

# CREATING COMPETITIVE ADVANTAGES - THE EUROPEAN CSR-STRATEGY COMPARED WITH PORTER'S AND KRAMER'S SHARED VALUE APPROACH

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# CREATING COMPETITIVE ADVANTAGES – THE EUROPEAN CSR-STRATEGY COMPARED WITH PORTER’S AND KRAMER’S SHARED VALUE APPROACH

## ABSTRACT

In 2011 the European Commission changed the definition and strategy for corporate social responsibility (CSR) with the creation of shared value as a core element of the new concept. In the same year Porter and Kramer published in the Harvard Business Review their approach of creating shared value (CSV) as a core element of long-term business strategies. The starting point of both approaches is the societal legitimation of enterprises to do business. The CSR respective CSV are evaluated to be a mean for reaching this legitimation and to further it to gain back the trust of the society that was lost during the financial crisis. This paper describes the two concepts and analyzes the similarities and differences. From the overall aim and intention, the EU concept has a wider focus and much higher requirements for enterprises. The European Commission assesses CSR as a measure for business to contribute to inclusive growth, employment and well-being of the society. Hence, companies have to take into account that economic, social and environmental targets further include ethical human rights and consumer concerns when developing their long-term business strategy. The CSV of Porter and Kramer also goes beyond the pure business case of CSR because CSV also is defined as a long-term measure which has to be integrated systematically into the strategic core business of companies. The Commission sees the shareholders as just one common group of a company’s stakeholders and gives no preference to them. For Porter and Kramer the simultaneous creation of profit and societal value are decisive.

**Keywords:** Shared value creation, corporate social responsibility, European CSR policy

## 1. Introduction

What the various definitions one can find for corporate social responsibility (CSR) have in common is that most of them refer to the triple bottom line approach of Elkington (1997) that focuses on the simultaneous consideration of economic, environmental and social goals. Various stakeholder groups expect from companies to go beyond economic targets and include sustainability aims in their business strategy. Hereby business is confronted with partly contradictorily perceptions.

Due to the fact that enterprises have leeway in decision-making about their impact on the society and the environment, they are also held responsible for the results of their decisions. Ignoring the expected CSR obligations can lead to threats like e.g. image losses, negative reports in the media or customer boycotts with negative consequences for the economic performance. Hence it is also in the interest of shareholders that managers fulfill basic CSR targets at least in the sense of risk management (Calabrese et al., 2013: 51; Friedman, 1970: 177). On the other hand, companies can gain competitive advantages while fulfilling the environmental and social bottom line and thereby gain competitiveness.

In 2011 the European Commission changed the definition of corporate social responsibility (CSR). According to the new definition, the creation of shared value (CSV) is a core element for companies with their owners and shareholders respectively, as well as for other stakeholders and the society. The commission further evaluates strategic CSR as an important mean for the competitiveness of companies (European Commission, 2011: 3–4).

Also in 2011, Porter and Kramer published a paper in the Harvard Business Review with the title 'Creating Shared Value' (CSV). The authors point out the development of a new strategic business concept that is able to simultaneously create economic and societal value and increase the competitiveness of companies.

While the European Commission sees CSR as a driving concept, Porter and Kramer differentiate CSV from CSR. Hence the question about the common ground and differences of both concepts arises. This analysis further shows the consequences both approaches might have for the development of business strategies.

The paper proceeds as follows: Chapter 2 describes

the methodology. For analyzing both approaches, a content analysis is used. Core elements of both concepts are CSR respective CSV and stakeholders. Therefore chapter 3 gives a brief overview about CSR and stakeholder management. Chapter 4 describes the CSR concept of the EU from 2011. Chapter 5 introduces the CSV concept of Porter and Kramer. In chapter 6 the two approaches are compared and discussed. Here the main commonalities and differences are shown. In chapter 7 the paper ends with a discussion and raises open questions.

## 2. CSR and stakeholders

Carroll (1991: 43) points out: "There is a natural fit between the idea of corporate social responsibility and an organization's stakeholders." Nonetheless, he states the word social might be too vague and therefore it has to be specified to whom the enterprise is responsible. Hence the question occurs who are the stakeholders that the companies should aim at and how these stakeholders should be part of the companies' activities.

