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Shared Value in Finance: Revisiting Shared Value in
Light of the Person-Centered Approach

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ABSTRACT

The publication of Michael Porter and Mark Kramer's *Creating Shared Value* (Harvard Business Review, 2011) challenges both the academic literature on corporate social responsibility as well as business practice. Porter and Kramer argue that there is a better way of integrating social goals within business practice, without distracting a firm from its primary purpose of achieving profit. This paper aims to expand Porter and Kramer's approach and to apply the shared value model to the financial sector, through analyzing the ways of systematic shared value creation in finance. We begin with an examination of Porter and Kramer's concept. Next, we evaluate the impact of shared value creation on academic literature. We distinguish between four groups of works related to shared value: Porter's work, Porter's co-authors, supporters (divided into followers and innovators), and critics. After implementing these steps, we address the two-fold purpose of this paper: 1. To examine Porter and Kramer's process-centered theory and 2. To investigate the financial application of a revised concept of shared value. In particular, we will explore the role of virtues as a missing pillar in Porter and Kramer's original theory. Integrating the shared value approach with virtues leads us from their process-centered approach to the person-centered approach that we call Systematic Shared Value. We believe that finance professionals can apply this new paradigm, formulating new ways of shared value creation. We conclude the article by presenting a preliminary systematic approach to shared value creation in finance. Corporate reputation (CR) has become a fashionable topic due, among other reasons, to the recent financial and economic crisis and spreading corporate scandals. Given its interdisciplinary character and intangible nature, CR has been a frequent issue in many disciplines, but scarcely present in the business ethics field. This neglect is odd since a good reputation is one of the most valuable consequences of doing the right things and the things right. In this paper, we intend to explain this absence through three hypotheses: a) business ethics literature largely identifies corporate reputation and corporate social responsibility; b) corporate reputation overlaps with corporate image and corporate identity, resulting interchangeable constructs; and c) business ethics scholars have focused on the negative side of the reputation phenomenon, highlighting reputational risk more than benefits. Based on a bibliometric analysis of the top journal of business ethics literature over a recent decade (2002-2011), we finally confirmed the three hypotheses although c) only partially. In addition, the findings of this study will allow for a deeper understanding of the link between looking good and doing well.

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This Working Paper is just a Draft, and has no value as academic publication. The draft has been presented at the 18th International Symposium on Ethics, Business and Society, and is under review process to be published in an indexed Journal. In case of publication, only that referred publication should be cited.

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Revisiting Shared Value in Light of the Person-Centered Approach**

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This paper aims to expand Porter and Kramer's approach and to apply the shared value model to the financial sector, through analyzing the ways of systematic shared value creation in finance.

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After implementing these steps, we address the two-fold purpose of this paper: 1. To examine Porter and Kramer's process-centered theory and 2. To investigate the financial application of a revised concept of shared value. In particular, we will explore the role of virtues as a missing pillar in Porter and Kramer's original theory. Integrating the shared value approach with virtues leads us from their process-centered approach to the person-centered approach that we call *Systematic Shared Value*. We believe that finance professionals can apply this new paradigm, formulating new ways of shared value creation. We conclude the article by presenting a preliminary systematic approach to shared value creation in finance.

Key words: shared value, finance, virtue ethics, Michael Porter, corporate social responsibility, person-centered approach.

INTRODUCTION

The 2008 crisis has generated a continued distrust towards the financial sector (Edelman Trust Barometer, 2014). At the same time, it is impossible to imagine a world without financial intermediaries. They supply essential services for the modern economy, such as “to facilitate household and corporate saving, to allocate those funds to their most productive use, to manage and distribute risk, and to facilitate payments” (Greenwood and Scharfstein, 2012).

The present work analyzes the way financial intermediaries create shared value for society. In the wake of the “Creating Shared Value” paradigm, depicted by Porter and Kramer in a 2011 *Harvard Business Review*’s impact article¹, we present a motivated integration of the original Porter and Kramer’s proposal. Our aim here is to achieve an integral approach that we name Systematic Shared Value, and to apply this approach to the financial sector.

We will proceed as follows. First, we offer a deep analysis of the concept of shared value. Then, we analyze the way Porter and Kramer’s theory has influenced the academic debate, shaking the concept of corporate social responsibility that is recently often substituted by shared value. We classify four categories of works related to shared value: Porter’s works; Porter’s co-authors’ works; shared value followers and innovators’ contributions; and shared value critics. Thirdly, we evaluate ethical foundations of the creating shared value theory, to unfold the complete potentiality of shared value creation. This happens by switching from a process-centered approach (upon which “Creating Shared Value” is based) to a person-centered approach. This shift allows us to define the Systematic Shared Value. Finally, we illustrate the application of the Systematic Shared Value approach to the financial sector, aiming to determine the way finance can contribute to the good of society by creating shared value².

¹ Porter, M., & Kramer, M. R. (2011). Creating Shared Value: How to Reinvent Capitalism – and Unleash a Wave of Innovation and Growth. *Harvard Business Review*, 89(1/2), 62–77.

² A first official contribution in this line is given by a report of Foundation Strategy Group entitled “Banking on Shared Value”. It is the first effort of translating the shared value concept to the banking sector. Later on in the paper we will discuss some relevant aspects of this research, which can be found at http://www.fsg.org/Portals/0/Uploads/Documents/PDF/Banking_on_Shared_Value.pdf, accessed July 2, 2014.

The Foundation Strategy Group (FSG) is a “nonprofit consulting firm specializing in strategy, evaluation, and research” (<http://www.fsg.org/AboutUs/Overview.aspx> - accessed on March 20, 2014). FSG helps businesses in developing strategies addressing social issues. After the publication of *Creating Shared Value*, FSG is spreading the shared value culture through research, reports, and by promoting and encouraging shared value practices through consulting activities. Kramer is FSG’s founder and managing director; Porter is FSG’s founder, board member and senior advisor. <http://www.fsg.org/AboutUs/OurPeople.aspx> - accessed March 20, 2014.

