Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility

Mark R. Kramer
Senior Fellow
CSR Initiative
Mossavar-Rahmani Center for Business & Government
John F. Kennedy School of Government
Harvard University

www.fsg-impact.org

Boston • Geneva • San Francisco • Seattle
### Four Prevailing Justifications for CSR

<table>
<thead>
<tr>
<th><strong>Moral Obligation</strong></th>
<th>&quot;Achieving commercial success in ways that honor ethical values&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Moral obligations are absolute; No way to balance competing social and economic tradeoffs</td>
<td></td>
</tr>
<tr>
<td>• Varied and contradictory values among managers, regions, and countries</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Sustainability</strong></th>
<th>&quot;Meeting the needs of the present without compromising future needs&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Most useful for environmental issues where improvements can yield immediate economic benefits</td>
<td></td>
</tr>
<tr>
<td>• Intangible and undefined long term consequences provide a weak justification for short term costs</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>License to Operate</strong></th>
<th>&quot;Building goodwill to secure the acquiescence of governments and stakeholders&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cedes control to external players that do not fully understand corporate strategy and operations</td>
<td></td>
</tr>
<tr>
<td>• Encourages short term and disjointed responses to “the squeakiest wheel” of the moment</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Reputation</strong></th>
<th>&quot;Enhancing reputation and brand with customers, investors, and employees&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Little evidence of sustained competitive advantage or insurance against crises</td>
<td></td>
</tr>
<tr>
<td>• Emphasizes what is visible and popular rather than the social and business impact</td>
<td></td>
</tr>
</tbody>
</table>
There Is a Fundamental Interdependence between Business and Society

• The **competitiveness of companies** depends heavily on such things as
  - Improving skill levels
  - Safe working conditions
  - A sense of equal opportunity
  - Low levels of pollution
  - A transparent, corruption-free business environment
  - Trusted rule of law

• The **health of a society** depends on such things as
  - Companies that can create wealth
  - Productive workers
  - Sustainable and efficient use of natural resources
  - Low levels of pollution and environmental degradation
  - Participation in the economy open to all citizens

*The difficulty lies in balancing short-term costs against long-term externalities*
Categorizing Social Issues

- **Generic Social Issues**
  - Social issues that are **not significantly impacted** by the company’s operations, nor **materially affect its long term competitiveness**

- **Value Chain Impacts**
  - Social issues that are **significantly impacted** by the company’s activities in the ordinary course of business

- **Competitive Context**
  - Social issues in the company’s **external environment** that affect the **underlying drivers of competitiveness** in the locations where the company operates

*Which issues falls into each category varies by company, industry, cluster and location*
The Value Chain

- Education & job training
- Safe working conditions
- Diversity & discrimination
- Health care & other benefits
- Compensation
- Layoffs

- Product safety
- Conservation of raw materials
- Recycling

- Disposal of obsolete products
- Handling of consumables (e.g. motor oil, printing ink)
- Customer privacy

- Marketing & advertising (e.g. truthful advertising, advertising to children)
- Pricing practices (e.g. antitrust practices, pricing to the poor)
- Consumer information
- Privacy

Social effects are not static – they evolve with changes in social values and scientific knowledge.
Elements of Competitive Context: The Diamond

- Presence of high quality, specialized inputs available to firms
  - Human resources
  - Physical infrastructure
  - Administrative infrastructure
  - Information infrastructure
  - Technological infrastructure
  - Natural resources

- Demand Conditions
  - Sophistication of local demand
  - Demanding regulatory standards
  - Unusual local demand in specialized segments that can be served nationally and globally

- Context for Firm Strategy and Rivalry

- Factor (Input) Conditions
  - Local suppliers
  - Research institutions and universities
  - Access to firms in related fields
  - Presence of clusters instead of isolated industries

Responsive versus Strategic CSR

**Responsive CSR**

- Good citizenship

**Value Chain Impacts**

- Mitigate harm from value chain activities
- Transform value chain activities to benefit society while reinforcing strategy

**Competitive Context**

- Strategic philanthropy that leverages activities and capabilities to improve salient areas of context

**Strategic CSR**

- Good citizenship
Achieving Superior Performance
Operational Effectiveness is Not Strategy

- Assimilating, attaining, and extending **best practices**
  - Run the same race faster

- Creating a **unique and sustainable** competitive position
  - Choose to run a different race
## Competitive Advantage Depends on Constructing a Unique Value Chain that Lowers Costs or Better Serves a Particular Customer Niche

<table>
<thead>
<tr>
<th>Lowering costs</th>
<th>Better serving a customer niche</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nestlé’s Milk District</strong></td>
<td><strong>Whole Foods Grocery Stores</strong></td>
</tr>
<tr>
<td>Moga region in India was in severe poverty.</td>
<td>Targeted toward consumers concerned about healthy food and environmental issues</td>
</tr>
<tr>
<td>Local milk supply was hampered by small infertile farms, droughts, animal disease, and lack of technology to collect, transport, refrigerate, and pasteurize milk</td>
<td>Stores carry local and organic produce, baked items use unbromated and unbleached flour</td>
</tr>
<tr>
<td>Over 40 years the company developed an infrastructure through technology transfer and investment</td>
<td>Buyers screen out over 100 unhealthy ingredients, purchase fair trade commodities,</td>
</tr>
<tr>
<td>– The company established local dairies in 650 villages, collecting milk from 75,000 farmers</td>
<td>• Meats are from animals raised without antibiotics or hormones,</td>
</tr>
<tr>
<td>– Collection infrastructure was accompanied by veterinarians, nutritionists, agronomists, and quality assurance experts</td>
<td>• Green store construction, environmentally safe cleaning products, garbage hauled to compost centers in biofueled trucks, wind energy credits offset electricity usage</td>
</tr>
<tr>
<td>Nestlé gained a low cost and steady local supply for a basic commodity – core to its global strategy</td>
<td>• Philanthropy directed to Animal Compassion Foundation to promote more humane treatment of farm animals</td>
</tr>
<tr>
<td>Residents of Moga gained improved income, nutrition, schools, medical care, technology, and a higher overall standard of living</td>
<td>• Every aspect of the value chain is tied to the company’s competitive positioning</td>
</tr>
</tbody>
</table>

**Social dimensions represent a new frontier in competitive strategy**