

Creating Shared Value

A post-positivistic analysis of Michael E. Porter's meta-theoretical eclecticism

By Lea Torpegaard Kvistgaard

Supervisor: Peter Neergaard

2nd January, 2013

Copenhagen Business School

Cand.ling.merc, English and communication

Characters: 181940 of 182000, Pages: 80 of 80

RESUMÉ

Creating Shared Value:

A post-positivist analysis of Michael E. Porter's meta-theoretical eclecticism

Corporate social responsibility (CSR), på dansk kendt som virksomhedernes sociale ansvar, er et fascinerende og yderst komplekst fænomen, der er opstået som resultat af en voksende global opmærksomhed på manglende miljømæssig og menneskelig bæredygtighed. Mange forskere og økonomer peger nu på virksomhederne som en mulig løsning på disse problemstillinger. En af dem er den kendte professor Michael E. Porter, som har formuleret et koncept kaldet CSV: Creating Shared Values. Inden for dette CSV-koncept beskriver Porter en måde, hvorpå han mener, at virksomheder kan foretage CSR investeringer således, at de *både* skaber afkast på bundlinjen for den enkelte virksomhed og *samtidig* øger den samfundsmæssige bæredygtighed. Dette koncept har tiltrukket sig stor opmærksomhed af både positiv og negativ karakter.

Dette speciale tager udgangspunkt i dette CSV koncept og søger at analysere det ud fra et meta-teoretisk udgangspunkt. Bevæggrunden stammer fra Thomas Kuhns paradigmatænkning, ifølge hvilken alle forskere og teoretikere, bevidst eller ubevidst, tilhører et videnskabsteoretisk paradigme, som styrer vedkommendes tilgang til teorikonstruktion og ikke mindst deres holdning til, hvad god videnskab indebærer. Endvidere beskriver Kuhn, hvordan teoretikere fra forskellige paradigmer ikke kan forholde sig meningsfuldt til hinandens arbejde, da deres forskellige evalueringskriterier underminerer et fælles sammenligningsgrundlag. Med udgangspunkt i denne antagelse søger dette speciale således at klargøre, hvorvidt kritikken af CSV kan siges at have ophav i en meta-teoretisk usammenlignelighed, altså at kritikerne tilhører et andet paradigme end Michael Porter og derfor fejlagtigt kategoriserer en kvalificeret men videnskabsteoretisk anderledes tankegang som uvidenskabelig og værdiløs.

Denne analyse foretages ud fra et post-positivistisk udgangspunkt med henblik på at definere på hvilke punkter CSV afviger fra de post-positivistiske retningslinjer og afslutningsvis modificere CSV, således at den lever op til de post-positivistiske kriterier for god videnskab. Dette opnås ved at opstille en hypotese om, at Porter skriver ud fra et kritisk teoretisk paradigme. Denne hypotese er opstillet på baggrund af en kort, indledende gennemgang af videnskabsteorierne og tjener et analytisk formål. Specialet er herefter inddelt i fem dele. I første del præsenteres og beskrives de to videnskabsteorier, post-

positivisme og kritisk teori, som danner grundlaget for analysen. I del to foretages en gennemgang af CSR-litteraturen med det hovedformål at identificere en række nøgleemner inden for feltet, som efterfølgende benyttes til at analysere Michael Porter og CSV ud fra. Ved at analysere, hvorledes Porter forholder sig til disse nøgleemner, afdækkes en række underliggende holdninger og ståsteder, som herefter betragtes ud fra et meta-teoretisk perspektiv med henblik på at definere, hvilket paradigme disse holdninger afspejler. Disse analyser foretages i del tre, hvor den indledende hypotese afvises, og det konkluderes, at Porter udviser en meta-teoretisk eklekticisme, der medfører, at han kombinerer forskellige videnskabsteoretiske elementer fra diverse paradigmer på trods af deres indbyrdes uforenelighed. I del fire diskuteres implikationerne af en sådan eklekticisme, hvilket afdækker en række grundlæggende problemer og kritikpunkter ved CSV konceptet.

I del fem modificeres CSV med henblik på at indfri de post-positivistiske kriterier for videnskabelighed, hvoraf to afgørende elementer er henholdsvis *målbarhed* og *generel gyldighed*. Det konkluderes, at CSV er for komplekst og for kontekstuel til at leve op til begge kriterier i sin nuværende, holistiske form, hvorfor der i stedet opstilles en række kausaliteter udledt eksplicit fra CSV. Disse udgør altså den konkrete, målbare kerne i Porters CSV koncept. Specialet lægger herefter op til, at en post-positivistisk falsifikationsproces bør foretages fremadrettet med henblik på at falsificere de af Porters påstande, der ikke har generel gyldighed. Formålet er at finde frem til de elementer af CSV, der er videnskabsteoretisk konsistente, og som via empiriske målinger viser sig at kunne underbygges og dermed udgøre et troværdigt redskab for virksomheder at planlægge og foretage CSR investeringer ud fra.

PREFACE

Academic background

I have a BSc in English from the University of Copenhagen with an elective semester of Italian from the University of Palermo (*Università degli Studi di Palermo*). This master thesis constitutes the conclusion of an MA in International Business Communication (cand.ling.merc) at Copenhagen Business School. The subject of this thesis, therefore, is not part of the predefined, obligatory elements of my study but emanates from an elective course entitled ‘Corporate Social Responsibility: Challenge and Opportunity for Business Leaders.’ This rather untraditional route to a dissertation on CSR may explain the untraditional approach employed in the following research. I have very much enjoyed the process and hope my interest in the subject may reflect onto potential readers.

Acknowledgments

I wish to thank my supervisor, Peter Neergaard, who decided to take me and this project on despite my somewhat unconventional approach to problem solving. He has been supporting throughout this process and believed in me despite our occasional difference of opinion.

I also wish to thank my father for inspirational discussions and insightful, to-the-point comments. I appreciate your engagement, and your critiques as well as your credits.

Last but not least, I wish to thank my wonderful boyfriend, Niels, who has been loving and patient and supported me through the obligatory highs and lows of thesis writing. His contributions have been utterly indispensable.

Thank you!

TABLE OF CONTENTS

1	Introduction	1
1.1	Research question	3
1.2	Structure of thesis	5
1.3	Delineation	6
2	PART ONE – Philosophy of Science.....	7
2.1	Thomas Kuhn – The incommensurability of paradigms	7
2.2	Theoretical perspectives	9
2.2.1	Positivism vs. post-positivism.....	9
2.2.2	Critical Theory	13
3	PART TWO – What is CSR?	17
3.1	The rise of CSR.....	17
3.2	What is CSR? A theoretical introduction	19
3.3	The dispute over CSR: Capitalism vs. Stakeholder Theory	22
3.3.1	The tenet of capitalism and a free market system.....	23
3.3.2	The tenet of Stakeholder Theory.....	23
3.3.3	Should companies engage in CSR?	25
3.4	Contemporary expectations and competitive context.....	28
3.4.1	Coercive isomorphisms	28
3.4.2	Mimetic processes.....	29
3.4.3	Normative pressures	29
3.5	The business case for CSR	30
3.5.1	Methods of measurement.....	31
3.5.2	Endogeneity and correlation	33
3.5.3	Time lag	34
3.5.4	Mediating variables, situational contingencies, and external factors	34
3.6	Summary of the literary review.....	35
4	PART THREE – Analyses.....	35

4.1	Why Michael E. Porter?	36
4.2	Analysis of CSV: Detection of the underpinning assumptions and beliefs	37
4.2.1	The purpose and the function of CSV	37
4.2.2	CSV in relation to key issues of CSR	39
4.2.3	Investigation of the guidelines for actual implementation	43
4.2.4	Classifying Porter's empirical methods	46
4.2.5	Summary: Aggregated assumptions and beliefs	47
4.3	Meta-theoretical analysis: Determining the paradigm of Michael E. Porter	48
4.3.1	Ontology	49
4.3.2	Epistemology	50
4.3.3	Teleology	51
4.3.4	Axiology	52
4.3.5	Methodology	53
4.3.6	Conclusion: Meta-theoretical Porterian eclecticism	55
5	PART FOUR – Critique and discussion: Implications of Porter's eclecticism	57
6	PART FIVE – Operationalisation	62
6.1	Operationalising the framework	62
6.2	Modified CSV framework	65
7	Evaluation of causality approach	73
7.1	Addressing the central shortcomings of CSV	73
7.2	Personal critique of causality approach and choice of focus	74
8	Conclusion	76
8.1	Future perspectives	77
	Bibliography	79
	Appendix I: List of abbreviations	83
	Appendix II: Definitions of addressed concepts	84

LIST OF FIGURES

Figure 1: Visualisation of the three levels of abstraction	2
Figure 2: Carroll's CSR pyramid	20
Figure 3: Input-Output Model	24
Figure 4: Stakeholder Model	24
Figure 5: How Shared Value differs from CSR	45

LIST OF TABLES

Table 1: Characteristics of theoretical paradigms	15
Table 2: Should companies engage in CSR?	28
Table 3: Addressed key issues	35
Table 4: Summary of the analysis of Michael Porter's philosophy of science.....	55
Table 5: Central shortcomings of the CSV framework	61
Table 6: Profit - focusing investments.....	67
Table 7: Planet - Effective utilisation of natural resources	68
Table 8: People - Improving standards of living	69
Table 9: Value chain integration	69
Table 10: Miscellaneous.....	70
Table 11: Hypothesised post-positivistic version of CSV.....	72

1 Introduction

“The only trouble with capitalism is capitalists. They’re too damn greedy.” – Herbert Hoover, 31st President of the United States.¹

The concept of corporate social responsibility (CSR) has emerged as a response to the growing awareness of the detrimental global consequences of our unsustainable drain on the natural resources and continuous emission of greenhouse gases into the atmosphere. Likewise, an increased attention towards an equivalent misuse of the global human resources has contributed to its emergence. These are serious concerns that need to be addressed. The scientific and political discussions about climate change reflect this challenge. The global society has therefore called on businesses to embrace their part of the responsibility in form of a triple bottom line consisting of *people, planet, and profits*. The consequent debate over CSR and the role of businesses in society has been ferocious and not always entirely constructive. Nonetheless, a consensus seems to have been reached within the CSR literature that some degree of CSR is necessary. Therefore the debate now increasingly revolves around the *how*. How should companies relate to the increased public expectations they face, and how should they select, undertake, and organise their respective CSR initiatives?

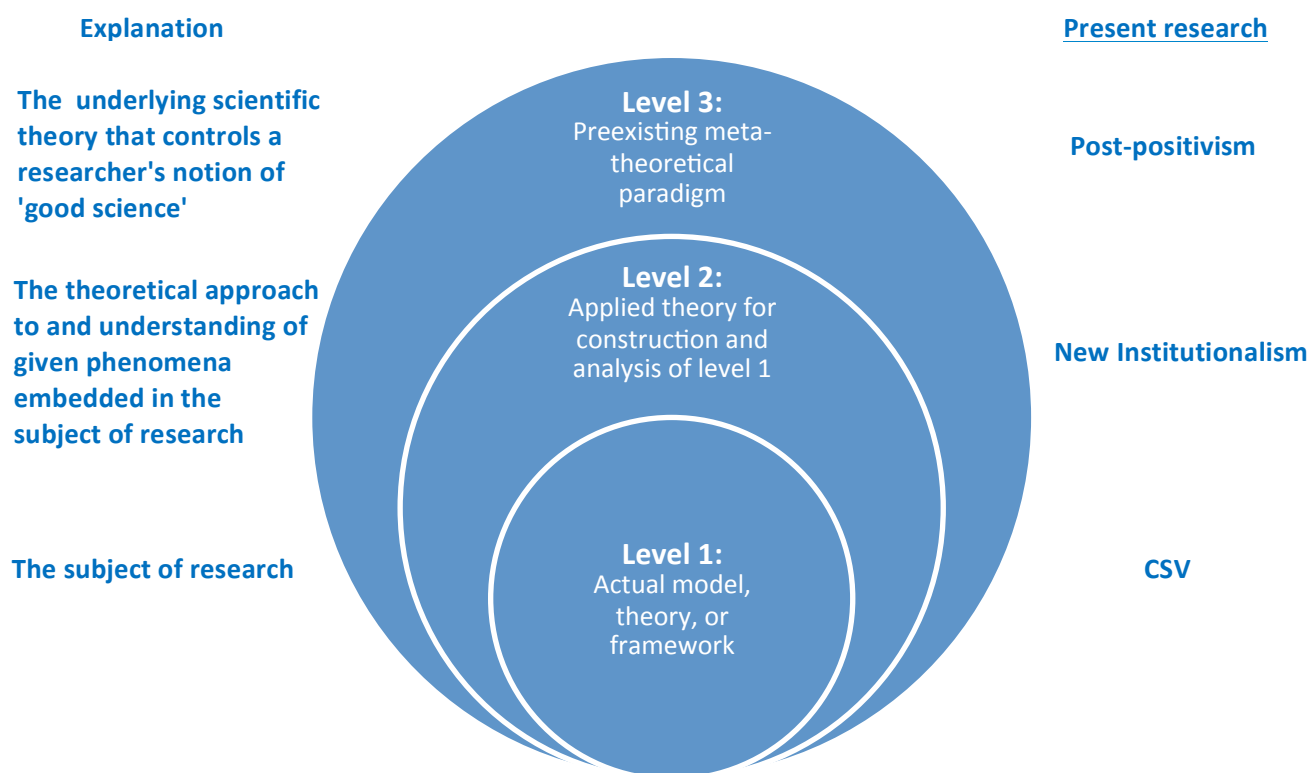
The renowned economist Michael E. Porter, by many recognised as the father of modern corporate strategy (Schawbel, 2012), has developed one answer to these questions; a framework which he has dubbed Creating Shared Value (CSV). The CSV framework has received enormous attention and much praise, but like anything within the field of CSR both the framework and Porter himself has also been subject to much critique as exemplified by this extract from *The Economist*, 8 October 1994: “Rather than building theory and analysis, Porter is responsible for creating exhaustive, and not always original, laundry lists, and then passing them off as an explanation” (Davies & Ellis, quoted in Huggins & Izushi, 2011). Similarly, when I was first introduced to the CSV framework, I was intuitively drawn to the simplistic, yet seemingly ideal and integrative nature of the solution to an otherwise complicated and much disputed problem. Simultaneously, however, I was alienated by an apparent lack of scientific value which caused me to question the practicability of the framework and regard it as a utopian but admirable idea rather than actual science. This display of bigotry on my part, spurred my curiosity as to how I and other researchers

¹ Remark made by Herbert Hoover to columnist Mark Sullivan in approximately 1929 and recorded into the Presi-

define ‘good science’, and consequently how we are even able to evaluate the work of one another if our answers to this question differ. I therefore decided to adopt a meta-theoretical perspective of the CSR debate and the CSV framework in particular, in order to identify whether critiques as my own and the one quoted above in fact emanate from differing meta-theoretical notions of ‘good science’ or are actual reflections of poor research practices in the generic, academic, normative sense of the word.

In order to facilitate the distinction between different levels of theoretical analysis, I have illustrated the various levels of abstraction in figure 1 below. It may prove helpful for the reader to return to this figure occasionally during the research process as additional concepts and terms are defined.

Figure 1: Visualisation of the three levels of abstraction



The overall aim of this thesis, therefore, is to move beyond and above the conventional level 2 arguments and critiques with implicit and therefore non-articulated references to undefined notions of good or bad science and right or wrong theoretical approaches. Instead, I aim to analyse the problem from a higher level of abstraction, level 3, through a pair of meta-theoretical lenses which might help disentangle the origins of various level 2 criticisms and thereby offer a way to distinguish between genuinely poor science

(e.g. characterised by circular reasoning or erroneous sampling) and science simply conducted under a different set of meta-theoretical prescriptions.²

1.1 Research question

It follows from the above reasoning that an underlying assumption of this thesis is the belief that one, simple answer to the question ‘what is good science?’ does not exist. Given that a researcher follows certain generic academic standards there are numerous ways to conduct scientifically valuable research. An investigator’s approach implicitly reflects his or her pre-existent notion of reality, of knowledge acquisition, of the purpose of research, and of the role of personal values; all of which will substantially affect the outcome of a given investigation. Therefore, the first preliminary step in the process of moving beyond a biased evaluation of the CSV framework, naturally, was to establish my own theoretical perspectives. Thus through a review of the literature of philosophy of science, I have established my personal adherence to the post-positivistic philosophy of science, which dictates my inherent notion of what scientifically valuable research should look like. Simultaneously, I was able to identify a number of elements of the theoretical perspective called critical theory, which, on the surface, seemed to correspond well with certain aspects of Porter’s CSV framework.

