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17 Response to Porter: Responsibility for Realising the Promise of Shared Value

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CSV for the Legitimacy of Capitalism

"The capitalist system is under siege" (Porter and Kramer 2011: 64), but companies, Michael E. Porter and Mark R. Kramer tell us in their latest Harvard Business Review article, can push back and triumph with the guidance provided by a managerial framework they call "Creating Shared Value" (CSV). The siege is at the hands of civil society and governments, and the target is the legitimacy of modern day global business, now "fallen to levels not seen in recent history" (Porter and Kramer 2011: 64). The syndrome, the authors tell us, is a vicious cycle born from the proposition that business and society are separate from each other.

The business strategies that follow from the idea that business and society are separate have flooded society with a barrage of externalities—environmental, political, moral, social and otherwise. Governments often respond by imposing (whether or not successfully) regulations that would internalize these costs through strict constraints (hard laws). Such regulations, in Porter and Kramer's view, sap the vibrancy of capitalism. Nevertheless, civil society clamors for companies to go even further than the hard law of existing regulations with voluntary corporate social responsibility (CSR) initiatives. According to Porter and Kramer, CSR pressures also tamper with the virtue of capitalism. Both regulation and CSR are to be avoided, and that means managers must proactively turn this bad news around. The way to do so, Porter and Kramer say, is through their creating shared value (CSV) framework, starting from the idea that "what's good for society is good for business" (Porter and Ignatius 2011a: 4:31). Business strategists just need to find those opportunities to respond to social needs that enhance the competitive advantage of their firms.

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The thesis of Porter and Kramer's CSV paper is that creating shared value can redeem global capitalism's flagging legitimacy. Porter and Kramer defend CSV's plausibility with an extensive set of examples that leaves little doubt that many of the praiseworthy achievements of global capitalism in the recent decade owe to a business formula that, in fact, creates shared value—benefit to society that enriches business too. This is especially apparent in environmental responsibility initiatives that dramatically improve operational efficiency. These highly impactful transformations in a firm's activity system (Porter 1996) run the gamut from mundane improvements such as reducing packaging and shipping weight to the bold such as the redefinition by Nissan and Toyota of their market segment (see Levitt 1960) as low-emissions mobility (Pfitzer et al. 2013: 4).

Our thesis is that, despite appearances to the contrary in Porter and Kramer's compelling paper, CSV cannot redeem the legitimacy of global business as a standalone managerial framework. The way Porter and Kramer construct the CSV framework imposes predictable limitations upon the vision of managers, leaving them flat-footed around societal problems whenever competitive advantage appears unable to motivate engagement.

The missing piece is a framework to manage the extra-legal normative environment, including soft laws developed by non-state actors to fill regulatory voids with tailor-made community standards, such as those generated by the Forest Stewardship Council (Scherer and Palazzo 2007). It is certainly true that in replying to the recent critique of CSV provided by a team of leading business ethicists (Crane et al. 2014), Porter and Kramer clarify that they do endorse a "a narrow sense of social responsibility" (2014: 150) and they (2011) have also assumed that managers comply with "ethical standards." However, the category of non-legal norms—for which Porter and Kramer assume compliance—remains opaque in their account of CSV. Their CSV framework does not provide managers a way to make sense of which norms of conduct fit within a "narrow" sense of CSR and which do not. This becomes especially problematic in a fast-changing, globally interconnected business environment (Palazzo and Scherer 2008) where the normal is for norms to evolve and clash (Scherer et al. 2013).

In the vacuum left by CSV's silence around soft law, Porter and Kramer do not point to any other framework for identifying or evaluating non-legal social norms that matter to business. We will propose that what CSV requires is a responsibility framework that gives guidance to managers for identifying legitimate norms. This framework could take different forms; we will illustrate our proposal with the framework carved out by the integrative social contracts theory (ISCT) developed by Donaldson and Dunfee (1999). We will also briefly discuss the importance of expanding this framework to manage cases where there is a regulatory void and another conception of responsibility is required (Scherer and Palazzo 2007, 2011; Bower et al. 2011; Donaldson and Schoemaker 2013).

