s “planet” account. Hence, the triple bottom line consists of three Ps: profit, people and planet. Which overlaps perfectly with the shared value creation. There are also other frameworks suggested as useful for shared value creating companies, such as value chain analyses (VCA). It has been found that existing VCAs are not incorporating social and environmental consequences of companies’ activities, which might both lead to societal harm and lost opportunities for value creation due to possible social and environmental improvements being ignored (Fearne and Martinez, 2012).

**Factor 6: Organizational Culture and Values**

In their 2011 article Porter and Kramer (2011) argue that “it is not about personal values” (p. 5) and organizational values are not mentioned explicitly. Values are, however, emphasized by other authors, such as Brown and Knudsen (2012), Schmitt and Renken (2012) and Eccles et al. (2014). They find values to be an important element in organizations that create shared value. These values are given different roles: They could serve as key motivators for business to include societal needs in their value creation process (Schmitt & Renken, 2012), and give guidance on which societal needs the company might address (Brown & Knudsen, 2012). Moreover, corporate values guide everyday decisions in all parts of the organization (Schmitt & Renken, 2012) and it is found that the executive level of these companies are “perceived as taking a long-term view when making decisions” (Eccles, p. 45). Shared value creating companies also seems to be dependent on personal engagement of employees, and that there are high levels of trust among them to create a working environment where sustainability measures are supported and where the risk associated with innovation is accepted (Eccles et al., 2012). This is also a point we address with some advice on how to incorporate in “everyday life” of organizations towards the end of this report.
Critiques of SVC

After being published in 2011, Porter and Kramer’s promotion of the concept, it has achieved significant attention in the corporate world and public management (Crane, Palazzo, Spence, & Matten, 2014; Dembek et al., 2015). The need for further theoretical development of this rather nascent concept is identified (Dembek et al., 2015; Williams & Hayes, 2013), and critique against the idea have been raised (Crane et al., 2014; Pirson, 2011). Four critiques of SVC are briefly worth noting: First, the feasibility of moving beyond trade-offs between social and economic goals has been questioned; second, it is claimed that shared value creation is skewed towards corporate interest; third it is stated that its current state of articulation is too nebulous to be useful; and finally it is claimed to be unoriginal.

Porter and Kramer’s (2011) view of the feasibility of “moving beyond trade-offs” (p. 4) is criticized by several scholars. Aakhus and Bzdak (2012) argue that shared value creation “rests on the potential that economic and social interests can be integrated without explicitly addressing how to deal with fundamental tensions between business and society” (p. 241). The point made by Aakhus and Bzdak (2012) is that all societal problems is not profitable business opportunities, meaning that companies sometimes have to choose between solving societal problems and making profits. They argue that this represent trade-offs, in conflict with Porter and Kramer’s statement of moving beyond them.

Further, Aakhus and Bzdak (2012) argue that the concept of shared value creation is a “model for social innovation that is skewed toward corporate interest” (p. 240). They argue that Porter and Kramer see the organization as the center of any network of stakeholders and that “any value for others is essentially spillover from the company’s success” (p. 240). This view is shared by Crane et al. (2014) who claim that shared value creation is based on a narrow view of corporation’s role in society.

In a comprehensive literature review on shared value, Dembek et al. (2015) argue that SVC’s “current conceptualization is vague, and it presents important discrepancies in the way it is defined and operationalized” (p. 1). They emphasize the need to “provide shared value with meaning and organizations with guidance of how to implement it” (p. 15). Further, they suggest that in its current state of articulation it is more interesting conceptually than it us operationally useful.
Porter and Kramer have been accused of failing to acknowledge previous work on the simultaneous creation of social and economic value, leading to the statement that “Porter is a pirate” (Paramanand, 2013, p. 6) who fails to recognize the contribution of others, and implicitly claims credit for something that is not his. Crane et al. (2014), Hart (2013) and Aakhus and Bzdak (2012) all point out that shared value creation is presented as a novel suggestion, but that it is closely connected, and overlapping with other concepts and theories. As we showed in the introductory chapters of this report, there are indeed a range of scholars who have discussed and advised whether and how companies can engage in societal challenges and gain from it. Hence, we shall, in the following section briefly explore some of these antecedent concepts of shared value creation.

