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Creating Shared Value (CSV) – Explained with Corporate Social Responsibility & Mc Kinsey 7S Model.

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ABSTRACT

This paper aims to explain Creating Shared values (CSV) concept by differentiating it with Corporate Social Responsibility (CSR**).** The author uses McKinsey 7S model in organizational design to identify how important is Creating Shared Value to a business entity.

KEYWORDS: Creating shared Values, Corporate Social Responsibility, Social needs, Microfinance Organizational design, McKinsey 7S model, Strategy, Structure, Systems, staffs, skills, styles, Shared Values.

1. WHAT IS CREATING SHARED VALUES (CSV)

Creating Shared Value was the title of an award-winning 2011 article in the Harvard Business Review by Prof. Michael Porter and Mark Kramer. Companies started focussing on non-profit sector, specifically an examination of how foundations can create social value. This soon extended into a piece exploring how corporate philanthropy can create social and economic value, introducing for the first time the authors' ideas around using social programs to enhance the firm's competitive context. It Emphasises that companies should create economic value by creating value in the society. By 2006, this had developed into a broader analysis of how to integrate corporate social responsibility (CSR) into core business strategy, where the term 'shared value' was coined for the first time. So, what is really the concept of the 'Shared Value'? Shared value is an approach by which any organisation can create economic returns by developing solutions to social problems. These may be whole of society issues or those more local to a company's operations and markets. It pertains to the policies and practices applied in a company to increase the competitiveness of it. This policies and practices help the company to solve the social challenges of the communities where it thrives.

It requires a company's leadership to view creation of social value as a competitive advantage which can drive innovation and support the long-term adaptation and prosperity of the company. Thus, the business objectiveness of a company is integrated with the social needs. The point to be noted here is that the shared Value (CSV) can never be a part of marketing or branding strategy of a company but it can be considered as a social responsibility. CSV is not a responsibility by itself but an opportunity. Shared value acknowledges that business, with its capital, market access, scale, and capacity for innovation, is most capable of having a meaningful impact on societal problems.

Here are some examples by which Creating shared Value (CSV) principle have been adopted. The first large-scale program to diagnose and treat HIV/AIDS in South Africa was introduced by the global mining company Anglo American to protect its workforce and reduce absenteeism. This is a classical example of an organization looking into the community where it thrives. Similarly, MasterCard has brought mobile-banking technology to more than 200 million people in developing countries who previously lacked access to financial services.

Figure 1 Adopted from Prof Michael Porter & Mark Kramer.

The example of the Grameen Bank in Bangladesh met Porter and Kramer's proposal to develop products and services that meet societal needs, and indeed microfinance is specifically cited as a CSV success story. Microfinance is a useful indicator of how CSV can be promoted as a game changer. The global financial crisis in 2008 was a wakeup call, which helped businesses to identify the need to support the society, the creation of shared value thus emerged to address societal problems in the core of firm's strategy. Now companies realize that Shared value is something that can be embedded with their day-to-day activities to enhance business and to enhance profitability.

If a business could stimulate social progress in every region of the globe, poverty, pollution, and disease would decline and corporate profits would rise. Indeed, in recent years creating shared value pursuing financial success in a way that also yields societal benefits has become a growing trend.

Creating Shared Values (CSV) thus changes the way business is done. Shared value creation focuses on identifying and expanding the connections between societal and economic progress. CSV can be a powerful tool as part of a comprehensive portfolio of complementary practices, to build power within communities and effectively deliver more equitable outcomes for society.

In a nutshell, CSV proposes to transform social problems relevant to the corporation into business opportunities, thereby contributing to the solving of critical societal challenges whilst simultaneously driving greater profitability. This concept involves responsible business management, stakeholders' management, and corporate social responsibility (CSR), which have regained attention after the corporate scandals in the USA and the global financial crisis of 2008.

How is shared value different from Corporate Social Responsibility?

It is noted that almost all Creating shared values (CSV) activities are Corporate Social Responsibility. But the reverse is not always true. In some instances, Corporate Social Responsibility can create shared value. However, the baseline of CSR practice is to give back to society. By CSR, business can get immediate public relation outcomes whereas in CSV this may not happen always. CSR always need a measurement and report to demonstrate its efficacy. In CSV its efficacy is measured in terms of its acceptance on the locality where it operates. CSR activities do not have any geographical backgrounds, Business can do CSR anywhere in the world. Mostly CSV activities are carried out on the environment where a business thrives. Economically, a minor investment in CSR is considered as a cost to the business, where as CSV is always an opportunity, and it is instant solution to gain acceptance to a business entity. Shared value is a core business philosophy and strategy that company returns – defined as growth, competitive advantage, innovation, productivity, and brand equity – arise from investment in social value creation.

