I think one of the most valuable articles ever written in the context of reforming (or probably more accurately, redeeming) capitalism and managing a business therein, was an entry early this year in the Harvard Business Review called “Creating Shared Value”, by Michael E. Porter and Mark. R. Kramer, both established professors in Harvard University. It was meaningful to me not only as a significant academic contribution to management as a profession, but also because, on a more personal level, it reads a little bit like my own life’s journey in and around corporate life.

Early Disillusionment

The article starts with a description of the cynicism surrounding capitalism and management, and also some of the reasons for such cynicism. My life’s first attitude towards capitalism and management was also marked by distrust and skepticism. I grew up in a small town that is surrounded by big factories that manufactured products such as steel, cement, flour, vinyl, and even electricity. Our town was an early victim of companies’ strategy to relocate their production plants where labor was cheaper.

I was still in high school, listening to a free lecture on college macroeconomics when these issues were first presented to me. And it was true: even after fifty years of these big companies hiring more than half of all the fathers in our town, we were still one of the poorest towns in the country. Part of the reason was that these companies were still the highest paying employers in the town, even though they were only paying barely above the minimum wage. The concept of a living wage was yet undiscovered in Philippine law, and no one from the illiterate majority could possibly point that out. Eventually, some of these workers resorted to find jobs outside of the country, where, at a time when migrant workers from third world countries have few rights and protections, many often found themselves in direr straits than they were originally in.

So it is easy to see how activist and militant groups from my country are quick to put the blame of societal, economic and environmental ills to the capitalist state in general, and to public and private managers in particular. I, too, came out of high school bitterly cynical with big business and capitalist government, which is part of the reason why I majored in Political Science in my undergraduate studies.

Thus far, I have discussed the skeptical beginnings of my engagement with capitalism and management, inasmuch as it correlates with the how Porter and Kramer's article started with the present skepticism directed against the capitalist state. However, at a certain point their article proceeds to discuss solutions. Here also, I take my first significant steps away from cynicism and skepticism.

First Encounters with Social Responsibility

It all started when I was already in college, when my professor in Political Economy class required us to write a book review on *A Brief History of Neoliberalism* by David Harvey, a social theorist at the City University of New York. Neoliberal ideology, in simple terms, espouses that the free market is the supreme good in itself. This professor had just came back from a scholarship program in the University of Chicago, so that was no surprise, since neoliberalism finds its great home in that particular university.

The professor, however, additionally required us to criticize neoliberalism using any other book on political economy that argued for a different and (preferably) opposing theory. That was when I found a copy of Peter Drucker's 1973 book *Management: Tasks, Responsibilities, Practices* in our school library. Immediately what jumped at me was his thought on the social responsibility of managers, which was a breakthrough idea for me at the time. The book also mentioned University of Chicago economist Milton Friedman, and without knowing him at the time, I realized that through the social conditions that I had grown up with, I had actually unwittingly embraced Friedman's view of the absence of social responsibility on the part of managers and business executives.

In his 1962 book *Capitalism and Freedom*, Friedman writes that the business executive who embraces "social responsibility" which goes beyond serving the interest of the stockholders or members shows a fundamental misconception of the character and nature of a free economy. He argues that in such an economy there is one and only one social responsibility of business: to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud. Friedman even harkens all the way back to Adam Smith's classic *The Wealth of Nations*, echoing Smith's contention that by pursuing its own interest, a corporation in effect promotes the interest of the society more effectually than when the corporation really intends to promote it.

And because it is this Friedman-esque understanding of corporations that predominates capitalistic culture so decisively, not even the celebrated phenomenon of conventional corporate social responsibility has made enough of a difference since its inception in the mid-20th century. We are all too familiar with big businesses causing great socio-ecological distress in cases of deforestation, poaching, oil spills, irresponsible mining, and so on. We still see the same (and arguably more of the) social, economic and environmental damages brought about by companies aggressively driven by a short-term profit outlook at the expense of their immediate community contexts. Likewise, the rhetoric of the greedy capitalist government has become all too popular all over the world. Needless to say, both public and private corporations in capitalist contexts suffer from an acute lack of trust in modern society.

A Countercultural Alternative

This stands in sharp contrast to Drucker's 1973 *Management* book, where he writes that while the first duty of the manager is to make his institution perform the mission and purpose for the sake of which it exists, this is not enough. He argues that any institution exists for the sake of society within a community: Management as a social function is not culture-free, and hence is both socially accountable and culturally embedded.

What especially surprised me was his explanation that it is not hostility to business that explains the demand for social responsibility but rather it is the success of the business system which leads us to demand social responsibility. I was astonished at the simplicity and yet the magnanimity of the thought: We clamor for greater responsibility on the part of management not merely because we see them as the problem, but more importantly because we tacitly assume that they are the most effective at creating a positive social impact. To quote directly from Drucker: “The fact remains that in modern society there is no other leadership group but managers.”

Drucker’s idea of social responsibility was at the crux of my criticism of Harvey’s neoliberalism and, consequently, Friedman’s idea of management without social responsibility. It wasn’t that these weren’t brilliant political and economic theorists, but they both simply answered the question of social responsibility in negative terms. And this was not enough for me. I needed to find a model wherein social impact was as much a priority for businesses as profit, or I would forever remain an estranged dissident in an increasingly incurable capitalist world. There must be a better way. And Drucker gave me my first sense of cautious optimism that a reformation of capitalism was indeed realistically possible.