1. WHAT IS SHARED VALUE?

In January of 2011, *Harvard Business Review* published an article entitled *Creating Shared Value: How to Re-Invent Capitalism and Unleash a Wave of Innovation and Growth*, by Porter and Kramer. The article begins by underlying three main features of the people's perception of the business-society relationship, "companies are widely perceived to be prospering at the expense of the broader community", "companies behave according to a myopic short-termism", and "there is an aura of mistrust in business, pandered by policies not adequate to the real spirit of capitalism." According to the authors, "the solution lies in the principle of shared value which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress" (Porter & Kramer, 2011, p. 64).

Porter and Kramer's article outlined the following definition of shared value: "shared value can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the community in which it operates" (2011, p. 66). The authors refer to three ways of creating shared value: reconceiving products and markets, redefining productivity in the value chain, and enabling the development of local clusters.

First, reconceiving products and markets means to innovate in ways that can be beneficial for both the firm and the context in which it operates. The point is not to start something different, but to make the core business of a firm and a societal need meet. Among many effective examples, the authors cite the experience of a mobile money transfer service in Kenya—M-PESA, and the Nestlé coffee maker—Nespresso. The launch of these innovative products resulted in new revenues for the company and an upgrade in the standards of living of the involved producers and consumers³. As a result, reconceiving products consists of totally rethinking the way the main product is born, developed, packed and sold, with special attention given to each stage of production.

Regarding the redefinition of productivity in the value chain, the goal is to find out the meaning of the value chain, a concept introduced by Porter (1985) in his book *Competitive Advantage: Creating and Sustaining Superior Performance*. "The value chain is not a collection of independent activities but a system of interdependent activities", Porter explains (1985, p. 48). Each phase generally affects different aspects of the context in which the firm operates. These so-called externalities can be capitalized and re-thought in order to make them profitable for the firm (by enhancing their efficiency) and for the society as well (e.g., by solving an environmental problem

³ More information about M-PESA and Nespresso case studies can be found at www.ifc.org, accessed March 14, 2014.

or generating more work, so as to employ other workers)⁴. Porter and Kramer describe six domains where the shared value principle can effectively transform the value chain, making the solution of a societal problem an increase in firm productivity: energy use and logistic, resource use, procurement, distribution, employee productivity, and location. In each of these areas, a firm can find solutions that bridge productivity and societal issues.

Concerning the development of local clusters, we should depart from the definition of a cluster: “Clusters are geographic concentrations of interconnected companies and institutions in a particular field” (Porter 1998, p. 78). Therefore, the three elements characterizing a cluster are a firm, a research center (in a broad sense, such as universities, education centers, etc.) and infrastructures. A successful business creates jobs, it allows other firms to grow and develop, and it increases the demand for collateral services, generating a virtuous cluster.

In addition to defining the concept and practice of shared value, Porter and Kramer (2011) strongly emphasize the difference between their proposal and the existing corporate social responsibility. Their position on corporate social responsibility is clear and in part limited, to the point of being reductive. On one hand, one can read this attitude as a way to assert the originality of their proposal. On the other hand, creating shared value seems to set itself quite rightly as a *quid pluris* to the already known corporate social responsibility.

The core difference between corporate social responsibility and creating shared value is the position they occupy within business processes. Corporate social responsibility takes the form of a discretionary practice and is generally responsive to external pressure. That is, the creation of shared value is integrated into the enterprise at a strategic level and in production processes as well (see the synthesis offered by Porter and Kramer 2011, p. 76). The creation of shared value is an integral part of the effort of maximizing the profit of the company, because it gets into business processes at all levels through an oriented analysis of the value chain. However, the corporate social responsibility is, in the formulation of Porter and Kramer, separated from the process of maximizing the difference between revenues and costs⁵. The goal of creating a shared value model is to integrate a sense of social responsibility into the firm’s strategy.

⁴ A good definition of value chain, even if inserted in a work that slightly critiques Porter, is the one provided by Kaplinsky and Morris: “The value chain describes the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use.” (2003, p. 4).

⁵ In the discussion about the true nature of corporate social responsibility, the question about the relationship between ethics and aesthetics in CSR initiatives often arose (Observatorio de la Deuda en la Globalización, 2005). It is hard to know if a company that produces for the textile industry and gives food to developing countries gets involved in this social activity for the sake of gaining reputation or because they feel responsible for society. It seems in many cases social corporate actions are disconnected from the company’s core business.

2. ACADEMIC IMPACT OF SHARED VALUE THEORY

The publication of Porter and Kramer’s 2011 article *Creating Shared Value* has had a large echo (Google Scholar reports more than 1500 citations as of June 30, 2014). The “shared value wave” extended both the academic world and real business. In this context, we review the academic literature, leaving for other studies the analysis of reports and business cases. Williams and Hayes (2013) first worked on a literature review about seminal papers on shared value. While they mainly collect works and case studies that reference the original paper, our literature review covers all the works published since 2011 mentioning “shared value” in the title and explicitly referring to the *Creating Shared Value* article, with a pioneering exception (Maltz et al., 2011). Moreover, our selection of the papers does not consider topics usually considered collateral, such as corporate social responsibility, strategic management, and impact investment.

Academic works on shared value can be divided into four categories (as shown in the following Table 1): the work of Porter himself, Porter directly related authors (from *Foundation Strategy Group* and *Harvard Business Review*), group of supporters (which can be divided into followers and innovators), and critics.

Porter’s work	Porter directly-related authors: <ul style="list-style-type: none"> - Foundation Strategy Group - Harvard Business Review
Supporters: <ul style="list-style-type: none"> - Followers - Innovators (business model; country; sector) 	Critics

Table 1 (own elaboration)

a) Porter’s work

One must search for the roots of shared value in the background of its main author, Michael Porter. The strategic nature of the shared value concept calls to the stage the concepts of competitive advantage⁶ and corporate strategy⁷, both defined in Porter’s article *From Competitive Advantage to Corporate Strategy* (1987).

