

An Extension of Porter and Kramer's Creating Shared Value (CSV): Reorienting Strategies and Seeking International Cooperation

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This paper improves the theory of creating shared value (CSV), a new way to achieve economic success, which was introduced by Porter and Kramer. First, this study provides four types of corporations (Stupid Corporation, Selfish Corporation, Good Corporation, and Smart Corporation) categorized in terms of corporate and social benefits, and shows that the final destination for corporations is to be smart, meaning the ethics and strategy as the firm's basic measures to bolster value creation. Second, this paper provides four distinctive strategies in order to effectively create shared value, an extended version of three strategies presented by Porter and Kramer: defining core competence; reconceiving comprehensive targets; redefining productivity in the value chain; and enabling local or global cluster development. "Defining core competence" is newly added and "reconceiving comprehensive targets" is extended from Porter and Kramer's notion of "reconceiving products and markets." Above all, this paper highlights the importance of internationalization of CSV, unlike Porter and Kramer's emphasis on domestic clusters. The paper demonstrates the usefulness of these improvements in explaining CSV activities in the real world.

Keywords: *Creating Shared Value (CSV), Corporate Social Responsibility (CSR), smart corporation, strategic philanthropy, and corporate philanthropy*

1. INTRODUCTION

Since the economic crisis in 2008, the world economy has been unstable and its future seems murky. Recently there are two conspicuous issues related to society and economy on both sides of the Atlantic Ocean. One is the "Occupy Movement" known as "Occupy Wall Street," and the other is the European sovereign debt crisis, the so-called "Euro zone crisis." The catchphrase of the "Occupy Movement" is "We are the 99%," which originated from the Congressional Budget Office's (CBO) report that the top 1 percent of earners more than doubled their share of the nation's income over the last three decades (The New York Times 2011a).

The overall message of "Occupy Movement" is reasonably coherent. They want more and better jobs, more equal distribution of income, less profit (or no profit) for banks, lower compensation for bankers, and more strictures on banks with regard to negotiating consumer services such as mortgages and debit cards. They also want to reduce the influence that corporations—financial firms in particular—wield in politics, and ask a more populist set of government priorities: bailouts for student debtors and mortgage holders, not just for banks (Bloomberg Businessweek 2011). Meanwhile, the European sovereign debt crisis has struck European countries, particularly, Greece, Italy, Portugal, and Spain. The media and some scholars argue that this problem derived from greedy corporations as well as high-paying government jobs and generous pensions.

Of course, there are political, economical, sociological, and cultural causes for these issues. However, we may need to recall Porter's (2011) remarkable insight that business

increasingly is seen as a major cause of social, environmental, and economic problems. When these issues are seen from the economic perspective, three important implications can be drawn: (1) the public wants to enjoy more prosperity (welfare) or, at least, to continue enjoying it as much as they have; (2) the corporations are seen as bad guys who do not share their profits with other poorer neighbors; and (3) the government's attempt to create prosperity does not work.

These three implications are very much related to prosperity *per se*. One important thing, though is often neglected, is that "only business can create prosperity by making profits" (Porter 2011). In order to better understand the nature of business, the purpose of corporations needs to be examined. This can be simply seen from Adam Smith's (1776) famous saying, "By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it." When this assertion is applied at a corporate level, it means that as companies concentrate on their own business, social interests will automatically increase. As a matter of fact, modern corporations have been good disciples of Adam Smith.

Nevertheless, the public's perception of corporate philanthropy was that it was not enough. The media, too, has been pressuring firms to pay more attention to deal with societal and environmental issues. Governments have also tried to regulate corporate activities, particularly with the "Occupy Movement" and sovereign debt crisis in the background. It is thus meaningful to redefine the role of corporation in the modern economy and think about how to integrate the benefits that they generate with social benefits. We need to find ways to create shared value between business and society.

2. A CRITICAL REVIEW OF EXISTING LITERATURE

Based on the conventional perspective of Adam Smith, the academia, corporations, and society have focused merely on maximizing profits by pursuing their own interest in which the society has tolerated corporations' selfish and sometimes illegitimate behavior. Friedman (1970) specified this concept at the corporate level, asserting that "The social responsibility of business is to increase its profits." Particularly, he stated adamantly that corporate responsibilities, directed by corporate executives, to society are "the social responsibilities of individuals, not of business" and called corporate social responsibility (CSR) a fundamentally subversive doctrine. This is to say, the corporate executive would be spending someone else's money for a general social interest, reducing returns to stockholders, raising the price to customers (since the expense of social responsibility has to be paid by customers not by corporations), and lowering the wages of some employees (since profit does not go to them, but to society).