Hence, the CSR and the stakeholder theory are interconnected. While the CSR theory has the aim to define the responsibilities that the enterprises are expected to fulfill, the stakeholder theory address the social groups that companies are expected to take into account in their decisions (Jamali, 2008: 228).

In their literature review, Pelozo and Shang (2011: 120–121) found philanthropy to be the dominant motivation for CSR followed by the business case and mixed strategies.

The CSR can be a mean for companies to gain competitiveness (e.g. Husted and Allen, 2007: 598–599; Reefke and Trocchi, 2013: 806; Weber, 2008: 248–251). Competitiveness increase can evolve by:

- Positive effects on the image and reputation of a company,
- Increasing employee's motivation and intention, further advantages in the phase of recruitment,
- Access to capital of investors who are sensitive in respect of sustainable behavior,
- Cost savings and efficiency gains especially from the environmental bottom line, e.g. energy, water and/or waste savings,

- Gaining new customers through sustainable innovations,
- Increasing sales of green products.

Nevertheless, the results about the influence of CSR on firm performance during the last two decades of empirical research are mixed. All has been shown: positive, negative and no relationship (Husted and Allen, 2007: 595; Perrini et al., 2011: 60).

For Windsor (2013: 1940), there is the question of whether there is convincing evidence for a strong negative influence of CSR on financial performance in multiple cases. Otherwise, she argues, it would make sense to follow CSR aims. She concludes that companies can generate more wealth by taking into account CSR than by irresponsible behavior. Barnett and Salomon (2012) however argue that it depends on the capability of firms to capitalize their social responsibility costs of whether it pays for them to be good or not.

Consumer demand for CSR depends on several factors. It is mostly a phenomenon of developed countries and influenced by the country's economic stability. Furthermore, it increases with the educational, social and financial status of the individual person (Claydon, 2011: 415). The empirical research by Pelozo and Shang (2011: 126–127) shows that purchase decisions are mostly product related. Moreover, human responsibilities are a main purchasing factor. One study found that for customers, Carroll's four dimensions are relevant in descending order: the economic, philanthropic, legal and ethical orientation of companies and that these evaluations are influenced by culture; whereas another study found the ethical orientation as most relevant.

Within the scope of stakeholder management, a huge variety of divergent points of view have been expressed. Despite the fact that the importance of stakeholders can be traced back even to Adam Smith, the work of Freeman (1984) can be seen as the starting point for the ongoing discussions and developments in stakeholder theory (Ribeiro Soriano et al., 2011: 227).

Similar to the approaches of CSR, the inclusion or exclusion of stakeholder groups into strategic planning depends finally on the target function of the enterprise. Even if the overall aim still remains pure profit maximization - which is highly under discussion in theory and practice - it is necessary to identify the power and strategic importance of

stakeholders. It is shown in literature that powerful stakeholders are able to extract additional value and that strategically important stakeholders can create value for companies through reciprocity (Harrison and Bosse, 2013: 321). Various stakeholder theories to identify and manage stakeholders and their different interests have been developed (see e.g. the summary in O'Riordan and Fairbrass, 2014: 122–124).

Within the stakeholder theories, two main kinds of stakeholder groups are differentiated. Primary stakeholders with direct and contractual relationships with the enterprise, like shareholders, customers, employees and suppliers, regulators and secondary stakeholders with non-contractual ties, but who may affect or be affected by the enterprise (Pesqueux and Damak-Ayadi, 2005: 6). In the beginning stakeholder management was – comparable to the business case of CSR - seen as an instrument to gain economic success either directly through business transactions or indirectly by increasing trust, reputation, and cooperation or by reducing economic risk. The arguments given here are very similar to the business case of CSR. The focus shifted and today's secondary stakeholder groups like non-governmental organizations (NGOs), media and government are also important for enterprises. Hörisch et al. (2014: 329), referring to Freeman (1984: 25) and Freeman et al. (2010: 9), define therefore stakeholders "... as 'those groups and individuals who can affect or be affected' by the actions connected to value creation and trade."