Why Status Quo Business Has Failed Society

To appreciate the idea behind CSV, it helps to understand the failings Porter and Kramer find in status quo managerial practice. It is these failings that Porter and Kramer fault for the present-day crisis in the legitimacy of business.

Porter and Kramer formulate their attack around two ideas in management, which we discuss in turn. The first is what business ethicists call the "separation thesis" (Harris and Freeman 2008), the idea that business and society represent separate spheres of human activity. The second is what is widely known as corporate social responsibility (CSR).

Rejecting the Separation Thesis Michael Porter has never celebrated *share* value as the end of business activity (Argyres and McGahan 2002). Yet business (if not also society) has done so for decades (Friedman 1970; Jensen 2002), supporting a financial conception of management that fixates on share price (often short term) as the measure of success and failure (Dobbin and Jung 2010). This financial view of the firm throws society out of view in managers' evaluation of business opportunity (Friedman 1962, 1970). Porter and Kramer put the burden of responsibility for this mistaken view of business on the "economists [who] have legitimized the idea that to provide societal benefits, companies must temper their economic success" (Porter and Kramer 2011: 64). The costs, however, are not merely academic. According to Porter and Kramer, the influence of the separation thesis on managers has contributed to the size of the legitimacy deficit prevailing in business today.

The intuition behind Porter and Kramer's judgment that the economist's separation thesis has been destructive of the legitimacy of business is readily seen with examples. A classic case results when a company can choose to raise production costs by investing in the reduction of destructive emissions for which no binding regulation exists (Friedman 1970). According to a narrow, society-ignoring view, the manager has no basis to even think of investing in emissions reductions. This suggests one way to interpret the managerial factors behind environmental accidents like the BP Deepwater Horizon oil spill. Why would you ever go beyond a strict reading of the regulations?

Consider the different case of consumers whose health suffers on account of a product expressly marketed to them. This externality has a ripple effect for the public fisc that has to tend to these consumers' health. Now suppose society-ignoring managers at global food companies. Their imperative is to design products likely to increase revenue, by increasing units sold and/or raising price, and decreasing cost. One strategy pursued by the global brands is to engineer the food product to trigger repetitive consumption (Moss 2013). Now suppose that the success of this strategy leads to abnormally high health expenses for a non-trivial set of its consumers, such as the 8.3% of the United States population who have diabetes. This would not be too surprising if the health of the food company's consumers did not directly figure into these companies' managers' decision frameworks.

CSV is Porter and Kramer's way of correcting the economists' mistaken separation thesis and the destructive conduct it condones. Society *does not* fall out of view in CSV as under the separation thesis. To the contrary, CSV brings to the manager's attention the potential to find competitive advantage in serving society's needs.

Rejecting CSR The separation thesis yields externalities (wherever governments have not directly blocked the way), and these externalities yield social movements for CSR—Porter and Kramer's (2011) second target. Responding to the toll of the separation thesis in management, civil society—in some cases with the backing of academic research—has stepped up calls for companies to moderate their economic activity with social responsibility. This critical movement has demanded that companies treat the social and ecological externalities that result from their activities as falling within the business's mandate. With the advent of social media, the need of companies to respond to petition campaigns—one way or another—has only further become a fact of corporate life.

Any reasonable definition of CSR comprehends the variety of ways—from philanthropy to compliance with non-legal norms to norm-making activity (Scherer and Palazzo 2007)—in which companies respond to social demands without the force of law (Schwartz and Carroll 2003). CSR troubles Porter and Kramer in the way they understand it has been pursued. Their concern is easily stated. They see CSR as occupying a managerial space that is "separate from profit maximization" (p. 76) and instills an agenda that "is determined by external reporting and personal preferences," (p. 76) rather than independently by the firm pursuant to the aspiration to maximize profit.

CSV, in contrast, is defined by Porter and Kramer to avoid CSR's limitations by occupying a managerial space the entirety of which is "integral to profit maximization" (p. 76). And Porter and Kramer indicate that rather than taking direction from external norms like CSR, CSV "is company specific and internally generated." Interestingly, in an earlier paper (2006), Porter and Kramer describe their theory *within* the CSR construct rather than *outside* it, summarizing their view as follows:

> The essential test that should guide CSR is not whether a cause is worthy but whether it presents an opportunity to create shared value – that is, a meaningful benefit for society that is also valuable to the business (p. 84).

