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The Limits of Consequential Reasoning in Shared Value Creation

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ABSTRACT

Purpose – This paper aims to move beyond the limits of CSV by presenting a norms-driven framework for creating shared value.

Design/methodology/approach – This paper combines insights from organizational studies and philosophy to critique CSV and to articulate an alternative model for integrating the pursuit of profit with social needs and demands.

Findings – CSV poses significant challenges for managers due to the problem of bounded rationality. Rather than merely engaging in a logic of consequence to create shared value, this paper argues that managers should integrate norms-based reasoning within the cognitive process of strategic management.

Originality/value – This paper critiques an existing framework for creating shared value and proposes a new framework.

Keywords – Creating Shared Value, Corporate Social Responsibility, Bounded Rationality; Norms; Logic of Appropriateness

Paper type – Conceptual

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Porter and Kramer have recently proposed a framework that prescribes managers to seek to create shared value ("CSV"). After criticizing the existing paradigm of corporate social responsibility ("CSR"), Porter and Kramer claim that corporate success and social welfare are interdependent and that increasing pressures for more responsible corporate behavior can provide opportunities for corporate success and social progress (2006). Thus, rather than continuing to place a short-term focus on profits, they argue that firms ought to rethink their strategic positioning in light of social demands. To help managers look to social problems as opportunities for profit, Porter and Kramer offer the CSV framework, which consists of putting in place "policies and operating practices that enhance the competitiveness of a firm while simultaneously advancing the economic and social conditions in the communities in which it operates" (2011: 66). By reconceiving social needs as opportunities for economic value creation through the CSV framework, Porter and Kramer claim that firms that use their unique resources and expertise to address social needs will be able to profit from their activities while also benefitting society and restoring the legitimacy of business and capitalism.

CSV has been met with strong criticism. Some of the criticisms pertain to its scholarly validity. CSR scholars, for instance, argue that CSV overstates its novelty and misrepresents various CSR theories (Crane *et al.*, 2014). Others argue that, despite its significant impact on both managerial practice and scholarly inquiry, there is a widespread misapplication of CSV in a variety of research fields due to the lack of clarity in how shared value is defined and operationalized (Dembek *et al.*, 2016). For these scholars, what CSV needs is greater theoretical clarity and acknowledgement of prior contributions. For others, CSV's flaws go even deeper. Some have argued that CSV lacks the normative resources to address significant business and society issues due to its reliance on economic logic (Beschorner, 2013). Others have argued that

CSV will reinforce the harmful fallacy that business and society reside in two separate spheres (Hartman and Werhane, 2013). For these critics, what CSV needs is a more robust normative foundation.

However, there has not yet been adequate attention to the practical applicability of CSV as an instrumental framework. An instrumental framework identifies a set of desired ends and prescribes the best means of achieving these ends. CSV is an instrumental framework because it identifies certain ends that Porter and Kramer assume to be held by many firms and prescribes what they assess to be the best means of achieving them. CSV was never intended to present a new vision of capitalism or business that aligns corporate practices with a deep normative foundation. Instead, it merely offers what Porter and Kramer perceive to be the best means for firms to achieve their desired ends of increasing their profits while helping to benefit others and to restore the legitimacy of business at the same time.

This paper offers an instrumental critique of CSV on its own terms as an instrumental framework. An instrumental critique points to problems associated with the connection between the desired ends and prescribed means within an instrumental framework. This paper offers an instrumental critique of CSV by pointing out that the desired end assumed by the framework – shared value creation – cannot be sufficiently accomplished by relying purely on consequential reasoning. The fundamental insight of CSV is that firms can benefit both themselves and society when they view existing social needs as an opportunity for profit rather than an obligation. By identifying and engaging in such “win-win” situations, Porter and Kramer argue, firms can not only profit but also address the eroding legitimacy of business and capitalism (2006, 2011). Implicit in this claim is the assumption that managers will need to begin by evaluating their strategic options based on their consequences, i.e., which option will lead to shared value creation. However, CSV is rendered impracticable by the problem of bounded rationality (Simon, 1955, Levinthal, 2011). Due to the immense complexity of shared value creation, it is simply not feasible for firms to evaluate their strategic options in light of their potential consequences for shared value creation. In other words, although Porter and Kramer accuse their critics of "wishful thinking" (2014: 150), they engage in the same practice by asking firms to do something that they cannot.

