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Article

Effectiveness and Efficiency of Shared Value Activities: The Development of a Model to Evaluate Shared Value Management Activities

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Effectiveness and Efficiency of Shared Value Activities

The Development of a Model to Evaluate Shared Value Management Activities.

Verfasser(innen) Katharina Kaufeldt, Florian Botzenhardt & Hans-Michael Ferdinand

ZUSAMMENFASSUNG

Bei vielen Aktivitäten und Maßnahmen, die von Unternehmen unternommen werden, ist der Nachweis von Sinn und Nutzen eine zentrale Herausforderung. Der *Creating Shared Value*-Ansatz von Michael Porter und Mark Kramer stellt in dieser Hinsicht keine Ausnahme dar: Die Erfolgsmessung der geschäftlichen als auch der gesellschaftlichen Ziele ist nicht einfach. Der vorliegende Artikel, der auf einer Masterarbeit am Kompetenzzentrum Marketing & Branding an der Hochschule Neu-Ulm basiert, versucht, eine Lösung für dieses Problem aufzuzeigen. Mittels eines explorativen Ansatzes wird ein Messmodell basierend auf einer Idee von Michael Porter aus dem Jahr 2011 entwickelt, das zur Evaluation von Maßnahmen in Hinblick auf den CSV-Ansatz genutzt werden kann. Der Hauptfokus liegt dabei sowohl auf dem Faktor *Effektivität* als auch auf dem Faktor *Effizienz*. Darüber hinaus wird aufgezeigt, wie die Evaluationsergebnisse in einem *Shared Value Radar* visualisiert werden können. Diese Darstellung zeigt den Einfluss jeglicher Unternehmensaktivitäten auf alle Aspekte des CSV-Ansatzes und stellt ein Werkzeug für das Management dar.

'Capitalism is under siege. Diminished trust in business is causing political leaders to set policies that sap economic growth. Business is caught in a vicious circle. The purpose of the corporation must be redefined around creating shared value.' Michael E. Porter (2011)

Shared Value (SV) creation alone, however, is not enough to improve business success and social progress. Behind the *Shared Value* approach, a fundamental measurement and integrated reporting pro-

cess is essential. This article introduces a new model which identifies the effectiveness and efficiency level of *Shared Value* activities.

Since businesses are ranked regarding their Corporate Social Responsibility performance, this topic became an inescapable field for companies worldwide (Porter & Kramer 2011, p. 4). In 2006, Michael Porter and Mark Kramer initially introduced their *Shared Value* concept where they even go one step beyond simple

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CSR work. Their new focus is set on a fundamental harvest for a company's sustainable commitment. According to Porter and Kramer, *Shared Value* can create major new opportunities for companies through an increase in both profit and competitive advantage. Tools, however, to put *Shared Value* thinking into practice, are still in their infancy, but play a significant role when it comes to measuring the impact *Shared Value* has on a company and society (Porter et al. 2011, p. 1).

Nevertheless, it is not easy to measure those social activities and their impacts on a company. There are several problems in finding reasonable and significant KPI which can contribute to the measurement of *Shared Value*, as such projects differ a lot among industries, companies and the general understanding and execution of the *Shared Value* approach.

In 2011, the Foundation Strategy Group (FSG) published the *Measuring Shared Value* report. Since measurement is identified to be the most important tool when it comes to put *Shared Value* thinking into practice, this report delivers first ideas on measurement possibilities. By not tracking the cohesion between social and business results, companies still risk to miss important opportunities for innovation, growth and sustainable social impacts at scale (Porter et al. 2011, p. 2).

The analysis of the related literature leads to the conclusion that it is still unknown how effective and efficient the *Shared Value* approach is conducted within a business. This article develops a theoretical model

of how *Shared Value* can be measured regarding its effectiveness and efficiency. Subsequently, the impact SVM can have on a company's competitive advantage is analysed.

To reach this goal, initially the scientific method of an explanatory research is underlain. This is composed as follows: As a final part of the introduction, the fundamental terminology is defined. Afterwards, the principle of *Creating Shared Value* is demonstrated followed by a definition of how effectiveness and efficiency have to be understood in this context.

In the second part, a theoretical model is elaborated which deals with the definition of effectiveness and efficiency measurement criteria and introduces the new measurement model. This method of an explanatory research was chosen due to the fact that a new model is developed and Porters theory is extended to a new area (Goddard & Melville, 2007, p. 9). In the last part, the measurement model is evaluated before this article concludes by analysing whether the hypothesis can be verified.