Note that even when they espoused the CSR label for CSV, the fundamental idea was exactly the same: managers should not be making profitability trade-offs for the sake of CSR. The difference now is that Porter and Kramer (2011) call for managers to discard the CSR construct altogether and instead adopt CSV.

Note that Porter and Kramer nevertheless endorse compliance with ethical standards (2011) and have recently indicated that they are in favor of a "narrow sense of social responsibility" (2014). But how is a manager to sort out from the sea of information in the business environment the purported norms Porter and Kramer assume they should follow (as ethical standards or as narrow social responsibility imperatives)? Notice that norms that promise competitive advantage as the reward of compliance fall out from this analysis. Managers should follow those norms from first principles (profitability). But what about the set of ethical standards and social responsibility imperatives that do *not* promise enhanced profitability as a reward? How can managers separate the wheat from the chaff, the legitimate norms that command the manager's respect from other social demands (like the CSR that Porter and Kramer discredit) that should be regarded as threats to profitability and avoided?

What makes CSV so special, as we will discuss next, is that by definition the CSV framework is built for no trade-offs. The manager never has to choose between profitability and social benefit within the CSV framework.

The Virtue of CSV in A-Cases

Status quo managerial practice is, in Porter and Kramer's account, like *Dr. Jekyll* or *Frankenstein*: either the misguided, short-term obsession with *share* value (Dr. Jekyll), or the abomination of free enterprise represented by CSR (Frankenstein). The alternative to this schizophrenia put forth by Porter and Kramer requires companies to trade up from *share* value to *shared* value as their end, and from CSR to CSV as their social strategy. "The purpose of the corporation must be redefined as creating shared value, not just profit per se" (p. 64). As expressed by Mark Pfitzer, a managing director of FSG, a CSV-specialized consultancy formed by Porter and Kramer: "Leaders of companies that are making significant progress in building large-scale social enterprises consider solving major social problems in profitable ways to be a, if not the, *raison d'être*. [...] Creating shared value entails embedding a social mission in the corporate culture and channeling resources to the development of innovations that can help solve social problems. In some cases, this is a matter of reemphasizing a firm's founding social mission (Pfitzer et al. 2013: 4).

By implementing such a corporate purpose, managers' strategic imagination is drawn by the CSV framework to search for business opportunity *within* societal challenges. That part is clear and developed further in this section. Whether CSV can also, as Porter and Kramer claim, provide "an overall, strategic view of how to think about the role of the corporation in society" (Porter and Kramer 2014: 149), is the question taken up in the next section. The task now is to understand the virtue of CSV.

By deemphasizing quarterly numbers in the way CSV demands, managers gain the space to focus on profitability built upon durable competitive advantage. Porter and Kramer's contribution with CSV is to inspire managers to reach for imaginative ways to provide society value and their firm profitability. Porter is convinced that the sustainably profitable business strategies of the future will achieve competitive advantage by creating *shared* value, not by profiting at society's expense (Porter and Ignatius 2011b).

As a construct that defines a framework for strategic decision making, shared value stands for business strategies that strike two targets at once: *profitability and societal value.* It is this duality in shared value that grounds Porter and Kramer's claim that CSV can realign society and business to revitalize capitalism with legitimacy. According to Porter and Kramer, the world is full of societal needs that are not yet, but could be, fulfilled by companies, and forward-looking shared value strategies promise the potential for a healing of society that deservedly gives credit to business. For this reason, Porter and Kramer contend that shared value holds the key to unlocking the next wave of business innovation and growth. It will, they believe, also reconnect company success and community success after the age of the separation thesis, short-term thinking, and deepening divides among society's institutions (p. 77).

CSV has met with favor in the corporate world, partly due to FSG's growing track record. Nestle is one high profile early adopter among many, including Mattell, Hewlett-Packard, Houghton Mifflin Harcourt, Shell Oil and Swiss Re. The framework's practical success surely has to do, not only with Porter's fame and track record (Barney 2002), but with the dozens of concrete examples Porter and Kramer provide to stimulate managerial creativity and point the way forward to successful social engagement (for a review of recent examples, see Pfitzer et al. 2013 and fsg.org). All of these examples, as will become apparent, have in common that they represent cases where the new policy or strategy both improves profitability and provides social reward, as compared with the status quo (Crane et al. 2014: 136). These are win-win for business (at least the focal business) *and* society, and we will call these A-cases (de los Reyes et al. 2017).