In light of the problem of bounded rationality, this paper also proposes an alternative to CSV. It builds on the contributions made by a recently proposed framework known as CSV+ (de los Reyes *et al.*, 2017) by arguing that shared value creation requires a norms-based mode of reasoning known as the logic of appropriateness at the very outset of strategic decision-making. The logic of appropriateness is an empirically verified mode of reasoning that has particular descriptive salience when the behavioral context is explicitly social in nature (March, 1994, Messick, 1999). This paper will argue that incorporating the logic of appropriateness into the cognitive processes of strategic decision-making (Huff, 1982, Levinthal, 2011) can lead to a more realistic framework for shared value creation. What shared value creation requires, it will argue, is to make explicit an implicit process of cognitive processes for strategic decision-making by building appropriate norms into the cognitive representation of the strategic problem space.

THE PROBLEM OF BOUNDED RATIONALITY

This section offers an instrumental critique of CSV by arguing that the problem of bounded rationality undermines the engagement of consequential reasoning to evaluate strategic options based on their potential to create shared value. Bounded rationality refers to the fact that, due to costs associated with decision-making, it is often preferable for economic actors to be satisfied with any outcome above their aspirational threshold rather than to maximize their utility

(Simon, 1955). Over time, it has come to refer to the general recognition that humans are significantly limited in our ability to process information and to make calculations based on large amounts of data. Although bounded rationality is a potential problem for all decision-making, it is particularly salient for creating shard value because social considerations expand the set of relevant variables to consider when evaluating strategic options based on their consequences.

The CSV framework asks managers to explicitly consider the social effects of their strategic decisions and to see social needs as opportunities for shared value creation rather than as side constraints to profit seeking behavior. For Porter and Kramer, the most significant contribution of CSV is that it "aligns social progress with corporate self-interest in a concrete and highly tangible way" by "using the profit motive and the tools of corporate strategy to address societal problems" rather than treating social needs as external constraints to profitability (2014: 150). The pursuit of profit within the CSV framework, however, requires consideration of more than merely profits. Porter and Kramer argue that "[t]he purpose of the corporation must be redefined as creating shared value, not just profit per se" (2011: 64). Shared value is "a meaningful benefit for society that is also valuable to the business" (Porter and Kramer, 2006: 84). By focusing on creating shared value, firms can focus "on the right kind of profits—profits that create societal benefits rather than diminish them" (Porter and Kramer, 2011: 77).

Yet, implicit in the prescription to create shared value is the idea that managers must be able to evaluate a myriad of potential strategic options based on their consequences to not only the firm but also to society. For instance, Porter and Kramer argue that creating shared value requires firms to "identify the particular set of societal problems that it is best equipped to help resolve and from which it can gain the greatest competitive benefit" (2006: 92). Here, the main problem does not reside at analyzing the potential consequences of a strategic option for the firm and for society, although that is a significant problem in and of itself. Rather, the main problem resides at the *identification* stage. For managers to be able to identify a social problem that the firm can best help resolve and from which it can gain the greatest competitive benefit, they must perform these calculations for *all* of the reasonable options to consider. In other words, the identification of an issue that will prove to be socially beneficial and competitively advantageous requires consideration of not just that issue, as complex as it may be to do so, but also a wide range of other social issues that are potential candidates as well.

Unfortunately, the problem of bounded rationality complicates an evaluation of a wide range of options based on their potential consequences. Because managers have finite processing power, they will struggle to process all the relevant variables for making their decisions if they were to attempt to do so. It is estimated that humans can only cognitively process three or four parallel interactions at the same time, severely limiting the number of interrelated variables that can be considered at once (Halford *et al.*, 1994). Managers are human and are subject to the same limitations and finitude that constrain the rest of us, and it is simply impossible for them to process dozens of relevant parallel variables to evaluate a portfolio of possible strategic options based on their potential to create shared value. To ask managers to consider a range of options based on their consequences and to choose among them is to ask them to perform calculations about the consequences for all the options being considered.