Most kinds of normative stakeholder theories are based on the social relationship between enterprises and the respective community or society (Crane and Ruebottom, 2011: 79). Companies here have a moral duty towards their stakeholders (O'Riordan and Fairbrass, 2014: 123).

Freeman et al. (2007: 309–313) discuss the question of who in the competition of interests is the dominant group and go on describing the priorities different authors have. This is the state for Keynes, laborers for Marx, the rights of the management for Berle and Means and investors for Friedman. They develop six principles for capitalism, amongst them the principle of continuous creation of value in cooperation with stakeholders. "Business should be about the best that we can create together, rather than about avoiding the worst" (Freeman et al., 2007: 313). Hence enterprises should not focus on a dominant group. Rather they should include

mutual stakeholders' interests. Hörisch et al. (2014: 336–340) therefore propose a model of stakeholder interactions based on the value of sustainability.

A successful business strategy including CSR measures and stakeholders' involvement has to comprise transparency and an effective communication as core elements. According to their transparency attitude, Lahme and Klenk (2013: 158–159) differentiate three types of companies:

1. Companies just fulfilling their legal reporting obligations,
2. Followers who see transparency as important and who are partly transparent,
3. Convinced companies that integrate transparency into their business strategy and equity story and are already in an open dialog with their stakeholders.

For them most Dax-30 and Fortune-500 companies can be characterized as the second type. Within the EU one can find a high diversity between the CSR policies of the EU states. Leading regions are Scandinavia, the Anglo-Saxon region and Central Europe, while many Eastern European states have yet not developed national CSR strategies (Martinuzzi et al., 2011: 35–99).

All in all, one can conclude that literature is not giving a conclusive picture about the consequences of CSR and stakeholder measures for enterprises.

### 3. Methodology

A qualitative content analysis method is used. This method aims at the understanding of a text while analyzing the explicit and implicit content. The qualitative content analysis can be defined as a subjective interpretation of a text by a systematic classification and the identification of themes (Hsieh and Shannon, 2005: 1277). It is no standardized instrument and has to "...be fitted to suit the particular object or material in question and constructed especially for the issue at hand" (Mayring, 2014: 39). Therefore, it is important to work with a category system (Mayring, 2014: 40).

While analyzing both approaches of CSR it is necessary first of all to have a look at the motivation for introducing and, respectively, changing the view on CSR. The first category therefore is the "role

of business in society," to see how both concepts evaluate the societal importance of business. Then the prerequisites for CSR have to be explained. Next, one has to look at the aims which should be reached through CSR. It is further of importance to know which societal groups are addressed by CSR because the inclusion or exclusion of stakeholder groups is essential for the strategic focus of business. Definitely, strategic orientation is an important category because this is the basis of the requirements for business and shows the expectations the authors of both papers have about the business strategy and business behavior. Furthermore, these requirements are the parameters to evaluate business behavior. Moreover of interest is the division of functions between governments and business. Therefore, seven categories for analyzing the two texts are used:

- Role of business in society,
- Prerequisites for CSR,
- Aims,
- Stakeholders,
- Strategic orientation,
- Role of government.

In the first step the content of both concepts are analyzed separately. Then, the findings are compared to evaluate the common grounds and the differences of the approaches.

### 4. The CSR strategy of the European Commission

With the revised definition of CSR in 2011, the European Commission aims to achieve a highly competitive social market economy where companies significantly contribute to sustainable development and inclusive growth. It is part of the Europe 2020 strategy. Until 2011, the European Commission followed the definition of CSR as "... a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission, 2011: 3). The core elements were 'voluntariness' and 'beyond compliance'.

In the renewed EU strategy the Commission underlines the importance of CSR. Voluntariness is

not mentioned any longer. Instead, the Commission expanded the scope of CSR to an integration of CSR into the core business of companies. The European Commission (2011: 3) does not differentiate between philanthropic and strategic CSR and describes the value of CSR for companies as follows: "A strategic approach to CSR is increasingly important to the competitiveness of enterprises. It can bring benefits in terms of risk management, cost savings, access to capital, customer relationships, human resource management, and innovation capacity." In cooperation with their stakeholders companies therefore should create a strategic management process that involves "... social, environmental, ethical human rights and consumer concerns." (European Commission, 2011: 6). Hence the aim of such processes is the maximization of shared value for all three target groups alike: shareholders, other stakeholders and the society. Further, companies should identify, prevent and mitigate their unfavorable impact on these target groups. With this new approach, the CSR has definitely a higher significance for business because it fully overlaps with the core business (Brunn et al., 2013: 6).

