Demonstrating a Commitment to Corporate Social Responsibility Not Simply Shared Value

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Abstract: Porter and Kramer (2006, 2011) are very clear that shared value is not corporate social responsibility. Not only do they criticize the four principles on which CSR rests: moral obligation, sustainability, license to operate, and reputation, as ineffective and vague, they maintain that the only reason for companies to engage in sustainability projects is to decrease costs and thus increase profits, not because they have a corporate responsibility to help protect the environment the people who dwell in it. Because social problems cause extra costs for companies and thus decrease profits, they say that companies should have strategies that might appear to be socially responsible, but are not because the intent is to improve profits. This paper will describe the current definitions and focus of CSR, explain shared value, and then propose ways that commitment to CSR can be made public by leaders and their businesses, such as using social license to operate, third-party assessors, and new business structures.

Key Words: corporate social responsibility, shared value, social license to operate, third party assessment, benefit corporation

A new business strategy called ‘Shared Value’ was proposed by Porter and Kramer in 2006 and developed in 2011. The latter paper was titled “Creating Shared Value: How to reinvent capitalism—and unleash a wave of innovation and growth” with a subtitle: “Capitalism is under siege... Diminished trust in business is causing political leaders to set policies that sap economic growth... Business is caught in a vicious circle... The purpose of the corporation must be redefined around Shared Value” (62). They maintain that today in order for
capitalism to thrive, companies must realize that the needs of society, not just
individuals, define markets. Shared value rests on Friedman’s (1970) definition
of social responsibility that “there is one and only one social responsibility of
business—to use its resources and engage in activities designed to increase its
profits so long as it stays within the rules of the game” (32).

Porter and Kramer (2011) make the distinction that “shared value is not so-
cial responsibility, philanthropy, or even sustainability, but a new way to achieve
economic success” (64). Shared value is a strategy that allows corporations to
engage in sustainability projects because this increases profit by decreasing
costs, not because they have a corporate responsibility to help protect the envi-
ronment and the people who dwell in it. According to Kramer, “This is not about
companies being good or bad, it’s about galvanizing companies to exploit the
market in addressing social needs” (as cited in Lohr 2011, 9). Jeffrey Immelt,
CEO of General Electric (GE), whom Porter and Kramer (2011) extol for the
Ecomagination program, which applies new technology to reduce energy con-
sumption, recently said of that program, “We did it from a business standpoint
from Day 1. It was never about corporate social responsibility” (as cited in Lohr
2011, 13).

This strategy creates a dilemma for those business leaders who have a sin-
cere commitment to corporate social responsibility. Since initiatives and projects
that are based on shared value may look identical to those undertaken because
they are part of being socially responsible, how can one be distinguished from
the other? How does the ethical business leader demonstrate that his or her
company is not undertaking a social initiative to increase profit but to help the
community? This paper will describe the current definitions and focus of CSR,
explain shared value, and then propose ways that commitment to CSR can be
identified by a business for its stakeholders.

Current Directions of Corporate Social Responsibility

Although there are different definitions of corporate social responsibility (CSR),
the term has an ethical responsibility focus; it focuses on doing right by the com-
munity and the environment, while also doing right by shareholders by making
a profit. The definitions include requirements for ethical behavior in all parts of
the business process, from the workplace to the supply chain and the community
(Corporate Social Responsibility Initiative 2010). CSR calls for ethical behav-
ior by leaders and followers that contributes to the economic development of
the society and the quality of life of workers and local communities, as well as
minimizing the environmental impact of products and services, all while making
a profit to ensure the competitiveness of the company (Cramer 2006; Holme and Watts 2000).

The current focus of CSR has moved from charity and philanthropy to social justice and engagement of all stakeholders, not just shareholders. Keys, Malnight, and van der Graaf (2009) claim that the focus in their matrix has moved to partnering, which benefits business and society, from either only benefiting society through philanthropy and funding social projects or benefiting business through propaganda. Only partnering is high on both benefit to society and benefit to business, but it requires collaboration with partners through open communication and transparency of goals and plans. McComb (2002) also focused on transparency when he said that CSR is a corporate philosophy that includes ethical values as well as compliance with legal requirements in developing business strategy and making decisions, thus moving the need for transparency to respect for individuals and communities rather than simply respecting the law.

