

# Strategy and Society: Corporate Social Responsibility and the Competitive Advantage

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This presentation draws on ideas from Professor Porter's books and articles, in particular, "Strategy and Society" (*Harvard Business Review*, Dec. 2006); "The Competitive Advantage of Corporate Philanthropy" (*Harvard Business Review*, Dec. 2002); "What is Strategy?" (*Harvard Business Review*, Nov/Dec 1996); *Competitive Advantage* (Free Press, 1980); and *The Competitive Advantage of Nations* (Free Press, 1990). No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Michael E. Porter.

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# Corporate Social Responsibility

## A Growing Agenda

- External pressures for CSR continue to grow
- Numerous organizations **monitor**, **rank**, and **report** social performance
- The **legal** and **business risks** are great for companies engaging in practices deemed unacceptable



- CSR is **increasingly important** to business leaders, yet the concept and its justifications remain unclear
- Few companies have **integrated society into strategy** in a way that reinforces competitive advantage for the business

# History of CSR



# Four Prevailing Justifications for CSR

## Moral Obligation

*“Achieving commercial success in ways that honor ethical values”*

- Inadequate guidance to balance complex competing social and economic interests
- Wide variability of personal values among managers and stakeholders

## Sustainability

*“Meeting the needs of the present without compromising future needs”*

- Most effective on environmental issues where improvements can yield immediate economic benefits
- In other areas, intangible long term consequences provide a weak justification for short term costs

## License to Operate

*“Building goodwill to secure the acquiescence of governments and stakeholders”*

- Licenses and approvals are necessary
- But this approach cedes control of CSR agenda to external players that do not fully understand the company’s competitive positioning, capabilities, and operations
- Encourages short term, defensive, and disjointed responses to “the squeakiest wheel” of the moment

## Reputation

*“Enhancing reputation and brand with customers, investors, and employees”*

- Little evidence of sustained competitive advantage
- Emphasizes the visible and popular rather than the social and business impact of corporate activities



- The prevailing justifications focus on the **tension** between business and society rather than the **interdependence**
- These generic rationales provide **little specific guidance or priorities** for company actions

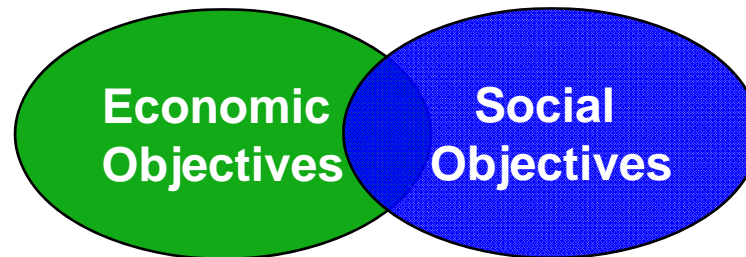
# CSR in Practice

- Reactive
- Unfocused
- Rankings oriented
- PR / Corporate image driven



- Limited **measurable** social impact or **benefit to the business**

# Integrating Strategy and Society



- There is an **inevitable link** between a business and society
- The **competitiveness of companies** depends on the surrounding environment and communities in which they operate
  - E.g., skilled employees
  - Safe working conditions
  - A transparent, corruption-free business environment
  - A sense of equal opportunity
  - Supportive natural environment (e.g., water, sustainable access to resources)
- The **health of a society** depends on having competitive companies that can create wealth and support high wages
- Companies can positively affect many social issues
- There is a long-term **synergy** between economic and social objectives



- To maximize this synergy, business decisions and social policies must follow the principle of **shared value**
  - Company competitiveness and social conditions must benefit simultaneously

# The Role of Business in Social Issues

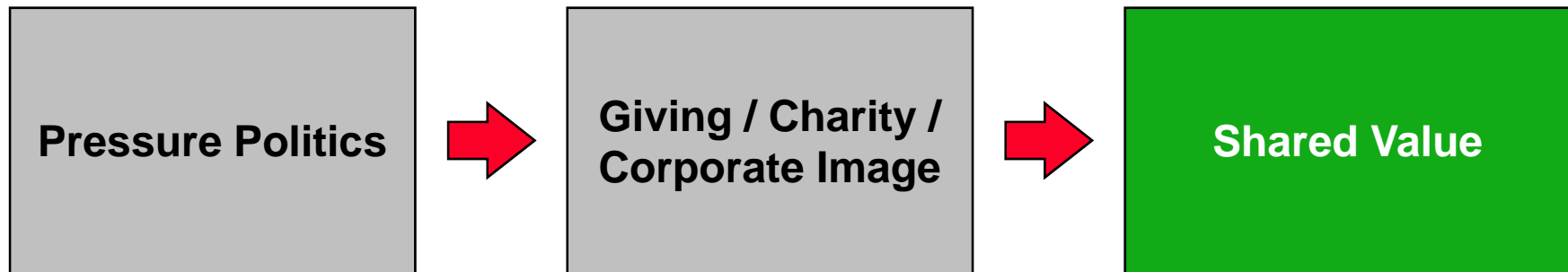
- Business **cannot solve** all of society's problems, nor bear the cost of doing so
- Business must approach its social agenda **proactively** and **strategically**
- Business must address society and social issues where it can **add the most value**



