

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

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Four Prevailing Justifications for CSR

Moral Obligation

“Achieving commercial success in ways that honor ethical values”

- Moral obligations are absolute; No way to balance competing social and economic tradeoffs
- Varied and contradictory values among managers, regions, and countries

Sustainability

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

- Most useful for environmental issues where improvements can yield immediate economic benefits
- Intangible and undefined long term consequences provide a weak justification for short term costs

License to Operate

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

- Cedes control to external players that do not fully understand corporate strategy and operations
- Encourages short term 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 or insurance against crises
- Emphasizes what is visible and popular rather than the social and business impact

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

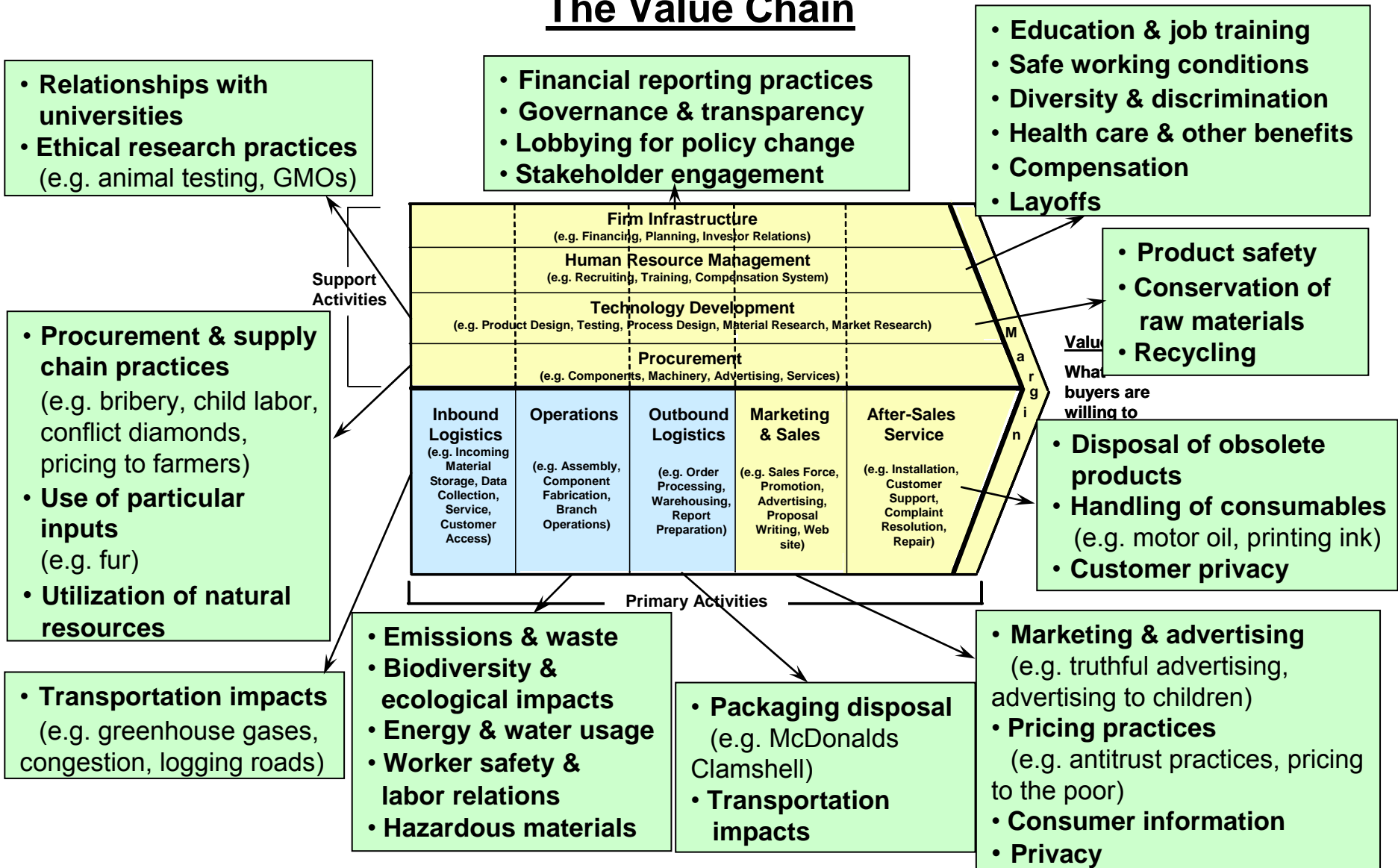
- Social issues that **are significantly impacted** by the **company's activities** in the ordinary course of business