The Relationship Between SVC and Other Concepts

We share the view of those suggesting SVC is not only closely related, but also partly overlapping with ideas and concepts found in academic work and propositions. Hence, we will illuminate some of these terms, and other seminal articles on the subject. Among these articles are Rosabeth Moss Kanter’s article “From Spare Change to Real Change: The Social Sector as a Beta Site for Business Innovation” (1999), and Stuart Hart’s “Beyond Greening: Strategies for a Sustainable World” (1997). Kanter argues that companies need to move from CSR to what she calls “corporate social innovation”. She maintains that by “tackling social sector problems forces companies to stretch their capabilities to produce innovations that have business as well as community payoffs” (p. 124). Stuart Hart argues that companies must make profit with products and processes that not only have a neutral impact on the environment but that have a positive effect on the environment. He argues that both technological and public policy innovations are needed to achieve the goal of a global sustainable economy; that “the planet is capable of supporting indefinitely” (Hart, 1997, p. 67).

The debate about the unoriginality of shared value creation has to a large extent evolved around its relationship to CSR. Although Porter and Kramer in their (2006) article struck a blow for ‘strategic CSR’, they reason in their 2011 article that “creating shared value should supersede CSR in guiding the investments of companies in their communities” (p. 16). They hold that CSR focus mostly on reputation and non-core business activities as opposed to shared value creation that creates social value through the business model.
Crane and his associates (2014) argue however that this view of CSR is outdated, as more recent work on CSR focus on building it into the core strategy of the firm. Despite the development of strategic CSR, CSR still seems to be a broader concept than shared value creation, as many scholars and business managers still perceive non-core business activities as part of the concept.

Another related term is “BOP”, Prahalad and Hart’s (2002) idea of making a profit while providing products and services to what they label the bottom of the pyramid (BOP). In short, Stuart Hart and his colleagues suggest that low income markets represent an opportunity for firms to increase profits while simultaneously bringing prosperity to the poor. Later on, the term has been expanded to also entail co-venturing business with the poor (London & Hart, 2011). BOP is closely interlinked with shared value creation, as both concepts put emphasis on business’ opportunity for profit growth, while simultaneously increasing the poor’s prosperity. However, the BOP approach focus solely on social problems in developing countries, implying that shared value creation can be understood as a broader concept because it can be achieved within developed country markets.

Shared value creation has also been compared to the concept of social technology, but as with BOP, this term seems somewhat narrower than shared value creation. Social technology focuses on using new technologies as development options for less-developed countries (Leandro & Neffa, 2012). Dembek et al. (2015) describe that the concept of social technology resembles shared value creation by benefiting society through developing new products and services. However, as Porter and Kramer (2011) suggest that shared value creation also entails innovating in the value chain and building local clusters, shared value creation appears to be more general than the concept of social technology.

Shared value creation has also been seen as a rehash of the debate on social entrepreneurship. Social entrepreneurship is defined as “a process involving the innovative use and combination of resources to pursue opportunities to catalyze social change and/or address social needs” (Mair & Marti, 2006, p. 37). Studying this definition, Crane et al. (2014) state that “it is hard to see much difference to shared value creation” (p. 135). Indeed, Porter and Kramer (2011) highlight social entrepreneurs as corporations to learn from. Hence, social entrepreneurship enterprises seem to be examples of shared value creating firms.
Several authors comment on the similarity between stakeholder theory and shared value creation, but they also acknowledge the role shared value creation can play in further developing the stakeholder theory. Stakeholder theory, most commonly linked to the works of R. Edward Freeman, identifies the stakeholders of a firm, and seeks to create value to these stakeholders beyond shareholder interests. Strand and Freeman (2013) argues that for the most part stakeholder theory is consistent with Porter and Kramer’s term. Still, they suggest that a difference between the concepts is that shared value creation entail a narrower view of the firm than stakeholder theory suggesting that “Porter and Kramer indicate their belief that company interests should be prioritized above all else” (p. 81).

The importance of the environment, sustainable businesses and sustainable development hinges on what Elkington (1994) called win-win-win strategies, served as a starting point for what became known as the triple bottom line, with the publication of the book “Cannibals with forks : the triple bottom line of the 21st century business” (Elkington, 1997). The premise is that companies do not just have one bottom line; they have three—environmental, economic and social. Innovation both technological and in business model is at the forefront of the concept.