I have therefore developed the following hypothesis:

² It should be noted that a search of the literature for critiques and discussions of Michael Porter results in countless hits on theoretical discussions, some even with references to the concept of Kuhnian paradigms that are employed in the present research. One such ferocious discussion, amongst others referring to Porter’s paradigms and frameworks, comprises the Porter Hypothesis on the one hand (which asserts that stricter governmental regulation can spur innovation and competitiveness) and the rejection of profit generating environmental policies on the other (as stated by e.g. Palmer, Oates, and Portney) (Bauman, Yoram (2004). Paradigms and the Porter Hypothesis. Retrieved at <http://www.smallparty.org/yoram/research/porter.pdf> 30 Dec, 2012). However, despite the meta-theoretical terminology, if one traces the criticisms of these discussions, it is unequivocal that arguments revolve around different theoretical approaches and their quality which constitute the *second level of abstraction* (cf. figure 1). These discussions are therefore without direct relevance in this context as they may simply be rooted in different notions of good science. A meta-theoretical analysis of these discussions would without doubt display the various meta-theoretical standpoints of the individual researchers, and it would then, probably, be possible to link the theoretical criticism of Porter to specific meta-theoretical standpoints. However, this exercise is beyond the scope of this thesis and is therefore not accomplished here. It could, as indicated, be a topic for further research, since the scientific literature obviously has a gap or a black spot at this particular point. Likewise, Huggins & Izushi (2011) describes Porter as theoretically eclectic but refer to the mixture of elements from the field of strategy theory, organisational theory, economic theory etc., i.e. level 2, and never considers the meta-theoretical origin of this eclecticism. I shall return to these aspects at a later stage. For now, these examples simply serve the purpose of visualising the various levels of abstraction and to inform the reader that no prior meta-theoretical level 3 analysis has been detected by the author neither prior to or during the present research.

H₁: *Michael E. Porter adheres to the philosophy of science called critical theory.*³

I intend to analyse whether the elements of CSV that are not consistent with the post-positivist directives are the direct cause of my initial scepticism. In compliance with my philosophy of science, I will be able to assess the implicit meta-theoretical foundation of Porter. These findings are interesting due to the significant benefits that could be achieved from realising the full potential of the CSV framework in answering the urgent, social call for a higher degree of sustainability. Should my hypothesis be correct and the apparent deficiencies of CSV be the result of different meta-theoretical affiliations rather than of poor research, then the scientific value of CSV would be intact, albeit from a different meta-theoretical stance than mine. It would, therefore, be interesting to attempt to modify the framework in alignment with the post-positivist prerequisites in order to heighten its (post-positivistic) scientific value. All of the above considerations have resulted in the following research question:

RQ: How can the philosophy of science be utilised as an analytical apparatus and thereby contribute to the understanding of Michael E. Porter's CSV framework, and how can this framework be operationalised and modified to follow the post-positivist directives?

It is absolutely fundamental to note that I follow Martyn Shuttleworth's definition of operationalisation which defines the term as "the process of strictly defining variables into measurable factors. The process defines fuzzy concepts and allows them to be measured, empirically and quantitatively" (Shuttleworth, 2008). This is the academically correct usage of the term 'operationalisation' although, in everyday speech, it is often applied in the sense of 'making operational in practice.' This latter significance is *not* the one employed in this thesis. *Thus the final aim and ideal outcome of the following research is to ultimately present a tangible, operationalised, i.e. clearly defined and measureable, version of the framework.* This would allow for a testing of the central tenets of CSV which in turn could provide corporate managers with highly useful information for deciding on a corporate strategy on CSR. This objective entails certain requirements of the overall framework of the thesis which will be presented in the subsequent paragraphs.

³ For the meta-theoretical aware reader, it might seem remarkable to denominate Porter as a critical theorist. However, for practical and analytical reasons, a characterisation (any characterisation) is necessary in order to make an assessment of Porter's philosophy of science. It allows for comparison and criteria of evaluation.

1.2 Structure of thesis

Thus, the main purpose of this dissertation is to operationalise and modify Michael Porter's CSV framework in accordance with a post-positivistic philosophy of science which entails an analysis, critique, and subsequent adaption of the framework. In order to achieve this, I will divide the body of my thesis into five parts.

Firstly, I will present the interesting ideas of Thomas Kuhn whose thoughts on theoretic paradigms constitute the backbone of this master thesis. Subsequently, I will present the underlying assumptions and implications of my own philosophy of science followed by the tenets of Porter's hypothesised paradigm, critical theory. The purpose of this presentation is to establish the various characteristics of each paradigm seeing as they will play a fundamental part in the meta-theoretical analysis that will be conducted at a later stage of the resource process. This first part is, in other words, a presentation of the relevant level three (cf. figure 1) perspectives.

Secondly, I will conduct a review of a selection of the fundamental literature on CSR and thereby present the main issues and disputes of the field. I will do so for two reasons. One is to establish and present my own second level theoretical approach to CSR. Unquestionably, a fundamental insight into the issues of the field is essential in order to adequately relate to the criticisms of CSV and for a subsequent adaption of the framework to be based on a knowledgeable foundation. The second purpose, on the other hand, is strictly analytical and constitutes part of the meta-theoretical research. In order to subsequently identify Porter's paradigmatic level three affiliations I will attempt to identify (or at least approximate) Porter's ontological, epistemological, axiological, teleological, and methodological viewpoints. I aim to achieve this by revealing his underlying assumptions and beliefs by subsequently analysing and measuring his conclusions up against the key points of CSR that will be established in this part of the paper.

The third part of this thesis consists of two independent yet related analyses. First, I will conduct an analysis of the CSV research, partly to detect the underlying assumptions as just described, partly because an adaption and operationalisation of the framework necessitates a thorough understanding of its various constituents. Subsequently, I will analyse the findings of the previous CSV analysis through a meta-theoretical perspective in order to examine the stated hypothesis and definitively determine Michael Porter's scientific theory.

Fourthly, I will discuss and critique the various findings of the previous three parts of the dissertation in order to identify their actual implications on the CSV framework. This discussion will result in a list of foci that need to be addressed during the subsequent modification.

Finally, in the last part of this thesis, I shall bring all previous elements together in an attempt to create a modified, post positivistic, operationalised adaption of the CSV framework. Ultimately, I will evaluate my final product via the list of foci in order to determine if all non-post-positivistic traits of the original CSV framework have been adequately accounted for.

1.3 Delineation

The particular objective of this master thesis entails an inherently corporate perspective on the CSR issue. As mentioned, I seek to provide some form of tangible tool for managers to utilise in a possible process of implementation of CSV. This purpose has resulted in two major delineations on my part.

Firstly, the notion and the degree of government intervention as a possible necessity for the incorporation of CSR into the corporate mindset constitute a significant aspect of the CSR issue. Essentially, it forms the frontier of the CSR advocates who reject the existence of the business case for CSR (see e.g. Doane, 2005; Karnani, 2011; Unerman & O'Dwyer, 2007). Although I shall peripherally touch upon this matter where it impinges on significant aspects of my research, I shall mainly refrain from entering this debate because the subject of government regulation belongs in a normative discussion of whether firms should and would voluntarily commit to CSR. For reasons that shall be addressed later on, I believe that managers *must* engage in CSR and thus relate to whichever government regulation may be existent at that given point in time. Thus, the notion of regulation becomes irrelevant in this context.

Secondly, according to my post-positivist philosophy of science, I seek to modify the CSV framework in a manner that is generic and independent of specific corporate characteristics. I therefore refrain from incorporating highly internal aspects of strategy. The first is the subject of alignment. Any corporate strategy is dependent on the extent of the internal structural and social alignment,⁴ yet once again I will merely address the subject where it is specifically relevant for the fulfilment of the thesis objective. The second is the aspects of personal managerial values and relationships, and their effect on corporate CSR initiatives. It is a highly interesting discussion, especially from a meta-theoretical perspective, because it involves and allows for the social constructivist interpretation of strategy as culturally rather than cognitively grounded.⁵ Unfortunately, it falls out of the scope of this thesis.

⁴ See Pedersen & Neergaard, 2009, for further elaboration on this matter.

⁵ See Toby Harfield (1998) for an interesting take on these aspects.

2 PART ONE – Philosophy of Science

2.1 Thomas Kuhn – The incommensurability of paradigms

This thesis takes its departure from the captivating ideas of the American philosopher of science Thomas Samuel Kuhn.⁶ Kuhn is the author of the much cited and studied work from 1962 *The Structure of Scientific Revolutions* and is perhaps the most influential philosopher of science in the twentieth century (Bird, 2011). With an onset in his meta-theoretical ideas, I will present the reasoning for the structure of this paper followed by my own theoretical perception, my philosophy of science, and thereby lay the theoretical foundation of the following analysis of Michael E. Porter's CSV theory. It must be clarified that this section will not contain a profound, in depth presentation of all the various, conflicting theoretical stances with associated arguments and criticisms. Rather it must be viewed in the light of what it is: a presentation of theoretical viewpoints reflecting the personal opinion of the author *and* the establishment of a common understanding of the theoretical perspectives upon which the subsequent analysis is built.

This research paper builds on the assumption embedded in the Kuhnian concept 'the incommensurability of paradigms.' In order to understand this concept, I will first address the basic notion of scientific paradigms. The essential point is that, according to Kuhn, any researcher represents a common world view that governs which kind of research question is to be addressed, which theories, concepts, and methods are to be applied in the process, which particular sort of answers should be worked towards, and even the criteria of truth (Buch-Hansen & Nielsen, 2005: 76; Jensen, 1980: 191; Miller, 2005; Rasmussen, Østergaard & Beckmann, 2006: 23). This governing consensus, to which a researcher knowingly or unknowingly belongs, Kuhn calls a scientific paradigm. I endorse the definition of 'paradigm' presented by Peter Lor as "a basic belief system or worldview that guides the investigator, not only in choices of method but in ontologically and epistemologically fundamental ways" (Guba & Lincoln, quoted in Lor, 2011: 2). This view of scientists working within a specific paradigm is one that is now shared by many contemporary researchers within the social sciences. The award winning professor of communication Katherine Miller expresses essentially the same perception with the following statement: "The theory development process

⁶ Notice that my utilization of Thomas Kuhn is restricted to his **meta**-theoretical perspectives on the overall nature of philosophies of science. I do not in this analysis address his most famous theory of scientific revolutions, nor do I draw any parallels to his personal paradigmatic perspectives seeing as they are somewhat different from my own.

does not exist within a vacuum. Rather, a philosophical framework exists in which theory development and testing occurs" (Miller, 2005: 26).

This realisation of the existence of scientific paradigms has direct consequences on the assessment of a given theory. As Rasmussen et al. state: "Each individual research project has to be assessed under its own premises" (Rasmussen et al, 2011: 32). According to Kuhn, the simple reason for this necessity is that two groups of scientists who practise in different worlds, i.e. under different paradigms, "see different things when they look from the same point in the same direction" (Kuhn, quoted in Bird, 2011). In other words, reality and truth becomes a function of the paradigm, and this fact makes it meaningless to compare scientific research conducted under different paradigms. No common quality or measurement criteria exist against which competing statements can be assessed – they are simply incommensurable (Bird, 2011; Buch-Hansen & Nielsen, 2005: 76; Jensen, 1980: 212).

Therefore it naturally follows that it is imperative to contemplate on this issue in order to establish under which paradigm one as researcher belongs. This awareness allows a researcher to recognise his or her own definition of good science and to realise that as a post-positivistic scholar, for instance, I cannot in any meaningful manner critically assess the CSV framework if it has been conducted under another scientific paradigm. Furthermore, only through awareness one can be conscious, pragmatic, and consistent throughout the ontological, epistemological, axiological, teleological, and methodological dimensions. Unfortunately, however, more often than not, researchers do not explicitly state the theoretical perceptions that guide their research (if they are even aware of their underlying assumptions) (Jensen, 1980: 193) which constitutes a problem during subsequent discussions and criticisms of proposed theories. In practice, a result of this incommensurability is that two theories which each constitute a solution to the same social challenge cannot necessarily be compared if they are based on different meta-theoretical paradigms unless this comparison draws on an explication of the scientific paradigms and the prerequisites they each contain.

As mentioned above, this basic assumption of the incommensurability of paradigms constitutes the backbone and provides the justification for this dissertation. I will therefore dedicate the next chapters to firstly a presentation and description of the philosophy of science that I adhere to, namely post-positivism and secondly to present the characteristics of Porter's hypothesised paradigm, critical theory.

2.2 Theoretical perspectives

In order to distinguish between the characteristics of differing paradigms, numerous classifications and structural subdivisions have been attempted with varying success in the literature of philosophy of science. In the following exposition, I will apply the framework of Katherine Miller who distinguishes between **ontological** (the nature of the world), **epistemological** (the nature of knowledge), and **axiological** (the nature and role of values) assumptions as the three main contributors to a researcher's approach to science and theory development (Miller, 2005). I will, however, extract the matters of **teleology**⁷ (the purpose of knowledge) (Lor, 2011) and of **methodology** (the means of acquiring knowledge) into independent categories as I find that they improve the overall understanding of the sometimes subtle differences between paradigms.

2.2.1 *Positivism vs. post-positivism*

During my discussions of this thesis with colleagues and scholars of different fields, I have come to realise that many people today have considerable knowledge of the principles of positivism due to its immense popularity up until the middle of the 20th century (Miller, 2005). Very few people, however, know how post-positivism has rejected many of the basic assumptions upon which positivism is built, and people therefore often assume that the difference between the two is somewhat minimal. This is not the case. In order to avoid any such misconceptions, I will illustrate this substantial variance during the subsequent paragraphs.

2.2.1.1 *Ontology*

The positivist perspective, also known as empiricism, is built upon a realist ontology⁸, i.e. a belief that an accessible, tangible, and relatively immutable external, physical reality exists independently of the human mind and perception (Lor, 2011; Miller, 2005: 26; Willis, 2007). This distinction between the outside world, the object, and the inside perception, the subject, is often referred to as the Cartesian Dualism (Miller, 2005: 52). This view implies a belief in the correspondence theory of truth which states that properly conducted scientific research allows for an exact replicate of the world through empiric observation

⁷ This teleological dimension must be credited to Peter Lor (2011).

⁸ I do not distinguish between the various sorts of realism, e.g. materialism, naturalism, conceptual realism etc. This is not to say that no divergence exists. Yet in this context the disparity is subtle and without implications for the analysis.

(Brown, 2011; Willis, 2007). Post-positivism rejects this assumption and adopts what is known as a *modified* realist ontology. *Modified realism* includes various adjustments inspired by the social constructivist perception, i.e. the ontological stance that social reality is constructed through interaction and that knowledge, therefore, “is not universally valid but contextual and restricted to the particular time of the interaction” (Lor, 2011). Post-positivism thus still believes in the existence of an eternal, physical reality, but in some respects abandons the notion of dualism through the realisation that a completely unbiased examination and independence between the researcher and the object of study is not humanly possible (Mertens, 1998, in Lor, 2011; Willis, 2007). This belief, that researchers cannot remain completely unbiased, affects the post-positivist notion of truth. It is accepted that the knowledge produced by science is not an exact mirror of reality but an approximation of an understanding and reflection of the physical and social world.

2.2.1.2 Epistemology

The epistemological perspective of a paradigm is always closely related to the associated ontology because the nature of the knowledge we produce is a function of our worldview. It therefore follows that positivism has a distinctly objectivist position which is characterised by three main determinants (Miller, 2005: 40):

- 1) Knowledge is mainly obtained via the discovery of causal relationships and societal regularities.
- 2) The complete separation between researcher and the object of study is a necessity.
- 3) The above requirements are fulfilled by use of the scientific method and verification.