- Where is a company able to have the greatest **impact** on social issues versus other institutions?

$$\text{Social Value} = \frac{\text{Social Benefits}}{\text{Resources Expended}}$$

# Strategic CSR

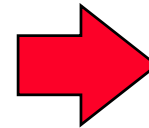


- Points of conflict

- Branding / PR

- Obligation / charity

- Proliferation of causes and projects



- Mutual interest

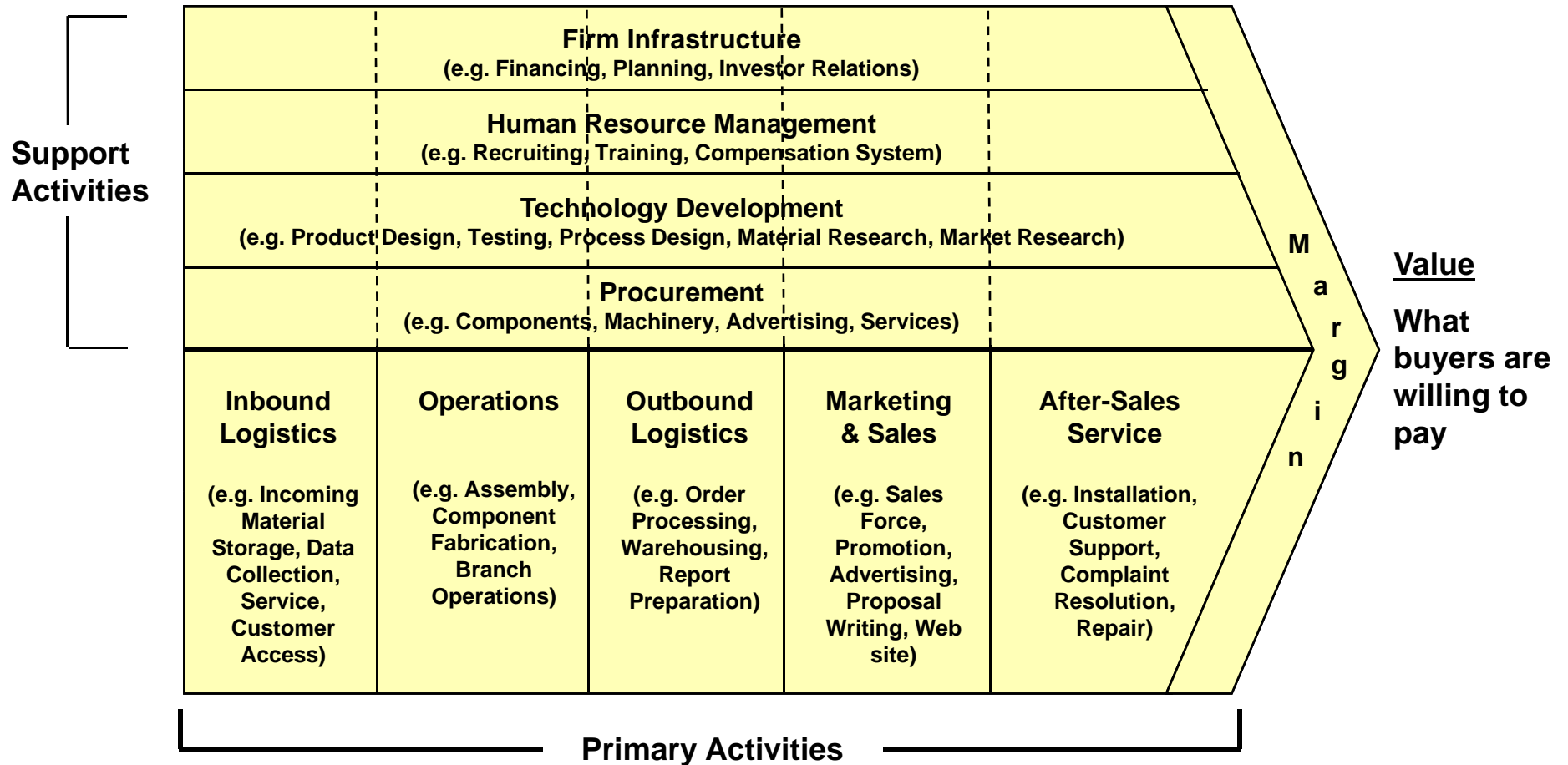
- Social impact / results

- Integrate strategy and society

- Focus on strategic impact

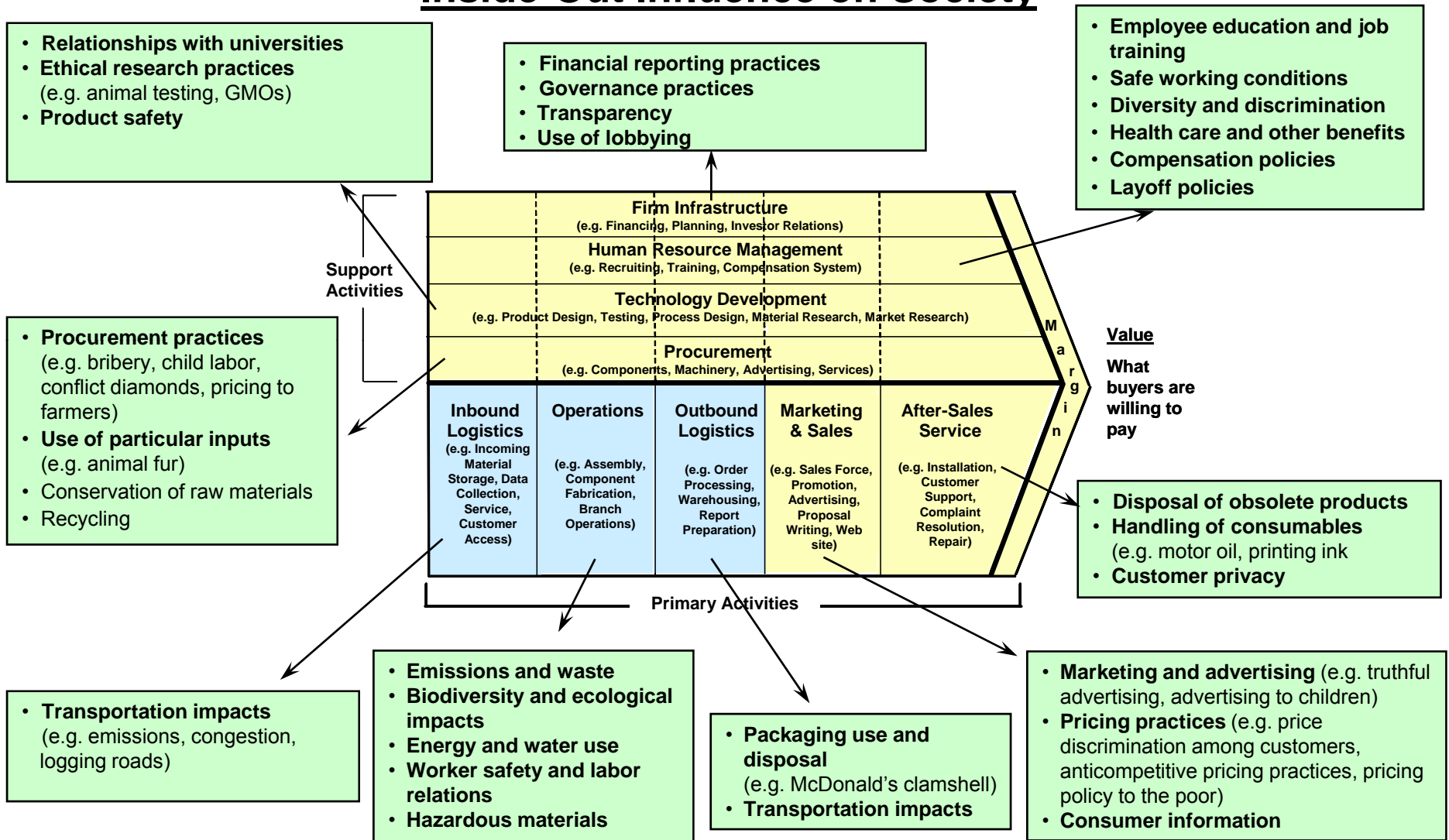
# Foundations of Economic Performance

## The Value Chain



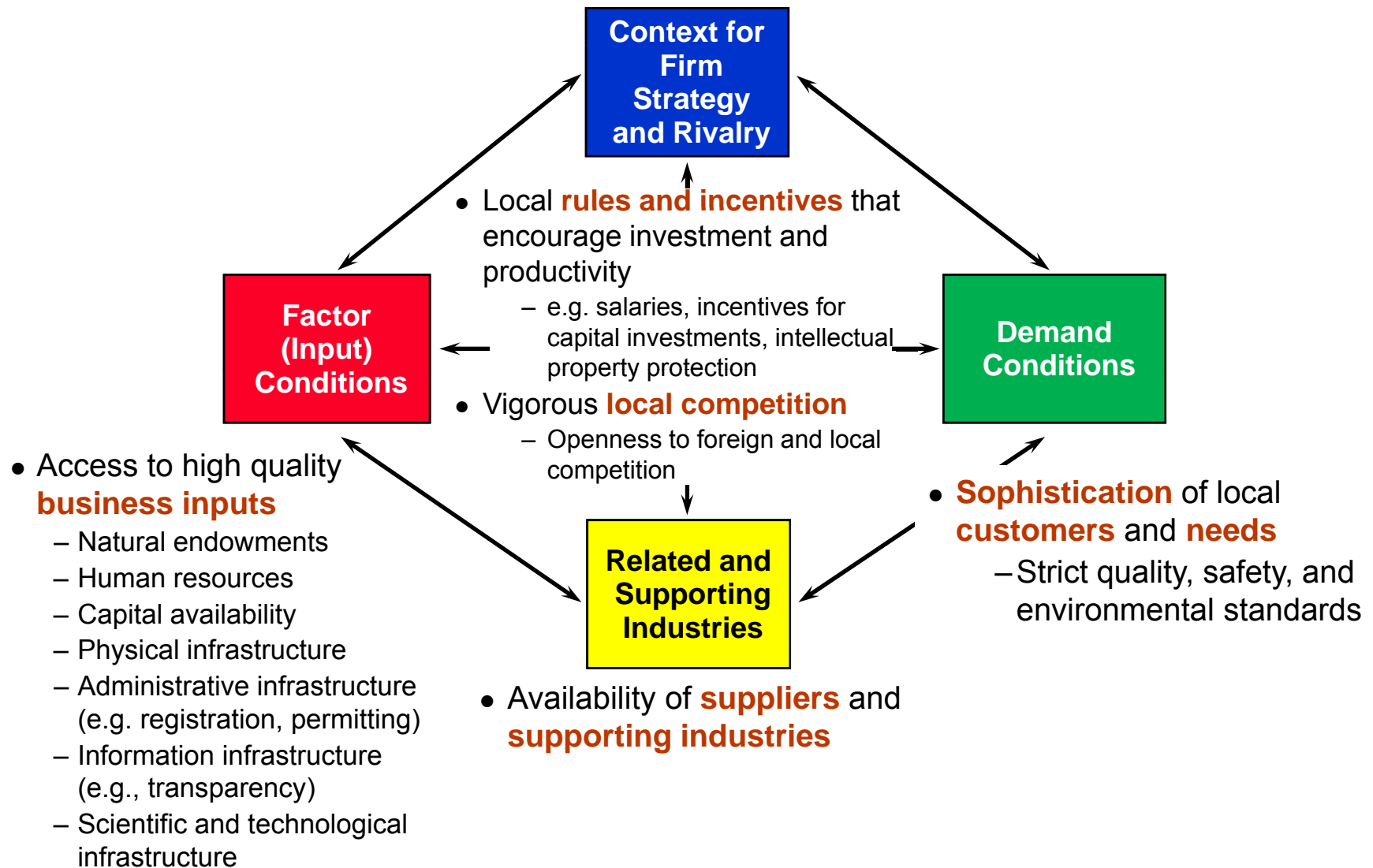
