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Strategy & Society

The Link Between Competitive Advantage
and Corporate Social Responsibility

Governments, activists, and the media have become adept at holding companies to account for the social consequences of their activities. Myriad organizations rank companies on the performance of their corporate social responsibility (CSR), and, despite sometimes questionable methodologies, these rankings attract considerable publicity. As a result, CSR has emerged as an inescapable priority for business leaders in every country.

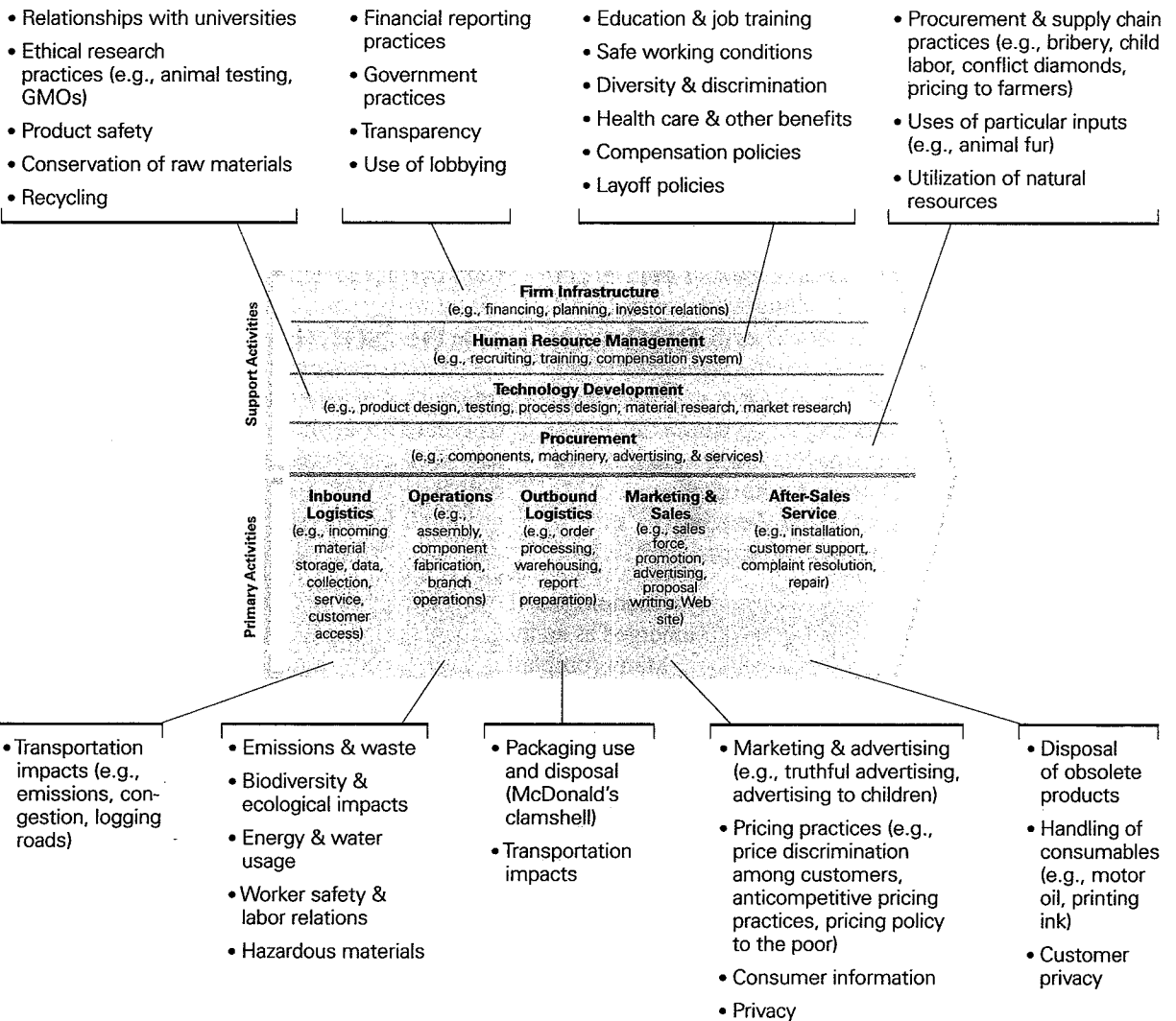
Many companies have already done much to improve the social and environmental consequences of their activities, yet these efforts have not been nearly as productive as they could be—for two reasons. First, they pit business against society, when clearly the two are interdependent. Second, they pressure companies to think of corporate social responsibility in generic ways instead of in the way most appropriate to each firm's strategy.