As mentioned above, post-positivism does not believe in the existence of unbiased research, wherefore only the first of the three characteristics have transferred in its original form into the post-positivist epistemology, termed modified objectivism. In post-positivism the search for knowledge remains an exploration of causal relationships and societal regularities, but the complete epistemology is highly influenced by the great Austrian philosopher Karl Popper and his theory of demarcation.

In short, Popper repudiates raw empiricism, i.e. the positivist assumption that science can be distinguished from non-science on the basis of verification and inductive methodology. As Thornton eloquently phrases it:

In a critical sense, Popper's theory of demarcation is based upon his perception of the logical asymmetry which holds between verification and falsification: it is logically impossible to conclusively verify a universal proposition by reference to experience (as Hume saw clearly), but a single counter-instance conclusively falsifies the corresponding universal law. In a word, an exception, far from ‘proving’ a rule, conclusively refutes it. (Thornton, 2011)

According to Popper, one can always find evidence in support of practically any theory. For this reason, any theory can only be corroborated, not verified, and scientific research must therefore be characterised by a thorough scrutiny, rational criticism, and active attempt to falsify a given theory on part of the researcher him or herself as well as by any other scientist within the paradigm. A theory is thence considered to be valid until a subsequent theory has a higher level of verisimilitude than the former (Thornton, 2011). In other words, “in the social sciences, truth is not absolute but probabilistic and provisional” (Lor, 2011: 4). This view is completely in line with the above mentioned ontological assumption that scientific research is only able to display a close approximation of the true reality.

2.2.1.3 Teleology

These notions of truth and knowledge are inextricably linked to the positivist and post-positivist relation to the purpose of science. Within both paradigms the objective is representational research, i.e. to find the true knowledge and to understand and explain the mechanisms that control the social world, the ‘scientific laws’ (Lor, 2011). This purpose, naturally, stems from the ontological belief in societal regularities and causal relationships. Within the positivist paradigm, this is a relatively simple task in the sense that it is believed that scientific empiric studies mirrors reality (as explained above) which naturally entails an accumulated pool of knowledge for each additional study that is conducted (Jensen: 106).

In the post-positivist paradigm, the aim remains to explain and understand the social world. However, instead of formulating scientific laws, post-positivist scholars have the more modest goal of stating generalisations (Lor, 2011: 9). Yet, finding the truth is somewhat more complicated with the dismissal of the correspondence theory of truth and its substitution with the principle of falsifiability according to which absolute certainty is impossible to acquire. Therefore, each study is seen as part of a broader effort to acquire objective data and approximate the truth (Rasmussen et al., 2006: 22; Willis, 2007). This fact has a substantial influence on the requirements of valuable, scientific, posit-positivistic theories: It is imperative that theories provide general explanations that go *beyond* the observation of individual events (Miller, 2005: 41, Willis, 2007). This is most often acquired through an operationalisation of theoretic concepts for the purpose of measurement (Lor, 2011) as is exactly the purpose of the present dissertation.

2.2.1.4 Axiology

As mentioned, within the positivist paradigm, the aim of science is to explain and understand reality, and

science is restricted to doing only that. Positivistic science is wholly objective and personal values are prohibited not only during the actual research but also in the aftermath. Unlike within interpretivist paradigms, positivist research is not conducted with a specific purpose in mind (other than obtaining enhanced understanding) wherefore the scientific results are openly displayed to serve any subsequent purpose (Lor, 2011).

For post-positivist scholars, value-free, objective research is not considered to be possible, as it is for positivists. However, inspired by the natural sciences, complete objectivity remains the ideal. Therefore personal opinions and experiences are to be recognised in order to ensure minimum influence on both the research design and on the analysis of data (Lor, 2011; Willis, 2007).

2.2.1.5 Methodology

Also within methodology, positivism and post-positivism differ significantly. As mentioned, positivism is an entirely objectivist and empiric paradigm. This means that positivists make use of inductive methods and objective, measurable, quantitative empirical data collected via the scientific method (Lor, 2011).

Post-positivism on the other hand, following the thoughts of Karl Popper (possibly inspired by Einstein), views science as basically a problem solving activity with “no unique way, no single method such as induction, which functions as the route to scientific theory” (Thornton, 2011). There is no such logical path to knowledge simply because science is instigated by a problem, and it is within this context that observations are designed to test the functionality of a given theory (ibid). An implication of this is that all observations are considered to be selective, and both data and the interpretation of data are thus theory dependent (Lor, 2011; Miller, 2005: 37; Thornton, 2011; Willis, 2007). It is thus evident that although post-positivists can develop theories in more or less any manner they see fit (a theory need not be based on data) (Willis, 2007) the deductive method is surely given primacy (Miller, 2005).

The final note on post-positivism relates to the clear distinction that Popper makes between the logical principle of falsifiability and its applied methodology (Thornton, 2011). On the abstract level, one single piece of empiric evidence is enough to completely falsify a theory, yet in reality it is not as simple. Errors may occur due to e.g. instrumentation, misinterpretation of the data, misapplication of the theory, poor sampling etc. (Willis, 2007). In other words, “Popper explicitly allows for the fact that in practice a single conflicting or counter-instance is never sufficient methodologically to falsify a theory” (Thornton,

2011). It is thus imperative that post-positivists critically examine their selected data and that this data is acquired as much in accordance with the scientific method as possible.

I have hereby concluded a presentation of the most essential aspects of the post-positivistic paradigm that I adhere to. I will now briefly present the paradigm called critical theory in order to illustrate how different theoretical assumptions lead to very different theory building processes and to diverse criteria of assessment of their respective scientific value.

2.2.2 *Critical Theory*

As briefly touched upon above, there are many ways to group and categorise various paradigms. Contemporarily, however, the most prominent division is likely the distinction between post-positivism, interpretivism (incl. constructivism), and critical theory (Miller, 2005; Willis, 2007). In several aspects, critical theory provides somewhat of a middle ground between the two extremities of positivism and interpretivism (Miller, 2005). Yet, as I will now illustrate, critical theory places a unique emphasis on axiology and teleology which greatly affects the ultimate outcome of the theories produced.

2.2.2.1 *Ontology*

All critical theory stems from Marxism and the Frankfurt School. Even so critical researchers have differing ontological assumptions depending on whether they are influenced by early or late Marxism, whether they adhere to Anthony Giddens' double hermeneutic approach to reality, the structuration theory or have other influences.⁹ (Lor, 2011; Miller, 2005; Willis, 2007). Common for all is the belief that "current social and political systems distort reality and create in individuals a false consciousness that keeps them from seeing the real structure of society" (Willis, 2007). Peter Lor calls this a virtual, i.e. an illusory, reality that is influenced by numerous social, political, economic, cultural, ethnic, and gender factors which, according to critical theorists, constraints our thinking and perception (Lor, 2011: 13). Critical theory, thus, entails a sceptic approach to society and a focus on imperfections.

⁹ Once again it should be noted that I provide a brief and simplistic presentation of the paradigm in accordance with its relevance to the subsequent analysis. Therefore, I do not distinguish between the differing ontological perceptions as the theorists overall approach to science and theory building remains consistent.

2.2.2.2 Epistemology

In line with the number of historical factors that influences the social reality (listed above), critical theorists examine the evolution of the object of study over time, a fact that has given rise to the label ‘historicist’ (Lor, 2011). Critical theory believes that a researcher and the studied phenomenon may influence each other through action and interaction. This development changes the historical context which in turn necessitates new research questions and scrutiny. Critical research is thus a continuous process (Willis, 2007), and the knowledge that emanates from this study is “contextual and restricted to the particular time of the interaction” (Lor, 2011: 19).

It thus naturally follows that critical theory is subjectivist and generally (but not always) case-oriented, and it always places its emphasis on a holistic understanding of the details and complexities of a particular phenomenon (Lor, 2011) – an approach quite contrary to the post-positivist search for generalisations that go beyond the observation of individual events.

2.2.2.3 Teleology

What truly distinguishes critical theory from other paradigms, however, is the teleological dimension. Unlike positivism, post-positivism, and interpretivism, the aim of critical theory is not to represent the social world through understanding and explanation but to function as “active agents of reform and radical change” (Miller, 2005: 66). Following the thoughts of Karl Marx, critical theorists view the economic and political institutions as systems of power and domination through which a dominant group implicitly submerges another group to accept subordination, a concept also known as ‘manufactured consent’ (Habermas, 1971 in Miller, 2005: 73). Research thus serves the critical-emancipatory cognitive interest of educating and empowering people to realise the contradictions and distortions of their social lives thus enabling them to emancipate themselves from oppression (Lor, 2011; Miller, 2005; Willis, 2007).

2.2.2.4 Axiology

Surely, scepticism and critiques of power structures and ideologies necessitate the existence of personal values. In critical theory, a researcher’s personal value should not be avoided and controlled but, quite to the contrary, should be acted upon and guide the research itself – they are in other words an integral part

of the research process. This is obviously a major scientific controversy between post-positivism and critical theory seeing that objectivity is a corner stone in the assessment of post-positivist scientific value.

2.2.2.5 Methodology

In critical theory, ideology takes preferences over methodology. There is no preferred method of data collection (e.g. questionnaires, surveys, interviews etc.) so long as the study has a purpose of identifying societal imperfections and an educational, empowering focus with the aim of reformation. In fact, critical realists are prone to criticise the objective ideal that is characteristic of post-positivism as well as the related tendency to operationalise, i.e. define and delimit, concepts for the purpose of measurement (Willis, 2007). According to critical theorists this approach tends to objectify people and social phenomena (ibid) and leads to a “simplification and loss of detail” (Lor, 2011: 19). One typical post-positivist response is to refer to the lack of substantiality that is often connected to critical theories which tend to be “cogent critiques of the current state of affairs” (Willis, 2007: 85) sometimes more useful for criticising than actual empowering (ibid).

I have hereby concluded the theoretical framework that will function as the backbone of the analysis of Michael E. Porter’s CSV framework. A summary of the presented paradigms is provided in table 1 below.

Table 1: Characteristics of theoretical paradigms

	Positivism	Post-positivism	Critical Theory
Ontology	<ul style="list-style-type: none"> • Realism • Correspondence Theory 	<ul style="list-style-type: none"> • Modified Realism 	<ul style="list-style-type: none"> • Different ontological assumptions • Virtual reality
Epistemology	<ul style="list-style-type: none"> • Objectivism • Empiricism • Verification 	<ul style="list-style-type: none"> • Modified objectivism • Falsification • Scrutiny of theory by other researchers 	<ul style="list-style-type: none"> • Subjective inquiry • Historicism • Contextual knowledge
Teleology	<ul style="list-style-type: none"> • Representational research • Find the truth (possible) • Explain, understand, control • Discover ‘scientific laws’ 	<ul style="list-style-type: none"> • Representational research • Find the truth (approximation) • Explain, understand, control • Discover generalisations (no absolute certainty) 	<ul style="list-style-type: none"> • Normative research • Critical-emancipatory cognitive interest • Uncover local instances of domination • Empower and educate the oppressed
Axiology	<ul style="list-style-type: none"> • Personal values prohibited • Complete objectivity obtainable 	<ul style="list-style-type: none"> • Objectivity is the ideal • Complete objectivity impossible 	<ul style="list-style-type: none"> • Personal values: an integral part of science • Guide the research process
Methodology	<ul style="list-style-type: none"> • Induction • Scientific method • Quantitative data 	<ul style="list-style-type: none"> • Theory first • No single method • Deduction is given primacy • Approximation of scientific method 	<ul style="list-style-type: none"> • Ideology over methodology

In order to identify Porter's theoretic perspective, I will now commence my review of the CSR literature. The purpose of this endeavour, as mentioned in the introduction, is to establish the key points and disputes of the field in order to identify how Porter relates to these aspects and subsequently analyse how these relationships reflect the underlying assumptions and beliefs of his framework.

3 PART TWO – What is CSR?

3.1 The rise of CSR

The contentious concept of corporate social responsibility (CSR) emanates from a number of societal changes, the majority of which have taken place in the cultural and political systems after WWII (Carroll & Shabana, 2010; Matten & Moon, 2008). The 1960s and 70s were accompanied by social and feminist movements of freedom, love, and non-monetary values with an inherent distaste of the corporative pursuit for profit. Companies were widely perceived to be prospering at the expense of the wider community (Leavy, 2012), and Milton Friedman wrote in 1970 that he was living in a “present climate of opinion with... widespread aversion to ‘capitalism’, ‘profits’, the ‘soulless corporation’ and so on...” (Friedman, 1970: 5).

At the end of the 1970s, a surge of mass unemployment hit Europe (Matten & Moon, 2008: 415), wherefore, nearing the end of the Cold War, Europe experienced a wave of democratisation and focus on human rights and economic liberalisation (Kapstein, 2001: 106-107). Simultaneously, a substantial number of financial and environmental crises occurred on a global level caused by multinational corporations (MNCs). Examples include the Bhopal Gas Tragedy in 1984, Exxon Oil Crisis in 1989, accusations of Nike’s use of sweatshops in the 1990s, Shell’s Brent Spar oil rig in the North Sea in 1996, and the Enron and Parmalat bankruptcies in 2001 and 2003 respectively (Bhattacharyya, Sahay, Arora & Chaturvedi, 2008; Doane, 2005; Matten & Moon, 2008). As a result, the last decades of the millennium witnessed the increase of social activism and urban riots such as the infamous Seattle demonstration at the WTO Ministerial Conference in 1999. Symptomatic of the period, it was believed that MNCs would exploit WTO to promote the interests of the global corporations at the expense of the broader community and developing countries. One prime objection regarded the societal costs of negative externalities that spilled over from corporative activities (Karnani, 2011). Therefore, numerous non-governmental organisations (NGOs) and activist groups made use of highly publicised campaigns with the purpose of forcing companies to take social responsibility and “change their business practices ‘voluntarily’” (Bhattacharyya et al., 2008; Doane, 2005; quote from Kapstein, 2001: 108; Perrini, Russo, Tencati & Vurro, 2012).

Naturally, these socio-environmental concerns also manifested themselves in the political arena through global conferences such as the Earth Summit in Rio de Janeiro in 1992, the Kyoto protocol on Global Warming in 1997, and the World Summit on Sustainable Development in Johannesburg in 2002

(Bhattacharyya et al., 2008: 265). However, both the USA and the EU hold a strong belief in the free-market economics, which in Europe manifested itself through continued deregulation and privatisations (Knudsen, 2011; Matten & Moon, 2008). The developed countries therefore placed a strong emphasis on the responsibilities of corporations yet displayed reluctance in regard to governmental regulation (Doane, 2005). This is exemplified by the voluntary UN Global Compact (UNGC) launched in 2000 “that relies on public accountability, transparency and disclosure to complement regulation” (UN Global Compact, quoted in Knudsen, 2011: 4). Thus from the very onset, CSR has been a ‘voluntary’ requirement that stems from the amplified expectations of peoples and governments embedded with a dichotomy between profits and ‘doing good’. The solution of governmental regulation is still widely advocated today despite the consequent restrictions to the free market systems (for examples of such arguments, see Doane, 2005; Karnani, 2011; Unerman & O’Dwyer, 2007).

Another highly contributing factor to the advent of CSR is the process of globalisation and the consequential increased power of MNCs due to their geographical expansion into areas characterised by severe social problems. The presence of influential, resourceful corporations in poor, developing countries also spurred transnational social movements to call upon MNCs to make political and social decisions including societal and infrastructural improvements of the areas in which they operated (Brown, Roemer-Mahler & Vetterlein, 2009). Additionally, globalisation has spurred innovative technology, the rapid and extensive fragmentation of production systems, and a reduction of transportation costs; all of which have facilitated the implementation of CSR across value chains (Knudsen, 2011: 1). CSR, thus, started out as a purely ethic endeavour and was often labelled accordingly. Porter for instance used the term ‘philanthropy’ in his earlier articles on CSV (Porter, 1999; 2002).

Today, CSR is said to have “won the battle of ideas” (Economist, 2005). The subject of externalities is on the global political agenda, and the generally accepted implicit ‘social contract’ between business and society requires for corporations to be responsive to the long-term needs and wants of people and planet (Lantos, 2001). Numerous organisations, such as the Dow Jones Sustainability Index, now rank companies on the performance of their CSR activities – some with quite questionable methods of calculation as I shall return to later on. In an effort to live up to these new expectations (and receive good rankings, certainly), companies are increasingly demonstrating their commitment to CSR through disclosures of verifiable data and information (Perrini et al., 2012). Today, however, many businesses are being criticised for engaging in widespread, unrelated CSR activities claimed to be initiated only for the sake of window dressing (Bhattacharyya et al., 2008; Porter & Kramer, 2006).