His arguments are based on the view that social and economic objectives are distinct, meaning a corporation's social spending comes at the expense of its economic results, and on the assumption that corporations, when they address social objectives, provide no greater benefit to the society than is provided by individual donors. These assumptions hold true when corporate contributions are unfocused and piecemeal (Porter and Kramer 2002). In fact, the prevailing practices of CSR are very fragmented and disconnected, far from business and "profit" (Porter and Kramer 2006). Many scholars and entrepreneurs have perceived corporations and society are contradictory agents. In this light, most of corporate philanthropy and CSR have been viewed as philanthropic donation at best and exhaustive

expenditure at worst.

Nevertheless, several companies engaged in philanthropic activities more strategically such as to improve their reputation. Some others tried to use their charitable efforts to improve their competitiveness. Porter and Kramer (1999) indeed thought that this was meaningful as the first step in achieving the integration of social and corporate benefits at the same time, and introduced business strategic philanthropy. So far, charity foundations have not been fulfilling their purposes in leading social progress. Foundations have been just donors rather than value creators with their resources at their disposal. In response, they have suggested four ways of strategy for philanthropy, to achieve greater social impact and value with the same monies spent; (1) selecting the best grantees, (2) signaling other funders, (3) improving the performance of grant recipients, and (4) advancing the state of knowledge and practice.

They went on explaining that the more corporate philanthropic activity relates to a company's business, the more it leads to economic benefits (Porter and Kramer 2002). Using Porter's (1990) diamond model, Porter and Kramer demonstrated the four elements of competitive context.¹ They argued that these four strategies are crucial to enhancing the competitiveness of developing countries, and improving them through corporate philanthropic activities can bring enormous social gains to the world's poorest nations. Here, Porter and Kramer perceive that social and economic objectives or benefits are not independent but related, and corporations and society are not contradictory but rather complement each other.

Prior to discussing the concept of creating shared value for both corporations and society, Porter and Kramer (2006) initially explored and linked CSR activities to firm's value chain in order to gain the best outcome. Also, 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 (Porter and Kramer 2006). Using this concept, companies can avoid short-term behavior that is socially detrimental or environmentally wasteful in order to achieve long-term economic performance.

Also, they categorized CSR into two, responsive CSR and strategic CSR, by its attributes. Responsive CSR comprises two attributes: a good corporate citizen attuned to the evolving social concerns of stakeholders and a troubleshooter mitigating existing or anticipated adverse effects from business activities. Strategic CSR, on the other hand, is about choosing a unique position—doing things differently from competitors in a way that lowers costs or better serves a particular set of customer needs (Porter and Kramer 2006). They called this a “corporate social integration (CSI)” which links the company's value chain to social competitiveness context.

Finally, in 2011, Porter and Kramer conceptualized the term of CSV as “a more sophisticated form of capitalism,” in which the ability to address societal issues is integral to profit maximization instead of being treated as outside the profit model (The New York Times 2011b). According to their article, shared value can be created in three ways (reconceiving products and markets, redefining productivity in the value chain, and enabling

¹ The diamond model was introduced by Porter (1990) to explain the competitive advantage of a nation. He argued the competitiveness is the outcome of four interlinked factors and activities. The four factors in Porter's framework are 1) factor conditions, 2) demand conditions, 3) related and supporting sectors, and 4) firm strategy, structure, and rivalry.

local cluster development), particularly highlighting the importance of cluster development (Porter and Kramer 2011). Regarding this approach, they emphasized that CSV is not social responsibility, philanthropy, or even sustainability, but is a new way to achieve economic success, and that it gives rise to the next major transformation of business thinking.

To sum up, Porter and Kramer's (2011) ways to create shared value are classified as follows. First of all, they argued for redefining productivity in the value chain. The value chain depicts all the activities a company engages in while doing business (Porter and Kramer 2006), and when societal progress and productivity in the value chain are congruent, the shared value is far greater than traditionally believed. Porter and Kramer then suggested reconceiving products and markets. They pointed out that there are greatest unmet needs in the society, and emphasized that equal or greater opportunities arise from serving disadvantaged communities and developing countries. Meeting the needs of underserved markets often requires redesigned products of different distribution methods, in which these requirements can trigger fundamental innovations of the products. Finally, they emphasized enabling local cluster development, indicating that the productivity and innovation are strongly influenced by cluster or geographic concentration of firms, related business, suppliers, service providers, and logistical infrastructure in a particular field. When a firm builds clusters in its key locations, it can amplify the connection between its business success and the community success.

Although the concept of CSV is innovative and the strategic guidelines mentioned above are very useful, Porter and Kramer are not free from criticism. First, regarding demand conditions for creating CSV, they only emphasized the market and product sides. Although Porter and Kramer (2002) did mention before that there are other opportunities for CSR at all of the four corners of the diamond model, these opportunities were not incorporated in the CSV framework. This narrowed perspective can miss many other opportunities for creating CSV. For example, Microsoft's Working Connections partnership with the American Association of Community Colleges (AACC) created shared value through educating information technology (IT) workers, and Nestlé's building collection points for milk created shared value through infrastructure, as also noted in Porter and Kramer (2006). Both cases show how to create CSV, but they are obviously not related to "reconceiving products and markets"; Microsoft's case is for factor conditions (workers) and that of Nestlé is for supporting conditions among the four corners of the diamond model.