Creating Shared Value

The key characteristic of *Creating Shared Value* is to realize that economic value can be created through societal value. The main focus on creating *Shared Value* is set on the identification and expansion of societal and economic progress (Porter and Kramer 2011, p. 7). Porter names three main components which deliver opportunities for a company to create *Shared Value*. These are reconceiving products and markets,

CSV Level	Example
Reconceiving products and markets	Revolution Foods provides students with 60,000 fresh, healthy and nutritious foods daily. By doing this they generate an even higher gross margin than their competitors
Redefining productivity in the value chain	Walmart generates savings in transportation costs and the ability to restock in smaller quantities by simultaneously supporting local farmers.
Enabling local cluster development	Yara invested \$60 million to improve ports and roads to build agricultural growth corridors in Mozambique and Tanzania. This benefits more than 200,000 farmers and created 350,000 new jobs while Yara's business will grow constantly.

Table 1: Levels of Creating Shared Value
Source: Porter and Kramer 2011, p. 7-8; 12-13.

redefining productivity in the value chain and enabling local cluster development (Porter and Kramer 2011, p. 7). Table 1 gives one practical example to each level of *CSV*.

Shared Value, however, should not exclusively be created in developing countries or in lower-income areas, although *Shared Value* initiatives are especially important there and can actively contribute to societal progress. But since not every company can move production plants to developing countries or implement over-seas *Shared Value* activities, and since doing so might not be an adequate strategy for many industries and branches, there are other good reasons to meet and actively try to fulfill the needs of the society a business is operating in.

Effectiveness and efficiency

The prevailing definition of effectiveness as given by Peter Drucker (2004, p. 2) is ‘doing the right things’. Since in this paper effectiveness is understood accordingly, a *Shared Value* activity can be seen as effective if it addresses the right social issue. In contrast to that, Drucker describes efficiency as ‘doing the things right’ (Drucker, 1974, p. 45). Hence, in this paper, efficiency is understood as the relation between the input which is used for *Shared Value* activities or initiatives and the output which the respective activity has on both society and company.

The Model development: Requirements

Towards the new scientific model, there are certain requirements that have to be considered:

- **Individual application:** The model should be applicable for *SV* activities of different scopes. Factors such as company size, industry, location and extend of *SV* activity should not have an impact on its functionality.
- **Significant and meaningful results:** The outcomes should follow the principle of logical reasoning and they are not supposed to be of subjective character.
- **Coherence:** This requirement refers to the perception of the model. It is important that the model is easy to apply and above all easy to understand.
- **Resistance to weaknesses of existing approaches:** Most importantly, however, is the fact that the new model has to be resistant to the defined challenges and weaknesses of the already existing approaches.

Measuring the effectiveness of Shared Value activities

In the first stage of the measurement model it has to be analysed if the identified social issue is the right one to be addressed. The first two defined criteria constitute criteria for exclusion. That means they

Effectiveness Criteria	Business	Society
Benefits	0 - 1	0 - 1
Strategy implementation opportunity	0 - 1	0 - 1
Long term alignment	0 - 1 - 2 - 3 - 4	0 - 1 - 2 - 3 - 4
Time expenditure	0 - 1 - 2 - 3 - 4	0 - 1 - 2 - 3 - 4
Time-to-profit	0 - 1 - 2 - 3 - 4	0 - 1 - 2 - 3 - 4
Implementation costs	0 - 1 - 2 - 3 - 4	0 - 1 - 2 - 3 - 4
Acceptance	0 - 1 - 2 - 3 - 4	0 - 1 - 2 - 3 - 4
Controllability	0 - 1 - 2 - 3 - 4	0 - 1 - 2 - 3 - 4
Communication	0 - 1 - 2 - 3 - 4	0 - 1 - 2 - 3 - 4
Total	0 - 30	0 - 30

Table 2: Effectiveness measurement model
Source: Own representation

have to be fulfilled; otherwise the *Shared Value* approach is not given.

- **Benefit:** Both sides have to benefit from the activity, optimally in equal measures.
- **Strategy implementation opportunity:** *Shared Value* activity has to be implemented into the business strategy.

The respective scale system for the first two criteria is defined as a dual scale, because there are just two possible outcomes. If the criterion is fulfilled, it has to be rated with one; if not, with zero points.

The next criteria in contrast are no longer criteria for exclusion, and therefore their scales differ from those just introduced. The evaluation scales to follow are defined in a five-point scale from zero to four points. Thereby zero points are given for weak execution, four points for strong execution of the prevailing criterion. This scale system was chosen due to the fact that it is more differentiated than a three-point scale but still easy to understand. Moreover, this scale system offers the opportunity to define an obvious middle position.