The compliance of applicable legislation as well as collective agreements between social partners are seen as prerequisites for CSR. The Commission request especially large companies with a more formal approach to CSR to follow international standards and guidelines. Here, the Commission refers to the OECD Guidelines for Multinational Enterprises, the ten principles of the United Nations Global Compact, the ISO 26000 Guidance Standard on Social Responsibility, the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, as well as the United Nations Guiding Principles on Business and Human Rights.

The Commission encourages companies to apply a long-term strategic CSR that contributes to societal wellbeing. Companies should develop innovative goods of higher quality and provide more productive jobs. The European Commission (2011: 7) describes the multidimensional nature of CSR and differentiates three areas of activities that companies should consider. The first includes four different topics which companies have to apply; therefore, these topics can be evaluated as core requirements, followed by the so-called further parts by cross-cutting issues.

1. Core requirements:
  - Human rights,
  - Labor and employment practices like training, diversity, gender equality and employee health and well-being,
  - Environmental issues like biodiversity, climate change, resource efficiency, life-cycle assessment and pollution prevention,
  - Combating bribery and corruption.
2. Further parts:
  - Community involvement and development,
  - Integration of disabled persons,
  - Consumer interests, including privacy.
3. Cross-cutting issues:
  - Promotion of social and environmental responsibility through the supply-chain,
  - Disclosure of non-financial information.

Furthermore, the European Commission (2011: 3–9) evaluates CSR as a basis for sustainability and an important contribution for businesses to build up long-term trust between them and important stakeholders like employees, consumers and citizens. The Commission points out that all organizations, businesses, governments and the EU itself, needs the trust of the citizens and argues further that the social consequences of the economic crisis have seriously lowered the trust in business. The public attention now focuses on sustainable and responsible business behavior as well as durable employment generation. The Commission diagnoses a gap between these expectations of citizens and their perceived business reality. The reason therefore is seen in the irresponsible behavior of some companies regarding environmental and social issues.

The European Commission (2011: 7) also defines the role of public authorities. Companies themselves are seen as the ones who should lead the development of long term CSR strategies supported by public authorities through a mix of regulations and voluntary policy measures, e.g. incentives for responsible business conduct. Public authorities should give enough flexibility to business to innovate and develop CSR strategies according to their specific circumstances. Concrete recommendations for activities are not given, which fits in with the approach of flexibility. Action plans and strategies are

part of the CSR public policies. According to Mulderat (2013: 16), the CSR policy framework can either be implicit, made up by institutions supporting CSR indirectly or explicit, consisting of institutions aiming at CSR. The latter are responsible for designing a strategic and consistent approach to CSR. Further, government contracting should follow new developed and implemented government procurement directives that include CSR measures of companies (Roberts and Markley, 2011: 2).

Summarizing one can state that the shared value concept of the European Commission goes far beyond the three sides of the triple bottom line of Elkington to which many definitions of CSR refer. But words like 'economic success', 'yield' or 'profit' are not even mentioned in the whole paper.

### 5. Porter's and Kramer's shared value concept

Likewise for Porter and Kramer (2011), the purpose of business has to be redefined. Instead of just focusing on profit, companies have to create shared value (CSV) by considering societal needs in their managerial strategy.

Porter and Kramer (2011: 63) are persuaded that their concept of CSV will lead to a major transformation in business thinking and that it "...will drive the next wave of innovation and productivity growth in the global economy. It will also reshape capitalism and its relationship to society. Perhaps most important of all, learning how to create shared value is our best chance to legitimize business again." (Porter and Kramer, 2011: 65).

Porter and Kramer (2011: 65–66) explicitly emphasize that their new concept is not social responsibility. They evaluate corporate social responsibility (CSR) initiatives as a reaction to the external pressure of stakeholders, as an instrument to improve the reputation of companies and state further companies would evaluate the costs involved as necessary expenses. For them the focus of this kind of CSR is a too narrow comprehension hence they differentiate CSV that focuses on both economic and societal yields.