3.2 What is CSR? A theoretical introduction

What exactly the concept of CSR entails, however, is not as easily defined as describing its birth and development. The term is both discretionary and internally complex, and it has fairly open rules of application (Matten & Moon, 2008: 405). Furthermore, during the ongoing debates of the last decades, CSR has developed into an umbrella term with multiple, diverse, and very often interweaving implications within both the descriptive and normative aspect of the field (Carroll & Shabana, 2010: 86). Finally, as I shall demonstrate shortly, CSR is also a dynamic phenomenon (Matten & Moon, 2008). It is, therefore, necessary to clarifying the exact content of the definition of CSR employed in this thesis as well as the theoretical framework, which I believe provides the most accurate understanding of the concept.

I will employ the definition put forth by the European Commission which defines CSR as: “a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment” by integrating “social and environmental concerns in their business operations and in their interaction with their stakeholders” (the European Commission, quoted in Weber, 2008: 247).

In short, CSR can be seen as “an investment into human capital, the environment, and stakeholder relationships” (Weber, 2008: 248). It implicitly refers to the notion of the triple bottom line; people, planet, and profits, indicating the amplified expectations of society towards the responsibilities of business.

A very prevalent way to view CSR has been formulated by Archie B. Carroll in 1979 and summarised in his famous CSR pyramid in 1991 (figure 2 below). It essentially depicts how the financial responsibility of creating profits constitutes the foundation of corporate practice, and how their obligation to operate within the legal frameworks of society rests upon this main function. It is argued that companies thereby receive what is known as a ‘social sanction’ or ‘license to operate’ from society which requires them to contribute to societal growth and wellbeing in return (Devinney, 2009). As CSR addresses the responsibilities of companies beyond these legal and financial requirements, it is arguable that CSR relates to the top two levels of the pyramid; the ethical and philanthropic expectations and desires of society (Carroll & Shabana, 2010).

Carroll and Shabana (2010: 89) remarks that “the social responsibility of business encompasses the economic, legal, ethical, and discretionary [here referred to as philanthropic] expectations that society has of organizations *at a given point in time*” (emphasis added). This definition is interesting because it highlights the element of change and diversity which Matten & Moon also emphasises as a distinctive feature of CSR.

Figure 2: Carroll's CSR pyramid



Matten & Moon (2008) namely points to the fact that *CSR is globally diverse*. They state that in liberal market economies (LMEs), such as the US and the UK, CSR takes the form of “explicit”, voluntary actions. Contrarily, in the coordinated market economies (CMEs) of continental European countries, CSR is much more “implicit” seeing that it is embedded in the welfare system and public institutions – a contention that has been empirically confirmed by research conducted by Jackson and Apostolakou presented in Knudsen (2011: 3). This issue of global diversity is interesting and should be taken into account when seeking a theory to explain the general concept of CSR.

Two theories that have very often been used in the CSR literature to explain and understand the mechanisms of CSR are Agency Theory and Nexus of Contracts Theory. Agency Theory argues that “corporations are structured to minimise the costs of getting some participants (the agents) to do what other participants (the principals) desire” (Donaldson & Preston, 1995: 78). The purpose of the agent, i.e. the manager, is thus to create value for the principals, i.e. the shareholders.

The Nexus of Contracts Theory views the corporative assets as provided by *all* stakeholders including customers, employees, society etc. All stakeholders thus enter into contracts with the corporation with an equal right to bargain and thereby agree to cooperate within the organisation “rather than simply deal with each other through the market, to minimise the costs of search, coordination, insecurity, etc.” (quote from Donaldson & Preston, 1995: 78; Lantos, 2001; Matten & Moon, 2008).

The two theories have often been applied in a combination that offers a view of managers as the agents of all stakeholders which in turn are drawn into relationships with the manager to accomplish

organisational tasks as efficiently as possible (ibid). Albeit this theory certainly offers some understanding into the corporative dealings with various stakeholders, such as insights into the substantial influence of the managers' personal values and beliefs, I do not find that it offers a satisfactory explanation of the general mechanisms of CSR. I therefore follow the notion of Matten and Moon (2008) who contend that both the Agency Theory and the Nexus of Contracts Theory may be too simplistic to account for the significant influence of contextual factors within national institutional frameworks. I therefore wish to incorporate the explanatory contributions of **New Institutionalism** into the understanding of CSR that is employed in this thesis.

It is apparent that all markets generate actors with the prime objective of generating profits and simultaneously balancing the expectations of their respective stakeholders. The exact strategy, of course, lie at the discretion of managers (i.e. agents). According to New Institutionalism¹⁰, however, these strategic decisions are coloured by the social, cultural, and political context in which they operate. More specifically, New Institutionalism "considers the processes by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behavior" (Scott, quoted in Matten & Moon, 2008: 416). This process occurs when longstanding institutions become historically entrenched frameworks of a certain society. Institutions are defined as "'stable, valued, recurring patterns of behavior,' defined by their adaptability, complexity, autonomy, and coherence" (ibid: 406). Four such primary institutional frameworks have been historically identified: the political system, the financial system, the education and labour system, and the cultural system. Numerous external factors may emanate from these systems causing the cross-national diversity in CSR activities. Concrete examples of such factors may include differences in cultural values, difference in political and legal institutions, community level factors, institutional factors (including regulation), the presence of independent monitoring organisations, institutionalised norms and expectations about corporate behaviour, associative relations between firms, and institutionalised stakeholder dialogue (Brown et al., 2009). Unlike solely viewing CSR by means of Agency or Nexus of Contracts Theory, New Institutionalism offers a method to explore the managerial and key stakeholder influences on CSR within their institutional context. It, furthermore, allows for an understanding of the interdependence and interaction among all stakeholders and instead of the bidirectional interaction between one stakeholder group and the manager.

¹⁰ Unless otherwise stated, the explanatory review of New Institutionalism in the following paragraphs will be derived from the highly educative and inspirational analysis by Dirk Matten and Jeremy Moon (2008), "Implicit" and "Explicit" CSR: A Conceptual Framework for a Comparative Understanding of Corporate Social Responsibility.

Naturally, such institutional frameworks can change, as noted by Carroll & Shabana above. For example, new cultural expectations may spur on innovative CSR strategies and activities. The so called “Americanisation” of management practices that is currently taking place in Europe and thereby causing explicit CSR initiatives to spread, is an example of such a change (Matten & Moon, 2008: 406). This homogenisation of institutional environments is explained by New Institutionalism as:

...regulative, normative, and cognitive processes [that] lead to increasingly standardized and rationalized practices in organizations across industries and national boundaries. The key argument is that organizational practices change and become institutionalized because they are considered legitimate. This legitimacy is produced by three key processes: coercive isomorphisms, mimetic processes, and normative pressures. (ibid: 411)

New Institutionalism is thus able to describe both the diversity issue and the aspect of change, i.e. the dynamic perspective, as exemplified by the difference of CSR activities in LMEs and CMEs respectively. Despite the similar dedication to e.g. democracy and capitalism, the US and Europe have different historically grown institutional frameworks wherefore CSR have taken different forms (implicit and explicit). Despite the contextual quality of CSR, however, according to New Institutionalism the three processes of coercive isomorphisms, mimetic processes, and normative pressures (briefly introduced in the quote above) may cause our current version of CSR to change. I shall return to these processes shortly with elaborating examples as to how they may occur in practise.

3.3 The dispute over CSR: Capitalism vs. Stakeholder Theory

Having thus defined CSR and presented theoretical framework, i.e. New Institutionalism, through which to interpret the phenomenon, I now wish to present the ongoing debate of Corporate Social Responsibility. I will do so, despite its many occurrences in the CSR literature, partly due to its fundamental significance but, more importantly, because Mr. Porter’s CSV framework (and many theories like it) constitutes an answer to this very question. A comprehension of the contradicting arguments is imperative in order to obtain a full understanding of the implications of CSV, and a brief summary of the debate is therefore in order. I will commence with a presentation of the key argument of the adversaries of CSR, namely a fundamental belief in the capitalist system with its emphasis on neo-classical economy and free market systems. Subsequently, I will provide the opposing view which rests upon the tenets of Stakeholder Theory.

3.3.1 The tenet of capitalism and a free market system

In 1776, the Scottish economist and philosopher, Adam Smith, wrote his famous work *An Inquiry into the Nature and Causes of the Wealth of Nations* (colloquially referred to simply as *Wealth of Nations*) in which he introduced his famous analogy ‘the invisible hand’:

Every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. . . . He intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it (Smith, quoted in Karnani, 2011: 70)

This view on the responsibilities of businesses has been adopted by numerous scholars, including the neo-classical economist and libertarian, Milton Friedman. Friedman follows the microeconomic Pareto Optimality Theory which states that “free-market forces ensure that maximum social benefits will be achieved at minimum social costs when each company tries to maximise profits” (Lantos, 2001: 612). This process is said to be so efficient that “it would be impossible to make any single person better off without making some other person(s) worse off” (ibid), i.e. the classical trade-off argument. In other words, spending assets on CSR, or other activities that direct funds out of a business without generating profits, will compromise that firm’s revenues and, consequently, affect its abilities to invest, increase production, lower prices, create job opportunities, develop markets for suppliers etc. which is evidently to the detriment of society (Devinney, 2009). Friedman, therefore, believes that “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud” (Friedman, 1970: 6). The last wording of this quote illustrates that Friedman’s notion of corporate responsibility is the equivalent of the lower two levels of Carroll’s pyramid (figure 2 above). Correspondingly, Friedman observes that a manager is in reality an employee of a company’s shareholders. This relationship emphasises the fact that his or her sole responsibility is to them and the generation of profits, wherefore this position is often referred to as the shareholder view (e.g. Pedersen & Neergard, 2009).

3.3.2 The tenet of Stakeholder Theory

As a complete contrast to the shareholder view stands the stakeholder theory. The rise and development of the stakeholder theory has been more or less parallel to that of CSR because both phenomena reflect the same change of perception in regard to corporate management and the role of corporations in society. The

theory arose as a reaction to the shareholder view deployed by Friedman and other opponents of CSR (Lantos, 2001). In short, it states that a company comprises various groups, i.e. stakeholders, which all have a stake, i.e. a legitimate interest, in the firm (Donaldson & Preston, 1995). Therefore business essentially involves creating value for all these stakeholders and not simply its shareholders (Pedersen & Neergaard, 2009). As such, stakeholders are defined as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, in Perrini et al., 2012: 62). The difference between the ‘narrow’ view of corporate responsibility and the ‘broad’ stakeholder view can be visualised by the classic Input-Output Model (figure 3) and the Stakeholder Model (figure 4) (Donaldson & Preston, 1995: 68-69). Contrary to the Stakeholder Model, the Input-Output model shows how a firm receives unidirectional inputs from its stakeholders with the one purpose of providing a product to its customers.¹¹

Figure 3: Input-Output Model

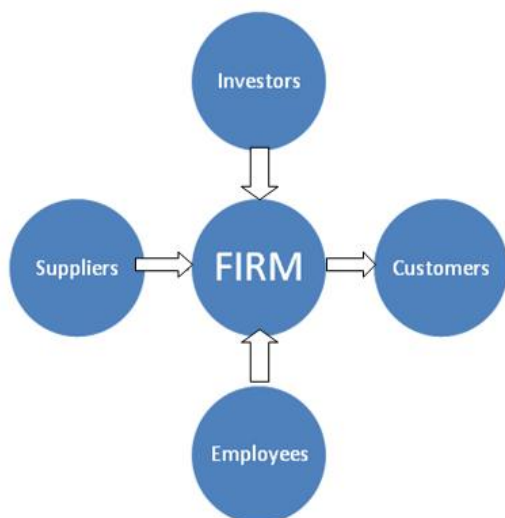
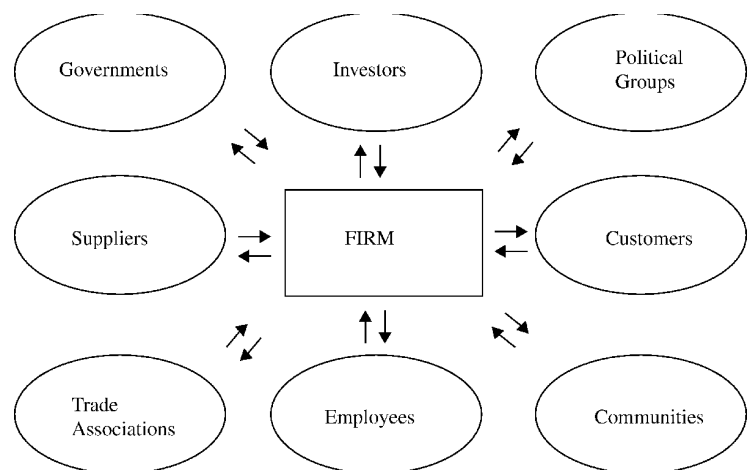


Figure 4: Stakeholder Model



Source: Donaldson and Preston (1995)

When operating with the stakeholder theory in a post-positivist context of CSR such as this, it is imperative to distinguish between instrumental and normative stakeholder theory.¹² The reason for this distinction is the inherent multifunctionality and the varying significance of the theory depending on the contextual application. In accordance with my post-positivistic philosophy of science, I aim to remain

¹¹ Note that the Stakeholder Model is more or less identical to a potential illustration of the Nexus of Contracts Theory described above. If one was to apply the aspects of New Institutionalism, one might a) add to the model an institutional context simultaneously affecting each stakeholder group, the corporation itself, and the individual manager, and b) imagine a web of connectors signalling the interdependence and interaction among all stakeholders in order to avoid the simplistic bidirectional interaction between one stakeholder group and the manager.

¹² Donaldson & Preston (1995) include an additional descriptive/empirical distinction. As the name implies, this level concerns the somewhat superficial, purely descriptive, non-analytical representation of the firm and is therefore excluded in the context of this thesis.

unbiased. Therefore, when I apply the theory for structural, explanatory, and analytical purposes, I employ an instrumental take of the theory in order to “identify the connections, or lack of connections, between stakeholder management and the achievement of traditional corporate objectives (e.g., profitability, growth)” (Donaldson & Preston, 1995: 71). Contrarily, when proponents of CSR refer to the stakeholder theory as the appropriate and often ethical organization of management, they do so as part of a persuasive argument which entails an inherently normative take on the theory. This is a fundamental difference because despite the fact that both normative and instrumental analyses are often prescriptive, the two approaches rest on entirely different bases (ibid: 72) and entail an inherently different level of objectivism.

Noticeably, an implicit consequence of the adoption of the stakeholder theory is a redefinition of the purpose of the corporation in comparison to its function in the capitalist view. According to advocates of CSR, it is the responsibility of the firm to satisfy and balance multiple stakeholder interests rather than only meeting conventional economic and financial criteria (ibid). Numerous arguments reflecting the contradicting viewpoints presented above have flourished in the CSR literature for decades, a few of which will be presented below.

3.3.3 *Should companies engage in CSR?*

Proponents of CSR often argue that the assumptions of Pareto Optimality are only valid in a nonexistent market with perfect competition. In an imperfect market, monopolies, deceptive advertising, bribery, tax evasion, price fixing etc. may all contribute to profit maximization but be overall damaging to society (Lantos, 2001: 612). Furthermore, it does not account for negative externalities¹³ so long as those additional costs are not borne by the respective corporations. With reference to these “clear and present dangers to society”, proponents thus often appeal to the morality of corporate managers (Meehan, Meehan & Richards, 2006: 386). It is for instance argued that firms *ought* to engage in CSR because the fact that they possess more knowledge and more capital makes them better equipped than e.g. NGOs and may more often result in innovations of beneficial products and technologies (Devinney, 2009).

Others appeal to the rationality of managers by pointing to the corporate long-term benefits. One such way is by means of the resource based view (RBV) which states that a company utilises the resources (tangible or intangible) at its disposal to create competitive advantage. If these resources are unique, heterogeneous, and not entirely mobile, this competitive advantage may be inimitable and constitute a basis of positioning and differentiation which in turn may provide long term profits. Seeing that

¹³ See appendix II for a definition if necessary.

