

Preface by Michael Porter HARVARD BUSINESS SCHOOL

What is the relationship between corporate strategy and societal issues such as the environment, poverty, health, population, and international development? Business leaders have a tendency to see “social” concerns as having little relevance to competing. Instead, these fall under the headings of corporate citizenship or corporate philanthropy, or are left to managers to address as matters of individual conscience.

It is becoming more and more apparent, however, that treating broader social issues and corporate strategy as separate and distinct has long been unwise, never more so than today. Seeing strategy narrowly leads to missed opportunities and bad competitive choices. It can also cause managers to overlook potential competitive advantages.

The same disconnect between social and corporate is also common among leaders in the social sector. There is a tendency to view firms as adversaries — not as allies in advancing social causes. Yet we are learning that the most effective way to address many of the world’s most pressing problems is to mobilize the corporate sector in a context of rules, incentives, and partnerships where both companies and society can benefit.

In modern competition, economic and social policy can and must be integrated. Consider some examples. Controlling pollution and the emission of greenhouse gases is often viewed by firms as a social issue, and resisted as driving up the cost of doing business. Environmentalists, who often believe companies seek to profit from polluting, see their role as advocating regulations to compel companies to install available abatement technology whatever the cost.

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Yet virtually all corporate pollution is a sign of economic waste and the unproductive use of resources, and can be addressed with better technology or improved methods. Forcing companies to install abatement technologies is usually the wrong approach; the better approach is product or process innovation. The same is true with the use of energy, the cause of most greenhouse gas emissions.

Innovative corporate practices in the area of the environment, then, will often enhance internal competitiveness. Products that address environmental scarcities will also have enormous market potential. This means that companies should see environmental protection as an opportunity, while environmentalists need to recognize that progress on environmental improvement will be most rapid if they work cooperatively with companies. Governments in developing countries must understand that strategies of environmental degradation lead to continued poverty, not successful economic development.

Similar conclusions apply to other social concerns areas such as racial and ethnic discrimination, worker health and safety, and training. For example, looming labor shortages in advanced nations give companies strong incentives to hire and train minorities, as long as social advocates do not create unnecessary legal and regulatory risks of employing such individuals.

Not only can corporate and social needs be integrated, but the success of the developing world in improving prosperity is of fundamental strategic importance to almost every company. The world economy is not a zero sum game in which one country’s success comes at the expense of others. There is enormous potential for growth if many countries can improve in productivity and trade with one another. There are huge unsatisfied human needs to be met in the world, and demand will only increase as more nations become more prosperous.

Social and corporate also come together in the controversial areas of globalization. Social activists, not just companies, have a major stake in the openness and fairness of the international trading system. The evidence is compelling. Compared to local companies in developing countries, foreign companies bring higher environmental standards, pay and treat their workers better, and employ safer workplace practices. If social activists have improving these conditions as their true objectives, they will work with international companies rather than oppose them

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The volume provides a fascinating and important foundation of data that will help to highlight and help leaders capitalize on these opportunities. It catalogs the market opportunity in addressing social needs, and the payoff to successful international development. It reveals the competitive advantages and economic benefits of innovations to improve environmental performance and better utilize scarce resources. It highlights the importance of democracy and the role of transparency to achieve such win-win progress.

Both the corporate and the social sectors will need to adopt new mindsets. This book provides an invaluable tool for doing so.

Michael E. Porter is the Bishop William Lawrence University Professor, based at Harvard Business School. A University professorship is the highest professional recognition that can be given to a Harvard faculty member. Professor Porter is a leading authority on competitive strategy and international competitiveness and is the author of 16 books and over 75 articles.