The triple bottom line perspective is complemented by what some have called blended value (Emerson, 2003). The blended value proposition “integrates and affirms the greatest maximization of social, environmental and economic value within a single firm” (Emerson, 2003, p. 38). Clearly, there are overlaps to be found between SVC and the concepts of “triple bottom line” and “blended value” with their focus on environmental, social and financial value.

Finally, there are also significant overlaps with the work of yet another Harvard professor, namely Robert G. Eccles and his colleagues who have worked for on integrated reporting where companies have to report on the environmental and social impact of their business and on their governance. This combined with his focus on high-sustainability strategies where companies take a longer term view of corporate performance, reporting on ESG issue. His work on these issues certainly forms an important intellectual foundation for Shared Value Creation.
Balancing the Urgent and the Important

In this report we have argued that innovation is important in order to create shared value. However, managers face challenges in the pursuit of innovation. First, as seen, short-term pressures seem to crowd-out innovation and long-term planning. We are not saying that the short-term pressures that consume organizational decision-makers resource allocations are not real. On the contrary, they are very real and can—at times - be overwhelming. Meetings to discuss, plan and decide important things take time and energy, emails must be answered in a timely manner, things don’t go quite as planned and, alternative solutions must be found, production must be streamlined and optimized, employees get sick and substitutes must be found, new supplier contracts must be established, and existing ones re-negotiated, the list goes on.

Second; organizing for innovation and organizing for production are inherently at odds with each other, as we showed in Figure 1. Efficient production hinges on eliminating waste and errors and running lean with good routines and strict practices is required. Innovation on the other hand is at best a disciplined experiment and requires learning through trial and errors (which creates waste). Because organizational decision-makers “and their organizations are largely designed to focus on, harvest, and protect existing practices rather than pay attention to developing new ideas” (Van de Ven, 1986, p. 591), getting top-management to pay sufficient attention to innovation is a non-trivial challenge. The challenge is that in today’s competitive environment, organizations need to excel at both.

In established organizations this is often solved through separate units that work with production and innovation respectively. However, the challenge of management attention remains. An important part of the challenge is that it is the same top decision-makers in organizations that make decisions and resource allocations to operations and to innovation. The tractability of returns is vastly different between the two, and different metrics are needed.

What should managers do to facilitate innovation, and hence shared value creation? Here are some possible ways to help address the two discussed challenges:

1. Management should regularly schedule time to think strategically about the future. Make these times uninterrupted (nothing urgent
should intrude on the important; so avoid email and turn off cellphones), often in can be beneficial to go off-site to find the space required. It doesn’t have to be often, but should be twice a year or more. It doesn’t have to be long but should at least be 24 hours or more. Taking this time to think strategically about innovation and shared value creation sends clear signals to the whole organization that innovation and shared value creation is important to the strategy and future of the company.

2. Don’t make decisions and resource allocations about operations and innovation in the same meeting. Different mind-sets and different metrics are needed, and once meeting is progressing in one mind-set, it is often difficult to switch. Schedule another meeting where different mind-sets and different metrics are to be used.

3. Create a portfolio of innovation projects that you think would guide the organization in that direction. Where the organization is going and what it would take to get it there? People are motivated by working on new and exciting things, and having a portfolio of new projects is motivating and it makes innovators less attached to one single idea as there are other and perhaps more exiting ideas.

4. Think of each of these projects as a test, build prototypes and minimum viable products to test quickly so that if it fails it fails early. There are plenty examples of the opposite: Peters and Waterman (1982) tell the story of a company where an idea had to pass through 223 reviews and approvals by 17 different committees before it could be taken to market. A Nokia manager famously said that it took them longer to polish a Power Point presentation and get it approved than it took some of their competitors to launch a new cellphone (Tellis, 2013).

5. Celebrate innovation successes, and more importantly celebrate innovation failures. It is easy to celebrate successes, and it
important to do so. But it is equally important to celebrate failures, focusing on lessons learned. Celebrating innovation failures achieves two important goals. One it signals unequivocally that different rules apply to innovation than to operations (where failures are unacceptable). Second, it signals that learning is the key metric in innovation.