The concept enjoys huge popularity in the business community. That might be the case because it was developed for and with senior managers of global players (Crane et al., 2014: 132). In 2014 the concept was a core topic at the World Economic Forum in

Davos (Ennes, 2014). Major global players like e.g. Nestlé, Wal-Mart or Coca-Cola are applying this concept under the consultancy of FSG (Porter and Kramer, 2011: 71), where Porter and Kramer are members of the Board of Directors.

The definition of CSV is clearly outlined. Both economic and social progress are quantified with value principles. Value itself is measured with the relation of benefits to costs; hence it follows the well-known definition of profit (revenues minus costs). Social enterprises should also aim at shared value, according to Porter and Kramer (2014: 71) a single aim, whether of social or of economic character, is not sufficient any longer.

Porter and Kramer (2011: 66–67) outline three ways of shared value creation:

#### 1. Reconceiving products and markets

In this field the authors differentiate between developed and developing countries. In developed countries they see new market opportunities for products and services that meet societal needs. Their examples include fundamental needs like better nutrition or housing as well as special products for the aging population. Moreover, due to the concentrated purchasing power, underserved markets in poor urban areas can deliver new business opportunities.

In developing countries they focus on the bottom of the pyramid. In this context, Porter and Kramer refer to Prahalad. Prahalad and Hammond (2002) pointed out the business opportunities for multinational companies (MNC) selling products to the poor in developing countries. They evaluate these markets on the one hand, as a source of growth for MNC themselves, on the other hand they state that, due to the increasing competition through MNC, the performance of these markets will increase. Hence, customers have advantages and enjoy higher quality products and/or better services than the ones delivered by international development agencies or national governments. The identification of societal needs, benefits and harm is seen as a prerequisite to develop products and markets for shared value.

#### 2. Redefining productivity in the value chain

Porter and Kramer refer to the correlation between societal problems and economic costs.

These are further fields for shared value creation. They explicitly name different issues "... natural resource and water use, health and safety, working conditions, and equal treatment in the workplace" (Porter and Kramer, 2011: 66–67). They state that even without governmental regulation or resource taxes externalities can create internal costs. For illustration they use the example of excess product packaging. They list different fields where environmental or social improvements serve both the company and the supply chain members.

### 3. Enabling local cluster development

Companies have various relations to other companies, suppliers, service providers, institutions and the communities they are working in. Also, they depend on infrastructure. Porter and Kramer see a variety of options for value creation that only can be achieved in co-operation with these partners.

Government regulations, under certain conditions, are evaluated to stimulate shared value creation of business by focusing on measurable social improvement and by setting:

- clear and measurable social goals,
- resource prices reflecting the real costs,
- performance standards without specifying how to achieve them, because these are competitive parameters,
- phase-in periods for meeting standards,
- universal measurement and performance-reporting systems, where governments are providing the infrastructure for benchmarking data,
- efficient and timely result reports instead of detailed and expensive compliance reports,
- regulations against behaviors that benefit business at the expense of the society.

Government regulations therefore might have a positive impact on CSV but should not be too restrictive. Otherwise business might be delimited in the development of innovative and promising new CSV concepts.

## 6. Evaluation and comparison

- The European Commission's strategy

In the new strategy of the Commission, CSR and shared value creation becomes the main aim of business. The former approach of voluntariness disappeared. CSR is seen as an important tool to redefine the purpose and the legitimization of business in the society. The Commission goes with the new definition definitively beyond the triple bottom line approach. Besides economic, social and environmental goals, companies have to include ethical human rights and consumer concerns into their long-term strategy. That widens the scope significantly (Martinuzzi et al., 2011: 21).

Shareholders are just one of the groups of diverse stakeholders. They have no particular position. Arguments like the one of Smith (2007: 191) that economic success both in the short and in the long run is a prerequisite for all other activities of companies because it builds the indispensable basis for all other activities are not mentioned. Roberts and Markley (2011: 1) criticize the sight of the European Commission as follows: "In this definition, a company is not really a business but rather an agency administering the distribution of 'shared value' to its 'triple bottom line' constituencies."