How is Creating Shared values connected with McKinsey 7S Model

The McKinsey 7S model was developed during the late 1970s by the McKinsey & Co. as a conceptual framework "useful in diagnosing the causes of organizational malaise and in formulating programs for improvement". The model constituted an attempt to provide a response to the widespread frustration experienced by executives at the time of dealing effectively with general management problems related to strategic and organizational factors. The McKinsey 7S Model refers to a tool that analyses a company's organizational design. The goal of the model is to depict how effectiveness can be achieved in an organization through the interactions of seven key elements – Structure, Strategy, Skill, System, Shared Values, Style, and Staff. These seven elements are dynamic and change constantly. A change in one element always has effects on the other elements and requires implementing new organizational design. Thus, continuous review of each area is very important. In McKinsey model, the seven areas of organization are divided into the 'soft' and 'hard' areas. Strategy, Structure and Systems are hard elements that are much easier to identify and manage when compared to soft elements. On the other hand, soft areas, although harder to manage, are the foundation of the organization and are more likely to create the sustained competitive advantage.

Strategy is a long term plan developed by a firm to attain sustained competitive advantage and to compete in the market.

Structure represents the way business is divided into subunits and includes who is responsible for and to whom. It is also one of the most visible and easy to change elements of the framework.

Systems means daily business activities and procedures of the company which tells how decisions are made. Systems is the focus for managers during organizational change.

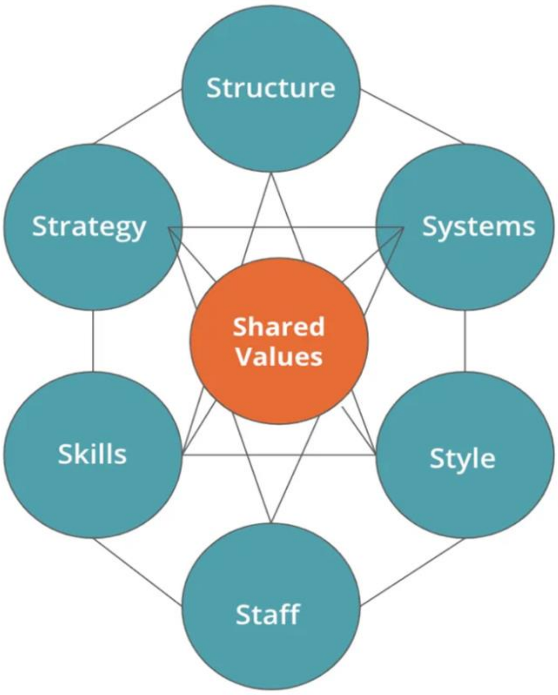

Figure 2 McKinsey 7S model (extracted from Waterman, Peters, and Phillips, 1980, p. 18).

Skills are the abilities that firm's employees perform very well. They also include capabilities and competences. During organizational change, the question often arises of what skills the company will really need to reinforce its new strategy or new structure.

Staff element is concerned with how employees are selected and what type of employees are selected for what purpose and how they will be recruited, trained, motivated and rewarded.

2. SHARED VALUES

At the core of the model are Superordinate goals and shared values around which the organization revolves. These values define the organization's key beliefs and aspirations and form the core of its corporate culture. Shared value results from policies and practices that contribute to competitive advantage while strengthening the communities in which a company operates. Companies can create shared value in three ways: by reconceiving products and markets, redefining productivity in the value chain, and strengthening local clusters. Shared Values being in the centre is the key for any business to thrive in its environment.

Shared Values are intimately connected to the moral and ethical codes that are widely accepted in the society and organization of belief concerning what is a desirable behaviour, right or wrong action. Karahanna et al. (2005) & Meed (1994) refers to value as relationships among abstract categories that are characterized by strong affective components and imply a preference for a certain type of action: good, right and desirable.

3. CONCLUSION

Profits derived from social purpose has more economic value than its monetary value. Not all profits are equal. The shared value thinking is a powerful force to drive growth in the global economy and involves a whole new set of best practices and strategic opportunities. Creating shared value will require identifying opportunities tailored to each other. Economic advantages derived from these shared value initiatives are more sustainable than conventional cost and quality improvements and are significantly more beneficial to companies and society than typical corporate social responsibility programs.

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