6. Carefully consider the social and environmental aspects of everything the organization does. It might sound utopian, but graduating students are increasingly looking for a purpose-dimension to the jobs they seek, not just more money. Chances are, being an environmentally and socially responsible organization seeking to create shared value, will not only help with recruitment, it will also motivate existing employees.

We believe that these relatively simple things will have clear impact on the whole organization. It will signal that innovation and shared value creation is important to the company’s future, and not only that different metrics and different rules apply, but that learning is an important outcome. By creating a portfolio of innovations companies are less sensitive to the fortunes of one customer or one industrial segment as it will have many legs to stand on. Having a reduced environmental impact, solving social problems and contributing to the local environment will increase the organizations standing among stakeholders, provide yet new opportunities for innovative ideas and solutions – and not least, give business a chance to contribute to societal progress.
Conclusion

Developing strategies and practices for how business can contribute in solving societal problems in a time where the world is experiencing dramatic challenges is important. The article *A stress test for good intentions*\(^\text{11}\) shows that CSR and sustainability investments fall in economic downturns. Therefore, it is important to explore and develop ideas that align corporate self-interest and social progress. The challenges of pursuing economic and social goals simultaneously are many and demanding, (Pirson, 2011; Corner & Pavlovich, 2014). Rather than simply stating that it is impossible to resolve the tension between pursuing economic and social goals, we believe that it is important to explore whether organizational processes can overcome this barrier. It is our contention that the best answers—though certainly not the only ones—to resolving this tension is to take a longer term perspective, and to think holistically. Organizations need to work with strategic human resources (an approach to managing human resources that supports long-term business goals and outcomes with a strategic framework) to develop useful metrics for their organization and industry to evaluate young managers up for promotion, not only on their short-term performance but equally on the long-term implications of their resource allocation.

As the previous overview demonstrates, there are unquestionably important similarities between shared value creation and other concepts, but also some differences. Some terms are more specific, focusing on a certain product type, such as technology for the social technology concept, or markets as with BOP. CSR and stakeholder theory, on the other hand seem to be terms even broader than shared value creation. But the similarities and the overlaps, especially the cumulative overlap between these concepts—social innovation, BOP, high-sustainability, social technology, strategic CSR, integrated reporting, stakeholder management, beyond greening, triple bottom line and blended value—are striking, and far greater than the differences.

However, even though the shared value creation as presented by Porter and Kramer (2011) offers little or nothing that is conceptually new; the shared value creation, is intuitively appealing, and conveys the concept and its intent better than most of the other

---

terms. Creating shared value is increasingly used both in the world of business and in academia, and rightfully so.

The one thing that there is little or no disagreement about is the importance of innovation to the successful creation of shared value, and indeed each of the preceding concepts. The successful creation of shared value hinges upon innovation in products, services, value chains, processes, operations, technology and last but certainly not least innovation in business models. Innovation is the engine that drives shared value creation.

Today, both top level executives and young managers on the rise, have incentives that strongly favors short-term performance. Top executives are measured on quarterly results and on RONA, ROI and other financial ratios, and bonuses are linked to the increase in price of shares. Up and coming managers are rotated in the organization every 2-3 years, sometimes more often. They have to show that they can perform in this short time period, and they have to demonstrate this in ways that can be measured. Organizations lack useful metrics for outcomes of resource allocations that managers make today in the longer term, 5-10 years down the road. CEOs and top executives would leave their companies better off if they thought more about their legacy than about their compensation. Top executives also need new ways and metrics for selecting and promoting leadership talent. Instead of relying on “hard” metrics that are easy to measure such as IRR and RONA, they should develop and use “metrics” to capture how leadership talent engage and make those around them better, how the develop new knowledge and invest in the future; these things are not so easily measured.

Despite the rather staunch critique of the shareholder value maximization paradigm, creating value for shareholders is surely not “bad”. However, shareholder value maximization should be tempered by a longer-term perspective. We believe that when companies take care of their employees, create quality products that solve customers’ problems minimize their environmental footprint and engage with their local communities, it is indeed possible to create lasting value for shareholders and all other stakeholder, including the environment.
References


Elkington, J. (2004). Enter the triple bottom line. In A. Henriques & J. Richardson (Eds.), *The triple bottom line: Does it all add up* (pp. 1-16): Routledge.