The Corporate Social Responsibility Initiative at Harvard’s John F. Kennedy School of Government (2010) focused on CSR as part of strategy by addressing how companies make their profit, not just how they spend it, which includes how companies manage the economic, social, and environmental effects of their processes and supply chains. The European Commission (2010) focused on this ‘how’ as well, recommending that the integration of those effects involve voluntary interacting with all stakeholders, from employees and communities to government entities. “Companies are facing new demands to engage in public-private partnerships and are under growing pressure to be accountable not only to shareholders, but also to stakeholders such as employees, consumers, suppliers, local communities, policymakers, and society-at-large” (Corporate Social Responsibility Initiative 2010, 6). Since CSR is voluntary, and it is used to meet or exceed stakeholder expectations and to integrate social, ethical, and environmental concerns with measures of revenue, profit, and legal obligation, it is increasingly involved in issues that cross national lines like poverty, disease, and global warming. International corporations may be in a better position to address these than even local governments. Yankelovich commented that CSR is a “way of building what my colleagues call ‘trust equity,’ and I think it will prove to be a major competitive asset in the future” (“Exploring Business’s Social Contract,” as cited in Medonca and Mille 2007, 3). It is the trust element along with transparency that distinguishes CSR from shared value. It is also intent that distinguishes a promise to do well and do good from a strategy that includes doing good as a means of doing well.
When Porter and Kramer (2006) first considered the “link between competitive advantage and Corporate Social Responsibility” (78), they criticized CSR for being too generic and recommended that social projects be undertaken that supported a company’s business strategy. They argued that the four principles on which CSR rests: moral obligation, sustainability, license to operate, and reputation, offer “insufficient guidance for the difficult choices corporate leaders must make” (82). In terms of stakeholders they argued that, although stakeholders’ needs are important, “these groups can never fully understand a corporation’s capabilities, competitive positioning, or the trade-offs it must make” (82). Thus, although a company can consider social issues, “A corporate social agenda looks beyond community expectations to opportunities to achieve social and economic benefits simultaneously” (85). In 2011, they declared that companies should solve social problems through business strategies not social strategies, “creating economic value in a way that also creates value by addressing its needs and challenges” (65). Crane, Palazzo, Spence, and Matten (2014) argue that Porter and Kramer (2011) “ignore several decades of work exploring the business case for CSR. Whether or not it pays to engage in CSR has always been one of the main research questions” (134).

Porter and Kramer (2011) observe that companies’ influence in solving social problems decreased as they became more disconnected from the communities in which they operated, and from the entities that governed those communities; this disconnect increased the cost of doing business. They justify addressing social problems by arguing that by solving social problems, costs to the companies of those problems are decreased, and thus profits are increased. Thus, these companies have a business need to help solve social problems if solving them will lead to increased profits through decreased costs. For example, lack of infrastructure may increase costs by delaying delivery of raw materials and finished goods. Lack of an energy or technological structure in a country may increase costs for communication and operations if new technologies cannot be used. Lack of good public education may increase costs by requiring training to reach normal productivity levels. Lack of openness in society may increase costs of labor by requiring importing workers. Lack of access to decent jobs and financing may limit the demand for products produced by the company and the ability of local people to develop their own small companies to supply the multinational one.

Thus, shared value would justify funding for new infrastructure like roads or water or power plants by the company, if lack of these increases costs. Funding
training and education programs in countries that lacked a trained workforce could decrease the cost of developing a new market or increasing a current market, and thus increase profits. Decreasing the cost of doing business can, additionally, help the community afford the company’s products. Shared value posits that the community is helped because it has new roads or more water or access to electricity; thus, the intent of decreasing costs and improving profits is instrumental in providing better quality of life for the people.

Porter and Kramer (2011) recommend using cluster development where companies and their suppliers of materials, education, and technology are located in one geographical area. Thus, the costs of building infrastructure or providing education or developing technology can be shared and projects can be restricted to only the areas that support the companies’ needs. This cluster development gives the group more power than individual companies with people in the community and with government.