A Residual Question

However, while I was convinced that there is now a better way to do business, the remaining question in my head was, *How?* And it was not just me who was asking this question. People I talked to about Drucker’s work often asked how his ideas could be translated into actual business practice. Since I was not a business student, I could not give them an answer out of business experience. I was merely a political science major trying to find a better way of having business done in the world without me actually being a businessperson myself. And that was when I realized that Drucker’s work, even up until his 1999 book *Management Challenges for the 21st Century,* to be too vague for me to fully be able to conceptualize to a sufficient degree of tangibility. Indeed, Drucker dealt with the foundational aspect of socially responsible management, to my humble opinion, quite adequately. But insofar as more specific steps or principles to be undertaken by management with the end of social responsibility in mind was concerned, I was left to ponder upon it on my own.

This is where the Porter and Kramer article became exceeding helpful. It provided three concrete steps that management can take to achieving what they have dubbed as Shared Value, which is an attempt to meld together societal and economic progress, so that it creates societal value for the community in terms of making relevant contributions to their social realities, but not at the expense of economic value to the business. The three steps are as follows:

1) Reconceiving products and markets;
2) Redefining productivity in the value chain; and
3) Enabling local cluster development.

On Shared Value

In brief, *reconceiving products and markets* entails meeting needs in often underserved markets through redesigning products and/or distribution methods. The authors cite microfinance as an example of how serving unmet financing needs in developing countries can actually grow rapidly in developed countries, filling an otherwise unrecognized gap.

Redefining productivity in the value chain has to do with tackling the fallacy of short-term cost reductions, so as to invest in shared value creation in areas such as energy use, logistics, resource use, procurement, distribution, employee productivity, and location.

Enabling local cluster development means that companies must outgrow the myth that they are self-contained; rather, the success of every company is inevitably limited or enabled by the supporting companies and infrastructure around, referred to as clusters. The entire article goes on to further thresh out how these steps have been undertaken by other companies as well as other ways these steps could be done.

The concept of shared value recognized that societal needs, not just conventional economic needs, define markets. It is not philanthropy, but is actually self-interested behavior to create economic value by creating social value. The authors go on to write that if all companies individually pursued shared value connected to their particular businesses, society's interests would be served, and companies would acquire legitimacy in the eyes of the communities in which they operated.

The Next Question to Ask

However, another question loomed in my mind while I was reading and rereading the article on shared value. Admittedly, there are not many companies that adhere, much less apply, shared value to the extent that we would probably adjudge as sufficient. It is a relatively new concept. And if the greater majority of companies in the world are still opposed to the idea of shared value, it means that the idea as of yet presents no value to them. In short, they are still what Drucker would call *noncustomers*. In Drucker's 1999 book *Management Challenges* he posits that even the biggest enterprise has many more noncustomers than it has customers, and that it is with the noncustomers that significant changes always start.

With that in mind, the next question becomes: *How can we provide value for noncustomers of shared value?* Asked another way, *how can we convince other companies of the value of shared value?* Neither Drucker's book nor the Porter and Kramer article seems to give a definite answer thereto. It could be because in my lack of expertise I am asking the wrong question. But this is at least the inevitable struggle one has to deal with if one wants to change and reform the capitalistic culture in one's particular context.

I think part of the reason not a lot of companies embraced conventional corporate social responsibility in general was because it was perceived to be antithetical to creating economic value to the company. After all, even Drucker conceded in the 1973 *Management* book that the company's first responsibility should still be profit, albeit the extent of management's responsibilities does not end there. Corporate social responsibility often entailed costs that did not necessarily give economic value to the companies themselves. But the beauty of shared value is that economic value is no longer inherently opposed to societal value.

With shared value, the stumbling block of this objection is already addressed since shared value espouses self-interest and profit to still be the driving impetus to the life of the corporation, except only in that societal value is created, and not neglected, alongside the process of creating economic value. What does this mean? This means that while in previous decades the absence of economic value has been the chief obstacle to companies embracing social responsibility, the same objection can no longer be raised at the present time.

As a law student, I am still no expert at making projections that are grounded on business data. Although I can try to be like Drucker himself and see into the future using only the best information available to me at the time. And what seems apparent to me is that this new and developed paradigm of shared value will be the standard that all businesses will eventually adopt in the future.

While conventional corporate social responsibility has failed substantially, it has at least paved the way for shared value to succeed in its stead. Civil society has become more emboldened in its clamor for corporations to be more responsible to its immediate community. The environmentalist movement has never been stronger, and it has achieved almost universal reception and acceptance in the general public. With more and more companies embracing shared value, there will be increasing pressure on companies to consider shared value. Eventually these noncustomers will realize their position will be progressively more unsustainable.

This implies that the more aggressive and enthusiastic proponents of shared value become at presenting companies this newfound paradigm, the quicker the process of contagion gets. And the quicker, the better: the more we will be able to prevent disasters and scandals that would otherwise have been avoided with the introduction of shared value.

Afterthoughts

If shared value can work for management and capitalism, it does not seem too much of a stretch to suppose that a similar model of shared value can be theorized and applied in other professions that are likewise imbued with both public interest and public cynicism. These professions may include, but are by no means limited to, the legal profession, the entertainment industry, the medical practitioners, and public office.

And, just as the Porter and Kramer article ended with a note on how things are expected to be for capitalism in the future, I also am at that stage where I am still trying to seek and find ways to fight to recapture the legitimacy of management and capitalism in the eyes of society. We are not there yet, and there is much work left to be done, but now we do feel a greater sense of optimism and hope knowing what we know.