Second, their cluster concept was also narrow. Porter and Kramer (2011) focused on the development of local clusters. They said, "As firms moved disparate activities to more and more locations, they often lost touch with any location. [...] These transformations drove major progress in economic efficiency. However, something profoundly important was lost in the process, as more fundamental opportunities for value creation were missed." Porter and Kramer's perspective is correct but only for businesses with some special characteristics which require high quality control, prompt response to customer needs, and so on. However, there are other fields of business where production costs are substantially different across countries and penetrating foreign markets is significantly profitable. For this kind of business, not domestic but international clusters are important.

Finally, the rivalry conditions are missing in their 2011 article, which are particularly important to configure the area of social activities that the firm should focus on. The firm should carry out its CSV in its area of expertise so that it can be more effective in competing for the same activity with the firms in the same or other fields of business. This rivalry conditions should be first considered among others for effective CSV activities. These

strategic issues will be discussed later in detail after the introduction of a new framework of classifying corporations in the next section.

3. NEW FRAMEWORKS FOR CSV

3.1. Typology of Corporations: From “Good Corporation” to “Smart Corporation”²

Through several articles, Porter and Kramer presented a number of exemplary corporations achieving CSV, but most of them originated from developed countries. We can better understand company characteristics if we cover companies from developing countries as well as developed countries, and bad companies as well as good companies.

Sanlu, Mengniu, Yili and Yashili were well known baby milk powder producers in China. At the procurement level, they knew the raw milk had melanin, which was used in plastics and other industries, and was strictly forbidden in food processing, because it made the protein content of milk appear higher than it actually was. Due to their misbehavior in 2008, several babies died of kidney problems and many were hospitalized. The issue raised concerns about food safety and political corruption in mainland China, and damaged the reputation of China's food exporters. As a result, several countries banned all dairy imports from China (USA Today 2008).

Ben & Jerry's and the Body Shop were well-known companies for their extraordinary long-term commitment to social responsibility. For many years, Ben & Jerry's donated 7.5 percent of its annual pretax profits to charitable causes, which was the highest percentage among any other publicly-held companies. Another example of their social activity was “1 percent for Peace” drive, which was to redirect 1 percent of the United States military budget to life-improving, not life-taking-goals. Their well-known product, “Peace Pops” served as a marketing tool for the foundation, providing information on the 1 percent for Peace campaign and directing their interest toward action.

The Body Shop has taken on tough issues such as human and civil rights, environmental responsibility, and animal protection, which were a direct reflection of the company founder's vision. In addition, the company has been successfully raising awareness of the issues and taboos surrounding HIV, AIDS, and sex trafficking. It was, however, difficult to measure the business benefits of these socially good activities until Ben & Jerry's was taken over by Unilever, and the Body Shop was bought by L'Oréal, after management difficulties.

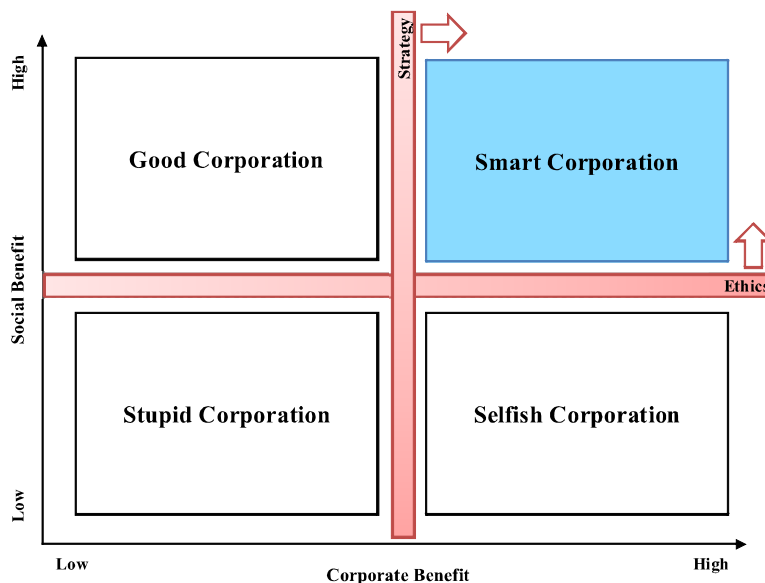
Now, let's take a successful case. Microsoft faced the shortage of IT workers which was a critical constraint on Microsoft's growth. At the same time, Microsoft recognized that community colleges faced special challenges; IT curricula were not standardized, technology taught in classrooms was often outdated, and there were no systematic professional development programs to keep faculty members up to date. Microsoft's \$50 million five-year initiative aimed at tackling all of these three problems. In addition to contributing money and products, Microsoft sent employee volunteers to colleges to assess needs, contribute to curriculum development, and create faculty development institutes. Microsoft achieved results that have benefited many communities while having a direct—and potentially significant—impact on the company (Porter and Kramer 2006).

