
How to Measure Creating Shared Value

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Creating Shared Value and Sustainability

The concept of creating shared value (CSV) was put forward by Professor Michael Porter and Mark Kramer in 2011 to identify company strategies which directly address a social need for profit through the business model rather than addressing the same social needs through redistribution of profits already made. Many companies, including large corporations have adopted CSV principles to govern and guide their business strategies. CSV represents a further progression in rethinking the role of the firm from the more narrowly defined responsibility of providing shareholder value, to the wider perspectives of addressing the impact of the firm on its stakeholders through corporate social responsibility (CSR). The principles of corporate governance are well established to oversee the activities of firms, and sustainability reporting is common today, and which now extend to frameworks and guidelines for reporting. Responsible Business Conduct (RBC), put forward by the OECD has provided a framework to incorporate due diligence to guide actions to reduce or alleviate the negative impact of a firm on its stakeholders. More recently the growth of ESG accounting has provided metrics for measurement of the impact of the firm on the economy, social factors and its environment, creating huge steps towards sustainability accounting.

Each of these frameworks has its niche. Collectively each contributes to a fuller understanding of the role of a firm vis-à-vis society and are providing guidance to move towards better practice. In addition to practical guidance, each of these frameworks also provides a beacon of light on corporate purpose, giving a sense of direction, that a company has a social purpose beyond that of its own shareholders. CSV sits within this broad categorization of sustainability measures, with a niche of win-win for the firm and for social needs.

The evolution of metrics through ESG accounting and the due diligence process of RBC has brought the sustainability frameworks to a new level where there is responsibility not only for a company to recognize its social responsibilities but to actively take steps to reduce negative impact on stakeholders and to report on its social impact. The guidance and manuals created under ESG and RBC, are providing a basis for CSR reporting, now commonplace amongst corporations and smaller firms. Similar scope for measurement and verification should be a priority for CSV.

It is this progression to measurement and operationalization which creates an opportunity. Creating shared value has proponents, who consider that CSV represents a new purpose and way of thinking for businesses wishing to make a positive impact on social needs. But shared value also has critics, who claim that CSV is nothing new, covering nothing more than what has already been covered by CSR and other sustainability frameworks. Verification would establish the CSV contribution.

Measuring Shared Value

Creating shared value (CSV) has a distinct niche, that a company can address social needs through its business, with no need to redistribute profits because social needs are benefitting through the business itself. If there is commercial purpose in addressing a social need, then purchasing the company's products or services directly provides both a commercial and a social benefit. If this can be measured and verified, CSV can claim its niche, and can contribute directly to the growing body of sustainability reporting.

An effective way to measure CSV can also provide a roadmap for companies adopting the CSV path. Knowing what results and impact they can make, both commercially and for social needs, gives company's large and small a target to achieve, and resources and capabilities can be guided over time to reach a multiple purpose of achieving both commercial success and social impact.

Value Created: Private Sector Return

So how might we measure CSV? Firstly, the scope of shared value was taken from the original principles put forward by Porter and Kramer, that the benefits of creating shared value are likely come to a firm in three areas; through the customer needs served and the products and services created, through improvements in the value chain from raw material or concept through to the customer, and the value to the industry itself, the cluster, and the industry spin-offs which can occur from a shared value initiative. For each of these components, likely categories of value added were set out. For example, products and services aimed at CSV often involve innovation, new ways of addressing social needs, and new business models. New attributes create value for customers. These create value for the firm through creating a platform for future business and spin-offs. New methods of processing can improve the value chain, creating less waste, more innovation in processing, new techniques of manufacture. At the industry level, these can result in more collaboration and industry spin-offs. This broad categorization of value added allows for the assumption that value can come from many different sources, and the categories are broad enough and inclusive enough to be able to include any specific measure of value added that the firm can identify.

Value Created: Social Needs

The same process was carried out to measure of how a firm's business directly impacts social needs. A broad categorization of social needs comprises five categories. Firstly, quality economic activity, which can include good quality employment, startups, infrastructure, and can extend to local price, civic pride. Secondly education, including affordable schools for children of all ages, access to higher education, public awareness, technological awareness. Thirdly, health and safety, which could include a firm's contribution to healthcare directly, or to improving safety standards, or health awareness amongst the population, each of these can be measured and assessed. A fourth category is social progress, measuring such factors as basic human needs, housing, shelter, access to clean water and sanitation, opportunity and inclusivity. The final category is the environment, the impact of the company's activities on the urban and rural landscape, and which can also extend to broader impact such as preservation of historical sites.