⁶ According to Porter, competition “determines the appropriateness of a firm’s activities that can contribute to its performance”, and competitive strategy “is the search for a favorable competitive

It is the article entitled *Strategy and Society. The Link between Competitive Advantage and Corporate Social Responsibility* (Porter and Kramer 2006) that effectively paves the road for shared value, criticizing the way companies interpret and practice corporate social responsibility. The authors argue that corporate social responsibility does not take into account the interdependence between business and society; instead, they depict them as rivals. The aim of the 2006 article is to make the business-society relationship work as a win-win game, both in theory and in practice. Cosmetic arrangements of business plans can make them respectable to consumers who care about labor rights, environment, and ethical investment. However, in the authors' opinion, business does not require this behavior. What the business needs is to integrate societal needs within its strategy, while continuing to gain profits. On the wave of the integration, the concept of shared value shows up for the first time: "The mutual dependence of corporations and society implies that both business decisions and social policies must follow the principle of shared value" (2006, p. 84). After this first enunciation, the authors place that term in the broader frame of competitive context. This is the cradle of the shared value concept.

The most recent contribution of the same Porter is *Measuring Shared Value: How to Unlock Value by Linking Social and Business Results* (Porter et al., 2012). This article tries to put the shared value concept into quantitative categories. According to this paper, integrating shared value in the firm's strategic plan entails four steps: identify the social issue to target, make the business case, track progress, and measure results and use insights to unlock new value. The measurement is a challenge, since there is no convincing evidence about the "connection between a company's performance on social issues and the creation of economic value" (2012, p. 13)⁸.

b) Porter directly related authors

Porter and Kramer's co-authors publish mainly in the FSG publication series and in Harvard Business Review. Following the criteria already mentioned we listed three articles that contributed the most to the development of shared value theory.

position in an industry" (1985, p. 1). By disaggregating the firm's activities, Porter is able to analyze the firm's placement and its competitive position, describing the relative and unique position of the firm among its competitors, and highlighting cost leadership and differentiation as the main competitive advantages.

⁷ According to Porter, corporate strategy is "both the darling and the stepchild of contemporary management practice" (1987, p. 1), and can be described as "what makes the corporate whole add up to more than the sum of its business unit parts" (1987, p. 43).

⁸ In particular, to fill this gap, the authors present six challenges to be addressed, depicting the path for a correct shared value creation measurement: 1) to find out and measure those social results which are interesting to the company; 2) to measure social outcomes on large populations; 3) to measure intermediate goals, since there is a big difference between the development of businesses and social values; 4) to choose the right proxies to track the change in the context in which the firm operates; 5) to look at the contribution of the company to the value of creation; 6) to effectively aggregate the results.

Creating Shared Value: A How to Guide for the New Corporate (R)evolution (Bockstette and Stamp, 2011) relates to the FSG papers' series, and aligns with Porter and Kramer's approach. Bockstette and Stamp's contribution to the development of the shared value approach lies in the "Ten Building Blocks of Shared Value" (2011, p. 9).

The second article is entitled *Shared Value in Emerging Markets: How Multinational Corporations are Redefining Business Strategies to Reach Poor or Vulnerable Populations* (Hills et al., 2012). It particularly focuses on multinationals and on cases related to populations that are "poor, vulnerable, low-income, or living at the base of the pyramid" (2012, p. 10).

Finally, *Innovating for Shared Value* (Pfitzer, Bockstette, and Stamp, 2013) reported the findings of an analysis conducted on 30 companies that intentionally adopted shared value strategies. They found that these companies consistently rely on five mutually reinforcing elements: embedding a social purpose, defining the social need, measuring shared value, creating the optimal innovation structure, and co-creating with external stakeholders (2013, p. 100).

"Mutual reinforcing" is also the way in which the articles presented up to this point, can be defined: the authors of these works do not add innovative contributions to the original proposal, rather they develop and reinforce it, using the ways of shared value creation as cues to examine the subject from different points of view. This seems to be the forehead of a shared and well-planned strategy—a common front for the promotion of the theory of shared value, at regular intervals, starting from February 2011, and making its way forward in the main business journals. As announced in the article above on the measurement of value creation, the frontage will continue to move forward.

c) Supporters

Among the authors who substantially agree with Porter and Kramer's idea, it is feasible to make a distinction between followers and innovators. The former are those authors who wrote on shared value without adding a substantial contribution to the theory. Among them, it is important to mention the work of Christiansen⁹.

The innovators use Porter and Kramer's idea as a basis to develop a new one. Among these works, we focus on three groups: 1) innovation of the business model; 2) analysis of the shared value concept in a particular sector; and 3) analysis of the shared value concept in a particular country.

⁹ In particular on shared value and poverty reduction *Business Initiative that Overcome Rural Poverty and Marginality through Creating Shared Value*, in Von Braun and Gatzweiler (2014) *Marginality*, Springer.

In the sub-category of business model innovation, we placed the authors who use shared value as a way to edit existent business models (i.e., the set of organizational and strategic arrangements to acquire competitive advantages; Florin and Schmidt, 2011; Michelini and Fiorentino, 2012; Bertini and Gourville, 2012). Pavlovich and Doyle (2014) mention conscious awareness as a determinant factor of shared value creation. Szmigin and Rutherford (2013) reach the concept of shared value by reconsidering the idea of “sympathy” taken from Adam Smith’s *Theory of Moral Sentiments*.

Exploration of shared value in different contexts was conducted mainly by Maltz and Schein (2012) and Pirson (2012). The first one considers shared value creation in multinational corporations trying to integrate the shared value approach into the multinationals’ capabilities¹⁰. It is interesting to quote Maltz et al. (2011), who developed a way to calculate shared value before the publication of the main article on shared value. They based their work on competitive advantage as a strategic driving force. Here, they extend shared value as the consideration for a broader screen of stakeholders. Pirson (2012) expounds the shared value concept in the field of social enterprise. The author intends to explore how social entrepreneurs are models for shared value creation¹¹. This paper offers new methodology and perspective on the subject. Schmitt and Renken (2012) investigated shared value potentiality in the apparel industry (see also Schmitt 2014).

As for the shared value analysis in countries, the most relevant contributions refer to Brazil (Spitzek and Chapman, 2012), India (Vaidyanathan and Scott, 2012), and Australia (Leth and Hems, 2014)

d) Critics

The largest amount of literature on shared value departs from Porter and Kramer’s article, assuming it as good and positive (Crane et al., 2014). However, some authors adopt a critical approach to questioning the “value of shared value” (Crane et al., 2014). They mainly argue that:

¹⁰ The authors conclude that multinational corporations “are implementing SVIs [shared value initiatives] in multiple ways and leveraging their capabilities strategically across all boundaries (competitors, NGOs, suppliers). In doing so, they are often creating standards and best practices. This perhaps represents the latest evolution in the sustainability movement in general and in the shared value perspective in particular” (Maltz and Schein 2012, p. 71). The authors underline the limitations of their work to multinational corporations. The same work could be conducted on smaller enterprises as well.