² The typology of corporations was briefly introduced in No. 94 of *Dong-A Business Review* article by Hwye-Chang Moon (2011a), “Smart Corporation: Good Behavior, besides Good Profit.”

From these examples, we can easily categorize companies in terms of how much they have created social and corporate benefits. Companies like Sanlu, Mengniu, Yili, and Yashili were not interested in creating social value. Instead, they chose to harm the society to increase more corporate profits. By contrast, Ben & Jerry's and the Body Shop contributed significantly to the society, but their corporate profits remained unstable due to lack of efficient management and strategies. On the other hand, Microsoft increased social value which in turn increased their business benefit, by supplying good IT workers. Sanlu, Mengniu, Yili, and Yashili made corporate benefits like Microsoft did, but the benefits were not sustainable and they did not create social benefits. On the other hand, Ben & Jerry's, the Body Shop, and Microsoft made significant social benefits, but only Microsoft generated substantial and sustainable corporate benefits, while Ben & Jerry's and the Body Shop did not.

We name these companies, like Sanlu, Mengniu, Yili, and Yashili, which are interested in only maximizing the corporate benefits, but not social benefits, "Selfish Corporation." The connotation of selfish corporations in this framework is not always negative because they may benefit their customers, employees, shareholders, and the government by paying taxes without violating regulations. But they are not interested in social benefits beyond their immediate stakeholders. By contrast, companies like Ben & Jerry's and the Body Shop, which focus on creating social benefits than the corporate benefits, are entitled to "Good Corporation." Corporations such as Microsoft, which create both corporate and social benefits, are categorized as "Smart Corporation." Finally, theoretically, there is "Stupid Corporation," but in reality, it is hard to find this type of corporations since they will not survive in the market over the long run. In comparing and highlighting the differences between these corporations, we can identify two important variables: ethics and strategy. An important implication is that in order to be a "Smart Corporation," a firm should have both good business strategy and business ethics (see figure 1).

Figure 1. Types of Corporations



There are clear distinctions between “Good Corporation” and “Smart Corporation.” Good corporations are the ones donating money for philanthropic purposes regardless of the profits or value creation. In accounting terms, the resources they use are marked as the company’s expenses. On the other hand, Smart corporations find opportunities or unmet market needs to increase their current level of profits or explore new markets. This is a long-term investment rather than a mere expense, where the expected profit in the future will be greater than the current investment the firm can make.

In other words, philanthropic activities, such as donation, planting trees, and building houses that companies have so far actively engaged in fulfilling their corporate responsibilities, are regarded as a one-time expense that is not sustainable nor improves the grantees’ status as much as the resources and time spent. Instead, they may have troubles sustaining their activities as they don’t have critical incentives to do so. More often than not, this is why CSR expenses are the ones to be cut first and dramatically to boot, in times of economic downturn.

On the other hand, smart corporations look for opportunities to increase their profits, market share and competitiveness. This activity is much like a part of their research and development investments but they find the opportunities from the society. Most companies serve for customers that can currently consume their products. However, the size of these customers is not the same as that of the social needs. Indeed, the size of the underserved needs is huge. Smart corporations proactively look for opportunities that have been ignored and try to explore these needs to increase their benefits. What is interesting is that this, in turn, creates new wealth and social value for those who have been neglected; smart corporations, unlike good corporations, could double the benefits created by the same amount of investment they would make.

This is why CSR is often regarded as the opposite concept to capitalism, whereas CSV is considered as a higher form of capitalism. CSR is redistributing the profit created by good corporations whereas CSV is maximizing the profit created by smart corporations. CSR is to fulfill corporations’ duty of being a good citizenship, whereas CSV aims to create a bigger wealth and contribute to economic growth. In other words, good corporations are passive social entities that they do not harm the society but smart corporations become the active players in improving the economic and social system.

It can be easily accepted that business strategy is the conventional paradigm for business to make more profit, based on Adam Smith (1776), but one may have difficulties to understand the need of ethics. However, Adam Smith (1759) also emphasized the importance of ethics before he mentioned self-interest of capitalism. He compared business activities to a race. Smith said “*In the race for wealth, and honours, and preferments, he may run as hard as he can, and strain every nerve and every muscle, in order to outstrip all his competitors. But if he should jostle, or throw down any of them, the indulgence of the spectators is entirely at an end. It is a violation of fair play, which they cannot admit of.*” Here, Adam Smith emphasized that none can accept foul although runners did their best.³

Adam Smith also compared the importance of ethics to building. He stated that “*Though Nature, therefore, exhorts mankind to acts of beneficence, by the pleasing consciousness of deserved reward, she has not thought it necessary to guard and enforce the practice of it by the terrors of merited punishment in case it should be neglected. It is the ornament which*

³ They are derived from No. 93 of *Dong-A Business Review* article by Hwy-Chang Moon (2011c), “Ethics is a Base for CSV: ‘Good Corporation’ is more Sustainable.”