Trust is an important element in the strategy of the Commission. They argue that business lost trust in the last economic crisis. According to Edelman's Trust Barometer (Edelman, 2014), globally people have more trust in NGOs (64% of the respondents) than in business (58% of the respondents). Trust in business in general is lower in developed than in developing countries and varies depending on industry sectors and the location of the headquarters. Nonetheless, business is in the second place in this survey whereas trust in media and especially in governments not only decreases but more than half of the respondents distrust their governments.

Roberts and Markley (2011: 3) remark "that private companies become 'responsible' only by meeting codes such as ISO 26000 and must be thrust into a quasi-governmental role in order to address challenges facing modern society. However, not only do companies already provide many valuable benefits to peoples and socie-



ties around the world, but the challenges facing modern society will be met only by effective and responsible government, a vibrant civil society, and a dynamic economy.”

- Porter's and Kramer's CSV

Pirson (2012: 32) points out that business in a broader sense always creates a shared value, and contractual relationships between companies and customers, suppliers and employee have to be beneficial for both sides; hence, “... the novelty of the argument [of Porter and Kramer] must lie in a substantial recalibration of social value and financial value creation.”

This is definitely the case in the approach of Porter and Kramer. They expect from all kinds of companies to integrate societal aims in their target function and their business strategy.

This evaluation is in line with Crane et al. (2014: 133) who critically analyze the concept of Porter and Kramer. They likewise highlight the fact that social goals are becoming elements of companies' strategic management. Furthermore they emphasize that Porter and Kramer are able to persuade both managers and scholars, with what they call the Porter effect.

Indeed this fact should not be underestimated. It is important that leading managers of global players as well as of small and medium companies discuss and apply CSR very seriously and beyond 'green washing' or 'window dressing', which is here defined in the understanding of e.g. Altenburger (2013: 2) where 'green washing' and 'window dressing' are CSR activities with a high public relation focus.

Moreover Crane et al. (2014: 133) emphasize the clear role that government has in this concept, and point out that the role of government normally gets little attention in CSR literature. As another advantage of the approach, they assess the attention Porter and Kramer give to the sustainable supply chain management. As weaknesses they evaluate the approach of Porter and Kramer to be unoriginal, to ignore the tensions between social and economic goals, to be naive about the challenges of business compliance and the CSV to be based on a shallow conception of the role of business in the society. It is remarkable that Crane et al. on the one hand favors

the supply chain argumentation of Porter and Kramer despite the fact that a huge literature on sustainable supply chain management literature already exists, while on the other hand, they criticize the originality of the approach. Without entering the discussion about originality, it is a merit of Porter and Kramer to bring CSV much closer to the business world.

Taking into account the examples Porter and Kramer (2011) list in their article, their understanding of CSV seems to correspond in some respects with strategic CSR. Strategic CSR can be located in between strict compliance of given rules and regulations and good corporate citizenship (Windsor, 2013: 1939). Nonetheless, CSV is going beyond the pure business case approach of CSR because it requires integrating CSV into the core business and the long term strategic alignment of companies. It seems that the combination of business success with either environmental or societal aims is sufficient for creating shared value in the sense of Porter and Kramer. Pfitzer, Bockstette, Stamp, (2013, 1), FSG colleagues of Porter and Kramer, speak about twin goals as the next competitive frontier.

- Comparison

The two approaches have in common that they both redefine the role of business in the society. Profit maximization alone is not any longer sufficient for the legitimization of business. The CSR, i.e. the CSV, is evaluated as a long-term measure which has to be integrated into the strategic core business alignment of companies. Shared value creation is a way to combine business success with societal benefits.

From the overall aim, the concept of the European Commission has a wider focus than the concept of Porter and Kramer. The core requirements of the European Commission are clearly specified. For the European Commission it is the task of business to contribute to inclusive growth and the well-being of the society. CSR is a way to fulfill this task. Shareholder value is integrated and builds one part of shared value creation. Obviously the interests of owners, other stakeholder and the society are evaluated equally (Roberts and Markley, 2011: 1).