The criteria are:

- **Long-term alignment:** Is the implemented SV activity of long or short-term character?
- **Time expenditure:** Time from planning until executing the *Shared Value* activity.
- **Time-to-profit:** Time it takes for the general benefit to turn into actual profit.
- **Implementation cost:** The actual costs involved on the business side and also non-monetary costs such as disadvantages or losses which were created through the implementation on the society side.
- **Acceptance:** General acceptance of the respective activity in business and society. Controllability – Complexity of controlling the *Shared Value* conduction and its evaluation.
- **Communication:** Communication effort and possibilities regarding the SV activity.

Table 2 shows the complete effectiveness model with the defined criteria and the prevailing scales.

Measuring the efficiency of Shared Value activities

So far, the focus was set on analysing the suitability of a SV activity. Now it is to be seen if the activity is conducted in an efficient way. This chapter introduces a general model to measure the efficiency of a SV activity. This model is specified for each of the three levels of CSV, as there are different criteria underlain. The common ground of these criteria on the business side can be seen in the profitability which makes this the criterion for exclusion on the business side. The social counterpart is defined as general environmental or social improvement. If these criteria are not given, the *Shared Value* activity is not considered to be efficient.

Table 3 shows the complete efficiency model with the defined criteria and the prevailing scales for each level of *Creating Shared Value*. The scale system follows the same principle as introduced before in the effectiveness measurement model.

The Shared Value Radar

To visualize a company's *Shared Value* performance, the *Shared Value Radar* was developed. There, the prevailing percentage scores are marked to give an overview on the recent *Shared Value* execution level. This makes it easy for companies to be aware of the current status of their SV performance at all times. It can also be used to compare the own *Shared Value* activity with those of competitors or different SV activities within the same company. The example figure below shows the SV Radar of the company Nestlé.

The blue line demonstrates the best possible result, where 100% in every segment is achieved. The magenta line demonstrates the minimum level the company defined as a goal. Therefore, the actual score should always be outside of the critical area. In this case it is assumed that Nestlé defined its minimum

level at 70%. It is easy to recognize in which sectors the company achieves to meet its defined goals and where the targets are being missed.

Model evaluation

But is this model able to fulfill the predefined requirements? The authors conducted several case studies that show that the model is individually applicable while meaningful and significant results can be derived. Additionally, the model is coherent and resistant to typical weaknesses of already existing approaches. It is not only suitable for measuring, but also for identifying SV activities and it helps to communicate the *Shared Value* impact inside and outside the company easily.

However, there are not only positive aspects to be found with this new measurement approach. The two most significant negative aspects are the fact that it requires a lot of detailed and accurate inside information to describe and evaluate the prevailing criteria. If the developed *Shared Value* measurement model is used by a company itself, this issue will disappear as all the required information should be accessible. However, for outside analysts, it is very difficult to obtain the respective information that is necessary

for applying the model. A further restriction lies in the following fact: Companies can gain the necessary information needed for the evaluation process much easier and quicker on the business side. In a nutshell: The model is still in its infancy.

Conclusion

This article was set out to develop a new approach of measuring the effectiveness and efficiency of *Shared Value* activities. To reach this, weaknesses of already existing approaches have been identified and eliminated, crucial measurement criteria have been determined and eventually the article yields and evaluates a new *Shared Value Measurement* model. Additionally, the *SVM Radar* has been introduced.

So can *Shared Value* be measured regarding its effectiveness and efficiency in order to improve a company's competitive advantage? The model application with the developed *Shared Value Radar* shows that the measurement of effective and efficient *Shared Value* activities is indeed possible.

The gained insights can contribute essentially to the current state of science. The developed SVM model helps to determine and communicate important key