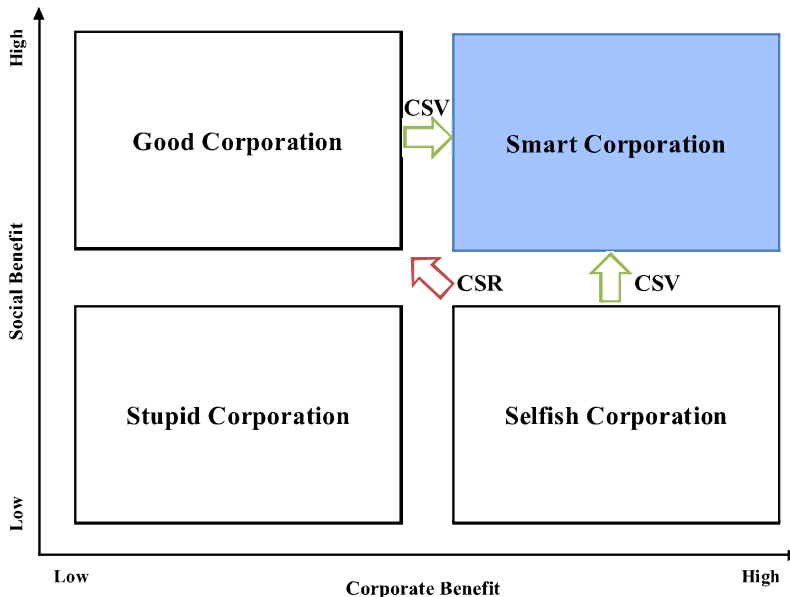
embellishes, not the foundation which supports the building, and which it was, therefore, sufficient to recommend, but by no means necessary to impose. Justice, on the contrary, is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society, that fabric which to raise and support seems in this world, if I may say so, to have been the peculiar and darling care of Nature, must in a moment crumble into atoms.”

From these two examples of Adam Smith, both ethics and justice were treated as “must-do,” not an option. This principle is also applied in today’s corporate business activities. Corporations do their best in order to create more profit, but if they do not practice ethics or justice, they would be blamed and punished. Thus, business ethics and justice are fundamentals for corporation’s existence and sustainability.

Also, from this typology of corporations (refer to figure 1) an important clarification can be drawn to distinguish easily the difference between CSR and CSV. If a “Selfish Corporation” wants to become a “Good Corporation,” it needs to do CSR activities at the expense of its corporate benefit (see figure 2). This is what Porter and Kramer (2011) called as the reputation-driven social activity, since a “Selfish Corporation” desires to redeem its bad image. And this reputation is used by many companies to justify CSR initiatives on the ground that they will improve a company’s image, strengthen its brand, enliven morale, and even raise the value of its stock (Porter and Kramer 2006).

A firm can become a “Smart Corporation,” by doing CSV if a “Good Corporation” sets up a good business strategy to increase business benefit, while continuing its contribution to social benefit. On the other hand, a “Selfish Corporation” can also become a “Smart Corporation,” if it practices business ethics to increase social benefit, while maintaining its corporate benefit. In other words, the “Smart Corporation” should have both ethics and business strategy.

Figure 2. Evolution from CSR to CSV



3.2. Four Strategic Steps for Creating Shared Value⁴

Porter and Kramer (2011) presented three distinctive steps to CSV: (1) reconceiving products and markets, (2) redefining productivity in the value chain, and (3) enabling local cluster development. However, in order to complete a framework of these strategic steps, the diamond model (Porter 1990), an analytical tool, which is useful in identifying important variables for competitiveness was used, although it was originally devised to measure the competitiveness of industries and countries. By applying the diamond model, we can find that one more step could be added, i.e., a step to define core competence. Though this was mentioned in Porter and Kramer's previous articles, it was not clearly stated for these strategic steps. By reorienting three steps and adding one more, we can see that these steps perfectly fit the attributes of the diamond model's four determinants; (1) factor conditions, (2) demand conditions, (3) supporting conditions, and (4) rivalry conditions.⁵ Redefining productivity in the value chain is for factor conditions, reconceiving products and markets is for demand conditions, enabling local cluster development is for supporting conditions and a newly added step to defining core competence fits the missing determinant of rivalry conditions.