- Competing in a business involves performing a set of discrete **activities**, in which **competitive advantage resides**

# Identifying Shared Value Inside-Out Influence on Society



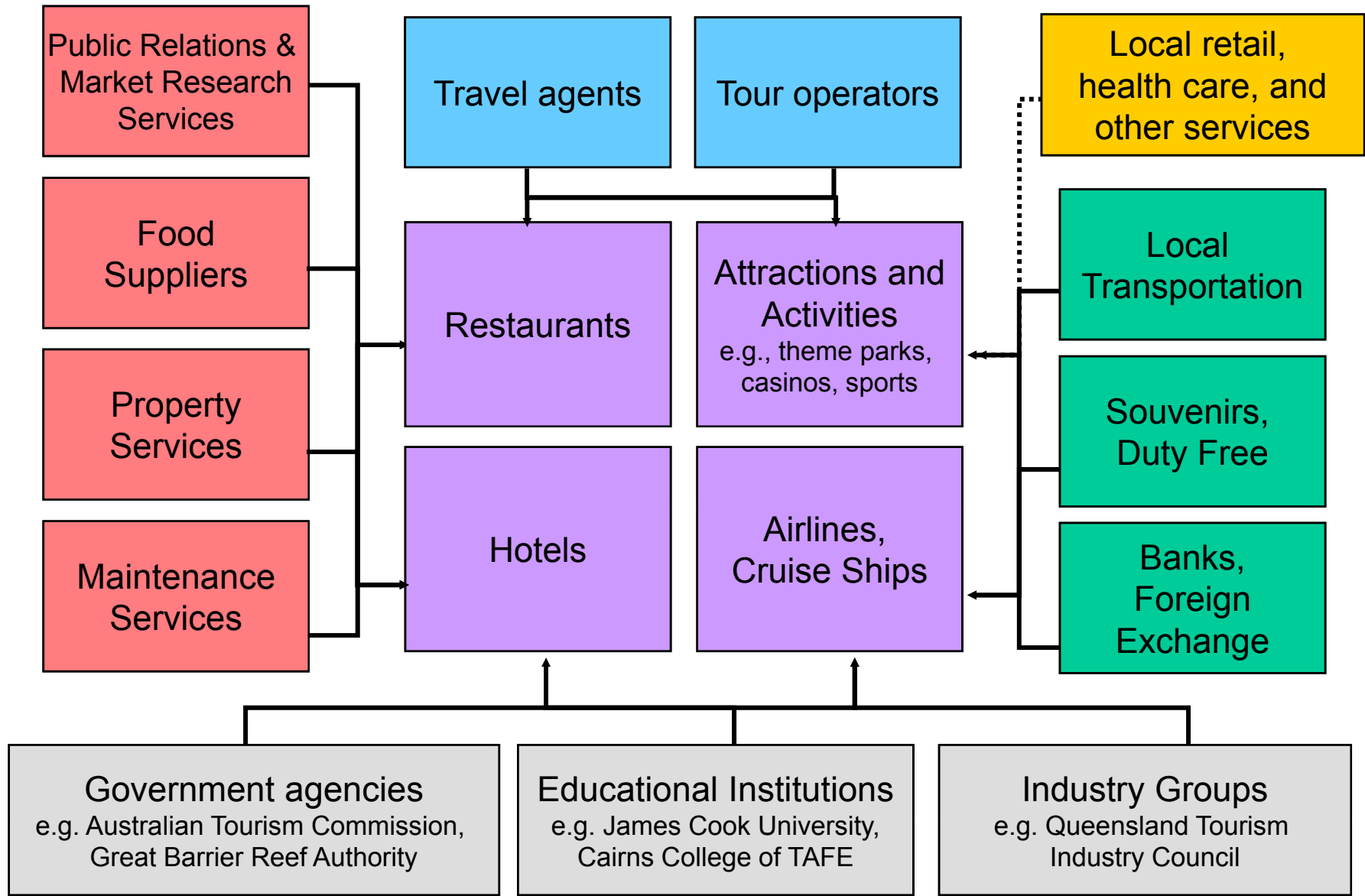
- Every activity in the value chain touches on communities in the locations where a company operates. These impacts can be positive or negative.