Porter and Kramer recommend the application of strategic CSR where profit creation remains an important goal. A double bottom line of either economic and social or economic and environmental value creation is sufficient to reach their understanding of CSV.

The Nestlé case given by Porter and Kramer illustrates the general differences in the perspectives of the two approaches. The authors highlight the social progress in the value chain of Nestlé's Nespresso where the company has implemented various social benefits for their local coffee growers. "Nespresso combines a sophisticated espresso machine with single-cup aluminum capsules containing ground coffees from around the world. Offering quality and convenience, Nespresso has expanded the market for premium coffee" (Porter and Kramer, 2011: 69). It can be assumed that the environmental bottom line is not taken into account in this case, because aluminum capsules might have a higher negative environmental impact than paper pads or coffee filters.

When comparing several statements and elements of both approaches one finds a lot of similarities. Both concepts emphasize shared value as the most important element in the business strategy and the responsiveness of business for societal needs. Furthermore, the compliance of applicable legislation as well as collective agreements between social partners are prerequisites for CSR. Also, in common is the persuasion that creating shared value leads to competitive advances for companies. In this context, both approaches point out the importance of the creation of innovative goods of higher quality that serve societal needs.

Both concepts stress the significance of a sustainable supply chain that companies shall ensure. Also common is the emphasis on the impact enterprises have for the communities they are working in.

Porter and Kramer keep these issues more general but they ask for governmental regulation in cases where businesses benefit at the expense of the society. This demand definitely goes in line with the core requirements of the Commission. Moreover, both refer to the relation between business and government, i.e. public authorities, and see an important role for governments to

establish a supportive framework for CSR. Both concepts highlight that business needs flexibility for the development of sustainable innovations and strategies for creating shared value. Public authorities should therefore support business and not overregulate. The European Commission further stresses the responsibility of business for job creation and sustainable growth. For Porter and Kramer job creation and sustainable growth are results of CSV.

The biggest difference between the two approaches is the importance they give to profit. Porter and Kramer define the term creating shared value with the relation of benefits to costs. For them profit creation definitively is one main aim of companies. They should simultaneously focus on both profit and societal gains. This can be doubted for the approach of the EU. Profit creation is not even mentioned. Shareholders are one equal group amongst the many stakeholders companies have.

Both approaches estimate to a great extent that economic and societal aims can be reached simultaneously but ignore the established fact of conflicts in a multidimensional target function. It is the definitely the case that some CSR activities simultaneously serve economic and societal targets, while others don't. Husted and Allen (2007: 595) give in this context the example of General Motors that maintain pension commitments whereas their competitors do not have to fulfill such obligations. Several researchers on multiple objectives in the target function of companies show the problematics and impacts for involved managers (Pirson, 2012: 33). As pointed out in the introduction of this paper, it is well-known that there are not only conflicts between shareholders and other stakeholder groups but further trade-offs between the aims of different stakeholder groups themselves. Furthermore, agency conflicts can hardly be removed through governance by companies (see e.g. Crilly and Ioannou, 2014: 1).

The core contents of the two approaches are summarized in the following synopsis (see table 1). The structure follows the categories developed in the methodology.

**Table 1 Synopsis of both concepts**

| Category                    | European Commission   | Porter and Kramer   |
|-----------------------------|---|---|
| Role of business in society | CSR as core element for the legitimization of business  |   |
| Prerequisites               | Companies fulfill their legal obligations<br>Collective agreements between social partners                        | Companies fulfill their legal obligations   |
| Aims                        | Contribution to inclusive growth and the well-being of the society<br><br>Triple bottom line                      | To reach simultaneously economic and social progress through value creation quantified by the relation of benefits to costs<br>Double bottom line     |
| Stakeholder                 | Shareholders<br>Other stakeholders<br>The whole society   | Varies with the concrete projects   |
| Strategic orientation       | CSR/CSV is a long-term strategy and included in the core activities of business                                   |   |
| Role of government          | No strict regulation but flexibility for business<br>Government procurement directives can be used to enhance CSR | Governments should set clear and measurable social goals and performance standards<br>Public authorities should support business and not overregulate |

Source: Own compilation

## 7. Discussion and open questions

All in all, one can state that the common ground of both concepts is the redefinition of the role of business in society because they emphasize that doing business just for profit maximization is not a matter of course any longer. Profit alone is not sufficient any longer for the legitimization of business. Instead, shared value creation becomes the new target that business should aim at to regain and improve societal trust.