3.2.1. Factor Conditions

For factor conditions, Porter and Kramer proposed *redefining productivity in the value chain* because societal problems can create economic costs in the firm's value chain and opportunities to create shared value can arise by redefining the value chain. In other words, externalities inflict internal costs on the firm. Since excess packaging of products and greenhouse gases are costly both to environment and the business, for example, in 2009 Wal-Mart reduced its packaging and rerouting its trucks to cut 100 million miles. Due to this activity, Wal-Mart saved \$200 million. Recognizing the recent environmental problem, Coca-Cola and Dow Chemical managed to reduce consumptions of fresh water, which allowed these firms to save huge amount of money. These are the examples of externality-driven CSV.

There are also cases of internality-driven CSV. For instance, Microsoft faced the shortage of IT workers which was a significant constraint on Microsoft's growth, and, at the same time, recognized that community colleges faced difficulties: not standardized IT curricula, outdated technology, and unsystematic professional development programs. Microsoft contributed money and products, and employee volunteers to colleges to solve these problems. As a result, Microsoft has made a substantial achievement for both company and society.

Taiwanese-owned Foxconn is one of the world's largest contract electronics manufacturers and a major supplier for Apple. Yet, Foxconn was notorious for the spate of suicides of under-aged workers who were routinely overworked (the legal limit for overtime

⁴ Many examples in this section are abstracted from Porter and Kramer's various publications, but rearranged according to diverse perspectives.

⁵ In his 1990 book, Porter referred to 'strategy, structure and rivalry.' However, he changed the term to 'context for strategy and rivalry' in 2001 (Porter and Stern 2001). In our study, 'context for strategy and rivalry' is referred to as 'rivalry conditions.' 'The related and supporting industries' are also simplified as 'supporting conditions.'

was 36 hours per month but workers at Foxconn routinely worked 80 to 100 hours overtime without getting any meal breaks). In order to prevent further suicide, workers were found to be busily stringing nets between dormitory buildings to try to catch any further jumpers (The Telegraph 2010). Because of Foxconn's problem, Apple also has been severely criticized.

In the cases above, Microsoft reacted differently from Wal-Mart, Coca-Cola, and Dow Chemical. Most of exemplary corporations found opportunities from externality. However, Microsoft found an opportunity from internality first, and then reacted actively. Also, Foxconn's trouble is not from externality, but internality. If Foxconn checked its value chain earlier and fixed the problems, the company would have solved its problem. This means that using the value chain, a firm needs to regularly check and evaluate its business activities. Through this process, a company can figure out where its current or potential problem is caused from and where its competitiveness is from. By solving the problems, the company can achieve new competitive advantage. It is very important to maintain a well-balanced and healthy value chain, and this will encourage corporations to voluntarily participate in CSV activities.

3.2.2. Demand Conditions

For demand conditions, Porter and Kramer (2011) suggested *reconceiving products and markets*. The problem is that they did not handle society's needs comprehensively and only emphasized markets and products, although they hinted other possibilities to create shared value in other areas of business in their 2002 article. Porter and Kramer highlighted that there are the greatest unmet needs and greater opportunities in disadvantaged communities and developing countries.

Intel and IBM are both devising ways to help utilities harness digital intelligence in order to economize on power usage. Sales of GE's Ecomagination products, acknowledging some of the environmental challenges we face nowadays, reached \$18 billion in 2009, and now GE predicts that revenues of Ecomagination products will grow at twice the rate of the total company's revenue over the next five years. Vodafone's M-PESA mobile banking service in Kenya, and Thomson Reuter's monthly service to provide weather and crop pricing information and agricultural advice for farmers in India created large revenues. These examples meet what Porter and Kramer mentioned "products and markets."

However, some other cases can be found. Doosan Heavy Industries, a Korean firm, constructs seawater desalination plants. In 1970s, Doosan was smaller and did not have any world-class technology. Most profitable projects were taken by American, Japanese, and European firms. Doosan looked for less profitable projects that major companies ignored. Having conducted many small and medium size projects, Doosan has developed its own sophisticated technology, and now Doosan has become number one in the world in terms of market share. Thanks to Doosan's successful CSV activities through its various projects, many people in the neglected areas can drink safe water (Moon 2011b; Doosan 2011).

When Nestlé entered the Indian market and built a dairy plant in the northern district of Moga, poverty in the region was severe and many local farmers kept a single buffalo cow that produced just enough milk for their own consumption. Furthermore, because farmers lacked refrigeration, transportation, or an appropriate method to test quality, milk could not be delivered far and was frequently contaminated or diluted. Therefore, Nestlé built refrigerated dairies at collection points for milk in each town and sent its trucks out to the dairies to collect milk. With the trucks the company sent veterinarians, nutritionists, agronomists, and quality assurance experts. As a result, farmers learned that the milk quality

depended on the cows' diet, which in turn depended on adequate feed crop irrigation. With financing and technical assistance from Nestlé, farmers began to dig previously unaffordable deep-bore wells. Improved irrigation not only fed cows but increased crop yields, producing surplus grain and raising the standard of living, and now Milk production has increased 50-fold.

