



LSE IDEAS

UN Business and Human Security Initiative

**Briefing Note**

## Shared Value Creation and the Human Security approach

### **The concept of shared value creation**

The definition of economic value has changed over time. There is an important distinction between ‘value creation’ and ‘value extraction’ (Mazzucato 2018). Value creation is defined as the ways in which different types of resources (human, physical, intangible) are established and interact to produce new goods and services. By contrast, value extraction consists of all activities focused on moving around existing resources and outputs and gaining disproportionately from the ensuing trade. A case in point is that of tax avoidance by large companies to extract maximum value from their business while depriving the societies in which the companies operate of much needed public revenue, which harms especially developing countries. Mazzucato argues that the social, economic and political impacts of value extraction are very high, leading to rising income inequality and “predatory” capitalism.

At the same time, there has been a shift in emphasis in business orientation from maximizing shareholder value to stakeholder value. In the 1970s, Nobel Prize winner Milton Friedman defined the purpose of a corporation as using its resources to engage in activities designed to increase its profits, as long as it stayed within the rules of the game (Friedman 1970). This eventually changed in the 1990s with the rising importance of sustainability and responsible business conduct, leading companies to embrace the three P’s – People, Planet, Profit. Instead of striving towards short-term, quarterly profits to increase shareholder value, businesses started to recognize that the long-term corporation’s value also has to benefit other stakeholders. A stakeholder view emphasizes the social relationships between management and employees, between the company and communities, and towards consumers and other

stakeholders. Importantly, stakeholder value sees people not just as inputs to business operations but as key contributors that need to be nurtured and rewarded as well (Mazzucato 2018).

A third development helping the ideas of shared value creation to gain ground was the proposition Porter and Kramer (2011) made, that instead of conventional economic needs, it is societal needs that define markets. They showed that societal harms create internal costs for companies, while addressing them can actually increase productivity and expand markets. One of Porter and Kramer's concerns was that a shift to shared value creation would require concrete and tailored metrics for each of the three avenues for creating shared value, namely reconceiving products and markets, redefining productivity in the value chain, and enabling local cluster development. Subsequently, Porter et al. (2011) explored new ways for measuring shared value, by tracking the progress and results of tailored shared value strategies. A key premise of this measurement process is that it is necessary to make the business case of how social improvement will directly improve business performance.

These important advancements in rethinking the purpose of the company by integrating the notion of shared value creation call for novel ideas on how business can upend its social impact agenda and practice as well as for effective practical guidance.

### **The value added of the Human Security approach**

One proposal that speaks to the concept of shared value creation and concomitant change in social impact assessment practices is the Human Security Business Partnership (HSBP) Framework, developed by a team of researchers at LSE IDEAS at the London School of Economics and Political Science in collaboration with the Human Security Unit of the United Nations and with support of the United Nations Trust Fund for Human Security. This Framework is a unique guidance tool to help companies, investors and other financial actors manage practice challenges and translate global ethical standards on responsibility and social impact into actions at local level, and achieve positive social impacts (LSE IDEAS 2021). Its purpose is to help businesses meet their commitments to the Sustainable Development Goals (SDGs) and to set and deliver on Environmental, Social, and Governance (ESG) impacts while benefiting communities impacted by business operations.

The Framework uses the UN definition of human security (UN General Assembly resolution 66/290 (2012)). Human security is achieved through protection and empowerment strategies built on four principles: it is about (1) people-centred action, (2) the comprehensive nature of risks that individuals and communities face, (3) the need for context-specific, integrated solutions which are (4) prevention oriented in the face of vulnerability and future crises.

How does Human Security apply to business? Across the world, companies and investors are deeply connected to people's everyday lives, even when they are not directly operating in the

countries that they are sourcing from. Business impacts people directly and indirectly through extended supply chains and the effects of globalisation. Pervasive human insecurity damages business prospects as well as individual lives. Understanding what human (in)security is about requires business to engage with grass-roots issues so that it can achieve positive social impacts and sustainability. Human security is also an approach and methodology to manage risks and opportunities in business operations.

Based on interviews with business leaders and pilot projects carried out in different parts of the world, including Mexico, Colombia and Liberia, it was found that Human Security approach has a potential to improve corporate engagement with local stakeholders. Concretely, meaningful stakeholder engagement requires a proper process for building trust paired with appropriate indicators. Trust building depends on the three following conditions: commitment, accountability and transparency by actors involved. Maintaining structured and sustained interaction with affected communities is an essential prerequisite for transparency and accountability. Designing and implementing such local engagement mechanisms can generate genuine benefits to all stakeholders. By ensuring that companies operate in a way that improves the situation for local stakeholders, in particular employees, local suppliers and local communities, the value is created. The assumption is that this will ultimately also lead to increased profits by reducing the company's reputational, legal and other risks, and by (re)affirming its social licence to operate.