The problem of bounded rationality is particularly salient for CSV because it requires managers to think *broadly* about the potential consequences of their decisions and to think about not only consequences for the firm but also for society. Firms typically simplify the strategic problem to only a few relevant variables out of the wide range of possible factors to consider (Schwenk, 1988, Walsh, 1995, Porac and Thomas, 2002, Narayanan *et al.*, 2011). CSV, on the other hand, explicitly criticizes firms that "continue to view value creation narrowly… while missing the most important customer needs and ignoring broader influences that determine their long-term success" and asks managers to "grasp the importance of the broader business environment surrounding their major operations" (Porter and Kramer, 2011: 64, 67). In other words, CSV offers an instrumental critique of how firms actually make decisions and offers an alternative instrumental framework by arguing that firms can perform better when they attempt to create shared value by thinking broadly about social issues as potential sources for profit.

But consider the fact that firms are embedded within a complex web of economic, social, cultural, and institutional contexts, each of which can have significant impact on their profitability and competitive positioning (e.g., Ansari *et al.*, 2010, Moore *et al.*, 2012). By asking managers to avoid filtering out most of these variables and to think broadly about these variables instead, CSV tasks managers with a significant increase in variables to consider. Furthermore, social issues are characterized by high uncertainty, complexity, and interdependence (e.g., Svendsen and Laberge, 2005, Goldstein *et al.*, 2010). They are also highly contested, and not "acknowledging the deeply contested nature of social objectives presupposes an unrealistic homogeneity of social interests" (Nicholls and Cho, 2006: 105). Because CSV asks managers to determine which of their strategic options will help solve social issues that arise from this dizzying and contested web, it creates an exponentially more difficult problem for boundedly rational managers. If managers seek to create shared value and if they must do so by thinking broadly, how can they handle seemingly unlimited amounts of information required to make an informed decision?

Take, for instance, Nestlé's milk business in Moga, India, which Porter and Kramer cite as an example of successful shared value creation (2006). In hindsight, it is easy to see how

Nestlé's decision to invest in the infrastructure and training for local dairy farmers led to significant social benefits while nevertheless paving the way for its expansion into the Indian market. But what kind of a decision-making process were Nestlé's managers likely to have used when they were evaluating their options to expand into India? One likely scenario is one in which Nestlé employed a simplified cognitive decision-making process to frame their strategic problem as a traditional profit-maximization problem, decided to expand into the Indian market for purely profit-minded reasons, confronted the problem of poor infrastructure and training among dairy farmers, and devised a solution to their supply chain problem. In such a scenario, the social benefit that resulted from Nestlé's investment in Moga would have been a happy byproduct of its creative solution to a supply chain problem in their traditional pursuit of profits and competitive advantage. But CSV asks managers to do something different. Rather than engaging in traditional business decision-making and claiming credit for shared value creation ex post when the results of their decision lead to socially beneficial outcomes, it asks managers to identify the strategic option ex ante that will benefit society and increase firm competitiveness.

Imagine the range of calculations that Nestlé's managers must have performed prior to their decision to expand into the Indian market if they were intending to create shared value from the outset. Imagine, as a manager, considering the extent to which investing in training and infrastructure for dairy farmers would lead to social benefits in Moga. Given the complexities of the issues, it is a daunting task to determine how Nestlé's investment would impact the multi-dimensional complexity of the social fabric of Moga. Dairy farmers may become more productive and thus wealthier if Nestlé provides the necessary training and resources. But how would this increased productivity affect the sustainability of the land and of the environment in Moga and beyond? How would introducing such changes affect intergenerational dynamics within dairy farming families? Would investing in dairy farming have adverse effects on others within the region and/or create political instability? Will increasing wealth in the region lead to rising supply chain costs for Nestlé? Thinking broadly about the social consequences of a potential investment in the firm's supply chain requires managers to delve deeply into topics like economic development, sociology, and politics and then to be able to process this complex and interdependent wealth of information to anticipate its outcomes.

