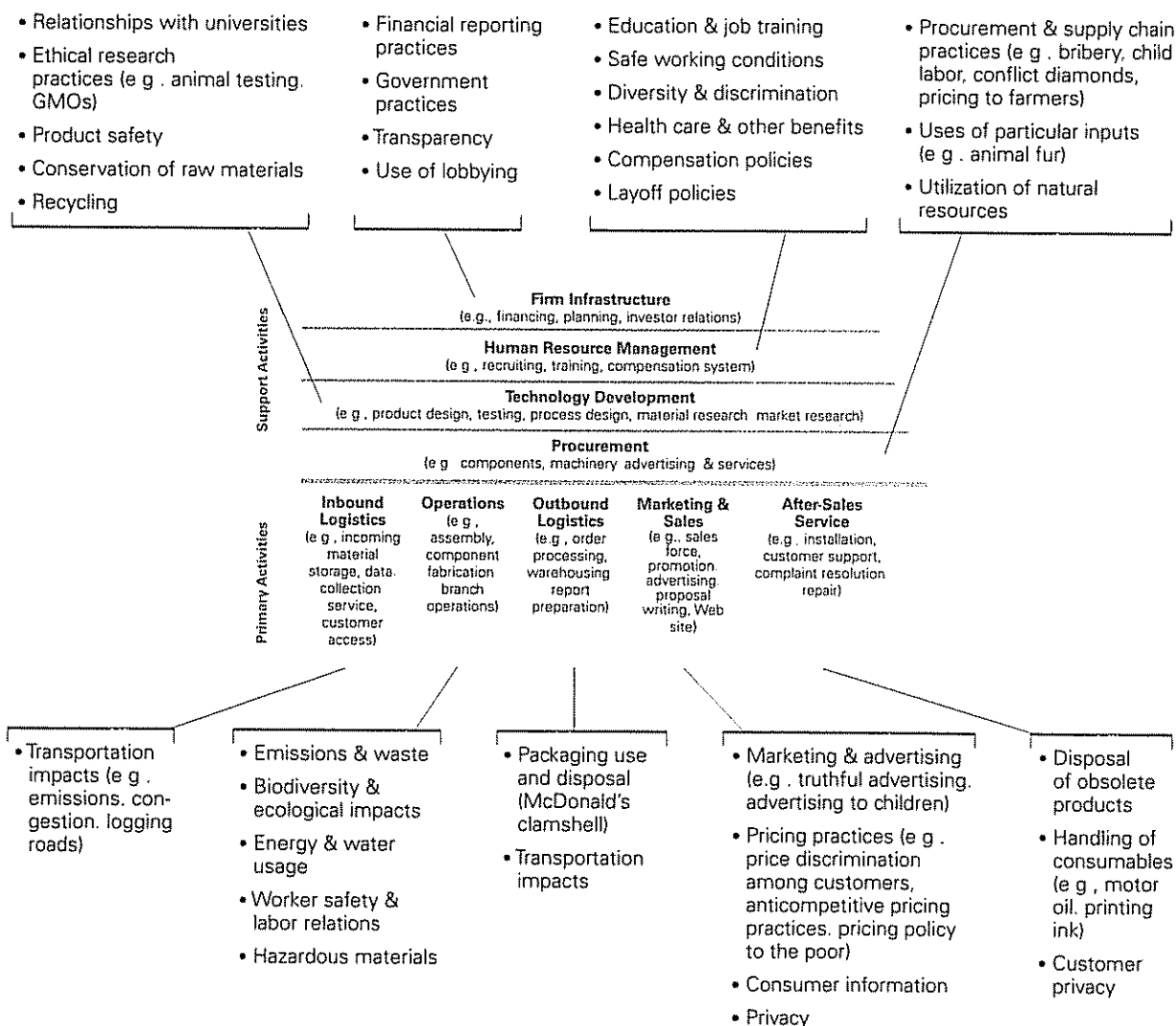


# Mapping Social Opportunities

The interdependence of a company and society can be analyzed with the same tools used to analyze competitive position and develop strategy. In this way, the firm can focus its particular CSR activities to best effect. Rather than merely acting on well-intentioned impulses or reacting to outside pressure, the organization can set an affirmative CSR agenda that produces maximum social benefit as well as gains for the business.