One can say that in an A-case what is good for the goose (the company's profitability) is good for the gander (society at large). Here are a few representative examples noted by Porter and Kramer.

> Intel and IBM are both devising ways to help utilities harness digital intelligence in order to economize on power usage (p. 67).
>
> Wells Fargo has developed a line of products and tools that help customers budget, manage credit, and pay down debt (p. 67).
>
> Sales of GE's Ecomagination products reached $18 billion in 2009—the size of a Fortune 150 company (p. 67).
>
> Dow Chemical managed to reduce consumption of fresh water at its largest production site by one billion gallons—enough water to supply nearly 40,000 people in the U.S. for a year—resulting in savings of $4 million. The demand for watersaving technology has allowed India's Jain Irrigation, a leading global manufacturer of complete drip irrigation systems for water conservation, to achieve a 41% compound annual growth rate in revenue over the past 5 years (p. 69–70).

The favorable alignment attained by managers in these cases is hardly to be diminished. The virtue of CSV is the achievement of praiseworthy imagination and inventiveness attuned to the possibilities presented by societal need. We stand wholeheartedly behind the push for creativity to find win-win opportunities.

The logic behind this virtue is elucidated in an earlier article—Porter's breakthrough social issues piece—dealing with environmental strategy and regulation. Arguing for the same formula of win-win strategies, Porter with van der Linde analogizes to the quality revolution of the 1980s. "Today we have little trouble grasping the idea that innovation can improve quality while actually lowering cost. But as recently as 15 years ago, managers believed there was a fixed 'trade off'" (Porter and van der Linde 1995: 122). CSV directs managers to pursue environmentally sound strategies, not only if managers personally want to avoid degradation of the planet, but rather to achieve the advantage of cost savings, improved quality or efficiency and/or higher prices. Managers, in other words, can and should act in socially attractive ways, finding profitable ways to do so. With CSV, it is not from the environmentalism of managers that we expect green and social strategies, but from their regard to their firm's shared value.

The social virtue of imaginative CSV strategies, we believe, is beyond doubt and amply borne out by Porter and Kramer's many examples. For this reason, we agree that Porter and Kramer have framed CSV as an essential component of a twenty-first century managerial framework. We will now proceed to lay the foundation for our contention that being necessary does not make CSV sufficient. Contrary to Porter and Kramer, we argue that CSV, on its own, does not provide "an overall, strategic view of how to think about the role of the corporation in society" (Porter and Kramer 2014: 149). Certainly, Porter and Kramer would grant that CSV must fit alongside the normativity of law; fortunately, managers do not need a managerial framework to help them identify binding law (lawyers can manage that). Porter and Kramer also endorse compliance with ethical standards and a narrow sense of social responsibility. This category of norms is not self-legitimating in the way the law can be (Hart 1961). Managers have to make judgments about the legitimacy of those norms that call for compliance, and the limitation with CSV, as we shall see, is that it does not have a way to specify how and when non-legal norms acquire legitimacy in managerial decision making.

CSV Beyond the A-Case

In this section, we motivate our contention that CSV does not provide a comprehensive managerial framework, one that can plausibly promise to restore business legitimacy as Porter and Kramer project. The guidance of CSV around A-cases has virtue. CSV directs the manager to search for A-cases by exploring society's needs. Unfortunately, as Porter and Kramer acknowledge, "NOT ALL societal problems can be solved through shared value solutions" (emphasis in the original) (Porter and Kramer 2011: 77). And those societal problems that fall within CSV's blind spot are not necessarily exceptional or immaterial, but rather many are predictable and often serious. What falls into this blind spot are all those cases that are not *win-win* for business and society and, therefore, do not represent A-cases. These B-cases are either *win-lose* (like increasing the amount of destructive but unregulated and cost-saving emissions) or *lose-win* (like CSR initiatives that demand profitability trade-offs) (de los Reyes et al. 2017).