Of course, this is not the end. Nestlé's managers must have evaluated their option to enter the Indian market in conjunction with a myriad of other options, including those that involved entering into other geographic locations like China or Russia and/or expanding into different product lines. Imagine, now, Nestlé's managers performing the same level of calculations for all of these options in order to choose the one that will best benefit society and enhance Nestlé's competitiveness. Imagine the myriad of considerations in *each* potential strategic option that Nestlé's managers must consider when asking themselves which option to pursue within the CSV framework. How possible is this? It strains even the imagination to think that the proper way to approach the range of strategic decisions is to first evaluate a range of options based on their consequences to society and the firm and then to pick the one that will create shared value. Shared value creation may often be a fortunate byproduct of a strategic decision, but a framework that asks the firm to intentionally identify the strategic option ex ante that will create shared value asks too much from its managers. In other words, CSV is deficient as an instrumental framework because it prescribes that firms engage in an unrealistic decision-making procedure.

MOVING BEYOND CONSEQUENTIAL REASONING WITH NORMS

If engaging in consequential reasoning is not a realistic possibility, what can managers and firms do to create shared value? Consequential reasoning, also known as the logic of consequence, refers to a decision-making process within which decisions are made by evaluating possible outcomes of alternative courses of action and selecting the course of action that corresponds to one's preferences (March, 1994). But there exists an alternative mode of reasoning known as the *logic of appropriateness*. The logic of appropriateness framework for decision-making has been developed and applied to the literature on decision-making and social dilemmas as a viable complementary alternative to the logic of consequence embedded in the rational choice model (March, 1994). There is empirical support for the logic of appropriateness as both a descriptive and an instrumental theory of actual decision-making (Payne *et al.*, 1993, Gigerenzer, 2000, Weber *et al.*, 2004).

The logic of appropriateness is a norms-based mode of reasoning. When applying this mode of reasoning, the decision-maker asks, "What does a person such as I, or an organization such as this, do in a situation such as this?" (March, 1994: 58). Within the individual context, the logic of appropriateness entails a complex interaction of situational cues and aspects of a person's identity to produce a definition of a situation that provides specific shared rules of behavior (Weber *et al.*, 2004). When an individual encounters a decision to be made, she defines the *context* of her decision by interpreting situational cues through a lens shaped by aspects of her *identity*. For instance, whether or not an athlete recognizes that she has a decision to make about performing a questionable move in a competition will depend on her interpretation of the rules of the contest and the varying signals she perceives (e.g., the referee has turned a blind eye to other kinds of cheating). Her identity as an athlete trained to recognize finer points of situational cues within a competitive context will significantly influence her interpretation by acting as a lens through which she perceives situational cues around her. And once she interprets the decision-making context in a certain way (e.g., she determines that it is a choice of whether or not she will cheat), she implicitly recognizes *norms* that are associated with such a decision (the norm against cheating in a competition). And whether or not she acts in accordance with the norms associated with the interpreted context of her decision will depend again on her identity to a certain extent (e.g., she considers herself as a pragmatic rebel who does not always abide by the rules).

A recently proposed framework known as CSV+ makes an important step toward incorporating norms-based reasoning within the process of shared value creation. CSV+ begins by admitting that corporate competitiveness and social benefit do not always align perfectly and that managers must sometimes tradeoff business and social consequences (de los Reyes *et al.*, 2017). And given the potential conflict between firms and societal benefits, CSV+ proposes to supplement CSV with a norms-based framework to help managers navigate these tensions. The framework begins by dividing the potential universe of business opportunities into two types of cases. The first type of cases refers to “win-win” cases, i.e., instances that fit neatly within the CSV framework within which an existing opportunity to enhance corporate competitiveness also corresponds to an opportunity for society to benefit. The second type of cases, however, refers to instances where the opportunity for corporate profits comes at the detriment of society or vice versa, i.e., “win-lose” cases. In such less-than-ideal types of cases, CSV+ asks managers to look to norms within existing business ethics frameworks to help guide their decision-making. When there are existing norms in place, it recommends that managers employ a norm-taking framework to identify existing norms and to comply with them. When there is a regulatory and normative void, it recommends that managers employ a norm-making framework to help create the relevant norms.