## Looking Inside Out: Mapping the Social Impact of the Value Chain

The *value chain* depicts all the activities a company engages in while doing business. It can be used as a framework to identify the positive and negative social impact of those activities. These "inside-out" linkages may range from hiring and layoff policies to greenhouse gas emissions, as the partial list of examples illustrated here demonstrates.



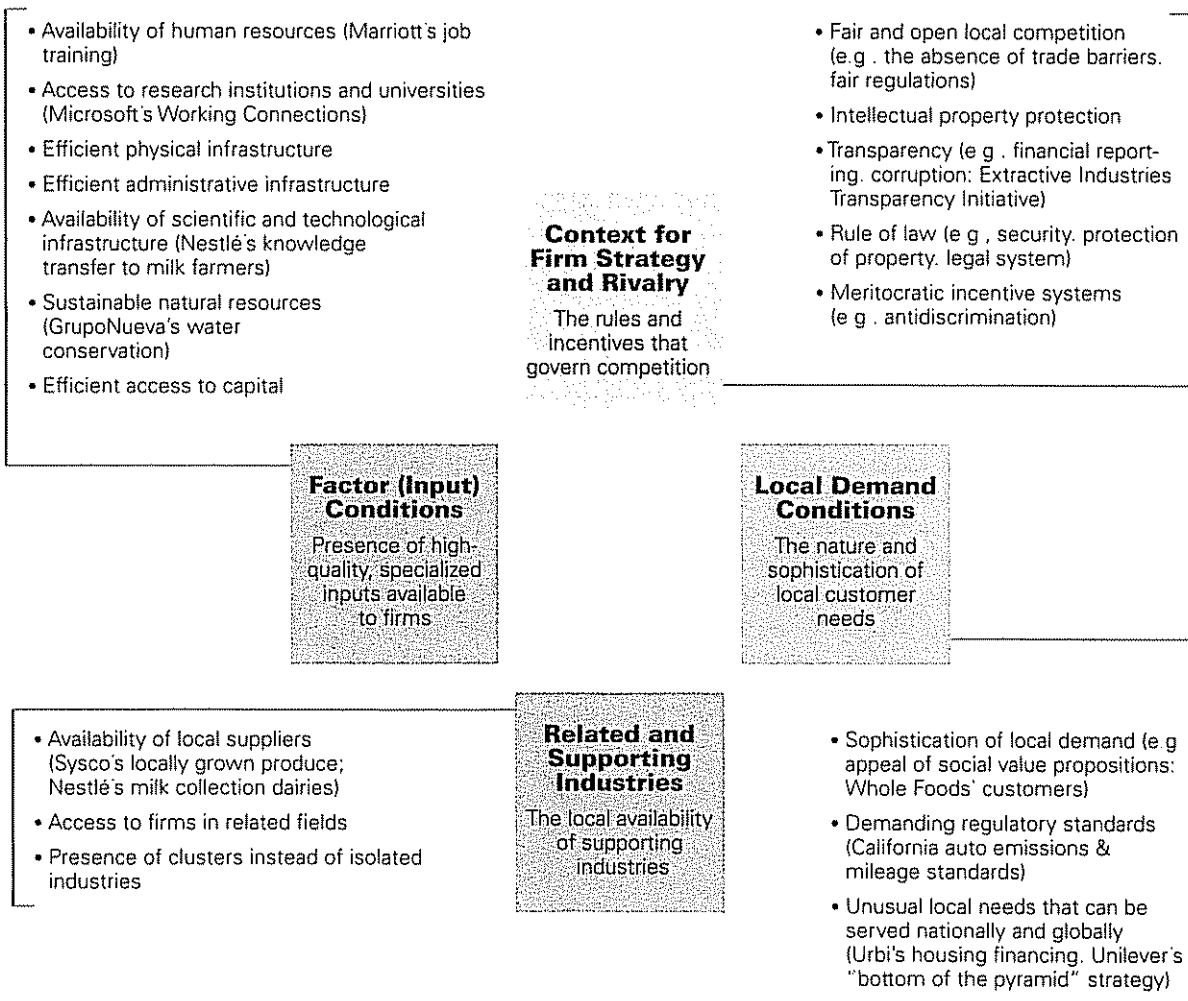
Source: Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, 1985

These two tools should be used in different ways. When a company uses the value chain to chart all the social consequences of its activities, it has, in effect, created an inventory of problems and opportunities – mostly operational issues – that need to be investigated, prioritized, and addressed. In general, companies should attempt to clear away as many negative value-chain social impacts as possible. Some company activities will prove to offer opportunities for social and strategic distinction.