Competitive Context

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

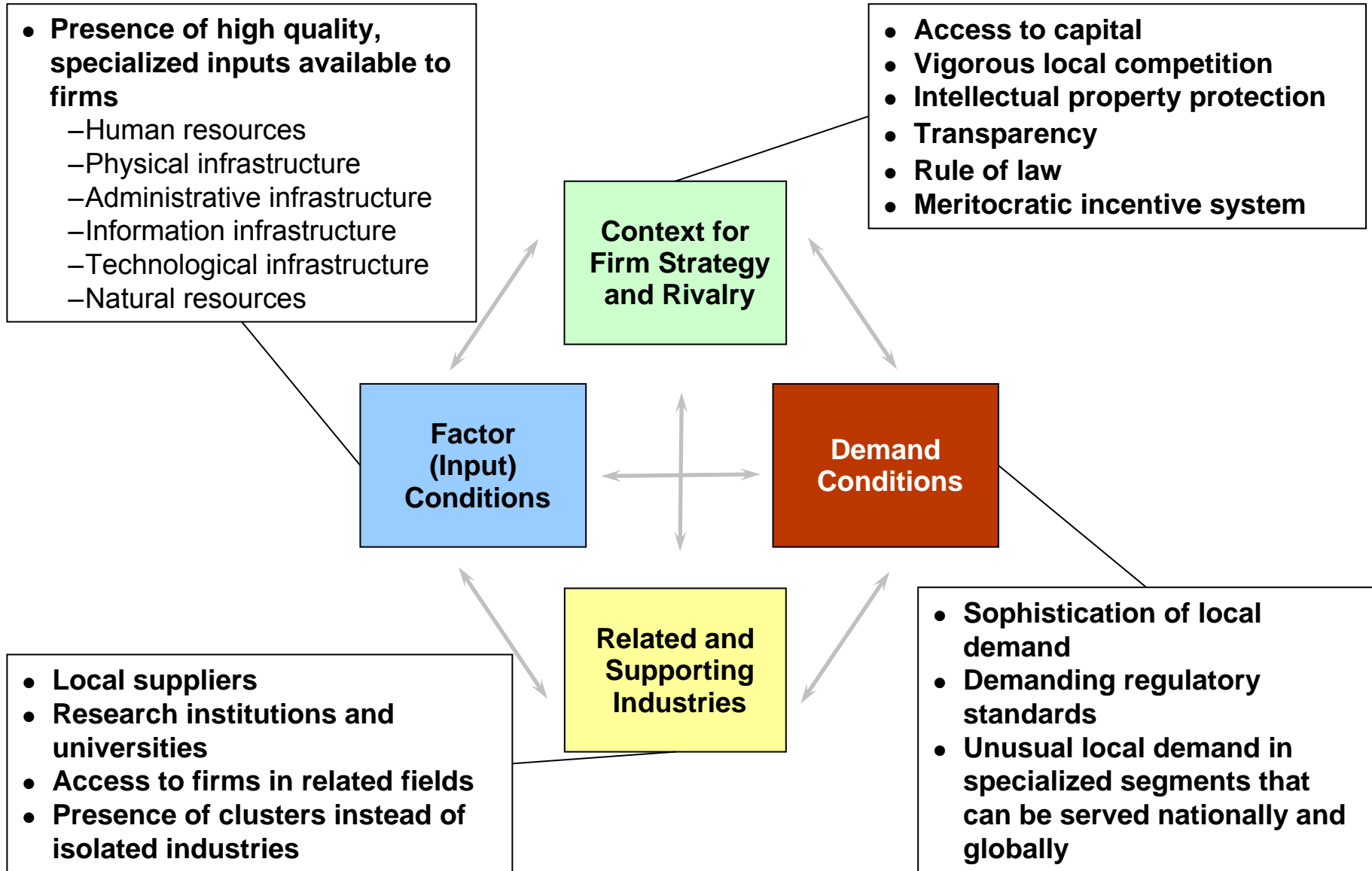
Which issues falls into each category varies by company, industry, cluster and location