CSR capabilities include the ability to scan, understand, and respond to societal needs and changes, proponents argue that CSR may be seen as such a resource upon which to build competitive advantage (Plesner & Neergaard, 2005).

The CSR positioning builds upon the consumer psychology that “companies that actively support CSR are honest, more reliable and, hence, produce high-quality products” (Lantos, 2001: 625). CSR may, in other words, provide reputational advantages, as well as a tacit or explicit licence to operate. In addition, firms may experience increased access to capital via e.g. socially responsible investing (SRI) (Brown et al., 2009) and obtain governmental permissions more readily than companies with no CSR activities.

Finally, other commonly heard arguments often used to justify CSR, relate to the fact that CSR can be used as a pre-emptive measure to avoid government regulation and that proaction is often “more practical and less costly than simply reacting to social problems once they have surfaced” (Brown et al., 2009; quote from Carroll & Shabana, 2010: 89).

Contrarily, adversaries of CSR argue that the stock market is “notoriously impatient” (Reich, 1998: 12) wherefore the stock market’s short term demands provide disincentives for engaging in CSR (Doane, 2005: 26). The long-term argument is therefore difficult for managers to rely upon as they are being instantly rewarded or penalised for short term achievements.

CSR adversaries have also pointed to the fact that often the ethics of CSR is not all black and white. According to Kapstein, for instance, child labour in MNCs in developing countries may in some cases be the best alternative for children who are not in school and would otherwise beg on the streets or work at local factories under poor conditions (Kapstein, 2001: 110). A less extremist but similar example is that of Merck and other pharmaceutical companies that were pressured by NGOs and global media in 1997 to sell medicines in South Africa for bearers of the HIV virus at production costs. It is certainly more than admirable to facilitate the procurement of lifesaving drugs for everyone regardless of nationality and income. However, it is simultaneously unsustainable if an implicit consequence of the lost profits is a decrease in innovative research that might otherwise have led to the cure of future diseases. Likewise, it may well result in a diminished incentive for companies to search for treatments for diseases of underdeveloped countries with fewer resources (ibid).

The danger of this last consequence is the inherent politics. When social concerns become corporate responsibility, business essentially assumes the role of judge, jury, and executioner and will in that sense be “granted an excessive concentration of power which would threaten the pluralistic division of

powers among our various social institutions, thereby threatening our democratic freedoms” (Lantos, 2001: 617).¹⁴ This issue is amplified by two related problems: 1) Corporations are not representative of society at large. Neither do they represent the poor and disadvantaged, nor the geographic spread of society (Devinney, 2009). 2) Managers would in essence be performing political functions to which they have not been adequately educated nor been properly elected (Karnani, 2011: 77).

Other counterarguments include the classic free rider problem (i.e. if one company invests in infrastructural improvements in a developing country, competing companies in the same area will benefit without the costs) and the consumption of time and money resulting from disclosures and other reporting requirements (Kapstein, 2001: 114).

Finally, I wish to draw attention to the aspect of imitation which I have briefly touched upon earlier. CSR adversaries argue, contrary to the aforementioned RBV, that gaining competitive advantage through the creation of a brand based on CSR is only likely to ensure average profits (as opposed to above average) (Blomgren, 2010). Sergio Zyman, former chief marketing officer at Coca-Cola, says essentially the same thing when he states that “today’s preference becomes tomorrow’s price of entry” (Zyman, 2002: 59). In other words, CSR is a means for branding and differentiation until it has become so widely adopted that being socially responsible is simply a requirement to compete and CSR will cease to be a unique concept (Economist, 2008).

Paradoxically, this argument *against* CSR has rendered the question of whether or not a company should engage in CSR somewhat obsolete. I shall now demonstrate how a vast number of external factors, explainable by New Institutionalism, have precluded a complete ignorance of CSR and will thereby return to the processes of coercive isomorphisms, mimetic processes, and normative pressures briefly mentioned above. Once again, to facilitate a continued overview on part of the reader, I have summarised the above points in table 2 below.

¹⁴ It should be noted that Lantos presents this argument in order to dissolve it. In his article, *The Boundaries of Strategic Corporate Social Responsibility*, he argues for the incorporation of CSR into corporate management.

Table 2: Should companies engage in CSR?

ARGUMENTS FOR CSR	ARGUMENTS AGAINST CSR
<ul style="list-style-type: none"> • Stakeholder theory • Pareto Optimality does not apply in the real world • Externalities are highly damaging to society • Corporations possess the resources and innovativeness to efficiently tackle complex societal problems • CSR is a means to acquire long-term benefits, competitive advantage, and a licence to operate • CSR increases access to capital and governmental permissions • Corporate social action will prevent government action • Proaction is easier and less costly than reaction • A better society constitutes a better environment for doing business 	<ul style="list-style-type: none"> • Capitalism and 'the invisible hand' • Pareto Optimality • The stock market rewards short term results, not long term investments • Companies must be allowed to get a return on investments • Reliance on companies to fulfill social responsibilities will render them too powerful • Managers have not been elected and lack the competencies to pursue social and political goals • Firms are not representative of society at large • Free rider problem • Reporting requirements are costly and time consuming • Today's preference becomes tomorrow's price of entry

3.4 Contemporary expectations and competitive context

– *Yesterday's preference has become today's price of entry*

As established above, New Institutionalism contends that a number of regulative, normative, and cognitive processes occur via coercive isomorphisms, mimetic processes, and normative pressures. I will now demonstrate in a little more detail how these factors have contributed to the establishment of CSR as the lowest common denominator. A key assumption of New Institutionalism is that firms perform more efficiently if they receive institutional support from the context in which they operate (Matten & Moon, 2008).

3.4.1 Coercive isomorphisms

According to Matten & Moon (2008), examples of coercive isomorphisms may include SRI indexes, CSR inspired criteria by regular investment funds, codes of conduct (CoCs) issued by for instance the UN or the Organisation for Economic Cooperation and Development (OECD), and compliance with environmental

standards such as ISO 14000 and Green Leaf. All of these indexes, bodies, and funds have been established due to the increased expectations of society. The effect of coercive isomorphisms can be exemplified by the increasing number of companies that enlisted in the UN Global Compact up until 2008. The so called 'window dressing' compliance, however, does not satisfy the still growing expectations, and in the period from January 2008 until 25 June 2008, the UN Global Compact therefore delisted 630 companies or close to 15% for failing to communicate adequately on progress (Knudsen, 2011: 5).

These expectations are now also reflected in the judicial and legal institutions where tribunals no longer judge strictly according to the 'business judgment rule' reflecting the shareholder view (Donaldson & Preston, 1995). One such example is the title VII of the Civil Rights Act of 1964 which "explicitly makes it a violation of law for an employer 'to fail or refuse to hire . . . any individual' on the basis of discriminatory criteria" (ibid: 76). Managers are thus called on to act in the interest of all stakeholders and the society at large, even at the expense of corporative profit.

3.4.2 Mimetic processes

Mimetic processes refer to the tendency of companies to copy and integrate the practices of the most successful opponents or those of the majority. Examples include the trend of MNCs to publish voluntary sustainability reports (Porter & Kramer, 2006), to join business coalitions for CSR, and to have employees enrol in various sorts of CSR education programs. The special edition on CSR in the Economist 2008 presents an extensive empiric analysis of 1254 executives from around the world on their relationship to CSR (Economist, 2008). The issue includes a large number of figures and tables of survey results which clearly show that CSR has infiltrated the generic corporate management strategies. For example, when asked the question: "Does your company have a coherent strategy for corporate sustainability that covers the whole business and its supply chain?" only 18% replied that they did not and that they had no immediate plans to develop one.

3.4.3 Normative pressures

Normative pressures usually stem from "educational and professional authorities that directly or indirectly set standards for 'legitimate' organizational practices" (Matten & Moon, 2008: 411). This has occurred due to the integration of CSR into curricula of business schools and other institutions of higher education. The newly educated academics from these institutions, amongst whom the future CEOs are likely to be found,

are presently being incorporated into the businesses, and they often represent a viewpoint with less emphasis on neo-classical economic theory and more emphasis on stakeholder management. Likewise, the increased public awareness and media attention severely augment the normative pressures on companies to accept a responsibility for pressing social concerns and the consequences of their negative externalities.

Conclusively, modern businesses have been forced by history, necessity, increased expectations, coercive isomorphisms, mimetic processes, and normative pressures to actively and consciously relate to the subject of CSR. Not surprisingly this development has given birth to a new, but highly related, dispute regarding the business case for CSR.

3.5 The business case for CSR

In summary, the dispute over CSR is comprised of normative stakeholder theorists using ethics and the social contract as prime arguments on the one hand, and neo-classical, capitalist economists on the other. As a direct consequence of this dispute, numerous scholars have instigated and completed studies and analyses in a search of the business case for CSR. The business case builds on the key assumption that CSR provides a number of tangible benefits, i.e. monetary benefits, such as revenue increases, cost decreases, risk reduction (e.g. consumer boycotts), and increase in brand value, plus a range of intangible, i.e. non-monetary, benefits such as improved access to capital, secured license to operate, improved customer attraction and retention, improved reputation, improved employee recruitment, motivation, and retention (Weber, 2008).¹⁵ The reasoning for this insistent search for the business case, of course, is that if it could be proven that CSR entails direct financial benefits to the bottom line of a corporation, it would constitute an integration of the conflicting positions as well as a managerial justification for CSR expenses to the respective shareholders. Porter's CSV framework forms one such attempt of financial and social integration. However, in order to adequately analyse the framework, it is necessary to understand the difficulties inherent in the development and measurement of the business case.

Therefore, countless attempts, both empirically and theoretically, have been made to establish a connection (or lack thereof) between corporate social performance (CSP) and corporate financial performance (CFP). The majority of these attempts, however, draw different conclusions and

¹⁵ Please notice the interconnection of monetary and non-monetary benefits reflected in the respective definitions of the terms in appendix 2. This correlation is further emphasised by the fact that non-monetary benefits may eventually result in tangible, monetary gains to the company.

provide mixed, inconsistent results which makes it impossible to confirm the existence of a general business case for CSR (Carroll & Shabana, 2010; Drews, 2010; Orlitzky, Schmidt & Rynes, 2003; Plesner & Neergaard, 2005; Schaltegger & Synnestvedt, 2002; Vogel, 2005; Weber, 2008; and many more). In the following paragraphs, I shall address a number of different challenges that contribute to the encumbrance of this research.

In this thesis, I adhere to Donna J. Wood's definition of CSP as "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships" (quoted in Orlitzky et al., 2003: 403). CFP is defined as "a company's financial viability or the extent to which a company achieves its economic goals" (Orlitzky et al., 2003: 411).

3.5.1 *Methods of measurement*

Much research has been criticised for inherent methodological problems such as measurement errors, sampling problems, the lack of control variables, means of aggregating results etc. (Perrini et al., 2012; Plesner & Neergaard, 2005; Vogel, 2005). The reason for these difficulties emanates from the multidimensionality of especially the CSP construct (Schreck, 2011) as is evident from the definition above. Additionally, many CSR expenditures are discretionary (Vogel, 2005), and CSP factors which may contribute to a company's CFP are often qualitative and, therefore, difficult to measure (Lantos, 2001). Such examples include corporate image, public relations, and customer satisfaction. Also, in many cases, these qualitative CSP factors require the use of surrogates such as employee turnovers for the measurements of employee satisfaction – just as is the case when measuring the effectiveness of other corporative strategies such as mainstream advertising (ibid). Broadly speaking three subdivisions of CFP and four of CSP exist that researchers can measure on which all have great implications for data processing and the scientific value of the results, seen from a scientific theoretical perspective. The following measurement methods have been adapted from the highly enlightening meta-analysis by Orlitzky et al. (2003).

3.5.1.1 *Measurements of CFP*

1. Market based (investor returns): That is price per share or share price appreciation. Reflects the notion that shareholder satisfaction determines that fate of a corporation.

2. Accounting based: A company's return on assets (ROA), return on equity (ROE), or earnings per share (EPS). Reflects internal decision-making capabilities and managerial performance rather than external market responses.
3. Perceptual (survey): A qualitative method in which survey respondents provide subjective estimates of e.g. corporate use of assets or its financial goal achievement relative to competitors.

3.5.1.2 Measurements of CSP

1. CSP disclosures: Consist of analyses of annual reports, letters to shareholders, and other corporate disclosures to the public functioning as the aforementioned surrogates of CSP.
2. CSP reputation ratings: Including, for instance, the FTSE4Good Index, Fortune 500, or Dow Jones Sustainability Index. Such "reputation indices are based on the assumption that CSP reputations are good reflections of underlying CSP values and behaviours" (Orlitzky et al., 2003: 408).
3. Social audits, CSP processes, and observable outcomes. According to Orlitzky et al., social audits consist of a systematic third-party effort to objectively assess a company's CSP. Social audits may still result in a ranking, however, such as the measure provided by the Council on Economic Priorities.
4. Managerial CSP principles and values: A manager maps a company's social orientation in relation to e.g. Carroll's CSR Pyramid in order to reveal the values and principles inherent in a company's culture.

Evidently, these various means of measurement reflect different philosophies of science. It would, for instance, be problematic in a post-positivistic analysis to make use of surveys as the indicator of CFP and disclosures or reputational rankings as indicators for CSP due to their inherently subjective nature. Likewise, empirical research by Wood & Jones indicates that it is problematic to compare measurement methods that are not theoretically aligned – also known as the mismatching thesis (Orlitzky et al., 2003: 409).

These different means of measurement in effect entail that both the number of CSR related lines in a company's annual rapport and the amount spend on philanthropic donations have been used as

indicators of CSP (Schreck, 2011).¹⁶ Obviously, these highly different indicators cannot reflect the same phenomenon in any meaningfully comparable manner. Consequently, these issues of subjectivity and estimation have triggered questions about the validity of the measures used to assess social performance as well as the diversity of measures used to assess financial performance (Vogel, 2005) which in turn makes comparison between different analyses highly problematic. One such example of how mixed results may arise from the use of different indicators is provided by Plesner & Neergaard in their 2005 analysis: “we find a negative relationship between FP as stock returns. However, when employing an accounting measure of FP in the shape of ROA (Return On Assets), a positive relationship is found” (Plesner & Neergaard, 2005).

3.5.2 Endogeneity and correlation

Another factor which is complicating the business case research and causing substantial inconsistency in the empiric results (Perrini et al., 2012) is the fact that we know very little of the mechanisms and direction of causality (Devinney, 2009; Schaltegger & Synnestvedt, 2002; Vogel, 2005). Originally, the scientific point of departure was to establish an influence of CSP on CFP in accordance with the instrumental stakeholder theory, which states that “high CSP bolsters a company’s competitive advantage by weighing and addressing the claims of various constituents in a fair, rational manner” (Orlitzky et al., 2003: 405). This direction of causality is, therefore, known as the good management theory (ibid: 406).

Yet along the way it became evident that high prior CFP also has substantial effects on subsequent CSP (Blomgren, 2010; Plesner & Neergard, 2005). This direction of causality, named the slack resources theory, claims that managers only consider to engage in ethical activities beyond compliance if a sufficient amount of surplus resources are available (Orlitzky et al., 2003; Schreck, 2011). It is, in other words, equally plausible that more profitable companies are simply able to allocate more resources to CSR, and thus have higher CSP, as it is that companies are more profitable as a result of their CSR engagement (Lantos, 2001; Vogel, 2005). In fact, opponents of the business case for CSR would argue that companies “may indeed have been more profitable if they had been less responsible” (Vogel, 2005). In short, empirical testing of CSR entails problems of endogeneity and possible causal loops (Schreck, 2011: 167). I insert the word ‘possible’ because as long as the connection between CSP and CFP cannot be identified, it is perhaps more convenient to speak of the two components as correlational rather than causal.

¹⁶ Additionally, even disregarding the mismatching problems, the amount spend on donations of one company compared to another must be considered in conjunction with the size of the respective companies, the amount of resources available, the amount spend on alternative CSR activities etc.