¹¹ In order to prove this statement, Pirson uses three different social enterprise models: external social, integrated social, and embedded social enterprises. This last model is the closer to Porter and Kramer’s proposal, and it is analyzed in the light of the genealogical approach, which “helps examine the structural makeup of an organization and allows to evaluate key strategic success factors to the longevity of organizational offspring” (Pirson 2012, see also Phillips 2002).

- 1) Porter did not deeply develop his idea. For example, *The Economist's* columnist Schumpeter (2011), a few weeks after the *Creating Shared Value* publication, ironically addressed Porter's idea as "a bit undercooked" (2011).
- 2) "Shared value can't fix capitalism" (Denning, 2011; Denning, 2012).
- 3) Shared value is not original, ignores the tensions between business and social goals, and is based on a "shallow conception of the corporation's role in society" (Crane et al., 2014).
- 4) Shared value is an "incomplete mental model" (Hartman and Werhane, 2013).
- 5) The authors of *Creating Shared Value* did not properly understand the concept of "responsibility" (Wilburn et al., 2014).

The Crane et al. (2014) article is the most developed and articulated both for the positive and the critical points of the shared value theory. One of their most refined critiques deals with the academic background of Porter and Kramer's idea, arguing that, "Porter and Kramer also fail to acknowledge that their ideas on the simultaneous creation of social and economic value for multiple stakeholders have already been well developed in the existing literature" (2014, p. 134). Both Crane (2014) and Hartman and Werhane (2013) argue that there are alternative ways to reinvent capitalism.

Hartman and Werhane (2013) essentially agree with Porter and Kramer, yet express a "discomfort with the features of the mental model(s) that Porter and Kramer use to structure their resulting argument" (2013, p. 37). They highlight three main critiques: 1) the Porter and Kramer article shows a "presumption of mutual understanding around the term 'profits'" (2013, p. 38). However, this understanding does not fill the gap between business and society, increasing their distance and endorsing the separation thesis; 2) "Porter and Kramer are not the first to provide an alternative to the single-minded pursuit of shareholder gain in the form of profits" (2013, p. 39). Nevertheless, they pretend to be prophetic and the only innovators in this field; 3) the authors feel uncomfortable in addressing corporate social responsibility as outdated, even if they share Porter and Kramer's critical attitude towards the early stage of corporate social responsibility.

Above all, Hartman and Werhane argue, "shared value is just one of the many viable means to reconstruct a corporate worldview to tackle new-world social, environmental and economic problems" (2013, p. 42).

Beschorner (2013) argues that Porter and Kramer's proposal "is neither so radical nor such a departure from standard management thinking as the authors make it seem" (2013, p. 106). In particular, he claims that the two authors have a narrow view on corporate social responsibility. Moreover, he gives evidence to the thinness of their

economic proposal, seeing it as inadequate to the target of the re-foundation of capitalism, and providing his own proposal to improve this theory.

Escudero states that creating shared value can be seen as a particular case of the corporate citizenship model, with a strategic emphasis (2013, p. 84), but not, as Porter and Kramer would like it to be, as a new economic approach.

Finally, Wilburn and Wilburn (2014) focus on the concept of the responsibility of business as a category misunderstood by Porter and Kramer, since for them the only reason for addressing societal needs is the increasing of profits, avoiding thinking of people and the environment itself. One cannot define this attitude as a responsibility, but just as a way to increase profits. After stating this point, the authors work to rehabilitate corporate social responsibility.

Our contribution is in line with the main exposed criticisms. In particular, the trail we follow and deepen relates to the incompleteness of Porter and Kramer's proposal. Our main concern is the totally process-oriented approach of the shared value system. Is it possible for a model for firms to be complete without explicitly considering the people working in them? Which kind of incompleteness should people address to rehabilitate the integrity and efficacy of the proposal? We answer these questions below.

3. TOWARD SYSTEMATIC SHARED VALUE

The literature review regarding the shared value model gave rise to two main facts. First, this proposal is applicable to both academics and practice, as witnessed by the large number of contributions that make explicit references to this subject. Second, these criticisms are quite valid and are all well centered and articulated.

From the essence of those criticisms, comes the idea of using Porter and Kramer's proposal as a viable platform to articulate a systematic and comprehensive discourse on the concrete relationship between business and social fabric. The main source of criticism derives from the incompleteness of the proposal. In fact, the substance of all publications, of Porter or directly related to Porter, makes shared value creation something that cannot satisfy an academic. However, we see this incompleteness and our criticism of shared value as a process-oriented approach, as an opportunity to better develop this theory.

Therefore, unlike the criticism of lack of innovation with respect to corporate social responsibility, we would like to depart from the integration of shared value within the business strategy. Porter and Kramer's model enhances efficiency. This paragraph is a way to grasp two essential elements of goodness present in Porter's proposal: the conjugation of profit and the societal good (even in its ecological dimension) and the full integration of the company into the social fabric as an actor of the same play. What

makes the creating shared value proposal interesting, is the ability to create the conditions for a win-win game in which each player, playing his role and not distorting his identity, becomes aware that he is not alone on the game field and thus he can unfold his full potential together with the others.

We will then use the shared value creation proposal of Porter and Kramer as a basis for developing a systematic approach. We think the formulation of a systematic approach to the shared value creation is possible through a new reading of Porter and Kramer's proposal. By "systematic", we want to express the characteristic of a theory that includes all the basic elements for a complete evaluation of the reality.

Every activity in a firm brings into play human relations. Living and working together require a normative frame. Personal and institutional ends need a legal framework that allows personal, institutional and social development. For this reason, it seems useful to deepen the analysis of *Creating Shared Value* from a different perspective. We do this by evaluating the role of people and giving to shared value the substance of a person-centered approach (Melé, 2009). In other words, with Pérez, it is possible to argue that every organizational theory (as shared value aims at being) implicitly assumes a theory about human being (1991, p. 18). Along these lines, we adopt the personalist principle with human dignity as foundations of our concept of person, (following Melé, 2009; on the theoretical basis of human dignity as a social principle see Schlag, 2013).