What defines a B-case context is that managers have not yet identified a win-win strategy at the margin. To the contrary, profitability and social advantage appear at odds, as, for example, in the case of improving labor standards in Bangladeshi textile manufacture: the obvious way to interpret the implications of investment in safety improvements by the global brands is as a reduction, rather than as an increase, in profit margins. As presented by Porter and Kramer, there is no obvious shared value in voluntarily reducing margins to raise labor conditions (value is not "shared" unless the firm gains profitability). CSV's potential for disregarding the labor conditions of supply chain workers abroad is reinforced by Porter and Kramer's criticism of the fair trade movement.

Fair trade aims to increase the proportion of revenue that goes to poor farmers by paying them higher prices for the same crops. Though this may be a noble sentiment, fair trade is mostly about redistribution rather than expanding the overall amount of value created.

Framed in this manner, CSV would also seem to disfavor (or at least not encourage) investing in labor standards: it is not obviously the case that by investing profits in labor standards the global clothing brands would increase “the overall amount of value created.”

In addition to those emerging from working conditions, supply chain management can run up against a number of other B-case issues, including potential reliance upon child or forced labor and the violation (or complicity in the violation) of human rights. B-case issues also often result when marketing abroad in different normative regimes. Yahoo entered the Chinese market to offer search and other web-based services to the world’s most populous country in the late 1990s (Dann and Haddow 2008). Yahoo later found itself under orders from the Chinese government to turn over the email addresses of two Chinese journalists. Should it comply or not? Complying would have a negative impact on the journalists and would chill anything approach freedom of the press in China. This is a difficult question, and CSV does not help with an answer.

Similarly, the decision to act affirmatively about improving labor conditions abroad must seemingly come from a different normative principle than CSV. Porter and Kramer recognize ethical standards and a narrow sense of social responsibility, and this realm is implicated by B-cases. Porter and Kramer have not specified how managers are to assess the legitimacy of these norms, and CSV does not provide any guidance either. Are the global brands morally responsible, in Porter and Kramer’s view, for harms to Bangladeshi textile workers who died in the Rana Plaza building crash (caused by corruption and recklessness that led to over 1000 worker deaths)? Was there a reprehensible managerial failing that gave rise to a global brand’s labor strategy? Would voluntarily reducing the profit margin to improve the working conditions in textile factories fall within the narrow sense of social responsibility Porter and Kramer endorse? These are challenging questions, and the CSV framework, as Porter and Kramer present it, has no comment.

The last question asked in the previous paragraph raises an additional difficulty with Porter and Kramer’s account and its handling of B-cases. The difficulty was suggested by the discussion of fair trade above: Porter and Kramer dismiss the legitimacy of economic redistribution. Shared value, they emphasize, is *not* “about ‘sharing’ the value already created by firms—a redistribution approach” (p. 65). To return to the case of Bangladeshi textiles, it is difficult to see the absence of redistribution when global brands assume and pay for voluntary compliance with norms that reduce profit margins so as to improve labor conditions. Does that, in Porter and Kramer’s view, disqualify the norm of investing in supply chain labor conditions to a certain standard from achieving legitimacy as an ethical standard or within a narrow sense of social responsibility?

In sum, for several related reasons, Porter and Kramer’s account of CSV would leave global brands managers flat-footed about B-cases like where there is no economic reason to invest to improve labor conditions in the supply chain. The limitation with Porter and Kramer’s account of CSV, we have argued, is that B-cases are typical enough to cast doubt on the potential of this framework to single-handedly restore the legitimacy of capitalism. The societal downside of B-cases where business is pursuing opportunities to society’s detriment (like polluting)—or is failing to pursue social enterprise for want of competitive advantage (like healthier food that not enough consumers will pay more for)—stands in the way of the legitimacy of business, as conceptualized by Porter and Kramer and, with greater complexity, in the management literature (Suchman 1995; Scherer et al. 2013).

A team of leading business ethicists, in their recent review of CSV, go even further and suggest that with its emphasis on A-cases CSV not only obscures harms that result from business activity but could also induce companies to celebrate A-cases (or apparent A-cases) for marketing purposes.