3.5.3 *Time lag*

The research problem related to time lag, as the name implies, refers to the difficulties that researchers face when they attempt to measure effects that do not occur within a foreseeable time span of the execution of the research and data collection. This is most often the case when a CSR investment yields intangible benefits, such as corporate reputation, which do not affect the bottom line instantly (Drews, 2010). Time lag may not only be the cause of inconsistent results simply because the possible effects of investments occur after the end of the research period but also because it may be difficult to trace the roots of certain benefits after a substantial period of time.

3.5.4 *Mediating variables, situational contingencies, and external factors*

For the sake of clarification, it should be noted that the term ‘mediating variables’ is used to refer to two different concepts in the CSR literature. In some instances it carries a meaning identical to the above use of the term ‘surrogates’ (in e.g. Carroll & Shabana, 2010). In this thesis, however, I employ its second usage, i.e. the definition of mediating variable as it has been phrased by Wendy K. Olsen: “Mediating variables are seen as intervening factors that can change the impact of X on Y...”

Mediating variables, situational contingencies, and external factors are all interweaving issues that overlap and arise from each other wherefore they can be difficult to separate. As a result, they are highly difficult to distinguish, control, and account for during research. It is, therefore, highly plausible that such omitted variables which affect both social and financial performance are responsible for many of the inconsistencies in modern research (Vogel, 2005).

New institutionalism accounts for several of the external factors on a theoretical level, yet on a practical level it may be far more challenging to comprehend the specific influence that such factors have on the benefits of concrete investments. Examples of institutional influences and mediating variables may include the degree of regulation in a given industry, the power, legitimacy, and urgency of stakeholders, the type, size, and degree of internationalisation of a company, the presence of independent monitoring organisations, the cultural setting, customer behaviour, oil prices, interest rates, national employment etc. (Brown et al., 2009; Plesner & Neergaard, 2005; Schaltegger & Synnestvedt, 2002; Schreck, 2011).

In addition to all these challenges measurements of the CSP/CFP relationship must also account for any situational contingencies. These events may be impossible to control and predict but are imperative to identify in order to maintain a scientific result. Examples include sudden media attention, the

development of new (environmentally friendly?) technologies, changes in consumer preferences, regulatory changes etc. (Schaltegger & Synnestvedt, 2002).

All these complications accumulated, it is not surprising that researchers have not been able to produce unequivocal evidence that the business case for CSR exists. Nonetheless, companies continue to invest in CSR, and all evidence point towards a continuing increase of this trend. This fact emphasises the relevance of frameworks such as CSV, constructed with the purpose of increasing the efficiency of both natural and financial resources, and further accentuates the necessity of research such as the present dissertation, which aims at optimising the established knowledge that is extracted from such investigations.

3.6 Summary of the literary review

Conclusively, the phenomenon of CSR is historically tightly connected to the capitalist economic system and to the development of the stakeholder theory. Numerous arguments have been presented by both adversaries and advocates of CSR (cf. table 2) yet ultimately, due to the growing expectations of people and societies and for a number of reasons explainable by means of New Institutionalism, CSR has become an un-ignorable part of the corporate agenda. This development has resulted in a surge of attempts to prove the existence of the business case for CSR because it would eliminate the assumed dichotomy between the needs of business and of society. Unfortunately, so far it has proved immensely difficult to achieve unequivocal results wherefore CSR remains a questionable strategy with no guaranties of financial returns just as any other corporate strategy. This is the landscape and context that the CSV framework is part of. As previously mentioned, I intent to compare the CSV framework to some fundamental issues of the field of CSR in order to reveal the underlying assumptions of Michael Porter that I may, hopefully, be able to determine his meta-theoretical paradigm. I shall compare him to the key points presented in table 3 below which appear in the order of which they will be addressed in the following analysis.

Table 3: Addressed key issues

CSR: Addressed key issues	
Capitalism and the invisible hand	The dichotomy between corporation and society
The business case for CSR	Externalities
Profit maximization vs. ethics as a driver for CSR	Trade-offs
Stakeholder theory	Freeriders
Impatience of the stock market	Difficulties in measurement of CSP and CFP
Today's preference becomes tomorrow's price of entry	

4 PART THREE – Analyses

4.1 Why Michael E. Porter?

It should be noted that although Michael E. Porter has co-authored his articles on CSV with Mark R. Kramer, my emphasis and analytic focus remain on the work of Professor Porter who is also the author of the work *On Competition* (Porter, 2008) available in the bibliography.

Certainly, Michael Porter is not the only one who has sought to answer the essential question on how to engage in CSR, yet this thesis builds upon his particular framework for a number of reasons. Firstly, on a strictly personal and unscientific level, I found my dedication for the subject of CSR in general through a reading of Professor Porter's articles a while back. As touched upon in the introduction, I was inspired by the fact that I felt immediately divided between an intuitive support of his ideas and a strong sense of scepticism. This sense of division became the stepping stone for the development of the research question of the current analysis.

Secondly, Michael E. Porter is the Bishop William Lawrence University Professor at the Harvard Business School and has the highest professional recognition that can be given to a Harvard faculty member. He has been "one of the world's leading business thinkers for three decades" (Schumpeter, 2011) and is generally considered to be the father of modern corporate strategy (Schawbel, 2012). He is the author of 18 books and more than 125 articles (ibid) and some claim that he is "the field's most cited author" (Aktouf, 2005: 75). Furthermore, Porter has served as a counsellor on competitive strategy to numerous large corporations and governments and has been awarded honorary doctorates by eight different universities around the world (Argyres & McGahan, 2002: 43). Porter is in other words a highly qualified scholar whose theories, presumably, carry great scientific value and insight.

Thirdly, as I have established, the literature on CSR is highly extensive and, to a large extent, inconclusive. CSV constitutes one possible answer to a series of societal concerns out of many available theories in the literature. This particular framework, however, offers some interesting perspectives that could prove highly beneficial to society could the framework be adapted to fit the post-positivistic features that would allow for an operationalisation and measurement of the correlations inherent in the framework.

Finally, CSV share numerous similarities and often overlap with many other CSR frameworks under the umbrella term of strategic CSR. Porter is thus analytically representative of many other scholars who have theorised on the subject of strategic CSR. For instance Bhattacharyya et al. (2008), Bruch & Walter (2005) who use the term 'corporate philanthropy', Brown et al. (2009) and Carroll & Shabana (2010) have all treated the same subject under the term 'syncretic stewardship', Lantos (2001) who called it 'enlightened capitalism', Leavy (2012) etc.. Conclusively, in my view, Porter's CSV framework constitutes a qualified, interesting, potentially beneficial, and highly representative object of analysis.

4.2 Analysis of CSV: Detection of the underpinning assumptions and beliefs

In this chapter, I will discuss how Michael E. Porter relates to the various key issues addressed in the thesis up until this point and identify how they have been incorporated into a final framework. In accordance with my initial Kuhnian statements of scientific paradigms, it is essential for me as an analyst to clarify which positions and assumptions underpin Porter's arguments in order to understand why and how he has reached those exact answers and conclusions. Thus the following analysis constitutes a systematic insight into the various elements of the CSV framework, which I shall subsequently analyse from a meta-theoretical perspective. Therefore, this first analysis will consist of five steps: 1) determining the purpose and the function of the framework, 2) relating the CSV framework to the key issues of CSR (cf. table 3 above), 3) analysing the suggested implementation of CSV, 4) classifying Porter's empiric evidence, and 5) summarising and aggregating the assumptions revealed through the previous four steps.

I will, therefore, investigate the various constituents of the CSV framework as they are presented through four articles published in the period ranging from 1999 until 2011 (Porter & Kramer, 1999, 2002, 2006, 2011). It should be noted that the notion of Shared Value was not coined until the 2006 publication but has been continuously developed until finalised and accumulated in the most recent article entitled Creating Shared Value (Porter & Kramer, 2011).

4.2.1 The purpose and the function of CSV

Initially, I wish to draw a distinction between the purpose of the framework and its functionality. By the term 'purpose' I refer to the objective that it was intended by Porter to fulfil which reflects an inherently subjective motive for the creation of the framework. By 'functionality' I refer to the rationale behind its

actual usage which is related to the operationality of the framework, i.e. ‘*what* can managers achieve through CSV?’ This differentiation, although seemingly subtle, has considerable implications for the subsequent analysis from a scientific theory perspective.

On several occasions, especially in the earlier publications, Porter touches upon the reason for his creation of CSV. He states, for instance, that “...the resources available for solving society’s problems are scarcer than ever. Using those limited resources most effectively has immense social value... The time has come to embrace a new agenda...” (Porter & Kramer, 1999: 121). The wording is somewhat dramatic as he points to societal challenges and express an urgent need for change. More recent examples of such dramatic exclamations include “the capitalist system is under siege” (Porter & Kramer, 2011: 62) and “business is caught in a vicious circle” (ibid: 63) both of which are expressions of opinions calling for a transformation of business systems. Correspondingly, Porter himself has articulated that “my work aims not to be descriptive but normative” (Porter, quoted in Argyres & McGahan, 2002: 45),¹⁷ and he believes that CSV constitutes “the next evolution in capitalism” and “major transformation of business thinking” (Porter & Kramer, 2011: 64). Thus, Porter constructed the CSV framework with the inherent *purpose* of creating a normative framework for the solution of societal challenges which, in his view, calls upon a revolutionary change in the existing business system.

The operational *function* of CSV, on the other hand, is to form a method of integrating economic and non-economic rationales for social engagement into corporate management. This function implies an inherent belief in the existence of the business case for CSR. In fact, according to Porter and Kramer (2011: 64): “Businesses must reconnect company success with social progress. Shared value is not social responsibility, philanthropy, or even sustainability but a new way to achieve economic success.” The notion of superior profitability is thus fundamental to the CSV framework. Porter does not believe in ethics or morality as sustainable drivers of societal change: “I believe that any theory of strategy, and any understanding of competition, has to address the fundamental question of profit. It all starts with profit” (Porter, quoted in Argyres & McGahan, 2002: 49). I, therefore, wish to highlight the following phrase from the 2002 publication as a key tenet of CSV (then called corporate philanthropy): “*The acid test of good corporate philanthropy is whether the desired social change is so beneficial to the company that the organization would pursue the change even if no one ever knew about it*” (Porter & Kramer, 2002: 15). This is highly interesting and constitutes a substantial difference between CSV and alternative theories of strategic CSR because it reflects a belief in the business case for CSR which is so strong that the monetary benefits are sufficiently valuable for the company to justify a CSR engagement, thus completely

¹⁷ I shall return to this point in the subsequent analysis

disregarding the intangible benefits in measuring the business case. This view emanates from the supposition that corporative disregard of social responsibilities results in monetary losses through an ineffective use of natural resources, costly externalities, and a loss of profitable investment opportunities.

4.2.2 CSV in relation to key issues of CSR

Having thus established the purpose and the function of CSV, I will now address how Porter relates to the various key issues of CSR. Some key points have already been briefly addressed in the previous paragraphs.

4.2.2.1 Capitalism and ‘the invisible hand’, the business case for CSR, and profit maximization vs. ethics¹⁸

As described above, Porter adheres to capitalism and as such believes that the free market forces are the best drivers of social welfare: “Capitalism is an unparalleled vehicle for meeting human needs, improving efficiency, creating jobs and building wealth” (Porter & Kramer, 2011: 64). It thus naturally follows that Porter believes in the business case for CSR seeing that profitability must remain the motivational driver of CSR according to the invisible hand of Adam Smith. Therefore, Porter relates to Milton Friedman’s capitalistic criticism of CSR by referring to his underlying assumption that CSR cannot be financially viable for corporations. Porter asserts that “the way most philanthropy is practiced today, Friedman is right” (Porter & Kramer, 2002: 6) yet subsequently rejects Friedman’s fundamental assumption. According to Porter, CSV “is not philanthropy but self-interested behavior to create economic value by creating societal value” (Porter & Kramer, 2011: 77) and as such he believes that “the concept of shared value resets the boundaries of capitalism” (ibid: 67).

4.2.2.2 Stakeholder theory

As a proponent of CSR, Porter naturally adheres to the stakeholder theory, noticeably to instrumental stakeholder theory. Although Porter describes his CSV framework as normative this notion should not be extended to his view of the stakeholder theory. The reason for this distinction is that Porter does not adhere to normative stakeholder theory because he does not believe that managers should relate to all stakeholders for normative and ethical reasons. To do so, he claims, is to perform ‘responsive CSR’.

¹⁸ These three key issues which are inextricably linked to the function of the framework are also highly interrelated and will therefore be addressed as one entity.

Contrarily, stakeholder management should be viewed as an instrument to achieve superior financial performance, i.e. strategic CSR

4.2.2.3 The impatience of the stock market

Remaining on the issue of profitability, Porter states that capital markets will undoubtedly continue to pressure corporate managers to generate short term profits. Likewise, in the face of these pressures along with growing competition, some managers may continue to reap profits at the expense of society through for instance restructuring, personnel reductions, and relocations of production systems to lower-cost countries. The result of such endeavours, however, are often synonymous to commodetisation, price competition, little true innovation, slow organic growth, and no clear competitive advantage. Porter, therefore, contends that caving in to the short-term demands of shareholders entails short lived profits and missing the most important customer needs while simultaneously ignoring the broader influences that determine the long-term success of a company (Porter & Kramer, 2011).

4.2.2.4 Today's preference becomes tomorrow's price of entry

In the 2002 article, Porter stated that “giving more does not satisfy the critics – the more companies donate the more is expected of them” (Porter & Kramer, 2002: 5) which essentially mirrors Sergio Zyman's tenet “today's preference becomes tomorrow's price of entry.” This position is in line with the above view of long-term profitability as the key to corporate strategy. Porter namely holds that due to the regular, capitalist rules of market competition, once some companies start reaping the benefits of CSV, others will inevitably have to follow. It is not clarified, however, what will then occur when CSV has (possibly) been widely adopted and thus become today's price of entry and the lowest common denominator. Porter does not explain how this development would affect the qualities of competitive advantage that companies are expected to gain as a return of CSV investments.

4.2.2.5 The dichotomy between corporations and society

In the historic review of the rise of CSR, I described how, from the very onset, CSR was embedded with an inherent notion of a dichotomy between profits and ‘doing good’. According to Porter, however, the fact that economic and social objectives are seen as inherently conflicting is a false dichotomy (Porter &

Kramer, 2002: 7). Instead they should be considered integrally connected due to their interdependence: “If either a business or a society pursues policies that benefit its interests at the expense of the other, it will find itself on a dangerous path. A temporary gain to one will undermine the long-term prosperity of both” (Porter & Kramer, 2006: 84). This position is substantiated with reference to various asserted correlations: The reduction of pollution and waste reflects a more productive use of resources; productivity depends on educated, healthy, and motivated workers, and boosting social and economic conditions in developing countries leads to new markets for the production and distribution of products etc. (Porter & Kramer, 2002). In short, CSV is said to recognise that social harms or weaknesses, such as wasted energy and raw materials or costly accidents, often result in *internal* costs for businesses (Porter & Kramer, 2011: 68)

4.2.2.6 Externalities

These social harms and weaknesses of course include externalities wherefore this key issue is very much related to the above dichotomy issue. Porter contends that opportunities to create shared value arise exactly because social problems tend to create economic costs within the value chain wherefore improvements can yield net cost savings (ibid). Wal-Mart is provided as one example of how to create shared value from existing externalities, in this case through the reduction of excess packaging and rerouting its trucks to cut 100 million miles from its delivery routes in 2009 thereby significantly reducing greenhouse gas emissions and supposedly saving \$200 million in the process (ibid). When speaking of corporate and social values it is thus imperative that values are defined as profits minus costs *in a corporate and societal context simultaneously*. Porter does not, however, offer a suggestion on how to perform this calculation in practice or how to transform the effect of externalities into a deductible figure. This valuation of public goods and loss of public goods is a major challenge in economic science.

4.2.2.7 Trade-offs

Numerous scholars argue that the costs of CSR must always be paid somewhere else (e.g. Kapstein, 2001). It naturally follows from all the above arguments that Porter, of course, refuses this notion. Inter alia due to the presumed internal costs of externalities, as an integrated constituent of the business case for CSR, corporations need not trade off competitive advantage in order to achieve CSP – the two are complementary. What effectively eliminates the trade-off issue, according to Porter, is the so called

“innovation effect” (Porter & van der Linde, 1995). Porter asserts that the internal costs of externalities spur innovations of products, services, production systems etc. which leads to long term financial benefits.