The shared value creation inserted within the business dynamics is a wide phenomenon, and for this reason, one has to consider it in a broader sense. To widen the view on shared value, the person-centered approach seems to be the most inclusive. Melé well synthesizes this approach, stating, "at the core of human action" it is possible to find goods, norms and virtues (2009, p. 74). He especially refers to three thinkers in the field of ethics: Koslowski's highlights of virtues, goods and duties (1995), Polo's remarks of goods, norms and virtues (1996), and MacIntyre's attention to rules, virtues and goods (1993). This means that analyzing goods, norms and virtues is all that one needs to run a complete analysis¹². We assume ethics as the only affordable tool for an exhaustive investigation (on this point see Pérez, 1991).

Considering these three core elements, it is possible to look at Porter's theory and identify whether and in which measure they are present in *Creating Shared Value*. This

¹² Therefore, it is possible to discover three main typologies of ethics in the history of philosophy: ethics of goods, ethics of norms and ethics of virtues. Each theory weighs more on one of these pillars and therefore is characterized differently. The extreme forms of ethics are represented by materialism, idealism and perfectionism, which are excessively focused respectively on material goods, norms, and virtues (Sellés 2006).

perspective allows us to identify strengths and possible improvements in Porter's proposal, as to make it a systematic one, in the sense already explained.

4. THE ETHICS OF MICHAEL PORTER

It is useful to apply the aforementioned person-centered approach to cope with the multifaceted character of ethical behavior and to analyze the shared value model. The purpose of this section is to look at the *Creating Shared Value* theory through these lenses, in order to understand what the ethical foundation of Porter's work is.

The first pillar one must consider is that of the goods. The theory of shared value has a very strong component related to material goods. In Porter's theory, the part of value consisting of material goods is quite large: two of the three ways of creating shared value relate to the product and the productive process. An interesting fact is the meaning attributed by Porter and Kramer to the term "value". The only detectable definition of value in the original text is about "benefits relative to costs" (2011, p. 6). This definition does tip the scale in the evaluation of Porter's theory to the pillar of the goods, in both economic and social meaning. As Porter and Kramer say, "Shared value is part of the competitive strategy of a firm and is integral to a company's profitability" (2011, p.76). In this analysis of the real meaning of value, we join Argandoña is questioning the concept of value, asking "what «value» we are talking about?" (2011, p. 1). According to the definition given by *Creating Shared Value's* authors, value relates to economic and social benefits, but it does not have transformational effects on people's lives. In this sense, value definition by Porter and Kramer relies just on the pillar of goods.

The second pillar refers to norms. Norms are defined as rational precepts regulating behavior. These norms can regulate individual persons or the structure and the activities of institutions. Given we are dealing with firms (i.e., collective agents), the norms we have in mind are of the second institutional type. Translating this definition into the business-society relationship, norms are obligations imposed by law to direct the actions of institutions towards the good of society. If norms are the legal frame in which a company acts, the relationship between government regulation and shared value is balanced in Porter's proposal. The fundamental role of the government is to set "clear and measurable social goals" (2011, p. 74) and to establish measurement criteria.

The third pillar discusses virtues. Virtues can be defined as "a freely acquired habitual disposition or trait of character that enabled one to perceive, deliberate, decide, act and experience emotions in a proper way (i.e., in accordance with reason – practical wisdom –, in particular situations). Although virtue was not the only element, it was considered the controlling factor to attain *eudaimonia* (human flourishing)" (Ferrero and Sison, 2014). As for the detection of the presence of virtues in the Porter and Kramer approach, we can say that there are no explicit references to virtues in *Creating*

Shared Value. This definition of virtues revolves around the person, making it a person-centered definition. Nevertheless, Porter and Kramer's theory is a process-centered theory. Their theory does not apply to the people who work in the processes—it refers to processes themselves. The three ways of shared value creation, for example, do not directly address workers nor the leaders of organizational processes. They refer to activities without considering the agents.

In light of the brief description of these three pillars, we argue that in Porter and Kramer's scheme, goods and norms are predominant and virtues are absent. As a first conclusion, the creating shared value theory misses the pillar of virtues. A complete ethical approach for a theory should consist in the presence of all the three elements already considered (goods, norms and virtues). Porter's theory focuses mainly on goods becoming a sort of a utilitarian theory. A theory of the firm, based on the shared value concept would benefit from resizing the goods side, and increasing (or founding) the virtue pillar. This requires a switch from a process-centered to a person-centered approach. This approach would be complete, synoptic, or, in a word: systematic. For this reason, we name it *Systematic Shared Value*.

5. EXPANDING PORTER'S APPROACH: SYSTEMATIC SHARED VALUE

The last step to offer a complete analysis of shared value creation as an activity of the firm as a whole, and as a means for the firm to participate in the good of society, is to integrate the missing pillar of virtues into the shared value theory (and, consequently, into practice). The integration of this dimension leads us to the fourth way of shared value creation: developing personal virtues.

To complete the original theory, the concept of shared value must move from the field of mere goods and norms toward a relationship between goods, norms and virtues. A firm does not have only scarce resources. A firm possesses an enormous wealth in the development of its employers' skills and virtues at each operational or managerial level. The development of these skills has a huge potential for profit. Striving for excellence is a factor of production. Virtues can be viewed as value added by the workers, both to the quality and quantity of the production. One can consider them as part of the value chain.

Therefore, the systematic shared value system would contemplate four ways to create shared value:

- a) Reconceiving products and markets;
- b) Redefining productivity in the value chain;
- c) Enabling local cluster development;

d) Developing personal virtues.

A systematic theory of shared value creation should take into account all the factors of production, admitting in the value chain goods, norms and virtues. This would reinforce products and productivity. Moreover, virtues are operative habits. While the value guides the act, the virtue enables the virtuous act. For this reason, it seems more appropriate to add this component in a theory of the firm based on the good of society, as Systematic Shared Value potentially does.