In addressing competitive context, companies cannot take on every area in the diamond. Therefore, the task is to identify those areas of social context with the greatest strategic value. A company should carefully choose from this menu one or a few social initiatives that will have the greatest shared value: benefit for both society and its own competitiveness.

## Looking Outside In: Social Influences on Competitiveness

In addition to understanding the social ramifications of the value chain, effective CSR requires an understanding of the social dimensions of the company's competitive context – the "outside-in" linkages that affect its ability to improve productivity and execute strategy. These can be understood using the *diamond framework*, which shows how the conditions at a company's locations (such as transportation infrastructure and honestly enforced regulatory policy) affect its ability to compete.



Source: Michael E. Porter, *The Competitive Advantage of Nations*, 1990



justifiable pride from their company's positive involvement in the community.

The best corporate citizenship initiatives involve far more than writing a check: They specify clear, measurable goals and track results over time. A good example is GE's program to adopt underperforming public high schools near several of its major U.S. facilities. The company contributes between \$250,000 and \$1 million over a five-year period to each school and makes in-kind donations as well. GE managers and employees take an active role by working with school administrators to assess needs and mentor or tutor students. In an independent study of ten schools in the program between 1989 and 1999, nearly all showed significant improvement, while the graduation rate in four of the five worst-performing schools doubled from an average of 30% to 60%.

Effective corporate citizenship initiatives such as this one create goodwill and improve relations with local governments and other important constituencies. What's more, GE's employees feel great pride in their participation.

ters based in England. The company has begun to analyze systematically tens of thousands of products in its hundreds of stores against a list of a dozen social issues—from climate change to working conditions at its suppliers' factories—to determine which products pose potential social responsibility risks and how the company might take action before any external pressure is brought to bear.

For most value chain impacts, there is no need to reinvent the wheel. The company should identify best practices for dealing with each one, with an eye toward how those practices are changing. Some companies will be more proactive and effective in mitigating the wide array of social problems that the value chain can create. These companies will gain an edge, but—just as for procurement and other operational improvements—any advantage is likely to be temporary.

*Strategic CSR.* For any company, strategy must go beyond best practices. It is about choosing a unique position—doing things differently from competitors in

**Typically the more closely tied a social issue is to a company's business, the greater the opportunity to leverage the firm's resources—and benefit society.**

Their effect is inherently limited, however. No matter how beneficial the program is, it remains incidental to the company's business, and the direct effect on GE's recruiting and retention is modest.

The second part of responsive CSR—mitigating the harm arising from a firm's value chain activities—is essentially an operational challenge. Because there are a myriad of possible value chain impacts for each business unit, many companies have adopted a checklist approach to CSR, using standardized sets of social and environmental risks. The Global Reporting Initiative, which is rapidly becoming a standard for CSR reporting, has enumerated a list of 141 CSR issues, supplemented by auxiliary lists for different industries.

These lists make for an excellent starting point, but companies need a more proactive and tailored internal process. Managers at each business unit can use the value chain as a tool to identify systematically the social impacts of the unit's activities in each location. Here operating management, which is closest to the work actually being done, is particularly helpful. Most challenging is to anticipate impacts that are not yet well recognized. Consider B&Q, an international chain of home supply cen-

a way that lowers costs or better serves a particular set of customer needs. These principles apply to a company's relationship to society as readily as to its relationship to its customers and rivals.

Strategic CSR moves beyond good corporate citizenship and mitigating harmful value chain impacts to mount a small number of initiatives whose social and business benefits are large and distinctive. Strategic CSR involves both inside-out and outside-in dimensions working in tandem. It is here that the opportunities for shared value truly lie.

Many opportunities to pioneer innovations to benefit both society and a company's own competitiveness can arise in the product offering and the value chain. Toyota's response to concerns over automobile emissions is an example. Toyota's Prius, the hybrid electric/gasoline vehicle, is the first in a series of innovative car models that have produced competitive advantage *and* environmental benefits. Hybrid engines emit as little as 10% of the harmful pollutants conventional vehicles produce while consuming only half as much gas. Voted 2004 Car of the Year by *Motor Trend* magazine, Prius has given Toyota a lead so substantial that Ford and other car companies are

licensing the technology. Toyota has created a unique position with customers and is well on its way to establishing its technology as the world standard.