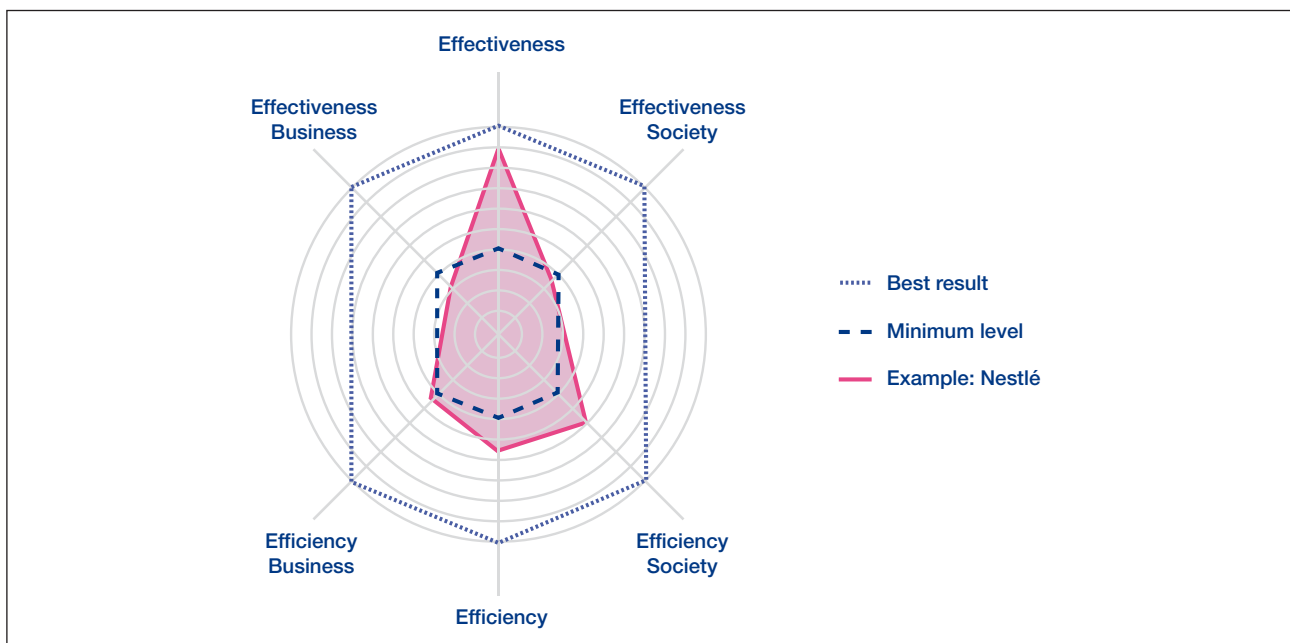


Figure 1: The *Shared Value Radar*
Source: Own representation

figures for both companies and stakeholders. On the one hand, it helps to define exactly whether and to which extent a *Shared Value* activity is the right one to address. On the other hand it shows in which dimensions the activity can be considered efficient for business and society. Even more, not only a statement about the degree of effectiveness and efficiency can be issued, but also a continuous tracking and monitoring process can be implemented, based upon a sus-

tainable framework developed by Porter and Kramer. Nevertheless the scale of *Creating Shared Value* offers multifaceted options, which enable several directions for further research. The question is if the defined criteria for the different levels of *Creating Shared Value* are always suitable for activities of different scopes and industries being the most natural and a very desirable next step in the further development of the presented model (table 3).

FIRST CSV LEVEL	Business Success	Scale	Society Progress	Scale
	Improved profitability	0 - 1	Environmental or social improvement	0 - 1
	Increased revenue	0 - 1 - 2 - 3 - 4	Reduced carbon footprints	0 - 1 - 2 - 3 - 4
	Increased market share	0 - 1 - 2 - 3 - 4	Improved nutrition	0 - 1 - 2 - 3 - 4
	Increased market growth	0 - 1 - 2 - 3 - 4	Improved education	0 - 1 - 2 - 3 - 4
	Growing customer base	0 - 1 - 2 - 3 - 4	Increased job creation	0 - 1 - 2 - 3 - 4
Total	0 - 17	Total	0 - 17	

SECOND CSV LEVEL	Business Success	Scale	Society Progress	Scale
	Improved profitability	0 - 1	Environmental or social improvement	0 - 1
	Increased productivity	0 - 1 - 2 - 3 - 4	Reduced energy use	0 - 1 - 2 - 3 - 4
	Reduced logistical and operational costs	0 - 1 - 2 - 3 - 4	Reduced water use	0 - 1 - 2 - 3 - 4
	Secured supply	0 - 1 - 2 - 3 - 4	Reduced CO ₂ emissions	0 - 1 - 2 - 3 - 4
	Improved quality	0 - 1 - 2 - 3 - 4	Recycling	0 - 1 - 2 - 3 - 4
Improved innovation level	0 - 1 - 2 - 3 - 4	Improved workforce skills	0 - 1 - 2 - 3 - 4	
Total	0 - 21	Total	0 - 21	

THIRD CSV LEVEL	Business Success	Scale	Society Progress	Scale
	Improved profitability	0 - 1	Environmental or social improvement	0 - 1
	Reduced overall costs	0 - 1 - 2 - 3 - 4	Improved education	0 - 1 - 2 - 3 - 4
	Secure supply	0 - 1 - 2 - 3 - 4	Increased job creation	0 - 1 - 2 - 3 - 4
	Improved distribution infrastructure	0 - 1 - 2 - 3 - 4	Improved public health	0 - 1 - 2 - 3 - 4
	Improved workforce success	0 - 1 - 2 - 3 - 4	Increased incomes	0 - 1 - 2 - 3 - 4
Total	0 - 17	Total	0 - 17	

Table 3: Efficiency measurement model
Source: Own representation



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