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.



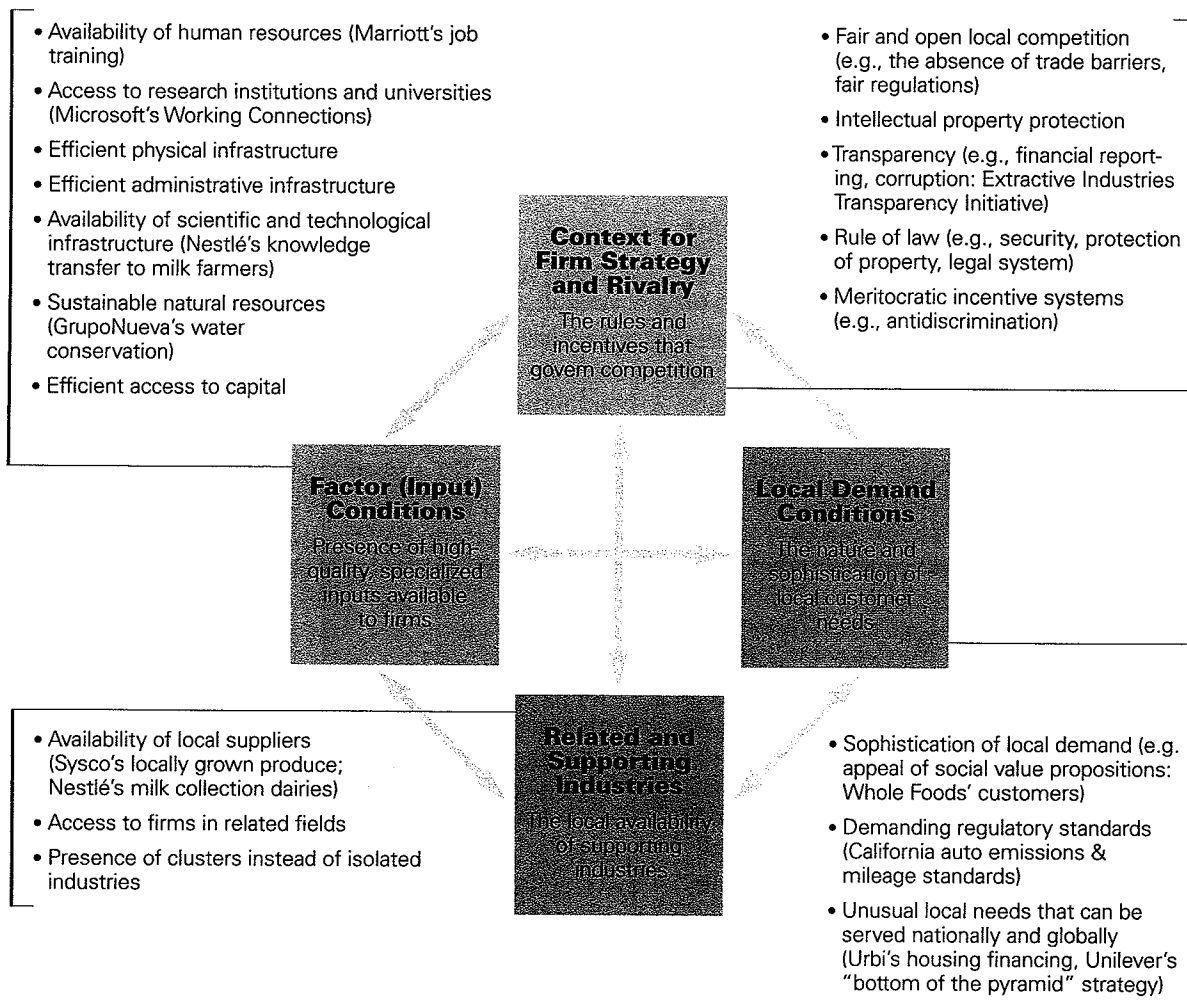
Source: Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, 1985

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

Corporate Involvement in Society: A Strategic Approach

Generic Social Impacts	Value Chain Social Impacts	Social Dimensions of Competitive Context
Good citizenship	Limit harm from value chain activities	Strategic philanthropy
Responsive CSR	Transform value chain activities to benefit society while reinforcing strategy	Strategic CSR