The Value Chain

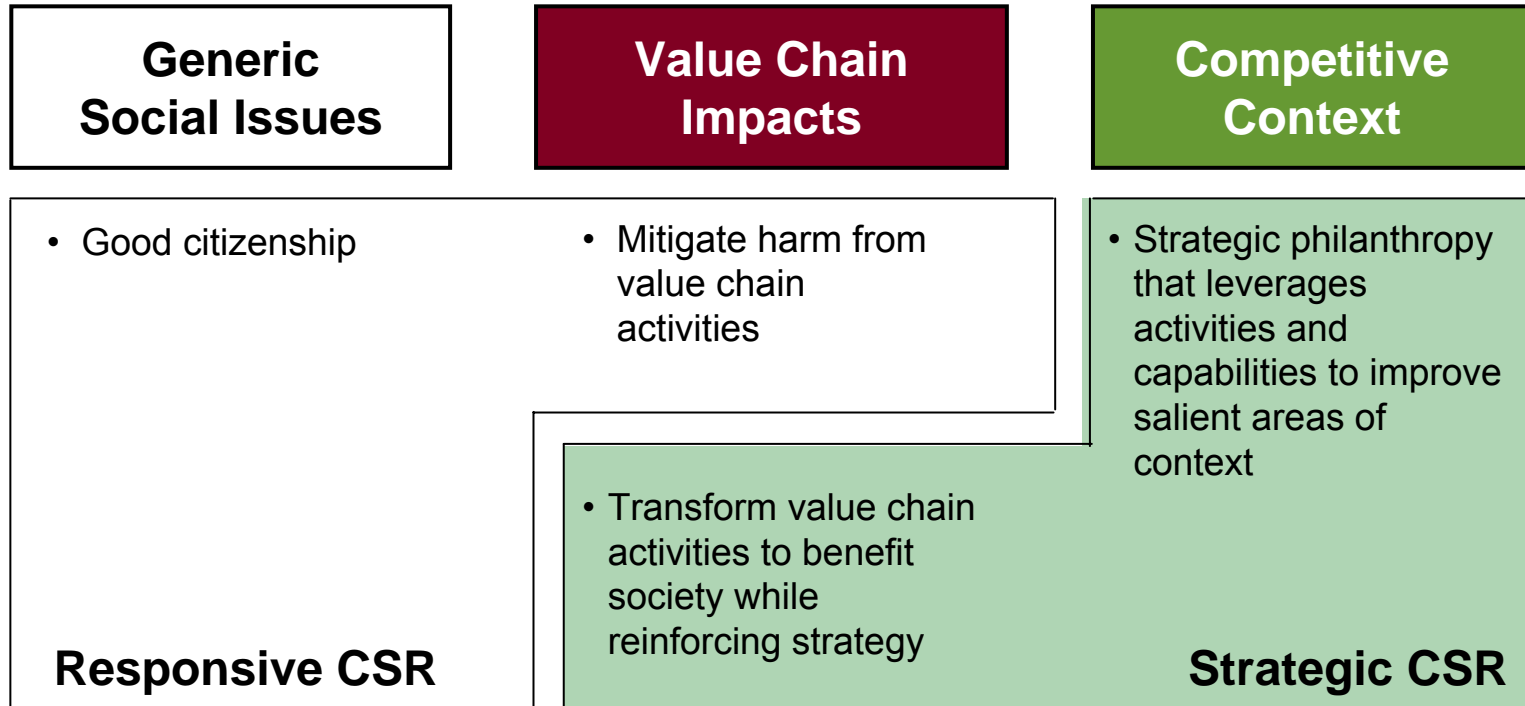


Social effects are not static – they evolve with changes in social values and scientific knowledge

Elements of Competitive Context: The Diamond



Responsive versus Strategic CSR



Achieving Superior Performance

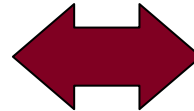
Operational Effectiveness is Not Strategy

Operational Effectiveness

- Assimilating, attaining, and extending **best practices**



Run the same race faster



Strategic Positioning

- 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

Lowering costs Nestlé's Milk District

- Moga region in India was in severe poverty.
- Local milk supply was hampered by small infertile farms, droughts, animal disease, and lack of technology to collect, transport, refrigerate, and pasteurize milk
- Over 40 years the company developed an infrastructure through technology transfer and investment
 - The company established local dairies in 650 villages, collecting milk from 75,000 farmers
 - Collection infrastructure was accompanied by veterinarians, nutritionists, agronomists, and quality assurance experts
- Nestlé gained a low cost and steady local supply for a basic commodity – core to its global strategy
- Residents of Moga gained improved income, nutrition, schools, medical care, technology, and a higher overall standard of living

Better serving a customer niche Whole Foods Grocery Stores

- Targeted toward consumers concerned about healthy food and environmental issues
- Stores carry local and organic produce, baked items use unbromated and unbleached flour
- Buyers screen out over 100 unhealthy ingredients, purchase fair trade commodities,
- Meats are from animals raised without antibiotics or hormones,
- Green store construction, environmentally safe cleaning products, garbage hauled to compost centers in biofueled trucks, wind energy credits offset electricity usage
- Philanthropy directed to Animal Compassion Foundation to promote more humane treatment of farm animals
- Every aspect of the value chain is tied to the company's competitive positioning

Social dimensions represent a new frontier in competitive strategy