Unfortunately, although CSV+'s incorporation of norms-based reasoning is an improvement on CSV's shortcomings, it does not go far enough. By asking managers to first divide the range of strategic options into two categories based on the potential consequences for the firm and for society, CSV+ does not differ from CSV in asking managers to perform a full range of calculations based on all of the relevant social and economic variables for each possible option. For instance, when Nestlé is considering a range of potential strategic options from expanding their milk business to India to focusing on their chocolate business in North America, how will it determine which of these options will lead to "win-win' outcomes if it does not consider the potential consequences of each option for society and for itself? Even if it were slightly easier to simply identify a *range* of "win-win" options within the broader portfolio of potential strategic options rather than selecting the *best* option out of the entire portfolio, the demand for consequential reasoning at the front end of the decision-making process remains unrealistically high because the difference between a "win" or a "loss" for the firm or society can depend on so many interrelated and unpredictable factors. In other words, although CSV+ addresses the shortcomings of CSV in "win-lose" cases, it still relies on an unrealistic decision-making process at the outset by asking firms to engage in consequential reasoning to identify whether an option counts as a "win" or a "loss" for the firm and for society. What is needed is a different framework that incorporates norms-based reasoning at the outset.

INTEGRATING THE LOGIC OF APPROPRIATENESS INTO COGNITIVE PROCESSES

This section builds on the contributions made by CSV+ to propose a norms-based framework for creating shared value. It proposes that creating shared value entails making explicit what is typically implicit within the strategic decision-making process. The cognitive approach to strategic decision making argues that managers overcome the problem of bounded rationality in the real world by implicitly *simplifying* the strategic problem to only a few relevant variables out of the wide range of possible factors to consider (Huff, 1982). The result of the simplification process is a cognitive representation of the strategic problem space (Gavetti and Levinthal, 2000, Levinthal, 2011). What CSV+ makes clear, however, is that firms must engage in norms-based reasoning to navigate the tensions between business and society in shared value creation (de los Reyes *et al.*, 2017). Thus, this section proposes that creating shared value should entail the incorporation of the logic of appropriateness within the implicit cognitive process of simplifying the strategic problem space at the outset. When firms explicitly engage in the logic of appropriateness as a part of the simplification process, the resulting cognitive representation of the strategic problem space will have integrated appropriate norms as a part of the small number of variables that firms must consider when making decisions based on the logic of consequence. Figure 1 illustrates the proposed framework for integrating the logic of appropriateness with the cognitive processes of strategic decision-making.

Insert FIGURE 1 about here

The proposed framework begins by making explicit what is often an implicit process of strategic decision-making. Due to the problem of bounded rationality, the cognitive approach argues that firm decision-making proceeds with various heuristics, assumptions, and shortcuts to evaluate strategic options in light of their impact on their profitability and strategic positioning (Schwenk, 1988, Walsh, 1995, Porac and Thomas, 2002, Narayanan *et al.*, 2011). The cognitive process proceeds by engaging in heuristics, assumptions, and shortcuts to create a cognitive representation of the problem space that simplifies a complex and multi-dimensional problem into a low-dimensional one (Gavetti and Levinthal, 2000, Levinthal, 2011). Once the cognitive representation is created, managers and firms engage in consequential reasoning within the boundaries of this cognitive representation to evaluate strategic options based on their impact on firm profitability and competitiveness. What often will result from this process is a set of potential strategic options with different anticipated impacts on profits and competitive advantage.

This section proposes that the cognitive process of shared value creation must explicitly utilize the logic of appropriateness as a part of the problem-simplification stage of decision-making. As noted above, the logic of appropriateness entails identifying appropriate norms that emerge out of an interaction of contextual and identity variables. And as was the case in the individual context, the logic of appropriateness at the organizational level begins with an interpretation of the decision-making context as well. Since the cognitive approach tells us that organizational decision-makers already utilize heuristics, assumptions, and shortcuts to simplify and frame the strategic decision, the cognitive representation of the strategic problem space functions as the initial interpretation of the decision-making context. But whereas traditional approaches to strategy would advise organizational decision-makers to solve the simplified problem space while simply adhering to the norm of profit-maximization or competitive advantage, engaging in the logic of appropriateness within the shared value creation process entails that decision-makers proceed by *consciously attending to the norms associated with the interpreted problem space for shared value creation and the organization's identity* to discover a set of norms that are appropriate for the particular organization within the particular strategic context.