Urbi, a Mexican construction company, has prospered by building housing for disadvantaged buyers using novel financing vehicles such as flexible mortgage payments made through payroll deductions. Crédit Agricole, France's largest bank, has differentiated itself by offering specialized financial products related to the environment, such as financing packages for energy-saving home improvements and for audits to certify farms as organic.

Strategic CSR also unlocks shared value by investing in social aspects of context that strengthen company competitiveness. A symbiotic relationship develops: The success of the company and the success of the community become mutually reinforcing. Typically, the more closely tied a social issue is to the company's business, the greater the opportunity to leverage the firm's resources and capabilities, and benefit society.

Microsoft's Working Connections partnership with the American Association of Community Colleges (AACC) is a good example of a shared-value opportunity arising from investments in context. The shortage of information technology workers is a significant constraint on Microsoft's growth; currently, there are more than 450,000 unfilled IT positions in the United States alone. Community colleges, with an enrollment of 11.6 million students, representing 45% of all U.S. undergraduates, could be a major solution. Microsoft recognizes, however, that community colleges face special challenges: IT curricula are not standardized, technology used in classrooms is often outdated, and there are no systematic professional development programs to keep faculty up to date.

### Corporate Involvement in Society: A Strategic Approach

Generic Social Impacts	Value Chain Social Impacts	Social Dimensions of Competitive Context
Good citizenship	Mitigate harm from value chain activities	Strategic philanthropy that leverages capabilities to improve salient areas of competitive context
<b>Responsive CSR</b>	Transform value-chain activities to benefit society while reinforcing strategy	
		<b>Strategic CSR</b>

Microsoft's \$50 million five-year initiative was aimed at all three problems. In addition to contributing money and products, Microsoft sent employee volunteers to colleges to assess needs, contribute to curriculum development, and create faculty development institutes. Note that in this case, volunteers and assigned staff were able to use their core professional skills to address a social need, a far cry from typical volunteer programs. Microsoft has achieved results that have benefited many communities while having a direct—and potentially significant—impact on the company.

**Integrating inside-out and outside-in practices.** Pioneering value chain innovations and addressing social constraints to competitiveness are each powerful tools for creating economic and social value. However, as our examples illustrate, the impact is even greater if they work together. Activities in the value chain can be performed in ways that reinforce improvements in the social dimensions of context. At the same time, investments in competitive context have the potential to reduce constraints on a company's value chain activities. Marriott, for example, provides 180 hours of paid classroom and on-the-job training to chronically unemployed job candidates. The company has combined this with support for local community service organizations, which identify, screen, and refer the candidates to Marriott. The net result is both a major benefit to communities and a reduction in Marriott's cost of recruiting entry-level employees. Ninety percent of those in the training program take jobs with Marriott. One year later, more than 65% are still in their jobs, a substantially higher retention rate than the norm.

When value chain practices and investments in competitive context are fully integrated, CSR becomes hard to distinguish from the day-to-day business of the company. Nestlé, for example, works directly with small farmers in developing countries to source the basic commodities, such as milk, coffee, and cocoa, on which much of its global business depends. (See the sidebar "Integrating Company Practice and Context: Nestlé's Milk District.") The company's investment in local infrastructure and its transfer of world-class knowledge and technology over decades has produced enormous social benefits through improved health care, better education, and economic development, while giving Nestlé direct and reliable access to the commodities it needs to maintain a profitable global business. Nestlé's distinctive strategy is inseparable from its social impact.

**Creating a social dimension to the value proposition.** At the heart of any strategy is a unique value proposition: a set of needs a company can meet for its chosen customers that others cannot. The most strategic CSR occurs when a company adds a social dimension to its value



proposition, making social impact integral to the overall strategy.

Consider Whole Foods Market, whose value proposition is to sell organic, natural, and healthy food products to customers who are passionate about food and the environment. Social issues are fundamental to what makes Whole Foods unique in food retailing and to its ability to command premium prices. The company's sourcing emphasizes purchases from local farmers through each

store's procurement process. Buyers screen out foods containing any of nearly 100 common ingredients that the company considers unhealthy or environmentally damaging. The same standards apply to products made internally. Whole Foods' baked goods, for example, use only unbleached and unbromated flour.

Whole Foods' commitment to natural and environmentally friendly operating practices extends well beyond sourcing. Stores are constructed using a minimum of

### Integrating Company Practice and Context Nestlé's Milk District

Nestlé's approach to working with small farmers exemplifies the symbiotic relationship between social progress and competitive advantage. Ironically, while the company's reputation remains marred by a 30-year-old controversy surrounding sales of infant formula in Africa, the corporation's impact in developing countries has often been profoundly positive.