> Operating with a CSV mindset, corporations might tend to invest more resources in promoting the impression that complex problems have been transformed in to win-win situations for all affected parties, while in reality problems of systemic injustice have not been solved and the poverty of marginalized stakeholders might even have increased because of the engagement of the corporation … [I]nstead of promoting the common good, CSV might promote more sophisticated strategies of greenwashing (Crane et al. 2014: 137).

Moreover, these business ethicists correctly, we think, point out that CSV's methodology for identifying A-cases ignores the question whether the underlying product offers genuine social good. A tobacco company, for example, might reduce the water used in production, and that measure, seen as a discrete strategy, is socially positive. No matter how much water is saved making cigarettes, this A-case cannot change the fact that tobacco causes serious health risks.

Supplementing CSV with a Responsibility Framework

In this section, we address the challenge of supplementing CSV with a responsibility framework, of one kind or another. What we are interested in showing is how two managerial frameworks—CSV and a responsibility framework—may be combined to provide a more comprehensive framework, one that fills the B-case gap in CSV with a norm-identifying apparatus.

A prominent candidate in business ethics to address these issues is Integrative Social Contracts Theory (ISCT), an approach that has been widely embraced in business ethics and serves as an exemplar of social contracts theory in management (e.g., Van Oosterhout et al. 2006; Gilbert and Benham 2009). Social contract theory originated in political philosophy over 300 years ago when philosophers such as Hobbes, Locke and Rousseau sought to justify the existence of the state and to better understand the reciprocal obligations of the state and citizen. Applied to business and society, the idea of the social contract as a theory of moral philosophy attempts to understand the terms under which the members of society consent to the legitimacy of a business system involving markets, organizations and other economic communities (Dunfee et al. 1999).

Developed by Thomas Donaldson and Thomas Dunfee, ISCT transforms the idea of social contracts (e.g., Rousseau 1762; Rawls 1971) into a concrete managerial framework. The framework posits two layers of norms, beyond which managers enjoy "moral free space." The top layer consists of "hypernorms," norms with universal reach that are deeply embedded in human society transculturally, identifiable by their common embrace around the world in the leading religious, political and philosophical traditions (1999: 49–81). Other more local norms emerge from the microsocial contracts that result from joint participation in business activity by members of a given economic community, such as employees in a corporation or traders in a given marketplace (1999: 83–116). These microsocial norms are binding under ISCT so long as four conditions are met. The first is that the norms be (1) well established, meaning they are dominant in a community that gives members a meaningful (2) right of exit, i.e., that they are in a meaningful way voluntary with respect to the bound party, and (3) right of voice to weigh in on and influence the community's norms. These conditions ensure that microsocial norms only bind when it can be said that the actor in question chose to be subject to the norms. Finally, microsocial norms do not bind—even if the first three conditions are met—if they are not consistent with hypernorms, like human rights.

The theory of ISCT generates a framework by prompting thought experiments to help identify applicable hypernorms and microsocial contracts (e.g., 1999: 63–73; 102–112). The resulting norms identified by a manager are deemed legitimately binding under the theory (e.g., Donaldson 1996; Donaldson and Dunfee 1999, 2002; Dunfee et al. 1999; Dunfee 2006). In realms where managers cannot identify binding norms through the ISCT framework, Donaldson and Dunfee think they enjoy "moral free space" meaning they "have substantial discretion in deciding how to respond to stakeholder claims and interests" (1999: 253).

How could CSV and ISCT fit together? Where the manager identifies moral free space, CSV's imperatives can operate without restriction, meaning that managers can focus on creating shared value. Outside moral free space, managers and their companies are subject any hypernorms and microsocial norms identified by applying the framework, meaning that they can pursue the creation of shared value *subject to binding norms*. The conjunction of ISCT with CSV means that managers have a decision apparatus for identifying when a norm binds them in a way that overrides CSV. In this way, ISCT provides a plausible managerial framework to fill the gap in CSV with clear rules of engagement: in moral free space, CSV reigns untrammeled, whereas hypernorms and microsocial contracts, where applicable, trump CSV. As Donaldson recently noted in a review of CSV:

> A company should tell the truth to investors, refuse to discriminate on the basis of race or gender and refrain from dumping cancer-causing chemicals in public waters, even when doing so fails to enhance its competitive posture. It should do so even when the regulatory apparatus in a developing country is inadequate to regulate pollution; and it should do so even in a developed country when industry insider knowledge exceeds regulatory reach, as when bankers know their complex toxic mortgage derivatives are opaque to regulators. The logic of the language of morals is often not about optimisation, but commitment (Donaldson 2014).