Not all value added can be directly measured. Employment and startups are straightforward to measure, but happiness, community engagement, and civic pride can also be measured, even if only indirectly through interviewing people. So, it is suggested that a suitable measure is chosen for each component where the company can claim to be adding value. An indicator, a corresponding means of verification and an expected or actual result are all that is required.

Using this framework, any business can develop a template of how and where it is creating shared value. Indicators can be added amended over time as the business model evolves. Some indicators, such as increasing employment can be directly measured, increasing the quality of jobs is more subjective, and improving civic pride is wholly dependent of people's views. But the purpose is to recognize where value is created.

Measuring Shared Value Impact

Also included is the facility for the measurement of impact using a simple framework which assesses impact at three levels. Firstly, marginal impact, where value is created for the firm or for a social need and can demonstrate a profit, or some measurable benefit which, whether large or small in size could form a valuable platform for future business. Secondly, sustainable impact, where a firm can be seen to have created a sustainable, self-supporting or revenue generating business activity which benefits both the firm and provides a lasting social need. Thirdly, at a game-changer level, where a new way of delivering a social need is shown to provide superior profits and benefits and as a result, supersedes the previous ways of delivering the social need. Such new ideas often form the basis for a new business model with noticeable improvement to both the firm and to social needs delivery.

Measuring Shared Value: Contribution

The categories, value added, indicators, results and assessment of impact can be easily compiled into a table, and used to assess shared value created, either at a heuristic (rule of thumb) level or in more detail. The table below provides some examples of how to demonstrate that a business undertaken by a company has led directly to creating value for the firm and the industry and also for social needs.

Providing a measure of shared value needs a straightforward and pragmatic approach. Developing ways to measure shared value based on appropriate indicators brings us forward to answering the question of actual and expected shared value, where, how much, and the potential impact that creating shared value will have on the firm and on addressing social needs.

Equally importantly, the process of developing measures can help us find common ground between the more established areas such as ESG, RBC and CSR, where we are likely be measuring the same or similar impact. The intention is to contribute to the building of measures of sustainability, and thereby helping progress the debate on the role of business in society, and in particular demonstrating the contribution of creating shared value.

Measuring the Impact of Your Business’s Shared Value Created

Your Shared Value Initiative			
Likely Benefit / Value Added	Indicator of Value	Expected Results/Verification	Impact
PRIVATE SECTOR VALUE			
New Needs, Products, Customers	Market size; profitability Innovation level Reputation platform	Sales and market share New product /service New business spin-off	New products, services, New delivery of social need Reputation leads to business
Value Chain	Reducing cost & waste Building resources Developing competences	Company technical report New infrastructure New innovative skills	Greater efficiency Improved infrastructure More skilled workforce
Cluster Development	Cluster building Industry collaboration Spill-over potential	New cluster activities New partners & suppliers Greater output & exports	New industry activity New local skills New sectors and trade
SOCIAL NEEDS VALUE			
Quality Economic Activity	Flourishing local economy Local Infrastructure Community Engagement	Economic activity/employment Affordable infrastructure More community involvement	Widespread Local Prosperity Greater wealth spread Strengthened communities
Education and Skills	Affordable schools & education Higher education provision Workforce & technology skills	Number & quality of schools Enrolment at university/STEM No. trained in vocational skills	More educated population Higher & professional skills Skills based population
Health and Safety	Public health improvement Fit & Active Population Higher Safety Standards	Lower disease incidence Improved activity levels Improved work/transport safety	Low obesity/chronic disease Fitter & active population Reduced work/road accidents
Social Progress	Fulfilling basic needs Improving population wellbeing Opportunities and inclusiveness	Less people below poverty line Less anxiety / less stress Creation of opportunities	Better wealth distribution Healthier, happier population Diversity of opportunities
Environment	Urban and rural environment Air, coast, marine environment Energy and water efficiency	Reduced urban / rural pollution Less polluted coast, sea & air Reduced fossil fuel use	Cleaner lives & environment Vibrant coastal environment Sustainable energy future