All too often, businesses engage stakeholders in consultations which are very limited - in term of scope, depth, the stakeholder range, frequency - and some companies refrain entirely from such engagement. Numerous studies and reports have showcased the lack of meaningful stakeholder engagement by multinational corporations, which is one of the principal reasons to include meaningful stakeholder engagement into ESG principles and standards over the last 15 years. However, operationalising the concept of meaningful stakeholder engagement has been lacking. The HSBP framework makes a step in this direction, to support investors and businesses in their efforts to improve local engagement. Ultimately, this is expected to provide a concrete tool to make the business case of how social improvement will directly and indirectly improve business performance, in line with Porter's ideas.

### **The four value creation areas to improve measuring social impacts**

Research by LSE IDEAS has led to the development of four specific areas of value creation which serves to cluster local engagement mechanisms (Van Dorp, Smits and Gehoel, 2024). An element of value creation that is often overlooked is effective local engagement with communities and other local stakeholders. To structure the different ways in which value is created through local engagement, four value creation areas were defined:

1. Learning
2. Relational

3. Instrumental
4. Financial

Using those four value creation areas to assess the alignment between nine major ESG principles and standards and the Human Security approach (specifically its core characteristics of people-centred, locally driven, comprehensive and inclusive) has yielded two important insights for advancing the thinking on shared value creation and making it integral to business conduct. First, there is a clear need for ESG standards to clarify how concepts of inclusion, participation, stakeholder engagement and ownership are defined and should be implemented, as part of the improvement and clarification of these standards. Second, a more nuanced understanding of the needs and capacities of local stakeholders is important to ensure the inclusion of the most vulnerable groups and to understand how to empower those groups to engage more effectively with companies.

### **A new proposed framework for social impact measurement**

Human security partnerships propose a pathway to achieving both social and financial goals through mutually beneficial and equitable collaborations. The Human Security approach also has high relevance in light of the current policy context, in that it responds to developments such as the new European regulations on corporate accountability and responsibility and the pushback against ESG in some parts of the world, in particular the US.

In addition, human security partnerships provide a distinctive approach to improve existing social impact measurement methods by measuring actual social impacts at any stage in the life cycle of a business operation, both from an inside out as well as from an outside in perspective, and by including both positive and negative impacts (Van Dorp 2024). Examples of positive social impacts are job creation within a firm, the sale of a product, or the transfer of knowledge to other stakeholders in society. Negative impacts could consist of the non-adherence to a certain code or standard, the violation of human rights standards of employees or community members or the creation of conflicts with local communities.

The new measurement framework aims to measure to what extent the company's impacts contribute to the development priorities of the communities around the company's operations, and how the company is contributing to the different dimensions of human security. This methodology provides a number of complimentary elements to existing methodologies:

- It is more participatory than existing methodologies, by engaging with and deeply involving local stakeholders in the impact measurement process.
- It is an iterative process that builds and constantly re-assesses by reference to and dialogue with local stakeholders.

- It allows for temporary fluctuations and variations that are particularly characteristic of fragile and conflict-affected settings (FCS), where instability and volatility are the norm.
- It takes a holistic approach and is therefore geared towards prevention and provides a long-term constructive approach to ESG.

### **The way forward**

Human Security concerns protection of people from interconnected threats related to human rights, peace and development and the creation of sustainable and positive impacts for people and communities where the companies operate or intend to invest, fostering resilience and well-being. In this brief, the relevance is shown of the Human Security approach for existing ESG standards and frameworks by emphasizing the connections between people's rights and needs. Specifically, it can provide more meaningful data on the S in ESG, while it can also demonstrate the relationship between E, S and G issues, which is of paramount importance to companies' social licence to operate in their countries of operation. Arguably, current ESG risk assessments fail to consider such a holistic perspective, often resulting in corporate activities creating unintended negative consequences for local communities and facing costly operational disruptions.

A Human Security approach can provide a much-needed element to ensure that businesses are not simply involved in value extraction but are actually involved in value creation for all stakeholders involved, including vulnerable communities and other local stakeholders, by addressing social, economic, and environmental challenges in a sustainable and inclusive manner. Improved measurement of social impacts by using the Human Security approach can thus provide a new dimension to the theory of shared value creation.

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