Despite the fact that the term 'creating shared value' is the core element of both approaches, they differ in the requirements companies have to fulfill for reaching this aim. The concept of the European Commission definitively has a wider scope than the concept of Porter and Kramer. Whereas the European Commission clearly goes beyond Elkington's triple bottom line, Porter and Kramer focus on the economic success and societal value creation that can be reached either by combining profit with social or with environmental aims or with both. Hence it seems that shared value in this sense can be created by fulfilling a double bottom line strategy.

The European Commission demands from business to contribute to inclusive growth and the well-being of the society by including CSR in the long-term business strategy. It seems that the role of companies here change to a quasi-governmental one. One can have the impression companies are seen as actors who are also held responsible to bridge societal governance gaps. Profit is not even mentioned in the EU approach whereas for Porter and Kramer profit remains a major aim of business.

Both concepts neglect the well-known problematics resulting from multidimensional target functions and from different stakeholder groups with contradictory aims. These topics are not mentioned in both papers and therefore one cannot find any hint how the authors expect enterprises to handle them.

Moreover, until now, both concepts have had no binding character. Therefore, the main question arises, how far business will follow the changed impact that the EU Commission give to CSR. For Porter's and Kramer's CSV approach one can see a high acceptance especially by multinational companies. Nonetheless, till now one cannot speak about

a change in the paradigm of management. Further research is necessary to analyze empirically how far both concepts are implemented by enterprises and which consequences such implementations have for business. Another field of research is related to the impact CSR driven government procurement direc-

tives will have on the CSR activities. Governments of the EU countries have to provide EU wide and different approaches to CSR in their procurement strategies, as these might have consequences for the competition inside the EU.

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## **STVARANJE KONKURENTSKE PREDNOSTI - EUROPSKA STRATEGIJA DRUŠTVENO ODGOVORNOGA POSLOVANJA U USPOREDBI S PORTEROVIM I KRAMEROVIM KONCEPTOM ZAJEDNIČKE VRIJEDNOSTI**

### **SAŽETAK**

2011. godine Europska komisija izmijenila je definiciju i strategiju društveno odgovornoga poslovanja (corporate social responsibility - CSR) stvaranjem zajedničke vrijednosti kao osnovnog elementa novog koncepta. Iste su godine Porter i Kramer, u časopisu Harvard Business Review, objavili svoj koncept stvaranja zajedničke vrijednosti (creating shared value - CSV) kao osnovni element dugoročnih poslovnih strategija. Oba pristupa polaze od društvene opravdanosti poslovanja poduzeća. CSR, odnosno CSV, smatra se sredstvom za postizanje opravdanosti poslovanja i vraćanja povjerenja društva koje je izgubljeno tijekom financijske krize. U ovome radu opisuju se dva koncepta i analiziraju njihove sličnosti i razlike. S obzirom na opći cilj i svrhu, koncept EU-a obuhvatniji je i zahtjevniji u odnosu na poduzeća. Europska komisija ocjenjuje CSR kao mjeru kojom se poslovanjem pridonosi uključivom rastu, zapošljavanju i dobrobiti društva. Poduzeća pri izradi dugoročne poslovne strategije moraju uzeti u obzir gospodarske, društvene i ekološke ciljeve te uključiti pitanja koja se tiču etike poslovanja, ljudskih prava i potrošača. Porterov i Kramerov koncept CSV-a ide i dalje od čistog poslovnog slučaja CSR-a jer je po svojoj definiciji CSV dugoročna mjera koju treba sustavno integrirati u stratešku osnovnu djelatnost poduzeća. Europska komisija smatra vlasnike poslovnog udjela samo jednom zajedničkom skupinom dionika poduzeća i ne daje im nikakvu prednost. Prema Porteru i Krameru presudno je istodobno stvaranje dobiti i društvene vrijednosti.

**Ključne riječi:** stvaranje zajedničke vrijednosti, društveno odgovorno poslovanje, europska politika društveno odgovornoga poslovanja