The manager who follows a managerial framework consisting of CSV plus ISCT, therefore, finds guidance around B-cases, rather than the silence of CSV.

Consider the case of forestry, and the many issues it raises. Does it matter whether harvested forests are depleted? Do managers need to worry about other environmental impacts? What about the status of indigenous peoples who spend their lives in forests that could be legally harvested? What norms should a manager committed to a narrow sense of social responsibility follow? According to ISCT, managers should scan the environment for applicable microsocial norms and hypernorms. There are potential human rights concerns in loss of habitat of indigenous peoples, and there are likely other relevant hypernorms as well. One of the virtues of microsocial norms is often to bring concrete content to deep-tissue moral principles like human rights. In the forestry space, this advantage has been realized, however imperfectly, through a series of voluntary certification schemes, of which the Forestry Stewardship Council (FSC), founded in 1993, was first and remains the standard bearer. FSC resulted from a multi-stakeholder initiative—forestry companies, environmental NGOs and forest certification organizations (as discussed in the following section, a prototypical case of norm-making). FSC has established and maintained up to date a set of ten principles and detailed criteria for the industry to follow. The twist is that FSC does not enforce these principles as if they were law. FSC provides a certification that can be enjoyed by forest owners that act according to the FSC Principles—ensuring the right of exit ISCT demands. Today, the question for companies in the industry is whether to comply with the FSC's (or another norm-making organization's) certification standards (a matter of norm-taking).

The following commitments, adopted by FSC members, address the questions raised above:

To maintain or restore the ecosystem, its biodiversity, resources, landscapes;

To identify and uphold indigenous peoples' rights of ownership and use of land and resources.

In this case, there is not at all a blank slate for managers of the forestry company to do what appears to be in the best interest of the company, without considering societal needs and impacts. There are carefully developed and well-established FSC norms that speak to the precise issues that face forestry companies. According to ISCT, these norms are legitimate and binding since they result from voluntary participation that allows for voice and exit. The nature of the FSC process makes for a compelling case that the legitimacy of a forestry company calls for its managers to meet or beat FSC certification standards.

Coupling CSV with ISCT, as the norm-taking framework in CSV+ requires the two frameworks to integrate, and they do so in the following, straightforward way: Where the manager is in moral free space, i.e., there are no well-established microsocial norms or hypernorms to bind, CSV's own imperatives would operate without impediment. Outside moral free space, managers and their companies are subject to any hypernorms and legitimate microsocial norms identified by applying the framework. By coupling ISCT, managers can go after CSV and yet be oriented to heed legitimate norms on the way there. In this manner, ISCT provides a managerial framework designed to help fill the gap in CSV and make good on Porter and

Kramer's injunction to comply with ethical norms. The decision tree is clear: in moral free space, CSV reigns untrammeled, whereas legitimate norms, where applicable and well established, delimit the pursuit of CSV.

We close this section by noting the importance of a responsibility framework geared to deal with cases where the existing normative landscape is not reasonably up to the demands of business practice and its societal impacts. In these cases, where prevailing norms appear to be absent, too general, obsolete or otherwise maladapted to the matter at hand (Scherer and Palazzo 2011; Bower et al. 2011; Donaldson and Schoemaker 2013), a framework like ISCT loses plausibility (Scherer and Palazzo 2007: 1101–1102). Donaldson has recently supplemented ISCT with a framework designed to address cases like these with a managerial imperative to engage in norm-marking industry initiatives (Donaldson and Schoemaker 2013). Specifically, Donaldson and Schoemaker argue that the responsibilities of a captain of industry activate a legitimate norm that binds these executives as custodians of an industry's good health and survival, safeguarding for society the welfare the industry should provide. Scherer and Palazzo, in part based on their critique of ISCT's limitations, also call for executives to engage in norm-making deliberation, calling this activity "political CSR." Writing from a tradition closer in lineage to Porter, Bower, Paine and Leonard of the Harvard Business School (2011: 154) frame the imperative to engage in norm-making discourse as *institutional activism*: "success in addressing the challenges we have identified [as facing capitalism] will also require innovation in *institutional arrangements* in the external environment within which firms operate" (emphasis in the original).