That being said, however, in Porter’s earlier work, he acknowledges that in every strategic decision and positioning lie a trade-off in deciding what not to do. “To achieve excellence at what it does,” he argues, “a foundation (or any organization for that matter) must forego opportunities in other approaches and in other fields” (Porter & Kramer, 1999: 127). As we shall see shortly, it is a key point in the finalised CSV framework that a firm is to narrow the field of CSR down to very few strategic engagements.

4.2.2.8 Freeriders

The development of local clusters plays a fundamental part in all Porter’s work and thus also in the CSV framework. According to Porter and Kramer (2011: 72):

The success of every company is affected by the geographic concentrations of firms, related businesses, suppliers, service providers, and logistical infrastructure in a particular field... Clusters are prominent in all successful and growing regional economies and play a crucial role in driving productivity, innovation, and competitiveness. Capable local suppliers foster greater logistical efficiency and ease of collaboration... Without a supporting cluster, conversely, productivity suffers.

This emphasis on cluster development may, certainly, give additional prominence to the key issue of freeriders. Porter, however, presents five reasons why the freerider benefits do not negate the strategic value of a corporation to improve its competitive context (Porter & Kramer, 2002).

- 1) Local area: Seeing as not all competitors are located in the same region, a company will still benefit substantially in comparison to the general competition.
- 2) Collective activity: Sharing costs within a cluster greatly diminishes the freerider issue.
- 3) Leading companies within a given field may be able to invest more and thus reap the majority of the benefits.
- 4) Distinctiveness enhances the disproportionality of the company benefits. This reason is related to the above mentioned emphasis on few, strategically chosen CSR engagements. The closer the alignment and the more specific the investment is to the unique operations of the company the more it will benefit disproportionally to its competitors.
- 5) Intangible benefits. The benefits related to reputation and improved relationships with e.g. employees, NGOs, governments etc. are unique to the initiator of CSV.

4.2.2.9 Difficulties in measurements of CSP and CFP

As mentioned earlier, Porter interestingly repudiates (or downplays) the importance of the intangible benefits related to high CSP. He argues that the use of high profile CSR initiatives conducted with the purpose of improving corporate reputation or as a form of insurance that people may be forgiving in a time of crisis reflects a confusion of public relations with social and business results. What is increasingly interesting is that he rejects these benefits, inter alia, on grounds of measurement difficulties:

Studies of the effect of a company's social reputation on consumer purchasing preferences or on stock market performance have been inconclusive at best. As for the concept of CSR as insurance, the connection between the good deeds and the consumer attitudes is so indirect as to be impossible to measure. Having no way to quantify the benefits of these investments put such CSR programs on shaky ground... (Porter & Kramer, 2006: 83)

He criticises corporations for reporting their CSR initiatives in terms of dollars or volunteer hours spent. Instead, Porter asserts, "the focus must move away from an emphasis on image to an emphasis on substance. The current preoccupation with measuring stakeholder satisfaction has it backwards. What needs to be measured is social impact" (ibid: 91). He does not, however, provide any sort of insight as to how this social impact is to be measured and defined. Despite his apparent preoccupation with quantification and measurement of actual social impact, nor does he relate to any of the key issues of measurement difficulties such as the direction of causality, time lag, mediating variables, situational contingencies etc. He does not conduct any extensive (quantitative) empirical research or perform any calculations to actually confirm the existence of the business case for CSR or the relationship between CSP and CFP which is so fundamental to the entire *raison d'être* of the CSV framework. As mentioned above, I shall return to the significance of these issues in the subsequent analysis and will now continue with an investigation of the suggested implementation of CSV.

4.2.3 Investigation of the guidelines for actual implementation

In summary, CSV constitutes the link between 'competitive advantage' and 'CSR'. According to Porter, this link can be achieved in three manners: By reconceiving products and markets, by redefining productivity in the value chain, and by enabling local cluster development (Porter & Kramer, 2011). Porter asserts that CSV can be applied to every major business decision by creating "concrete and tailored metrics for each business unit in each of the three areas" (ibid: 76). Once again, however, it is unclear how to actually perform such an assessment, especially seeing that Porter disregards the substantial difficulties related to

measurements within the field of CSR. This lack of clarification may complicate the final process of operationalising the CSV framework.

When a company is to implement CSV, the manager must keep in mind that CSV initiatives should be closely related to the particular business of the firm. Furthermore, a company should choose only a very limited number of targets for CSR investments. These few initiatives, closely related to the core competencies of the business will foster excellence and thus ensure maximum return. Furthermore, the CSV strategy must be in close alignment with the specific corporative qualities and characteristics (which, as mentioned above, is essential to the elimination of the freerider aspect), and management must be consistent about the strategic choices also within aspects of production, service, design, and so on (Argyres & McGahan, 2002). In short, through CSV a company is able to achieve superior performance by developing a unique area of focus and approach, aligning its operations to the strategy, and finally by defining concrete goals in its chosen fields to serve as the basis of evaluation (*Harvard Business School, Institute for Strategy and Society, Competition and Society*, n.d.). Porter exemplifies the difference between regular, ethics based, responsive, yet admirable CSR and the integrated, value oriented CSV through the concept of fair trade. Fair trade is a label provided by Fair Trade Labelling Organizations (FLO) which requires that farmers be paid a minimum amount per pound of coffee (Carroll & Shabana, 2010: 96). It is in other words a redistributive approach ensuring the income of poor farmers. CSV on the other hand expands the total pool of economic and social value by improving

growing techniques and strengthening the local cluster of supporting suppliers and other institutions in order to increase farmers' efficiency, yields, product quality, and sustainability... Early studies of cocoa farmers in the Côte d'Ivoire, for instance, suggest that while fair trade can increase farmers' incomes by 10% to 20%, shared value investments can raise their incomes by more than 300%. (Porter & Kramer, 2011: 71).

Porter concludes his 2011 article 'Creating Shared Value' with the figure 5 below. Evidently, the figure adequately sums up the descriptive characteristics of CSV. The reader of 'Creating Shared Value' intuitively gets the feeling that he or she has been explained how to implement CSR in practise. If one rereads my above 'implementation guidelines' chapter, however, it shows that I never explain the actual *how*.¹⁹ I have

¹⁹ An *approximation* of this guide to implementation exists in the 2006 article addressing strategic CSR and shared value albeit the CSV terminology was not yet introduced. For some reason, however, this aspect was omitted in the final framework. This implementation process looked as follows: 1) Identifying points of intersection (inside-out, i.e. a firm's influence on society, and outside-in, i.e. society's influence on the firm, linkages), 2) Choosing which social issues to address, 3) Creating a corporate social agenda (from responsive CSR to strategic CSR), 4) Integrating inside-out and outside-in practices (integrating e.g. value chain innovations and solutions to social constraints to competitiveness), and finally 5) creating a social dimension to the unique value proposition. Despite these improved operational qualities, this remains a highly generic framework without any additional information on how to perform these five steps in practice, and thus the problem persists.

described what CSV is about, what to focus on, how it benefits, but not how managers actually implement the framework. The reason of course is that Porter provides very little concrete information and no tool box for managers to rely upon.

Figure 5: How Shared Value differs from CSR (from Porter & Kramer, 2011)



Finally, another contributing factor to the implementation difficulties is the fact that it is highly difficult to establish what exactly CSV really is. Remarkably, nowhere in the article 'Creating Shared Value', with the sole purpose of introducing the concept, has CSV been defined, only described. In fact, I have been compelled to seek additional, clarifying knowledge of CSV in alternative sources such as interviews and the Harvard website. This lack of concrete, implementable information makes it more appropriate to describe CSV as a way of *thinking* about a corporate CSR strategy instead of regarding it as an exact theory or applicable model. This observation is compatible with Porter's own consistent referencing to CSV as a framework and not a theory or model²⁰

²⁰ This is an observation also made by Huggins and Izushi (2011)

4.2.4 *Classifying Porter's empirical methods*

As stated in the first part of this paper, the methods by which a researcher gathers evidence and substantiates assertions are highly reflective of the underlying research paradigm. A clarification of these methods may therefore provide valuable insights during the subsequent attempt to establish Michael Porter's underlying scientific theory. In an in-depth interview by Nicholas Argyres and Anita McGahan (2002) Porter unveils his own thoughts on this subject.

Porter took an MBA in business policy from Harvard Business School (HBS) followed by a Ph.D in business economics. According to Porter, HBS has a long tradition of a qualitative, case studies approach with a focus on the contextual differences of each business situation. The aim is to "to draw some broad generalizations out of a set of the cases over time" (Porter, in Argyres & McGahan, 2002: 45). This is in other words an **inductive** research methodology. Through the economics research, however, Porter encountered a methodology which consisted of creating economic models that aimed to abstract the essence of a phenomenon, represent it mathematically, and thereby derive insightful implications (ibid). Porter, however, found that this approach did not capture the full richness and multi-dimensionality of competition; one of his prior objects of study. According to Porter himself, he operates in the middle-ground between these two methodologies, searching for generalities through an understanding of contextual differences: "It was out of an in-depth exposure to cases, informed by my economics training and search for generalization, that I came up with my particular way of thinking about strategy" (ibid: 46). This middle-ground research, which "tries to capture the full richness of a phenomenon with the most limited number of dimensions" (ibid), Porter has termed 'frameworks'. It is in essence an attempt to perform holistic, detail- and context-oriented analyses of case studies over time in order to infer generic conclusions.

When studying Porter's works, it is obvious that the qualitative case studies approach is the paramount methodology. Countless examples substantiate his claims, and more often than not tend to have highly anecdotal features. On the semiotic level, Porter very much corroborates his arguments through continuous repetition and paraphrasing which are both classical instruments of persuasion in political contexts. As I have touched upon earlier, Porter also makes use of a number a rather dramatic wordings, cf. 'capitalism is under siege' and 'the time has come to embrace a new agenda', presumably adopted with the intention of captivating and influencing the reader. I will return to this point shortly, in the scientific theory analysis. First I will sum up the underlying assumptions that have been exposed in the course of this analysis.

4.2.5 Summary: Aggregated assumptions and believes

In summary, Porter had a clear purpose with the construction of the CSV framework. With a focus on the ongoing, steady depletion of the natural resources, the environmental changes caused by harmful externalities and inefficient use of resources, and the unsatisfied needs of people both within and outside of the world's welfare states, Porter saw a need for change that could better the life and working conditions for people on a global scale. He believes that many of these harms are inflicted by corporations and, thus, sought to initiate 'the next evolution in capitalism.' The framework is therefore undoubtedly of a prescriptive and normative character; a contention confirmed by Porter himself on several occasions (see e.g. Argyres & McGahan, 2002).

To accommodate this purpose, Porter constructed the CSV framework with the function of uniting profit oriented and social rationales in business management. This function reflects a strong belief in the business case for CSR and in companies' potential in solving multiple societal problems. Both assumptions correspond nicely with Porter's adherence to the ideology of capitalism as an economic system which dictates that profits must function as the main driver of societal engagement if the framework is to be a sustainable solution to the societal problems that Porter wishes to address.

Despite Porter's adherence to capitalism and the tenet of profit maximization, Porter distinguishes between short term and long term profitability. He believes that some managers and shareholders will keep opting for the realisation of short term profits despite the lack of long term sustainability. For instance Porter states that: "In neoclassical thinking, a requirement for social improvement—such as safety or hiring the disabled—imposes a constraint on the corporation. Adding a constraint to a firm that is already maximizing profits, says the theory, will inevitably raise costs and reduce those profits" (Porter & Kramer, 2011: 65). Instead Porter asserts that such measures will lead to profitable innovation, also known as the innovation effect, wherefore well situated government regulation functions as a necessary driver of CSR. This stance reveals a positive attitude towards government intervention beyond appliance to the minimum standards of civil law. Additionally, the above analysis reveals that much of Porter's research emphasises the role of regions, clusters, and innovation in meeting social needs. All of these aspects are contrary to the widespread tenets of neoclassical economic theory suggesting that Porter's CSV framework constitutes a solution beyond the conventional dictates of neoclassical economics.

We have furthermore inferred from the above analysis, that Porter utilises an inductive methodology that focuses on in-depth case studies conducted over a longer period of time. His aim is to achieve a holistic understanding of the mechanisms of CSR through a contextualised analysis and thereby

deduct a generic way of thinking about CSR as a competitive strategy that may apply across borders and industries. A central tenet of CSV is that corporations must choose a limited number of CSR engagements and, importantly, tailor and align these initiatives to the specific business and its unique qualities. Porter's methodology thus reflects the underlying assumption that the actual strategy for implementation of CSV is dependent on the qualities of the corporation wherefore the specific returns will be too. This view is shared by significant scholars of the field such as e.g. Carroll and Shabana (2010: 101): "The benefits of CSR are not homogeneous, and effective CSR initiatives are not generic." In a post-positivistic perspective, this fact may cause difficulties in the operationalisation process because it complicates the generic measurements that are fundamental in order to perform the falsification that underpins every scientifically valid theory.

I have hereby completed the first of two analyses. I will now apply a philosophy of science lens which in effect means that I will analyse Michael Porter's CSV framework on the basis of the ontological, epistemological, teleological, axiological, and methodological characteristics that I highlighted in the first part of this research paper. I will thereby be able to support or reject my initial hypothesis that Porter writes within the paradigm of critical theory. This hypothesis would explain why a renowned economist such as Michael E. Porter has been the subject of such substantial amounts of critique, much of which, I contend, is rooted in elements belonging to the sphere of scientific theory whether consciously on part of the critic or not. I thereby seek to clarify whether critical scholars in fact point to substantial deficiencies in the scientific research of Michael Porter or whether they are subject to the Kuhnian, meta-theoretical problem entitled the incommensurability of paradigms.

4.3 Meta-theoretical analysis: Determining the paradigm of Michael E. Porter

As established in the first part of this thesis, any researcher knowingly or unknowingly represents a basic belief system, i.e. a paradigm, that guides the investigator, affects which kind of research question is to be addressed, that governs which theories, concepts, and methods are to be applied in the process, and, consequently, influences the scholar's conscious or unconscious definition of 'good science'. As mentioned, such fundamental differences in world view results in an incommensurability of paradigms. This in turn entails that any given theory or research project has to be assessed under its own premises. Following this line of thought, I assert that my own initial scepticism towards the credibility of Michael Porter's CSV framework (as well as the criticisms of numerous other scholars) emanates from the incommensurability of the differing paradigms of Porter and myself respectively. Therefore, I will now analyse the viewpoints,

methods, beliefs, and assumptions that I have revealed in the previous analysis from a scientific theory perspective in order to determine Porter's underlying paradigm. To do so, I will follow the structure employed in the first part of this thesis, Philosophy of Science (PoS). To facilitate a continuous overview on part of the reader, I have therefore inserted the relevant section of the summarising table 1, 'characteristics of theoretical paradigms', at the onset of each paragraph.²¹

4.3.1 *Ontology*

Post-positivism	Critical Theory
<ul style="list-style-type: none"> Modified Realism 	<ul style="list-style-type: none"> Different ontological assumptions Virtual reality

The fact that even amongst themselves critical theorists have different ontological perceptions makes it very difficult to draw any conclusions approximating an identification of Michael Porter's paradigm from ontological observations. Critical theorists may be realists, nominalists, social constructivists etc. and thus do not have a distinctively characteristic ontology through which to be recognised.

Furthermore, critical theorists tend to believe that people live in a politically distorted 'virtual reality.' I find no evidence to support such an ontological stance in Porter's writings or interviews. On the other hand, I also noted in the PoS section that critical theory entails a sceptic approach to society and a focus on imperfections which, as established above, is true for Porter's research to some extent. It may be too much of a presumption to claim that Porter is sceptical of society as a whole seeing that he expresses great faith in the potential of capitalism. He does, however, to a large extent focus his research on societal imperfections. CSV is itself a great example as it constitutes an attempt to address the negative externalities of the capitalist economy. Likewise, apart from the development of the CSV framework, most of Porter's research over the last decade has been dedicated to an improvement of the health care system by co-authoring publications such as 'Delivering Global Health' (2008), 'How to Solve the Cost Crisis in Health Care' (2011), and *Redefining Health Care: Creating Value-Based Competition on Results* (2006) etc.