When California tightened regulations on automobile emission, most automakers opposed to the regulation. Toyota, on the other hand, turned this barrier into their own benefit, by developing hybrid cars and finding a unique position in the auto market. Prius, the hybrid (electric and gasoline) vehicle, is the best example of innovating new types of automobiles and tackling environmental problems. Prius has given Toyota a substantial lead, and the company licenses the technology to Ford and other automakers. Toyota is a world technology leader in hybrid cars and has opened a new phase of environment-friendly auto industry.

While Intel, IBM, GE, Vodafone, and Thomson Reuter were redefining products and markets as Porter and Kramer (2011) suggested, other companies such as Doosan, Nestlé, and Toyota pursued different paths: Doosan for factor condition, Nestlé for related and supporting sectors, and Toyota for business context, dealing with externalities or disadvantages. Doosan continued doing small and medium size projects in order to enhance its competitiveness, practicing current technology and developing new technology on site. Eventually, areas overlooked by major companies had water access thanks to Doosan, and the company could develop diverse new competitive technologies. Nestlé recognized farmers' problems such as the lack of infrastructure and education. By solving these issues, both farmers and Nestlé increased their benefits. Lastly, Toyota faced tight emission regulations by the state of California, and converted this disadvantageous externality into competitive advantage unlike its competitors by changing strategies to produce environment-friendly cars.

These examples show that there are other areas that companies can take advantages of CSV, beyond the demand conditions. Therefore, the concept of "reconceiving products and markets" should be expanded as "*reconceiving comprehensive targets*" in order to take more opportunities comprehensively.

3.2.3. *Supporting Conditions*

For supporting conditions, Porter and Kramer (2011) suggested *enabling local cluster development*. On the definition of cluster, they stated, "Productivity and innovation are strongly influenced by geographic concentrations of firms, related businesses, suppliers, service providers, and logistical infrastructure in a particular field." By building clusters, firms create shared value to improve company productivity, while addressing gaps or failures in the conditions surrounding the cluster (Porter and Kramer 2011). The idea of forming cluster in order to create shared value is outstanding.

The cluster theory was developed by Porter (1990, 1998a, 1998b, 2000). While his work is the original, it also incorporates most of the other studies. Porter and Kramer's (2011) idea of enabling local cluster development is based on Porter's original cluster theory. However, Porter's cluster theory, while seminal, is very narrowly defined. The most serious problem with the theory is that it limits the scope of forming clusters to domestic and does not consider the international dimension (Moon and Jung 2010).

Porter and Kramer (2011) said, "Outsourcing to other locations and countries creates transaction costs and inefficiencies that can offset lower wage and input costs," and "Many

companies have thought that being global meant moving production to locations with the lowest labor costs and designing their supply chains to achieve the most immediate impact on expenses. In reality, the strongest international competitors will often be those that can establish deeper roots in important communities.” Similarly, Porter argued earlier, “Open global markets, rapid transportation and high speed communications should allow any company to source anything from any place at any time. But in practice, location remains central to competition (Porter 1998a).”

However, the effective locus of competitive advantage may sometimes encompass regions that cross national borders. We are currently in the midst of global reallocation of production activities. Driven by the surge of newly industrialized economies, trade liberalization, and declining transportation and communication costs, more and more production activities are shifting from high wage to low wage countries (Andersen 2006). On the other hand, many firms of developing countries also move into developed countries (UNCTAD 2006). Other researchers also agree that the ongoing reorganization of production, including off-shoring and internationalization of sourcing, is a sign that new organizational patterns are replacing existing forms (Dicken 2003).

The extension of clustering scope has been modeled by Moon and Jung (2010), including an introduction of evolutionary stages of cluster (see table 1). The first stage is the regional cluster. This is Porter’s cluster, where each cluster is independent. The second stage is the regional-linking cluster which can enhance synergy by combining some related and neighboring clusters within a country. The third stage is the international-linking cluster. With the combination of cross-border neighboring clusters, synergy can be further heightened. The final stage is the global linking cluster. This is the connection of clusters for maximum synergies regardless of the physical distance on the globe (Moon and Jung 2010).

In the context of the ever-increasing importance of internationalization in today’s global economy, Porter and Kramer’s (2011) “enabling local cluster development” should be modified to a new concept of the cluster model, broadening the scope of clustering. The benefits of cluster building apply not only to local communities or a country, but also to international and further global arena. Thus, in this paper, the concept of “enabling local cluster development” is expanded and renamed to “*enabling local or global cluster development*.”