Porter and Kramer (2011) point to the example of Yara, a Norwegian fertilizer company, as an example of a successful ‘shared value’ initiative. After realizing that the lack of roads prevented farmers in Africa from access to fertilizer that could increase their yields and markets for their products in Mozambique and Tanzania, it invested $60 million to improve ports and roads for an agricultural corridor. Working with the local governments and the Norwegian government, it expects this will help 200,000 small farmers and create 350,000 new jobs. Yara is doing this in order to grow its business in a new market, not because it believes it has an ethical responsibility to the people or environment in which it is operating.

The Distinction Between CSR and Shared Value

Thus far, results of shared value strategies appear to be very similar to the results of corporate social responsibility strategies. But the distinctions made by Porter and Kramer (2011) are significant. They identify the value of CSR as “doing good” but the value of shared value as “economic and societal benefits relative to cost” and CSR as “separate from profit maximization” and shared value as “integral to profit maximization” (75). One consequence of this difference is in commitment to the social benefit if and when it no longer produces desired profit. Thus, if a water shortage or energy shortage or a political upheaval affected agricultural productivity such that Yara would no longer make a profit, it would have no ethical obligation to spend money to help solve these problems if it could not see future profit, or remain in the country if profits do not match goals. “Critical to the shared value concept, Epstein and Yuthas note the extreme
difficulty, even impossibility, of maintaining both social and financial goals, even where this is the expressed purpose of the initial mission” (Crane, Palazzo, Spence, and Matten 2014, 136)

A case similar to Yara occurred in Guinea, South Africa. A public-private program distributed newly developed rice seeds that were resistant to drought, pests, and disease to local farmers. The new type of seed required fertilizer, and seeds from old plants could not be reseeded; new seeds had to be purchased each year. The program enlisted the help of fertilizer companies to supply the fertilizer through the program. The first few years the harvests were bountiful and the farmers bought more land, planted more rice, and hired more workers. Then in 2005, the fertilizer companies increased their price as their market increased, and the program had no fertilizer to sell to the farmers. The program tried to enlist the government for help, and also tried to buy fertilizer on the open market. Both attempts failed. Without the fertilizer, the harvest was poor, and farmers could not afford seeds for the next year. Most were forced to give up their farms; farm workers were out of jobs, as were those workers who supported the farming industry (Dugger 2007). Although this example demonstrates one of the problems Porter and Kramer (2006) have with CSR programs through NGOs, it also demonstrates that intent is important. Companies using shared value may not have an intent to do good unless it provides profit; thus, they have no duty to help if new problems arise that decrease their profit. They can exit a community leaving projects that are not complete or create an environment in which the community must pay extra for services it did not want to begin with.

These examples illustrate that the concept of shared value does not match the ethical foundation of corporate social responsibility. In CSR, initiatives that develop infrastructure or educate people or develop ways to use water more efficiently or decrease pollution are done because all of these create a better community that can continue that social benefit on its own, not just because they decrease the cost of doing business and thus increase profit. There is a commitment borne of social justice that does not allow exiting a market because costs do not decrease or a government changes its tax laws. Ethical CSR theories focus “on the right thing to achieve a good society” (Garriga and Melé 2004, 64), which includes focus on stakeholders, universal rights, sustainable development, and the common good. Stakeholders are not just recipients of a company’s activities, such as jobs or roads, but the stakeholders must be partners in the development of companies’ plans, and this requires that understanding stakeholders’ values are necessarily and explicitly a part of doing business.
Establishing Corporate Responsibility Commitment

The problem then for companies who intend to practice corporate social responsibility based on ethical values is that their CSR initiatives can look like shared value, in which case the commitment to the community and social justice is absent. Since, as Crane, Palazzo, Spence, and Matten (2014) correctly point out there is always a conflict between doing good and making profit, the leader and company that opt for Kant’s (2001) duty or Rawls’s (1971) justice requirements will have to make choices. They may have to make less profit in order to ensure that all stakeholders are treated fairly with respect and as ends not means. Crane, Palazzo, Spence, and Matten (2014) acknowledge that the failure to address the conflict between social and economic goals is true of CSR and shared value. “Thus what Reich [2007] has criticized with regard to CSR in general, might be in particular true for CSV [Creating Shared Value]: that is, instead of promoting the common good, CSV might promote more sophisticated strategies of greenwashing” (as cited in Crane, Palazzo, Spence, and Matten 137). The global responsibilities that De George (1986) cites for international companies operating in developing countries can provide ethical direction for this conflict:

Multi-national corporations operating in developing countries should do no intentional direct harm; Produce more good than bad for the host country; Contribute by their activities to the host country’s development; Respect the human rights of their employees; Pay their fair share of taxes; Respect the local culture and work with it, not against it, to the extent that the local culture does not violate moral norms; Cooperate with the local governments in the development and enforcement of just background institutions; Not transfer American methods and practices into another country; and Adapt those methods and practices so that they work with local customs. (264)

The trust and intent that is inherent in successful partnering requires a focus on stakeholders as partners: business understands stakeholders’ needs and concerns, and stakeholders understand business needs and strategies. The process can be time consuming “but when both sides see win-win potential there is greater motivation to realize the substantial benefits” and this may lead to long-term relationships that when “built on a realistic understanding of the true strengths on both sides—have a greater opportunity of being successful and sustainable” (Keys, Malnight, and van der Graaf 2009, 11). Through using the concepts described by Donaldson and Dunfee (1994) in their Global Integrative Social Contracts Theory, business leaders can establish shared goals that demonstrate ethical corporate responsibilities.
social responsibility. Holme and Watts (2000) saw the need for a focus on stakeholders: “The essence of corporate responsibility is to recognize the value of external stakeholder dialogue. Because of this, we place stakeholder engagement at the center of CSR activity” (15). Crane, Palazzo, Spence, and Matten (2014) criticize Porter and Cramer (2011) for ignoring “a well-developed stream of work around creating value within the stakeholder management literature” (135). They point to Freeman’s (1994) focus on value creation, and Donaldson and Preston’s stakeholder theory to underscore examples in the literature. The descriptive level of stakeholder theory “embraces the social reality that corporations affect and are affected by society” (Crane, Palazzo, Spence, and Matten 2014, 143). “Sound management takes the linkages to all those groups in society into account” at the instrumental level” (Crane, Palazzo, Spence, and Matten 2014, 143). The normative level is the foundation for providing the rights of stakeholder groups “with some legitimate ‘stake’ in how the firm is run” (Crane, Palazzo, Spence, and Matten 2014, 143).

Identifying Intended Corporate Social Responsibility

How then does a company communicate that its initiatives are ethical CSR and not just shared value? One way is to focus on open communication and establishing trust with all of its stakeholders that will result in mutually agreed on outcomes to produce economic, social, and environmental improvement. This can lead to using a formal license to operate with community members, or to a new form of corporation called the benefit corporation, or to a new certification called the certified B Corp, all of which requires a commitment to social responsibility. Another way is to submit CSR plans and outcomes to external evaluators who will apply standards to evaluate those outcomes.

Social Contracts

“In addition to caricaturing CSR, Porter and Kramer also fail to acknowledge that their ideas on the simultaneous creation of social and economic value for multiple stakeholders have already been well developed in the existing literature” (Crane, Palazzo, Spence, and Matten 2014, 134). Social License to Operate (SLO) is a contract that is a result of partnering with stakeholders. Crane, Palazzo, Spence, and Matten (2014) quote Vogel (2005) as arguing that “unfortunately, there is no evidence that behaving more virtuously makes firms more profitable . . . the market for virtue is not sufficiently important to make it in the interest of all firms to behave more responsibly” (136). A Social License to Operate is not part of government, but is granted by the community in which
a company operates because the community is a partner in establishing how the company will operate (The Ethical Funds Company 2009; Slack 2009).

The Social License to Operate was a response to the United Nations initiative, Free, Prior, and Informed Consent (FPIC) that requires companies to gain informed consent from indigenous peoples before they can operate on their land, regardless of a government permit (United Nations 2004). Both SLO and FPIC require that companies meet sustainable development expectations by focusing on the needs and concerns of the communities in which they operate; thus, a community might refuse a contract to a company for a production facility that might lower its water table or increase the price of water or damage the environment (Asmus 2009). Even though a primary purpose of a company is to produce profit, “the legitimacy of the contemporary corporation as an institution within society—its social charter, or “license to operate”—depends on its ability to meet the expectations of an increasingly numerous and diverse array of constituents” (Post, Preston, and Sauter-Sachs 2002, 9).