# Competitiveness and the Business Environment



# State of Cluster Development

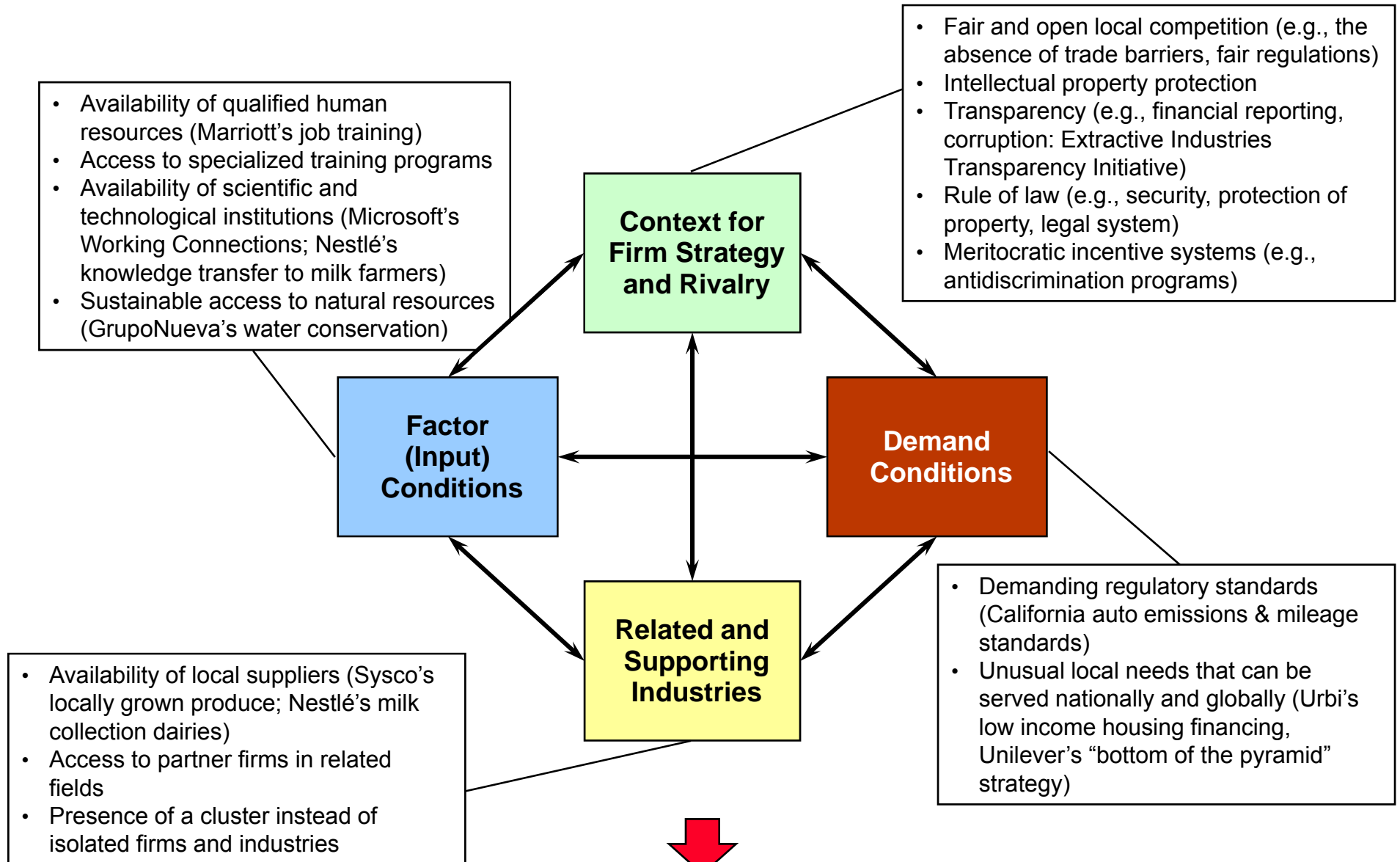
## Tourism Cluster in Cairns, Australia



Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden

# Identifying Shared Value

## Outside-In Social Impact on the Company



- Competitive context is often influenced by or inextricably linked with **social conditions**

# Categorizing Corporate Social Issues

## Generic Social Issues

- Social issues that are **not significantly impacted** by the company's operations, nor materially **influence its long term competitiveness**