First, decision-makers should recognize that the interpreted problem space for shared value creation that emerges from their implicit cognitive processes is embedded within multiple institutional environments involving consideration of a wide diversity of social, cultural, political, and legal concerns (e.g., Granovetter, 1985, Aguilera *et al.*, 2007, Scherer and Palazzo, 2011). When the scope of consideration for the strategic problem space is broadened to include such considerations, it becomes easier to recognize various norms associated with the strategic problem space. The strategic problem that confronts a pharmaceutical firm when negotiating with insurance providers, for instance, may be associated with market-logic norms of hard-nosed bargaining, whereas the problem that the same firm recognizes in negotiations with its employees may be associated with the norm of fair treatment and reciprocity.

Second, decision-makers should recognize that the organization's identity does and should influence the interpretation of the strategic decision itself and that it is also associated with norms that must be recognized. An organization's identity refers to the "the central and enduring attributes of an organization that distinguish it from other organizations" (Whetten, 2006: 220). It "inheres in the expectations and beliefs of diverse audiences, both internal and external to the organization" (Hsu and Hannan, 2005: 477). Particularly important is the organization's identity orientation, which entails a complex feedback loop by which its stakeholders interpret the organization's identity but also shapes the way the organization acts and engages in processes to create shared value (e.g., Brickson, 2005, 2007). Organizational identity is also associated with certain norms. For instance, the identity of a pharmaceutical firm may be associated with a variety of norms, including profit-seeking, the promotion of the health of its customers, and compliance with government regulations. In addition, the specific identity of one firm may also be associated with the norm of stakeholder engagement whereas the identity of another firm may be associated with the norm of putting shareholders first.

Engaging in the logic of appropriateness to create shared value entails paying close attention to the norms associated with the strategic problem space and the organization's identity to identify a set of appropriate norms for the situation. When the organizational decision maker searches the strategic problem space of shared value creation broadly to discover norms, the organization's identity influences the way it interprets the kind of strategic problem at hand and yields a set of *contextual norms* that are appropriate for the interpreted problem. Furthermore, the organization's identity is also associated with a variety of *identity norms* that interact with the contextual norms. The interaction between identity and contextual norms – the ways in which they overlap, influence each other, cancel each other out, etc. – yields *a set of norms that are appropriate* for a particular organization operating within a particular strategic context.

The logic of appropriateness can help managers make decisions in accordance with norms that emerge between the interaction of the organization's identity and strategic context. By being attentive to the norms associated with who they are and what kind of a situation they are in, firms will be able to identify appropriate norms for action. Take, for instance, the string of cases in Chicago in 1982 where victims were poisoned to death by ingesting Tylenol from tampered bottles. Executives at Johnson & Johnson had a decision to make, and if they were interested in creating shared value within this context, they could have engaged in the logic of appropriateness to attend to the various norms at play. First, the organization's identity may have helped the executives recognize this situation as a particular context for a strategic decision. Whereas another consumer goods firm may have felt that the tampering cases were the responsibilities of retailers or the culprit, Johnson & Johnson's well-known "credo" explicitly adopts a stakeholder approach that considers the needs of its communities in addition to its stockholders (Clarkson, 1995). Concern for the community may help signal to the Johnson & Johnson executives that confronting this issue is not only a strategic decision but also a decision about how Johnson & Johnson can discharge its responsibility as a corporate citizen during a time of social crisis. Once recognized as a social crisis for which Johnson & Johnson has some responsibility, the executives could have recognized norms associated with such a context, e.g., rescuing those in need and mitigating on-going harm. Second, the identity of Johnson & Johnson as a pharmaceutical firm interested in the broad array of its stakeholders may have also triggered norms of promoting the health and needs of the communities in which it operates. When these two sets of norms – the norms of rescue and aid along with the promotion of health and need of communities – interact, there may have emerged a norm for doing what one can reasonably do to mitigate the on-going harm regardless of the consequences to its profitability (although the identity of Johnson & Johnson as a for-profit firm would also significantly color what it means to do what it can reasonably do). In the end, Johnson & Johnson issued a nationwide recall of Tylenol, and although it is not clear whether it was utilizing the logic of appropriateness to make this decision, it seems clear that engaging with the logic of appropriateness would have led to a similar conclusion, even if it turned out that the reputational effects for issuing the recall could have been worse than doing nothing.