Table 1. The Cluster Stage Model

| | Domestic Cluster | | International Cluster | |
|-----------------|---|--|--|--|
| Stage | Regional Cluster | Regional Linking Cluster | International Linking Cluster | Global Linking Cluster |
| Characteristics | <ul style="list-style-type: none"> • Independent • Porter’s Concept of Cluster • Silicon Valley, Cambridge, Kista Science City | <ul style="list-style-type: none"> • Regional-linking • Hollywood + Disneyland + Las Vegas | <ul style="list-style-type: none"> • International-linking (Neighboring Countries) • Indonesia-Malaysia-Singapore Growth Triangle • Hong Kong + PRD + Guangdong | <ul style="list-style-type: none"> • Global-linking • Silicon Valley + Bangalore • Singapore’s Global Business Linking Strategy |

Linking Cluster

Note: PRD-Pearl River Delta
 Source: Moon and Jung (2010)

3.2.4. Rivalry Conditions

The rivalry context is mainly about strategy. However, among the three distinctive steps needed to create shared value, as posited by Porter and Kramer (2011), rivalry was not included. In business, a company strategy lays out how it will create value for its customers by serving a specific set of needs better than any of its competitors. A company must either produce equivalent value at a lower cost than its rivals or produce greater value for a comparable cost. These are referred to as generic strategies (Porter 1980; Moon 2010).

Hints of relevant strategies can be found in other works by Porter and Kramer (1999, 2002). Although Porter and Kramer stated in their 2011 article that the most fertile opportunities for creating shared value would be closely related to a company's particular business and in areas most important to the business, this was not included in their presentation of the three ways to realizing CSV. When a firm does CSV or CSR activities, the first difficulty it faces is a question of not "how" but more likely, a "what." The question of what the company should do for CSV is directly related to its core competence. Carrying out CSV and CSR activities in the field of company's core competence allows it to produce an equivalent value at a lower cost or a greater value for a comparable cost than its rivals. Once a company decides on what to do, it can take other steps: redefining productivity in the value chain; reconceiving comprehensive targets; and enabling local or global cluster development.

When Microsoft engaged in CSV activities, the company (1) defined IT related activities in which the firm had a significant competence; (2) identified a serious problem (i.e., the shortage of IT workers) in the company's value chain; (3) linked the problem to the social issues at hand (i.e., unemployment); and (4) collaborated with the AACC to more effectively solve the problem. With the experience of such success, Microsoft launched other similar programs for the public.

Therefore, to the question of 'what to do first for CSV,' the company can define its core competencies and look for unmet social needs that could be addressed, and find ways to create wealth. Even companies in the same sector would have different competences, and when they match their competences to diverse social issues, the society will benefit from numerous and efficient CSV activities. Thus, "*defining core competence*" is very important and therefore, was newly added to the original framework of Porter and Kramer.

4. CONCLUSION

First, this paper proposed a new framework of categorizing corporations by considering different degrees of corporate benefits and social benefits. The four corporations identified are Stupid Corporation, Selfish Corporation, Good Corporation, and Smart Corporation. This classification appears simplistic and yet it provides us with very useful implications. The most important among these is that firms should move not just from Selfish Corporation to Good Corporation, but from Good Corporation to Smart Corporation. Firms in rapidly developing economies might not have had enough opportunities to pursue effective societal activities. They might have simply considered social activities as costs. The society in turn has put pressure on the firm to contribute more to the society, and transform it from a selfish corporation into a good corporation. However, the end goal should not be merely a good corporation, but a smart corporation where business and society can both be winners.

In addition, the paper proposed four steps of strategies for pursuing effective CSV. This is a newly extended model of the Porter and Kramer's framework. It modified their original three steps and introduced a new one. These four steps of strategies are very useful in practice, while the framework of categorizing four corporations is helpful in theory. The new framework of this paper presents step-by-step CSV guidelines: (1) defining core competence, (2) redefining productivity in the value chain, (3) reconceiving comprehensive targets, and (4) enabling local or global cluster development. This is to say, for CSV, a corporation should start with its area of business; find an imbalance in its value chain; connect this issue to the societal needs; and do this with other organizations to maximize the synergy effects.

Scholars as well as practitioners have struggled with the concept of CSR and its strategies. Porter and Kramer have provided the answer: it is not CSR, but CSV. Porter is brilliant but he leaves behind unresolved problems for further studies, as always. This paper has corrected and modified some of his problems regarding CSV. However, there still remains one serious problem, i.e., internationalization. Porter argues that internationalization has more costs than benefits. As mentioned, however, it depends on the case. There can be many cases where internationalization of business brings more benefits than costs. Porter's principal perspective on internationalization is that he sees internationalization as the second best alternative to domestic business. This is why international business scholars are often at unease when Porter mentions internationalization.

Internationalization of CSV will provide additional business opportunities and benefits for both foreign and domestic societies. Collaborating with other organizations, whether they are domestic or international, will enhance the effects of CSV within and across national borders. Internationalization of CSV in collaboration with partners, regardless of their nationalities, will be an important topic for further study.

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