## Value Chain Social Impacts

- Social issues that are **significantly impacted** by the **company's activities** in the ordinary course of business

## Social Dimensions of Competitive Context

- Social issues in the company's **external environment** that affect the **underlying drivers of competitiveness** in those places where the company operates



- Which issues fall into each category will **differ** by business unit, company, industry, cluster, and location

# Integrating Strategy and Society

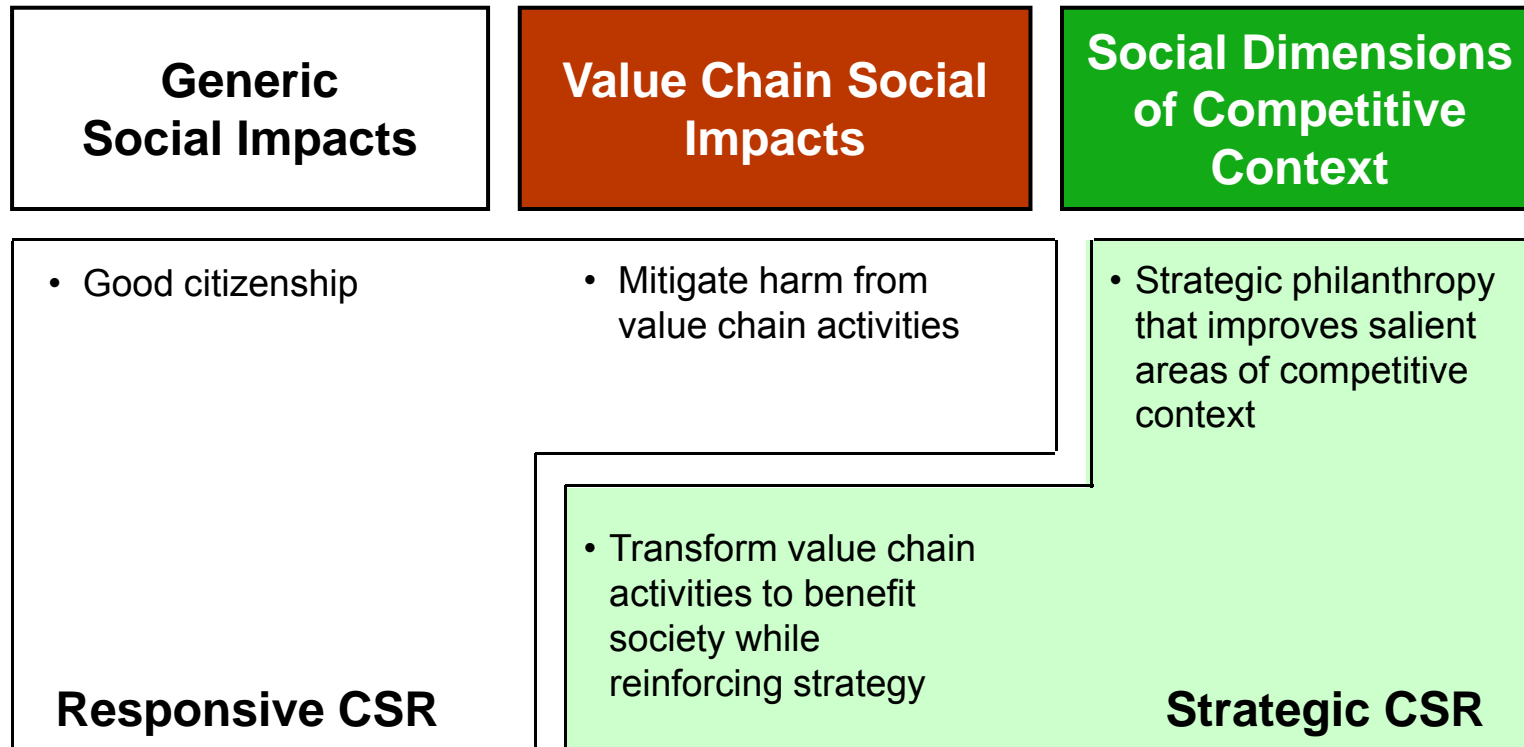
## Responsive CSR

- Act as a good **corporate citizen**
- **Mitigate harm** from value chain activities