Collier’s (2007) research underscores the importance of communicating with those who know the community to identify the key economic, social, and political conditions in a country or community. A company may want to help bring desperately needed jobs to a community through manufacturing its products there and offering job training, but it may be an unstable political environment. The CSR initiative would need to address the fact that profit might be only seen in the long term. It may focus only on providing job training that could be transferred to other occupations in case the political environment turned violent. It might want to build a plant that the community could use for other products it could produce itself if the company were forced out of the country. Donaldson and Dunfee’s (1994; 1999) Global Integrative Social Contracts Theory can be used to create collaborative partnerships with stakeholders in the ethical area of CSR. “The considerable success of stakeholder theory in terms of scholarly and practitioner impact, however, has to do with the fact that (on the descriptive and instrumental level) it can still be made compatible with a corporate-centric, economic purpose-oriented view of the firm” (Crane, Palazzo, Spence, and Matten 2014, 143)

When Social License to Operate is used as a part of CSR, profits can increase as a by-product. Royal/Dutch Shell, Chevron Texaco, and the Philippine National Oil Company had a Social License to Operate for an operation to extract natural gas off the coast of Palawan Island in the Philippines. “[B]y working to obtain community consent at a project in the Philippines, Shell may have saved as much as $72 million in project delays, which amounted to a 1,200
percent return on its community consent efforts” (Slack 2008, 9). This decrease in costs and increase in profits was the result of the partnership contract, rather than just a focus on profit, because problems were solved with the stakeholders rather than angry stakeholders complaining to government agencies and causing delays.

The dialogue among stakeholders must involve a genuine attempt on the part of the company to meet serious concerns of stakeholder groups. The stakeholder groups, in turn, must be willing to understand the economic constraints of the company. Only when collaboration has produced a social license to operate that includes metrics, should a project move forward. “The social license requires jointly agreed upon indicators of success. The company and the community jointly define a good outcome, whether it is improved health and education, jobs, infrastructure or protection of the environment” (Kurlander 2001, 10).

**New Organizational Forms that Require CSR**

The benefit corporation is a legal class of corporation administered by the state that is required to create benefit for society by creating a material positive impact on society and the environment as well as for shareholders, and consider nonfinancial interests when making decisions. Thus, it can produce profit, but some of that profit must benefit society, including the environment. Directors must consider the effect of decisions not only on shareholders, but also on other stakeholders, such as workers, community, and the environment. The benefit corporation statues require that employees must be fairly compensated and that stakeholders must be included in governance of the company (Benefit Corp Information Center 2013).

A benefit corporation is required to report on its overall social and environmental performance using recognized third party standards. Twenty U.S. states currently have laws that permit benefit corporations, as do many European countries. Performance metrics in social, environmental, and financial areas must be reported to an evaluator using third party standards. As of September 2013, there were 275 benefit corporations in the United States. They represent Agriculture, Apparel, Arts/Entertainment, Business, Communications, Community, Consulting, Education, Energy, Environmental, Food, Leisure, Logistics, Manufacturing, Marketing, Medical, Publishing, Real Estate, Services, Software, Sustainability, and Web/Internet industries (What is a benefit corporation? 2013). Crane, Palazzo, Spence, and Matten (2014) comment that the benefit corporation meets Porter and Kramer’s (2011) call for a legal form for social
innovation. This is also true of the Certified B Corporation although it is not a legal entity, but a voluntary one.

A Certified B Corporation is one that has completed a certification process sponsored by B Lab. It is similar to Fair Trade certification for coffee, USDA Organic certification for dairy products, or LEED certification for construction. As of February 2014, 954 companies in 60 industries in 32 countries were certified. The certification requires companies to have goals in five impact areas: accountability, employees, consumers, community, and the environment. Although the certification has no legal standing, it gives a company a venue with which to be transparent about its commitment to social goals and submit an annual report detailing its progress in attaining those goals. One advantage of the certification is that it is available in 31 states that have contingency statues in their laws; thus, it can be attained in states that have not enacted the benefit corporation law. B Lab began its certification program in 2007 (bcorporation.net 2013b).