Consider the history of Nestlé's milk business in India. In 1962, the company wanted to enter the Indian market, and it received government permission to build a dairy in the northern district of Moga. Poverty in the region was severe; people were without electricity, transportation, telephones, or medical care. A farmer typically owned less than five acres of poorly irrigated and infertile soil. Many kept a single buffalo cow that produced just enough milk for their own consumption. Sixty percent of calves died newborn. Because farmers lacked refrigeration, transportation, or any way to test for quality, milk could not travel far and was frequently contaminated or diluted.

Nestlé came to Moga to build a business, not to engage in CSR. But Nestlé's value chain, derived from the company's origins in Switzerland, depended on establishing local sources of milk from a large, diversified base of small farmers. Establishing that value chain in Moga required Nestlé to transform the competitive context in ways that created tremendous shared value for both the company and the region.

Nestlé built refrigerated dairies as collection points for milk in each town and sent its trucks out to the dairies to collect the milk. With the trucks went veterinarians, nutritionists, agronomists, and quality assurance experts. Medicines and nutritional supplements were provided for sick animals, and monthly training sessions were held for local farmers. Farmers learned that the milk quality depended on the cows' diet, which in turn depended on adequate

feed crop irrigation. With financing and technical assistance from Nestlé, farmers began to dig previously unaffordable deep-bore wells. Improved irrigation not only fed cows but increased crop yields, producing surplus wheat and rice and raising the standard of living.

When Nestlé's milk factory first opened, only 180 local farmers supplied milk. Today, Nestlé buys milk from more than 75,000 farmers in the region, collecting it twice daily from more than 650 village dairies. The death rate of calves has dropped by 75%. Milk production has increased 50-fold. As the quality has improved, Nestlé has been able to pay higher prices to farmers than those set by the government, and its steady biweekly payments have enabled farmers to obtain credit. Competing dairies and milk factories have opened, and an industry cluster is beginning to develop.

Today, Moga has a significantly higher standard of living than other regions in the vicinity. Ninety percent of the homes have electricity, and most have telephones; all villages have primary schools, and many have secondary schools. Moga has five times the number of doctors as neighboring regions. The increased purchasing power of local farmers has also greatly expanded the market for Nestlé's products, further supporting the firm's economic success.

Nestlé's commitment to working with small farmers is central to its strategy. It enables the company to obtain a stable supply of high-quality commodities without paying middlemen. The corporation's other core products—coffee and cocoa—are often grown by small farmers in developing countries under similar conditions. Nestlé's experience in setting up collection points, training farmers, and introducing better technology in Moga has been repeated in Brazil, Thailand, and a dozen other countries, including, most recently, China. In each case, as Nestlé has prospered, so has the community.

virgin raw materials. Recently, the company purchased renewable wind energy credits equal to 100% of its electricity use in all of its stores and facilities, the only *Fortune* 500 company to offset its electricity consumption entirely. Spoiled produce and biodegradable waste are trucked to regional centers for composting. Whole Foods' vehicles are being converted to run on biofuels. Even the cleaning products used in its stores are environmentally friendly. And through its philanthropy, the company has created the Animal Compassion Foundation to develop more natural and humane ways of raising farm animals. In short, nearly every aspect of the company's value chain reinforces the social dimensions of its value proposition, distinguishing Whole Foods from its competitors.

Not every company can build its entire value proposition around social issues as Whole Foods does, but adding a social dimension to the value proposition offers a new frontier in competitive positioning. Government regulation, exposure to criticism and liability, and consumers' attention to social issues are all persistently increasing. As a result, the number of industries and companies whose competitive advantage can involve social value propositions is constantly growing. Sysco, for example, the largest distributor of food products to restaurants and institutions in North America, has begun an initiative to preserve small, family-owned farms and offer locally grown produce to its customers as a source of competitive differentiation. Even large global multinationals—such as General Electric, with its “ecomagination” initiative that focuses on developing water purification technology and other “green” businesses, and Unilever, through its efforts to pioneer new products, packaging, and distribution systems to meet the needs of the poorest populations—have decided that major business opportunities lie in integrating business and society.