This would constitute a novel innovation from shared value theory. Without this fourth suggested step shared value creation results in a re-edition of the theory of the firm already known by both the academic and the business communities. On the contrary, systematic shared value becomes a new approach. Moreover, the introduction of virtues is not just a different way of shared value creation. Virtues permeate each stage of firm activity where free human intervention is involved. Considering the real and transformational role of virtues, it is possible to make the shift from process to people. Systematic Shared Value poses itself as a person-centered approach to a firm's life.

6. A PRELIMINARY APPROACH TO SYSTEMATIC SHARED VALUE IN FINANCE

After listing the movements of protest against the financial sector, Shiller (2012) rightly says that people should not view finance as “an engine of economic injustice”. Rather finance “is a force that potentially can help us create a better, more prosperous, and more equitable society” (2012, p. 10). How can this be possible? Concerning the present situation, many authors propose new paths for the after-crisis. For example, Krugman speaks about the necessity of promoting a “real, full recovery” (2012, p. 4). In *Harvard Business Review*, Fox (2013) writes that it is still too soon to adjust economic theories to make them fit with the reality of the financial crisis. *The Economist* (2013) states that there is a general sense that financial companies should change their “pre-crisis culture”. There is a general clamor to introduce ethics into the game.

On one hand, understanding the ethics of finance merely as a set of codes of conduct to add to the daily work of the financial agents can easily become something sterile or futile, without permeating the financial practice. Ethics is not an external dimension to be added to practice, but it is already part of the actions, from the seemingly most insignificant to the most relevant (Pérez, 1991). On the other hand, finance is not only a set of material transaction nor simply a mere question of goods, since every human activity consists of goods together with norms and virtues. The systematic consideration of these three components leads to a more appropriate integration between finance and ethics. There is no such thing as ‘ethical aspects’ of finance. What does exist are ethical or unethical human actions in finance.

The risk of bad fame of finance in the post-financial crisis has become a reality, as surveys have shown (e.g., the Edelman Trust Index). Consequently, the recovery of the good reputation cannot come from slight adjustments or from merely adding more rules. The change must affect the core business¹³. For this reason, we think this practical, cultural and intellectual change could pass through the application to the financial world of the *Systematic Shared Value* paradigm. This could be a way to take into account at the same time both the health of the financial sector and of the society, having the advantage of a complete overview, both on the proper financial reality and on the cultural and personal environment in which one inserts it.

Individuals can achieve the creation of Systematic Shared Value in finance in four ways:

- a) Reconceiving products and markets;
- b) Reconnecting finance and the real economy;
- c) Acting as part of a local cluster;
- d) Developing personal virtues.

The creation of shared value can assume the completeness of a systematic approach if integrated by the development of personal virtues, even in the financial sector. The mentioned ways of shared value creation in finance trace the ones designed by Porter and Kramer for business. However, as for b), we made the choice of unlinking the explicit reference to the concept of value chain. In any case, shared value creation is still an analysis of the value chain in the financial sector passing through the re-alignment of real and financial economy. The correct formulation would be ‘redefining structural passages in the relationship between the financial sector and businesses’. The definition of shared value that we use as a basis for the Systematic Shared Value approach in finance is the same as given by Porter and Kramer. Shared value can be defined as “policies and operating practices that enhance the competitiveness of a *financial intermediary* [in the original text, “of a company”] while simultaneously advancing the economic and social conditions in the communities in which it operates” (2011, p. 66).

Before proceeding with the extension of the theory of shared value, it is important to ensure that it is possible to extend the concept of shared value to the financial sector. The concept that the definition applies to financial intermediaries is one of competitiveness. Is it possible to speak about the competitiveness of a financial

¹³ For example, Wehinger (2012, p. 83) proposes three scopes for reforming financial markets: “i) enhancing financial stability and managing systemic risk (macroprudential regulation); ii) rebuilding financial institutions (micro-prudential regulation); and iii) making the financial sector work for the benefit of financial users and society as a whole”. The first two solutions proposed by Wehinger properly relate to the core of financial activity. Therefore, Wehinger adds also a specific point, the third one, to make the reader aware of the relationship between finance and societal context.

intermediary? The answer is very clear in an article by Claessens (2009)—one can apply competitiveness to the financial sector¹⁴.

At this point a recent contribution of FSG (June 2014) has to be mentioned: a group of FSG authors presented the report “Banking on Shared Value. How Banks Profit by Rethinking their Purpose” (Bockstette et al., 2014). This report applies the creating shared value paradigm to the banking sector. In particular, the report underlines three areas of shared value opportunity: “furthering client prosperity, fueling the growth of regional economies, financing solutions to global challenges” (2014, p. 9). There is no modification to the original three ways of shared value creation, and each area of shared value development relates to a different size of banking activity: retail banking, commercial banking, corporate banking, investment banking and wealth management. It is the first attempt, endorsed by Porter and Kramer, to translate the shared value approach from business to the banking sector.

Having expressed these necessary clarifications, it is possible to proceed to the analysis of the first three ways of creating shared value in the financial sector.

a) Reconceiving products and markets

How is it possible to take the path of creating shared value in the financial sector? The key idea is the continuity in the service that financial intermediaries provide to society (i.e., the link between savers and investors). Anything that helps to improve the quality of this relationship is a way of creating shared value. The greater the number of entrepreneurs that meet a good capital supply, the greater the number of funded enterprises and projects, resulting in more work and a better future.

The question is if there are financial services’ potential users not involved by intermediaries. The widely studied phenomenon of financial exclusion suggests the movement of financial inclusion as a way of creating shared value (i.e., a way of giving breath and bringing credit to the base of the social pyramid).

A keyword on how to reconceive products is innovation. Finance is not an end but a means. This clear connotation allows finance to be at the service of economic and social needs. The report “The Future of Finance” of the Center for Responsible Business at Berkeley University envisages three possibilities for the financial sector: “risky business as usual”, “back to boring”, and “inclusive innovation”. In particular, concerning

¹⁴ Moreover, it is important to consider the relationship between excessive competition and financial stability, or the influence of the degree of competition on the possibility of access to financial services by households and firms. An important consideration, therefore, moves along the lines of quality competitiveness (Yokoi-Arai and Yoshino, 2006).

financial inclusion, the report suggests, “Core banking services are value generators, and banks are considered to be essential contributors to healthy economies and societies. By extension, offering appropriate banking products and services to those who already do not use them creates social value” (2012, p. 36).

