Shared value - a silver bullet?

Exploring early examples of shared value approaches to social impact measurement in Australia and whether they can improve social and environmental impact management.

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Abstract: This paper offers a critique of the shared value concept and its application to impact measurement, drawing on recent Australian examples from the financial services, property and mining sectors. These examples reflect the broader trend amongst global leaders in sustainability and corporate social responsibility, which is seeing a shift in focus from philanthropic community investment towards investment based on achieving strategic social and environmental impact outcomes and business value drivers. There are a range of potential benefits of a more strategic and accountable approach for companies seeking to measure and demonstrate the value of their contribution, from both a community and business perspective, for their community partners and ultimately the beneficiaries of their investments. There are also a range of risks and barriers that need to be overcome in order for companies to realize these benefits.

Introduction

The concept of shared value that emerged from the Harvard Business School was developed with the intention of providing a strategic approach to managing social and environmental impacts. It has gained traction amongst global corporate leaders in sustainability and corporate social responsibility (CSR) as it encourages a shift away from corporate philanthropy, towards a focus on aligning community investments with strategic social and environmental outcomes and business value drivers. This paper offers insights gained from the authors' experiences regarding the different approaches and outcomes companies are adopting; the value of using impact measurement frameworks to drive shared value in practice; and opportunities for the impact assessment community related to application of the shared value concept.

The concept of shared value

Shared value is defined by Porter and Kramer 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). The concept emerged from their work exploring the role of business in society and, more specifically, the role of CSR and corporate philanthropy in relation to business strategy (Porter and Kramer 2002, Kramer and Porter 2006). It was intended to address perceived inadequacies in existing approaches to CSR, which they argued focused too much on the tension between business goals and social goals. They also considered these existing approaches to be fragmented, disconnected from business strategy and, as a result, potentially missing significant opportunities to benefit society (2006).

Shared value was never intended to be a silver bullet solution to managing a company's social and environmental impacts. Rather, Porter and Kramer argue that businesses also need to implement both responsive and strategic CSR activities. Responsive CSR requires businesses to act as good corporate citizens and to mitigate negative impacts arising from their business activities. Porter and Kramer argue that, to do this well, businesses need to take a proactive and tailored approach; systematically identify the social impacts of their activities across the company value chain; adopt best practices for mitigating and managing impacts; specify clear, measurable goals; and track their performance over time. Meanwhile, strategic CSR should focus on a small number of initiatives that can generate significant social and business outcomes. Strategic CSR opportunities could exist either in relation to transforming a company's activities to benefit society while reinforcing business strategy, or through strategic community investment activities that leverage capabilities to improve competitive context (such as access to and availability of business inputs and human resources; rules and incentives that govern competition; size and sophistication of local demand; and local availability of supporting industries). It is the strategic CSR opportunities that Porter and Kramer believe have the greatest potential to create shared value and transform the relationship between business and society, i.e. where the success of the company and success of the community become mutually reinforcing.

Porter and Kramer argue that one of the most important tools in the effective implementation of both strategic and responsive CSR approaches, and to drive shared value practice, is the development and application of impact measurement frameworks that focus on the interaction between business and social results (Porter et al 2011, p.1).

Early applications of shared value in Australia

Over the past five years the authors have worked with multiple companies to draw on the work of Porter and Kramer when developing and implementing new frameworks for measuring social and business value and impact. We present here reflections on three examples that showcase the practical application of shared value as a concept to guide improved management and measurement of social and environmental impacts. Each reflection includes a description of the key process elements, outcomes and challenges.

Example 1 – An Australian property company

Background

Our client had a clear vision of transforming their internal understanding of, and relationship with, the local communities surrounding the company's assets (i.e. retail shopping centres, commercial office buildings) and was seeking a process that would help to:

- Increase buy-in of company leadership to the strategic importance of investing in local communities;
- Reconnect the company's culture with its purpose and the role of their company in supporting its 'communities of interest'; and
- Better direct the company's existing community investment activities to areas creating the greatest social and business value through assessing the contributions of these investment activities.

The application of a shared value approach

The process

- We facilitated a process to articulate and share the client's vision of their desired transformation in relation to the company's relationship with its local communities, resulting in a Board-adopted communities policy;
- Extensive engagement across the company was conducted to validate the vision and develop it into a social sustainability strategy outlining the required actions and activities to realise the vision;
- Existing community investment programs were evaluated to identify those programs with the greatest social impact and business value; and

- An impact measurement framework and decision-making tool were developed to help plan for and measure the value created for communities and the business.

The outcomes
- The policy and strategy enabled the company to tell a coherent story about the company's goals and approach;
- The impact measurement framework enabled comparison of the value created by different community investment programs, enabling the company to make informed decisions and demonstrate the value being created; and
- The framework and tool was recognised by Mark Kramer as one of the best early examples of a shared value measurement tool seen in practice.

Challenges and further opportunities
- Extending the application of the impact measurement framework beyond community investment to other aspects of the business; and
- Organisational and staff changes prevented the approach from becoming fully implemented across the business.

Example 2 – A major Australian financial institution

Background
Our client was seeking to develop and implement a social impact framework to enable the company to better understand the social impact of their community investment activities and specifically, to:
- Demonstrate the value of their community investment expenditure through assessing the social impact and business value being delivered through existing programs;
- Better align community investment programs with areas of greatest impact on their communities and with the company's strategic vision; and
- Establish clear criteria for community investment funding decisions, to refine existing and proposed programs and drive innovation through identifying new opportunities.