## Strategic CSR


- Identify **a small number of social impacts** where the company can make a significant contribution to society while improving the long-term competitiveness of its business
- Create a **social dimension** to the value proposition

# Creating a Corporate Social Agenda



- The impact of CSR is greatest when responsive CSR, value chain social impacts, and investments in competitive context are **integrated**

# Good Corporate Citizenship

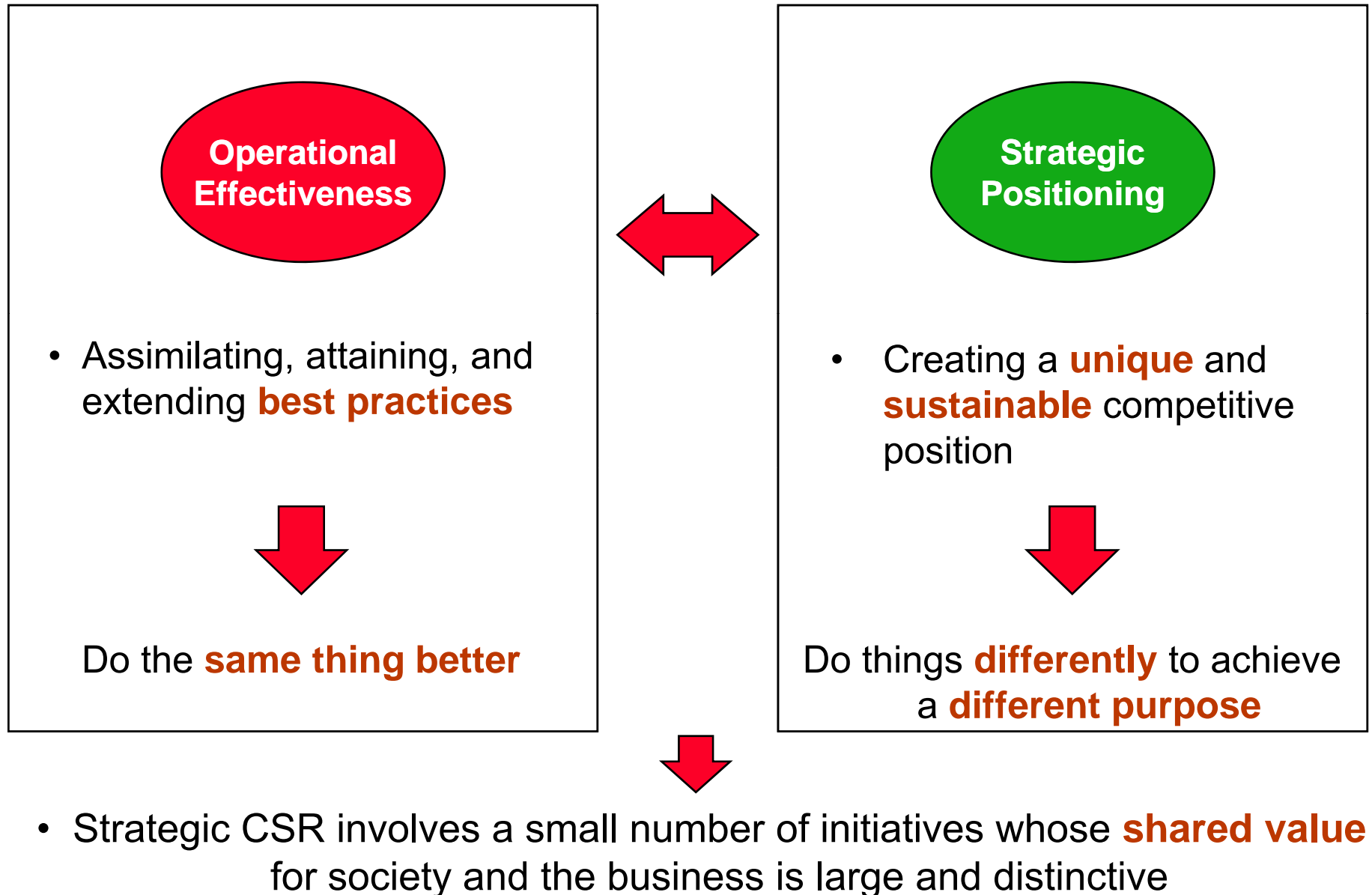
- Companies need to be sensitive to supporting **community organizations** and building relationships with important **stakeholders**
  - Corporate giving in these areas should be approached **proactively** and **efficiently**
    - Minimize **administrative costs**
    - Insure **clear goals** for each program
    - Track **results** over time
  - Let **employees take the lead**
    - e.g., matching gifts, volunteers
  - Harness **collaborative models** with partners wherever possible to leverage impact
- 
- Limit involvement in generic social issues to a **modest proportion** of overall activity