By reconceiving products and markets, we mean that for each product, it is fundamental to ask, “*who* is in need of this financial product?”, and not just “what does the financial product do?” This is a way to re-orient the financial action by a person-centered approach. Who are the social actors that finance can work with? One can apply this approach to all the financial instruments, and especially to the relationship between each instrument and the involved human agents. For the stated reasons, we see financial inclusion as one of the possible paths to improve the first way of shared value creation in finance.

Another way of reconceiving products and markets passes through the practice of impact investing. One can define impact investing as “actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor” (Freireich and Fulton, 2009, p. 13; see also Brest and Born, 2013; Bridges Ventures and Parthenon Group, 2010). In this field, the United Nations Environmental Program (i.e, UNEP) has a specific program on sustainable finance. In particular, the *Inquiry into the Design of a Sustainable Financial System* has the goal to “identify, develop and recommend reforms to the policy and regulatory arrangements governing financial markets that would deliver a step change in their effectiveness in channeling capital to investments that would accelerate the transition to a prosperous and inclusive green economy” (UNEP 2014, p. 3). Innovation is a key word of this new normative design. For example, the inquiry moves along questions such as how one can direct the potential of finance in terms of innovation to make green investments more profitable. Sustainable finance is another channel we can explore concerning new products and markets in finance. Future studies will also help in defining a map of social needs that finance can address. This will help in defining other specific applications of Systematic Shared Value in finance.

b) Reconnecting finance and the real economy

As already mentioned, this way of systematic shared value creation addresses mainly the roots of the value chain in finance instead of directly speaking of value chain. In particular, we conduct the analysis on the connections between finance and the real economy. What confuses this connection is an extreme form of financialization. The financialization of the economy is one of the major players sitting at the trial of the post-crisis. There are many definitions of financialization, and many measurement methods. In general, the tendency is to quantitatively compare the volume of financial assets with the level of GDP. When the phenomenon was already under observation

(see, for example, Stockhammer, 2004), Kedrosky and Strangler (2011), Freeman (2010) and other authors in the years preceding the crisis showed some methods of measurement of financialization. The concentration on this phenomenon and the existence of studies that highlight the non-positive effect on the variables cited above suggests that a decrease of financialization can be a benefit for the social actors in a broad sense. Assa (2012) argues that the financialization of the economy has a negative impact on inequality, growth and unemployment. However, a decrease of financialization is not synonymous with de-growth. Rather it is referring to the re-approachment of the financial asset to the real economy. The Longmann Business English Dictionary defines the real economy as “the part of the economy that is concerned with actually producing goods and services, as opposed to the part of the economy that is concerned with buying and selling on the financial markets”. The idea is not to develop new financial instruments to operate this re-approachment between finance and reality. Rather, we are thinking about how to refocus the end of the financial instruments that already exist.

In line with the person-centered approach, reconnecting finance and the real economy passes through the study of original financial roles. In his book “Finance and the Good Society” (2012), the Nobel Prize laureate Shiller conducts an analysis by role that helps in revealing the real nature of the key financial tasks. For example, speaking about traders, he says that “since they usually do not present themselves as helping society in any direct way” they collect a great hostility (2012, p. 57). “They are just buying and selling” – Shiller argues – “to try to make money for themselves”. Their activities remind people of gambling – and are the successes of some who excel in trading can be galling”. Here there is a seemingly high discrepancy between reality and financial activity. Working on these borders between common sense, lack of technical knowledge and misunderstanding of the real purpose of finance is a path that helps in fulfilling the second way of systematic shared value creation in finance.

To achieve this result, he proposes a “role-by-role” analysis critically facing the reality of misguided interpretation of the corresponding responsibilities. One of the leading forces of the protest relates to the concentration of power. On this point, Shiller tells about the possibility of managing these concentrations by, for example, reporting his opinion about the market makers who were trying to launch a futures market in single-family home prices. He says, “they seemed genuinely committed to creating an important new market, excited by the prospect. These encounters confirmed for me once again that the vast majority of financial professionals are not in the business just to make money” (2012, p. 62).

One can apply this analysis to all financial instruments and to all roles of the financial sector. The reconnection between finance and the real economy as a way for shared value creation is possible through deepening the understanding of the financial world in its different and relevant details.

c) Act as part of a cluster

The globalization that does not locate is anonymous, scatters, and is likely to make finance play the role of the protagonist. Finance, within the economic system, is not the main actor, nor the last of the extras. It is the helper of the hero, the one without whom history cannot reach a happy ending. Finance, separated from this territory, runs the risk of putting itself in the shoes of the antagonist, and thus would hinder the real main actors on the economic stage: firms and households. As long as financial intermediaries think of themselves as systems of multiplication of money, rather than as servants of businesses and savers, finance will not be able to create value for everyone, but only for itself. The ability of acting as part of a cluster should not be a choice, but a rule of common sense. What do financial intermediaries earn by maintaining the link with the territory? The confidence of savers and investors are essential for the continuation of their activities of intermediaries. The proximity to the territory also allows a major monitoring on some of the goods. This means more opportunity to assess solvency. The cluster in this case consists of an intermediary, customers and territory, three elements that together form a platform for the development of activities that can create shared value.

In this sense, it is useful to mention another reading of the crisis given by Santoro and Strauss (2012). “What are the economic and moral connections between Wall Street and the overall economy?” (2012, p. 5), they ask, speaking of the “fractured relationship between Wall Street and Main Street.” In an effort to find solutions, the two authors state, “government can help align Wall Street interests with those of Main Street by channeling self-interested behavior into socially useful outcomes” (p. 178). In the end, this is a shared value solution, but not a systematic shared value one. We can make this passage investing not in normative answers, but in rewarding good financial practices, as if honest behaviors pay and are the new rule. Being part of a cluster means playing a win-win game. Law cannot issue this feature of the financial game. Instead, it has to be made alive and effective by the choice of the same players. For this reason, Santoro and Strauss close their reflection saying that “financial markets simply cannot work effectively and efficiently unless executives who manage financial institutions do so with appropriate values, good business ethics and adroit management skills” (p. 202).

d) Developing personal virtues

Developing personal virtues does not count as an autonomous way of shared value creation. Instead, it reinforces and gives meaning to the three mentioned ways. The integration of the shared value theory with the pillar of virtues brings to a transformational movement from a process-centered theory of finance. This takes into account financial instruments and financial actors just in their technical roles, to a person-centered theory of finance.