As the Tylenol recall case illustrates, the logic of appropriateness can offer guidance for action in instances where the logic of consequence cannot. Imagine an alternate scenario in which the executives at Johnson & Johnson attempt to engage in the logic of consequence to decide their best course of action. They would have to consider the impact of their actions to the

Tylenol brand, the effect on employee morale, the reputation of Johnson & Johnson in dealing with governmental agencies, the effect of positive or negative media coverage, and a myriad of other factors, many of which are interrelated. From the cognitive strategic point of view, managers implicitly ignore much of the complexities by making various simplifying assumptions and limiting their consideration to how these variables would impact their profitability and competitive positioning in the long-run. And, indeed, this is what the executives at Johnson & Johnson likely did. Yet, if the executives were intentionally trying to create shared value by thinking broadly and morally, it is difficult to see how they could have engaged in the logic of consequence to determine whether their actions would have a positive impact on both society and the firm. The need to consider such a wide range of variables would have far exceeded the boundaries of their rational capacity.

CONCLUSION

CSV and CSV+ represent significant and promising attempts to integrate the role of business in society with contemporary issues in strategy and business ethics. Their promise and popularity lie with the central idea that managers can and should make decisions that benefit both the firm and society within the constraints of law and morality. However, the problem of bounded rationality poses significant problems for attempting to realize the promise of CSV and CSV+ through traditional methods of consequential reasoning. Focusing solely on outcomes like shared value, profits, or social benefit is counterproductive to the ultimate aim of legitimizing business and capitalism because it requires a reliance on unrealistic modes of decision-making.

The framework proposed in this paper offers an alternative to the traditional reliance on consequential reasoning. Unlike CSV and CSV+, the proposed framework offers a realistic model for decision-making because it begins with a descriptive account of how managers and firms actually make decisions. Rather than asking them to exceed the bounds of their rationality by evaluating the consequences of an entire range of strategic options, the proposed framework takes as a given that they will engage in cognitive processes to simplify the strategic problem space by relying on heuristics, assumptions, and shortcuts. However, because creating shared value requires a broader set of considerations, the framework also asks managers and firms to engage in the logic of appropriateness to identify norms and bring these norms in equilibrium with the set of strategic options that they identify through the traditional logic of consequence. Since neither the logic of appropriateness nor the cognitive process of strategic decision-making exceeds the bounds of rationality, the proposed framework to integrate the logic of appropriateness within cognitive approaches to strategic decision-making is an instrumentally feasible solution to the complex problem of shared value creation.

Nevertheless, there are a myriad of other considerations that can influence the implementation and the efficacy of creating shared value. Future research should examine these issues conceptually, empirically, and normatively. One area for future research is the interaction between the individual and the organizational variables in identifying appropriate norms through the logic of appropriateness. Although this paper has focused primarily on the organizational level, the process of incorporating the logic of appropriateness within the process of shared value creation will likely involve considerations of personal identity, context, and values as managers identify a set of appropriate norms within a sea of potential norms and then incorporate them with the cognitive representation of the strategic problem. However, it is unclear how these personal variables will interact and influence the shared value creation process. There are also important ethical and policy issues to consider when personal values of managers interact with organizational values. Another area for future research concerns normative change and dynamism. On one hand, the proposed framework may reinforce existing norms associated with the organization and perhaps even prevent the adoption of new norms by constraining the relevant consideration set to only those that have been applicable in the past. On the other hand, the proposed framework may help managers and firms become more responsive to changing norms in society by requiring them to take contextual variables into account and considering them in light of organizational norms. One last notable area for future research concerns the shared value construct itself. Given the way that bounded rationality renders the determination of social benefit difficult, more research is needed to conceptually clarify the definition and operationalization of shared value. Given the importance of moral considerations, much of the work defining shared value may require greater philosophical and normative attention to the shared value construct before any empirical and conceptual work can be done.

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FIGURE 1

Proposed Framework for Creating Shared Value