A framework for norm-making along the lines suggested by these three different approaches picks up where a norm-identifying and prescribing framework like ISCT leaves off. Re-consider the example of the Bangladesh apparel industry. In the aftermath of the April 2013 Rana Plaza disaster, leaders in the global apparel industry faced a major threat to the industry's moral legitimacy. The trail led to the global brands' supply chain practices and their failure to monitor their suppliers and promote safety for workers (Quelch and Rodriguez 2013). The global brands had failed to engage in norm-making in time to prevent the Rana Plaza tragedy. Nevertheless, immediately following the tragedy, numerous brands responded to the crisis with collaborative norm-making processes.

Two different approaches emerged, one organized by European companies, the Accord on Fire and Building Safety in Bangladesh (the Accord) (Accord 2015); the other by US firms (notably, Walmart and The Gap), the Alliance for Bangladesh Worker Safety (the Alliance) (Alliance 2015). Both issued norms applicable to their members that address labor conditions, concerning safety especially. The norms that emerged from these two microsocial communities are not, however, identical. A noteworthy difference is that joining the Alliance is not supposed to subject the member to legal risk, whereas under the Accord the member may be exposed to certain obligations that create the potential for legal liability. Which set of norms will work better to protect worker safety is an evolving question of fact.

We recognize the importance of saying much more about the interface between a norm-taking framework and a norm-making framework than we can here. In this section, our limited aim has been to ground the plausibility of layering CSV with a compound responsibility framework of the sort we sketched (ISCT plus a call to norm-making where existing norms fall short). The purpose of such an elaboration of Porter and Kramer's CSV framework has been to support our view that CSV's limitations do not provide a reason to reject the framework, but rather provide a reason to supplement the framework in the manner suggested in this section.

Conclusion

In this chapter, we have sought to develop the intuition behind Porter and Kramer's powerful CSV framework, demonstrating how it answers the limitations with a society-ignoring obsession with share value. The virtue of CSV is bringing societal needs into the heart of strategy, as the primary ground for developing sustainable competitive advantage. In light of this virtue, Porter and Kramer conclude that "learning how to create shared value is our best chance to legitimize business again" (64). We have argued that as a freestanding managerial framework CSV is not a plausible antidote to business's legitimacy crisis. In our view, Porter and Kramer's claim requires at least one more word: learning how to create shared value *responsibly* is our best chance to legitimize business again.

What CSV therefore needs, in our view, is a managerial framework to operationalize the meaning of responsibility. While Porter and Kramer endorse the general legitimacy of ethical standards and a narrow sense of social responsibility, they do not articulate a responsibility framework to assist the manager in separating the wheat (legitimate and binding norms) from the chaff (norms that do not legitimately bind managers). To show how to supplement CSV with a responsibility framework, we drew upon ISCT. The plausibility of ISCT for our purposes owes to the way it yields a managerial framework geared to facilitate the identification of the legitimate non-legal norms that bind managers. Even ISCT, we have suggested, has its limitations whenever business activity has outstripped normative development in civil society, and we highlight the importance of norm-making as a feature of a comprehensive responsibility framework.

The corporate managers who we think can do the most to help restore the legitimacy of capitalism will have to be devoted to CSV, turning over every stone of societal need to find opportunities to extend their firm's competitive advantage. They will also, we add, listen very carefully, not only to the hard law of legislators and regulators, but also to wide range of players in civil society who have a voice in the articulation of norms, from soft law to best practices. These norms—contested though they may be—arise to channel business activity with the grain of societal interest, and the twenty-first century manager cannot disregard the guidance these norms may legitimately provide. What managers need is a framework, such as ISCT models, that can help them figure out when norms bind and also when norms are lacking, requiring managers to become public deliberators engaged in norm-making processes. Only managers so equipped with a compound framework—CSV *plus* an adequate responsibility framework—can hold the promise for a renewal of capitalism in the century ahead.

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