Researchers have conducted few studies on the relationship between finance and virtues. Boatright, in the introduction of his book *Finance Ethics* (2010) refers to the lack of exploration of this discipline, due to different kind of training of the experts in each field. Generally, financiers and business ethicists do not share a common ground of knowledge. In particular, speaking about virtues means to have in mind an ethical frame. One issue related to virtues and finance, we mention here the work of Dobson, and the particular attention he gives to the concept of rationality (1997; 2010)¹⁵.

With these premises in mind, the literature on virtues and finance seems to be a field to build. Systematic Shared Value poses itself as a fertile field to work on with virtues, because of its consideration of personal element, professional environment and instruments, and the broader societal context in which virtues live. We find reductive the way of approaching virtues in finance that considers just the normative side of the financial sector.

Wells and Graafland (2012) propose a list of virtues that a market-based society can improve. They refer to prudence, temperance, civility, industriousness, and honesty. Their reference point is the work of Aristotle as used and developed by Adam Smith, “the last of the former virtue ethicists” (as defined by McCloskey 2008). The awareness of a new social fabric in which everyone “becomes, in some measure, a merchant” (Smith [1776], 2007, I, iv, p. 15), lets Smith develop a system of virtues that can be enhanced in such new commercial status of the social reality.

Here we come back to Santoro and Strauss, who clearly affirm, “underlying this systemic disconnect between Wall Street profits and social welfare is a deep moral void within the caverns of Wall Street” (2012, 16). Focusing on this point, the authors state, “without a radical transformation of ethics and values in the financial community, the system as a whole is fundamentally unsustainable” (p. 20), and “new ethical principles must emerge in the twenty-first century to sustain the integrity and social responsibility of complex modern financial institutions” (p. 21). If Wall Street has any responsibility towards Main Street, which is what we strongly believe, there should be a way to make this responsibility advantageous, viable and rewarding. The Systematic Shared Value model aims to make this responsibility work, starting from people who head and work in financial institutions. By developing personal virtues, they contribute to share the produced value.

This point is worthy of a separate and deeper analysis, which will be conducted as development of the Systematic Shared Value in Finance approach. This is the first step of a more elaborate work in the field of virtue ethics and finance, which is an actual

¹⁵ Boatright maps the field of Finance Ethics, dividing it into “finance theory, financial markets, financial services, and financial management” (2010, p. 4). Even in this classification, which is one of the most complete in the literature on Finance Ethics, there is no place for virtues.

topic of studies of the authors and, hopefully, an upcoming contribution.

7. CONCLUSION AND FURTHER DEVELOPMENTS

This work supports the academic and practical relevance of the theory formulated by Michael Porter and Mark Kramer on *Creating Shared Value*. This approach, integrated with the pillar of virtues to switch from a process-centered to a person-centered approach, becomes the *Systematic Shared Value*. This new system has the ability to synthesize all the dynamics related to the world of financial intermediaries in their vital contact with the context within they operate. The Systematic Shared Value, when applied to concrete financial instruments, can establish itself as the way in which finance contributes to the good of society.

By making the three ways of creating shared value in finance work in a synergistic way with the development of personal virtues, it is possible to reach the formulation of *Systematic Shared Value in Finance*. This approach can be seen as a step forward from the financial intermediaries to contribute to the good of society. In all, it contributes by 1. Reconceiving products and markets through inclusive financial products, social impact investing and sustainable finance; 2. Reconnecting finance and the real economy, by aiming at decreasing financialization and re-establishing a fluent and prosperous dialogue between Wall Street and Main Street; 3. Acting as a part of a territorial cluster, by maintaining the link with the territory and make finance a win-win game; 4. Developing personal virtues in each of these presented ways, investing in people's sense of responsibility and trusting in the common shared ground of being human and, thus, social.

In this regard, the current work lays the foundation for a more detailed discussion of shared value. An approach of this kind has the goal of preventing further formulation of codes of conduct in the financial sector. The aim is to redefine the purpose of the actions in the financial sector, without altering its nature, by re-making them closer to their original function of linking savers and investors.

Finance, inspired by the principle of systematic shared value creation can be the key to the rebirth of a lean and fast private sector, where ideas and entrepreneurial spirit, irrigated by a responsible credit, can find opportunities to create value for everyone. As suggested by the root of the word, the “inter”mediary means to pose itself “between”. The presence of brokerage at the height of the value chain is therefore not correct. The gain of the intermediary depends on the success of the economic and social value chain at large. This is Systematic Shared Value.

We see two main directions of development for Systematic Shared Value in Finance:

1) The deepening of the analysis of each of the three ways of systematic shared value

creation in finance. In particular, it is possible to study specific financial instruments in the light of each of these ways of shared value creation. The study of the transversal way “developing personal virtue” sets itself on the literature of virtue ethics, and in particular on the studies about the development of virtues in finance. As already mentioned, the literature on the relationship between virtues and finance is a field in which we must explore and in which it is possible to make an innovative contribution. Future work will map the existing code of conducts, analyzing them and then exploring the transformational role of virtues in this field.

2) The study of systematic shared value as a way by which the financial sector can contribute to the common good. This new approach, the proposal of shared value as systematic shared value, makes it possible for companies to contribute to the common good of society. One can base a theory of the firm on the common good. Following Sison and Fontrodona (2012), common good can be defined as “the work in common that allows human beings not only to produce goods and services (the objective dimension), but more importantly, to develop technical or artistic skills and intellectual and moral virtues (the subjective dimension)” (2012, p. 230). This definition of the common good allows the application of the shared value to the firm, extending the original horizon and, at the same time, keeping the core working structure. This means that a firm can contribute to the common good by creating shared value. Systematic Shared Value represents the activity of working for the common good in the financial sector. Moreover, theories of justice and social order will be useful to evaluate how we distribute (in our approach, how we share) the things we consider valuable (Sandel, 2010; Etzioni, 1996).

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