### Organizing for CSR

**I**ntegrating business and social needs takes more than good intentions and strong leadership. It requires adjustments in organization, reporting relationships, and incentives. Few companies have engaged operating management in processes that identify and prioritize social issues based on their salience to business operations and their importance to the company's competitive context. Even fewer have unified their philanthropy with the management of their CSR efforts, much less sought to embed a social dimension into their core value proposition. Doing these things requires a far different approach to both CSR and philanthropy than the one prevalent today. Companies must shift from a fragmented, defensive posture to an integrated, affirmative approach. The

focus must move away from an emphasis on image to an emphasis on substance.

The current preoccupation with measuring stakeholder satisfaction has it backwards. What needs to be measured is social impact. Operating managers must understand the importance of the outside-in influence of competitive context, while people with responsibility for CSR initiatives must have a granular understanding of every activity in the value chain. Value chain and competitive-context investments in CSR need to be incorporated into the performance measures of managers with P&L responsibility. These transformations require more than a broadening of job definition; they require overcoming a number of long-standing prejudices. Many operating managers have developed an ingrained us-versus-them mind-set that responds defensively to the discussion of any social issue, just as many NGOs view askance the pursuit of social value for profit. These attitudes must change if companies want to leverage the social dimension of corporate strategy.

Strategy is always about making choices, and success in corporate social responsibility is no different. It is about choosing which social issues to focus on. The short-term performance pressures companies face rule out indiscriminate investments in social value creation. They suggest, instead, that creating shared value should be viewed like research and development, as a long-term investment in a company's future competitiveness. The billions of dollars already being spent on CSR and corporate philanthropy would generate far more benefit to both business and society if consistently invested using the principles we have outlined.

While responsive CSR depends on being a good corporate citizen and addressing every social harm the business creates, strategic CSR is far more selective. Companies are called on to address hundreds of social issues, but only a few represent opportunities to make a real difference to society or to confer a competitive advantage. Organizations that make the right choices and build focused, proactive, and integrated social initiatives in concert with their core strategies will increasingly distance themselves from the pack.

### The Moral Purpose of Business

**B**y providing jobs, investing capital, purchasing goods, and doing business every day, corporations have a profound and positive influence on society. The most important thing a corporation can do for society, and for any community, is contribute to a prosperous economy. Governments and NGOs often forget this basic truth. When developing countries distort rules



and incentives for business, for example, they penalize productive companies. Such countries are doomed to poverty, low wages, and selling off their natural resources. Corporations have the know-how and resources to change this state of affairs, not only in the developing world but also in economically disadvantaged communities in advanced economies.

This cannot excuse businesses that seek short-term profits deceptively or shirk the social and environmental consequences of their actions. But CSR should not be only about what businesses have done that is wrong—important as that is. Nor should it be only about making philanthropic contributions to local charities, lending a hand in time of disaster, or providing relief to society's needy—worthy though these contributions may be. Efforts to find shared value in operating practices and in the social dimensions of competitive context have the potential not only to foster economic and social development but to change the way companies and society think about each other. NGOs, governments, and companies must stop thinking in terms of “corporate social responsibility” and start thinking in terms of “corporate social integration.”

Perceiving social responsibility as building shared value rather than as damage control or as a PR campaign will require dramatically different thinking in business. We are

convinced, however, that CSR will become increasingly important to competitive success.

Corporations are not responsible for all the world's problems, nor do they have the resources to solve them all. Each company can 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 by creating shared value will lead to self-sustaining solutions that do not depend on private or government subsidies. When a well-run business applies its vast resources, expertise, and management talent to problems that it understands and in which it has a stake, it can have a greater impact on social good than any other institution or philanthropic organization. ▢

1. An early discussion of the idea of CSR as an opportunity rather than a cost can be found in David Grayson and Adrian Hodges, *Corporate Social Opportunity* (Greenleaf, 2004).

2. For a more complete discussion of the importance of competitive context and the diamond model, see Michael E. Porter and Mark R. Kramer, “The Competitive Advantage of Corporate Philanthropy,” HBR December 2002. See also Michael Porter's book *The Competitive Advantage of Nations* (The Free Press, 1990) and his article “Locations, Clusters, and Company Strategy,” in *The Oxford Handbook of Economic Geography*, edited by Gordon I. Clark, Maryann P. Feldman, and Meric S. Gertler (Oxford University Press, 2000).

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*“Some men are born great, some achieve greatness,  
and some are allowed to work for great men like me.”*

ROY DELGADO