The application of a shared value approach
The process
- We facilitated a process to develop a social impact framework, criteria and indicators for the company through engagement across business functions and with community partners;
- The client began the process with a mature understanding of their role in society and their place in communities across Australia;
- They were willing to take the time required to thoughtfully consider and respond to challenges and allow time for additional engagement where needed; and
- Key to the process was identifying areas of focus with clear connections between social impact and business value (i.e. financial inclusion of all segments of communities).

The outcomes
- A clear articulation of what the company stands for in the community (that is relevant and applicable across all areas of the business);
- Development of a tool that enables users to simply generate new insights into the connections between social and business value and incorporate new thinking into project design; and

- More open conversations with community partners about the value created through partnerships and programs.

The challenges and further opportunities

- Our client has found it challenging to embed the use of the framework and tool within commercial decision-making processes across such a large organisation.

Example 3 – A regional division of a global mining company

Background

Our client was required to apply a new group-wide social investment framework to the division's existing community investment and development programs. At the same time:

- The division was under significant cost pressures to review its current level of expenditure and where this was directed, and wanted to understand the areas where they could achieve the greatest impact in their communities; and
- The client wanted to better demonstrate the business value of its community investment to other parts of the business to safeguard against further pressures to reduce spend in this area.

The application of a shared value approach

The process

- As a group-wide framework had already been developed, the process began with internal and local community engagement to refine and adapt the framework to suit the local context;
- Established social impact monitoring processes meant the client already had a deep understanding of their communities, however, significant changes in local economic conditions meant this needed to be updated; and
- Existing community partners were engaged to test the application of the new local framework and develop case studies related to existing partnerships.

The outcomes

- The group-wide framework was refined and extended at division-level to incorporate:
  - Specific areas of positive social impact in their communities that could be enhanced and negative social impacts that required mitigation; and
  - Important aspects of the social context of the division's operations that the company could benefit from supporting;
- The evaluation of existing community investment projects provided evidence and insights into the value of these programs and also demonstrated the strengths of the existing monitoring approach that could be built upon in the future; and
- The client is currently considering translating the framework into an impact measurement tool to support ongoing identification, planning and evaluation of new programs and initiatives.

The challenges and further opportunities

- The ability to apply the framework to different sized community investments is untested as the project focused on the highest-spend projects; and
- A need was identified to increase the focus on outcomes-based measures of social impact within the existing monitoring program.

In regards to the assertion that impact measurement frameworks are one of the most important tools to drive shared value in practice (Porter et al 2011), the authors have distilled a number of additional insights:

- The goal of being able to better define, identify and measure social impact and business value was a key driver to improve CSR activities;
- The process of developing an impact measurement framework provided a structure and purpose for bringing people together from across the organisation to have important conversations about the social and business value that they wanted to create, which resulted in more informed decisions about where to focus efforts;
- The clients' goals were met without significant investment in developing new, costly quantitative metrics, but through building on information that was already or easily available. More important than the individual metrics was having a clear vision and articulation of the big picture outcomes the company wanted to realise, supported by robust qualitative criteria to assess a project's contribution towards these outcomes;
- It will take time to see the extent that these frameworks lead to lasting change and how well they are embedded within the organisations' decision making processes – and early signs say that implementation remains a challenge in all three cases; and
- The mining company example suggests that developing a social investment framework that complements existing impact monitoring programs may be easier to implement because it requires adaptation and refinement of existing, well-embedded, processes, which can continue to evolve over time as more robust measurement metrics are developed.

Based on these experiences, the authors suggest that the often significant investment required to develop the best social impact metrics possible should be less of a focus in the development of impact measurement frameworks; rather the initial priority should be in articulating a clear vision and desired social and business outcomes *and then* establishing the underlying impact measurement systems, processes and indicators.

Implications for the impact assessment community

The International Association for Impact Assessment (IAIA) guidance on social impact assessment (Vanclay et al 2015) identifies shared value as one of the 'key background concepts' for SIA, and suggests that it has the potential to:

- Provide a rationale for the value of doing voluntary social impact assessment (outside of regulatory approvals);
- Help reframe impact assessment in response to changing community expectations regarding the extent to which they are considered active partners in development projects; and
- Clearly demonstrate the business value of responding to community priorities, such as local content development (see also Harvey and Bice 2014).

The authors' experience affirms these possibilities, but also identifies a clear opportunity to apply the impact assessment, management and monitoring methodology as a model for the implementation of shared value and other related corporate impact measurement frameworks.

Conclusion

Shared value, as a concept for understanding the relationship between business strategy and social (and environmental) goals, has evolved over the past 15 years alongside other complementary concepts such as strategic CSR and philanthropy. Whilst shared value is not a silver bullet solution to managing social and environmental impacts, it does represent a more strategic approach than other CSR approaches. The development and application of impact measurement frameworks is also considered an important tool for driving shared value in practice. The authors also note that whilst shared value has the potential to legitimise and extend the application of impact assessment beyond a regulatory context, there is also a significant opportunity for the impact assessment community to assist in resolving the shared value implementation challenge.

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