Third-Party Assessors

Ernst Ligteringen, Chief Executive of the Global Reporting Initiative, explained the importance of assurance: “More and more organizations around the world are realizing the importance of their impacts on the economy, the environment and society, and they are starting to report on their performance in those areas” (as cited in “Global Reporting Initiative’s Survey” [Ethics World 2011], 6). The Global Reporting Initiative (GRI) provides sustainability reporting guidelines that establish the principles and performance indicators that organizations can use to measure and report their performance in six categories: Economic, Environment, Social, Human Rights, Society, and Product Responsibility against a global standard. The GRI’s Database is a resource for sustainability reporting information in 15,000 reports from 6,000 organizations in 38 sectors. The 2013 KPMG International Survey of Corporate Responsibility Reporting found that corporate social responsibility was reported by 93 percent of the world’s largest 250 companies and that 82 percent of that reporting group used the GRI Guidelines in their reports (Global Reporting Initiative 2013, 23).

Thus, the GRI Website provides a third-party evaluator for those companies who want to demonstrate their CSR commitment, as well as being a source of information for consumers who want to know what companies are engaged in CSR initiatives. The GRI suggests that more companies are having their sustainability reports assured, resulting in more accurate and trustworthy data. Ligteringen added that “Similarly, investors are looking more closely at sustainability data to determine the long-term health of a company. An important way
to ensure that this kind of data is useful, meaningful and accurate is to have the report assured” (as cited in “Global Reporting Initiative’s Survey” [Ethics World 2011], 6).

B Lab is another organization that provides third party assessments of companies from all countries. It promotes public policies and investment incentives for sustainable business. The assessment process requires companies to have goals in five impact areas: accountability, employees, consumers, community, and the environment; there are 130 to 180 factors in the assessment depending on company size and industry that must be addressed. The report on the company will identify the score it received on each factor followed by the number of points available to the company in that category; this recognizes that the size and industry of the company may determine that some factors are not applicable to that company. B Lab also has a Global Impact Investing Rating System (GIIRS), which is a ratings agency and analytics platform for impact investors to help institutional investors consider the corporate social responsibility initiatives of companies (bcorporation.net 2013a).

Conclusion

Porter and Kramer’s (2011) shared value concept removes the responsibility of a company to use ethical values in its treatment of the members of communities and of the environmental in which it operates. By only focusing on the profit motive, the company can decide by itself on the social projects that best benefit its business strategy; its behavior can benefit the communities in which it operates, but the intent of the behavior is to grow markets and profits. Thus, partnerships that are built on transparency and trust that play a key role in corporate social responsibility initiatives are not required. For those companies and business leaders who want to make their commitment to social responsibility known, using Social License to Operate can insure ethical responsibility to stakeholders is maintained. Social License to Operate, which requires companies to understand the stakeholders in the communities in which they operate and work with them in a collaborative way, can lead to long-term strategies that are both socially responsible and profitable.

Becoming a Benefit Corporation or being certified as a Certified B Corp also makes public the company’s commitment to corporate social responsibility by identifying specific goals for providing social benefit. The benefit corporation requires a company explain how it will create a material positive impact on society and the environment in its incorporation papers, as well as for shareholders, and consider nonfinancial interests when making decisions. In order to be
certified as a B Corps, a company must already have specific strategies in place for treating its employees, customers, and suppliers as well as the environment with respect, and improving quality of life.

Using a third-party assessor such as the Global Reporting Initiative or B Lab is also a strategy to focus on a company’s corporate social responsibility programs. GRI’s guidelines establish the principles and performance indicators that are used to measure and report performance in six categories: Economic, Environment, Social, Human Rights, Society, and Product Responsibility against a global standard. B Lab provides third party assessments of companies from all countries that require companies to have goals in five impact areas: accountability, employees, consumers, community, and the environment. Thus, business leaders have many possible avenues through which they can distinguish their social benefit strategies as part of corporate social responsibility, not simply shared value.

References