# Mitigating Negative Value Chain Impacts

- **Measure** social impacts of operating activities whenever possible
- Identify **best practices** in limiting harm across the value chain
- Make performance in improving social impacts of activities a responsibility of **operating units**

# Moving to Strategic CSR

## Operational Effectiveness is not Strategy



# Strategic CSR

## Value Chain Impacts: ChoicePoint

- ChoicePoint's core business is providing **personal identification, screening, and credit verification**
  - e.g., access to ChoicePoint databases, employment background screening, credit verification, DNA identification and authentication, drug testing, etc.
- The company's CSR program focuses on providing services and advice to **social organizations**:
  - e.g., Background checks of volunteers working with children such as Boys & Girls Club volunteers
  - Identity verification for Katrina victims
  - Assisting NGOs to find missing children and prevent identity theft



- ChoicePoint leverages its **skills, data, technological knowledge, and staff** to maximize social impact
- ChoicePoint's CSR approach is aligned with its founding principle: creating a safer and more secure society through responsible use of information
- CSR activities are not just charity but **improve the company's capabilities** around identity issues
  - Working with social organizations helps develop new methodologies and capabilities

# Strategic CSR

## Integrating External Context and Strategy: Nestlé in India

- Nestlé entered Moga in 1962, when the region was in **severe poverty**
- Local milk supply was hampered by small parcels of land, poor soil, periodic droughts, animal disease, and lack of a market
- Nestlé established local milk purchasing organizations in each town
- Nestlé invested in **improving competitive context**
  - Collection infrastructure such as refrigerated dairies was accompanied by veterinarians, nutritionists, agronomists, and quality assurance experts to assist small farmers
  - Medicines and nutritional supplements to improve animal health
  - Monthly training sessions for local farmers
  - Wells to secure water supply for animals were dug with financing and technical assistance from Nestlé
- Nestlé has built a productive **milk cluster** in Moga sourcing milk from 75,000 farmers through 650 dairies



- Moga has much improved social conditions and a far higher **standard of living**
- Nestlé has developed a **long-term competitive advantage** in the milk cluster in numerous developing countries

# Creating a Social Dimension of the Value Proposition

- Economic and social value are **complementary**, especially in the medium and long-run
- Customers value **social performance**, not just economic performance
- Companies can have greatest social impact in areas **tightly connected to their business**



- Companies can create a **social dimension to their value proposition**
- Social dimensions can be **more sustainable** than conventional costs and quality advantages

# Strategic Positioning

## Whole Foods Markets

### Value Proposition

- Natural, fresh, organic, and prepared foods and health items with excellent service at premium prices
- Educated, middle class, and affluent customers passionate about food as a part of a healthy lifestyle

### Distinctive Activities

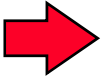
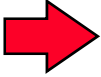
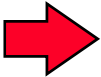
- Well-lit, inviting supermarket store formats with appealing displays and extensive prepared foods sections
- Produce section as “theater”
- Café-style seating areas with wireless internet for meetings and meals
- Each store carries local produce and has the authority to contract with the local farmers
- Information and education provided to shoppers along with products
- High touch in-store customer service via knowledgeable, non-unionized, highly motivated personnel
- Egalitarian compensation structure
- Own seafood procurement and processing facilities to control quality (and price) from the boat to the counter
- Donates 5% of profits to non-profits
- Each store has “green projects,” directed by employees to improve environmental performance




- Excellent strategies often include a **social dimension** of the value proposition

# Strategic CSR


## Other Case Studies

- Starbucks  Coffee procurement
- MTV Networks  AIDS ad campaign
- Swiss Re  Market enabling for investments in renewable energy and climate change

# Organizing for Corporate Social Responsibility

- **Unify** corporate giving and CSR
  - **Engage operating management** in identifying value chain impacts and social dimensions of the competitive context
    - Operating managers must understand CSR, and CSR managers must understand company strategy
  - Incorporate social performance metrics into **overall business measurement**
  - Measure the **social impact** of company activities, not just stakeholder satisfaction
  - Partner with other companies and organizations to amplify impact and lower cost
- 
- Companies need to shift CSR from a **fragmented, defensive posture** to an **integrated, affirmative approach**

# The Moral Purpose of Business

- The most important thing a corporation can do for society is to contribute to a **prosperous economy**
  - Only business can **create wealth**; other institutions in society are principally involved in redistributing wealth or investing it to meet human needs
  - Corporations are not responsible for **all the world's problems**, nor do they have the resources to solve them all
    - Business has **no need to be defensive** about its role in society
  - Business has the tools, capabilities, and resources to make a **far greater positive impact on social issues** than most other institutions
  - Business is **more transparent** and **more accountable** than most foundations and NGOs
  - Each company can and should 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
  - Addressing social issues through **shared value strategies** will lead to self-sustaining solutions
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- Using these principles, businesses can have a **greater impact** on social good than any other institution or philanthropic organization