²¹ In order to avoid excessive repetition, I will generally not redefine concepts that have already been introduced in the first part of the thesis unless I believe that a fundamental argument depends upon the clarification or added value will be applied in the process.

Conclusively, I will refrain from inferring any definite paradigmatic affiliations on basis of ontological observations.²²

4.3.2 Epistemology

Post-positivism	Critical Theory
<ul style="list-style-type: none">• Modified objectivism• Falsification• Scrutiny of theory by other researchers	<ul style="list-style-type: none">• Subjective inquiry• Historicism• Contextual knowledge

I have previously concluded of the epistemology of critical theory that it is subjectivist and generally (but not always) case-oriented, and it always places its emphasis on a holistic understanding of the details and complexities of a particular phenomenon – an approach quite contrary to the post-positivist search for generalisations that go *beyond* the observation of individual events. This last notion is inter alia explicit through the post-positivist, epistemological adherence to falsifiability as the superior theory of demarcation. This epistemological distinction between post-positivism and critical theory is obviously highly interesting in a Porterian context because his framework explicitly aims to perform holistic, detail- and context-oriented analyses of case studies over time in order to infer generic conclusions which in effect constitutes a merger of two contradicting theoretical objectives. Obviously, the focus on establishing general truths is inherently a post-positivistic (even positivistic) trait whereas the emphasis on a multi-dimensional, contextual understanding developed over time is unambiguously characteristic of critical theory. In fact, as established in the PoS section, critical theorists *reject* the constant, post-positivistic search for generalities evolving from the process of falsification and argue that it tends to objectify people and social phenomena and leads to a simplification and loss of detail – a fact that emphasises the contradictory and somewhat paradoxical notion of Porter’s specific approach in trying to combine these opposing objectives. It should be noted that the temporal aspect is added by the critical theorists because they believe that interaction changes the historical context which in turn necessitates new inquiry (cf. PoS). This notion of contextual knowledge is not apparent through Porter’s writing.

It is, however, indisputable that Porter does not adhere to the principle of falsification as the appropriate medium to acquire theoretical corroboration. Contrarily, numerous researchers have provided

²² Surely, the lack of evidence or implications for one world view or another is not tantamount to its nonexistence. Many of the answers I search are of a rather abstract, unspoken nature, wherefore indisputable knowledge of theoretical perspectives of Michael E. Porter can only be obtained through a direct inquisition.

examples of companies that have invested high amounts of resources on CSR initiatives and experienced great losses in return (see e.g. Mark & Spencer, Chiquita (Vogel, 2005), CalPERS (Devinney, 2009: 52) etc.). Certainly, Porter would argue that these companies did not in fact perform CSV, and he might, in fact, have a point. It is, however, difficult to establish with no definition of CSV and no means of measurement.

4.3.3 Teleology

Post-positivism	Critical Theory
<ul style="list-style-type: none"> • Representational research • Find the truth (approximation) • Explain, understand, control • Discover generalisations (no absolute certainty) 	<ul style="list-style-type: none"> • Normative research • Critical-emancipatory cognitive interest • Uncover local instances of domination • Empower and educate the oppressed

The search for generalities, which I have briefly touched upon above in relation to the contextual multi-dimensionality of Porter's research, is as previously established part of the post-positivistic teleology. Porter himself has made some interesting statements on this matter, one of which I wish to present to further illustrate Porter's personal affiliations:

The challenge I always face is how to cut into problems in a way that allows me to be general... [A]ny industry has tens of thousands of differences, so how do we cut into this in a way that practitioners can get their arms around, but which is also complete and does not result in key omissions. (Porter, quoted in Huggins & Izushi, 2011)

Porter has obviously made a conscious decision to work towards a generic framework albeit perhaps without being aware of the inherent meta-theoretical implications. I shall return to this point in the subsequent discussion. Hence in this teleological respect, Porter undoubtedly follows the post-positivistic directives. On other accounts, however, Porter greatly departs from essential post-positivistic parameters. The CSV framework is not representational of the present economic climate, in the sense that it does not constitute an objective model of the social world as it is. Nor is it an attempt to explain and understand this existing social reality. Contrarily, my above analysis has unmistakably classified the CSV framework as normative and prescriptive rather than descriptive. In other words, the CSV framework is not a description of the system as it is but of the way Porter believes it *ought* to be. Indeed, Porter himself has extended this classification to cover all his research: "Everything I do embodies a normative framework" (ibid).

Contrary to the directives of the post-positivistic teleology, the critical theorists aim to function as "active agents of reform and radical change" (cf. PoS). Correspondingly, this notion of change was emphasised precisely in relation to the *purpose*, i.e. the teleology, of CSV in the above analysis.

Wordings like ‘embrace a new agenda’, ‘major transformation of business thinking’, ‘a new approach’, ‘solving society’s problems,’ as well as Porter’s alternative work on competitive advantage etc. are all unequivocal reflections of the teleology of critical theory to change and improve overall conditions. The following exclamation constitutes yet another example: “The moment for a new conception of capitalism is now; society’s needs are large and growing, while customers, employees, and a new generation of young people are asking business to step up” (Porter & Kramer, 2011: 64). Whereas the concept of change is apparent in the majority of Porter’s publications, as this quote illustrates, the notions of power and domination are much more subtle. To assert that Porter aims to ‘empower’ people, thus, requires a much higher degree of subjective interpretation. It could be argued on the grounds that, on some occasions, Porter blames the past corporate behaviour for environmental challenges, just like the use of politically inspired linguistic instruments functions as a means of persuasion and education. However as mentioned above, Porter also expresses faith in the potential of the economic system, and he acknowledges and encourages a degree of government regulation which is not symptomatic of critical theory.

4.3.4 Axiology

Post-positivism	Critical Theory
<ul style="list-style-type: none"> • Objectivity is the ideal • Complete objectivity impossible 	<ul style="list-style-type: none"> • Personal values are an integral part of science • Guide the research process

The entire idealistic, normative quality of the CSV framework reflects Porter’s axiological perspective. The fact Porter has created CSV with the purpose of proposing a partial solution to the contemporary social challenges reflects a personal drive and commitment that emanates from personal values. Seeing as post-positivistic research seeks to objectively *explain and understand* the social world, it cannot fulfill any complementary, underlying purpose. In other words, within the post-positivistic paradigm, the purpose and the function of an investigation are identical, and any subsequent purpose a given study may be used to fulfill is externally employed by the user of the results and is independent from the actual research. The very distinction between these concepts in the CSV analysis (cf. 4.2.1. *The purpose and the function of CSV*) is a result of the non-post-positivistic paradigmatic nature of the underlying axiology. The necessity of a distinction arises exactly because Porter has embedded a personal, subjective purpose, intimately connected to his personal values and world view, into the functionality of the framework. Once again, CSV is not descriptive but normative – it reflects how Porter personally believes the social world ought to be.

Within critical theory, these personal values are considered an integral part of science and should guide the research process itself. The CSV framework is exactly that, as illustrated by the fact that I am even able to perform this very analysis. Had CSV been the result of a strictly post-positivist research it should have been very problematic (albeit not impossible) to deduct any personal beliefs of the author. Contrarily, Porter e.g. believes in capitalism wherefore capitalism guides his research and ultimately constitutes the entire basis of the solution to his problem. I believe, however, that it may give rise to theoretical misconceptions and critiques that Porter bases his framework on the unquestioned existence of the presumably measurable (and thus, in theory, falsifiable) business case, thereby making his framework seemingly objective and thus subject to a (perhaps) misplaced post-positivist critique.

4.3.5 Methodology

Post-positivism	Critical Theory
<ul style="list-style-type: none"> • Theory first • No single method • Deduction is given primacy • Approximation of scientific method 	<ul style="list-style-type: none"> • Ideology over methodology

One of the main criticisms of Michael Porter's research revolves around this particular aspect of scientific theory. One reason for this could very likely be that it is by far the most apparent function of a researcher's philosophy of science. Establishing a scholar's methodology often requires very little preliminary analytical investigation but merely pure observation. Furthermore, every academic researcher regardless of the subject of study faces methodological decisions during their own research design processes wherefore many scholars are much more consciously aware of the explicit implications of methodological choices than they are of the more implicit ones of for instance ontology or epistemology which are therefore more often neglected. Due to the strong criticism on the subject of Porter's applied methodology, it is thus not surprising that Porter has contemplated and commented on this issue on previous occasions:

I very much believe in economics, but I do not believe in being tied to a particular methodology in addressing complicated problems. I am not against models, rigor, and statistical testing at all, but I do think that methodology should be the tail not the dog. (Porter, in Huggins & Izushi, 2011²³)

²³ Professor *emeritus* Robert Huggins and Dr Hiro Izushi have authored the book entitled *Competition, Competitive Advantage, and Clusters: The Ideas of Michael Porter* which addresses the most central aspects of the work of Michael Porter presented in his works *Competitive Strategy*, *The Competitive Advantage of Nations*, and *On Competition*. I have included this work relatively late in the thesis process and employed the last chapter entitled 'Conclusion: Porter's perspectives'. This is relevant because it consists of a transcript of an interview with Michael Porter in which he replies to some of the most common critiques of his central works. Although this work does not specifically address

Porter thus overtly states that on the theoretical level he believes that ideology takes preferences over methodology which is the central tenet of the methodology of critical theory. In practice, however, I have established in the above analysis that Porter applies a highly inductive methodology as it is tradition on HBS. Furthermore, Porter has stated that “...ceteris paribus [*sic paribus*] assumptions don't work. Managers must consider everything. I concluded that we needed frameworks rather than models” (Porter, quoted in Argyres & McGahan, 2002: 43). The notion of ceteris paribus assumptions involves the somewhat artificial indication that all (or some) other variables than the ones being investigated are being held constant during an analysis. This is in other words a classical post-positivistic tool for investigating causal relationships in complex social settings of multiple variables in a manner that is sought to approximate the stringent qualities of the scientific method. If we compare Porter’s preferences to the post-positivistic methodology it is quite unambiguous that on the methodological level, he is inherently critically theoretic.

I believe that Porter causes himself to be the subject of criticism by blurring the distinction between inductive and deductive methods. As quoted, Porter constructs his theories by inferring generalities from numerous case studies, i.e. *induction*. Simultaneously however, he only offers anecdotal evidence from a limited number of cases to substantiate his argument, without presenting the full body of empirical cases, having thus seemingly applied a *deductive* methodology for the construction of the framework. This is problematic because a reader must relate to and evaluate analyses based on various methods differently. This lack of consistency on the meta-theoretical level may very well have spurred on a substantial amount of theoretically based criticism.

All in all, the underlying affiliations of Michael Porter clearly show traces from both the paradigm of post-positivism and of critical theory (albeit with primacy given to the perspectives of critical theory). I have constructed the table 4 below for a summary of the above analysis.

Having hereby completed the analysis of the various elements that constitute a paradigm within the philosophy of science, I will proceed to an evaluation and conclusion of the above findings. This discussion will lead to an identification of Porter’s philosophy of science and ensuing evaluation of my initial hypothesis.

neither CSV nor meta-theory as such, it provides some highly informational insights into Porter’s own perspectives which have contributed to my interpretation of his underlying meta-theoretical affiliations.

Table 4: Summary of the analysis of Michael Porter's philosophy of science

	Paradigm	Comments
Ontology	Inconclusive	CT: + Focus on societal imperfections. Problems: Various ontologies in CT. Difficult to infer from writing. Multiple interpretations.
Epistemology	Mainly CT	CT: + Holistic research. + Research over time. - Contextual knowledge. PP: - Falsification. Problems: Definately not PP, lacking elements from CT.
Teleology	Both / Neither	CT: + Normative and prescriptive. + Aims to be agent of change. +/- Power and domination. PP: - Representational research. - Descriptive. + Search for generalizations. Problems: Essential elements present and lacking from both paradigms.
Axiology	CT	CT: + Some degree of personal values. + Guide the research process. PP: - Objectivity. Problems: Seemingly objective at first glance.
Methodology	CT	CT: + Ideology over methodology. PP: - Ceteris Paribus and the scientific method. Problems: Methodology seemingly deductive but acutally inductive.
Conclusion	Eclectic, most CT elements	Displaying high degrees of inconsistency and an eclectic philosophy of science.

Abbreviations – CT: Critical theory. PP: Post-positivism. + : Characteristic of Porter's research. - : Not characteristic.

4.3.6 Conclusion: Meta-theoretical Porterian eclecticism

Evidently Michael E. Porter does not follow the directives of one specific paradigm. Instead his research rests on a theoretical foundation characterised by a lack of consistency and coherency. As mentioned, it clearly shows traces from both the paradigm of post-positivism and of critical theory. Furthermore, we must bear in mind that I have performed a comparative analysis between two entities only; namely my own theoretical perspective and Porter's hypothesised paradigm. It is therefore not possible to rule out the possibility that an identical analysis of Porter's research integrating the interpretivist paradigm might reveal traces of this philosophy of science as well.

All in all, my hypothesis – that the research of Michael Porter emanates from the paradigm of critical theory – is hereby rejected, albeit the rationale behind it certainly remains relevant. My initial, intuitive sense of a lack of scientific value along with my indefinable scepticism did in fact have their origin in a meta-theoretical incommensurability. Only Porter has not produced a framework which is the product of logically consistent science conducted according to the directives of critical theory. Rather it reflects a theoretical eclecticism that is problematic for two overarching reasons. Firstly, the five elements of scientific theory, i.e. ontology, epistemology, teleology, axiology, and methodology, should not be considered to be separate constituents that a researcher can pick and choose from. Rather they are intertwined and emanate from each other in a system of logical cohesion. It is for example meaningless and contradictory to

adhere to a post-positivist teleology seeking to perform representational research (in the meta-theoretical sense of the word) and simultaneously possess a nominalist ontology²⁴. It is simply a logical fallacy because one cannot (or would not) attempt to create a model or copy of something he or she believes does not actually physically and statically exist. Secondly, a paradigm not only guides the research process during the investigation but also guides and controls the expectations of the reader or user. For instance, as post-positivist, I can only accept and follow the argument of a subjective inquiry reflecting the epistemology of a critical theorist and the subjective aspects emanating from the equivalent axiology, if the reached conclusions are correspondingly normative and do not presume to present objective, incontestable truths.

Paradoxically, this meta-theoretical eclecticism, i.e. the act of selecting and combining individual elements from a variety of sources, systems, or styles²⁵ irrespective of their possible mutual incompatibility, may be the reason why Porter has achieved such popularity on the one hand and been the object of such criticism on the other. People with widely differing belief systems can find elements of great appeal in his framework while it is highly plausible that the meta-theoretical inconsistencies simply evade attention, especially amongst the more practically oriented readers.

Interestingly, as mentioned in the introduction of this master thesis, I am not the first to reach the conclusion that Porter displays somewhat of a melting pot of inconsistent theoretical groundwork (see e.g. Nicolai Foss, quoted in Huggins & Izushi, 2011). However, previously this eclecticism has been employed with reference to the second level of abstraction (cf. figure 1) and therefore been subject or field specific (e.g. organisation theory, strategy theory, economics etc.) and not considered from a meta-theoretical perspective. Therefore, I wish to take this thesis one step further to consider the implications of the eclectic nature of Porter's paradigm in an attempt to modify the framework and overcome the inconsistencies. In the following chapter, I therefore discuss the implications of the findings of the thesis up until this point and critically assess the inherent problems and shortcomings of Porter's framework. Ideally, I will be able to present a measurable version of the CSV framework following the subsequent discussion.

²⁴ The nominalist ontology is tightly connected to antirealism and "revolves around the assumption that the social world external to individual cognition is made up of nothing more than names, concepts and labels which are used to structure reality" (Burrell & Morgan, 1979, quoted in, Miller, 2005).

²⁵ <http://www.thefreedictionary.com/eclectic> (30 Dec., 2012)

5 PART FOUR – Critique and discussion: Implications of Porter’s eclecticism

The purpose of this discussion is to identify the implications of Porter’s eclectic approach to science as well as to address a number of shortcomings of the CSV framework in general. These limitations to the framework may not all be rooted in scientific theory but may simply be the result of scientific trade-offs in choosing to focus on certain aspects of the field of CSR and place less emphasis on others. According to my post-positivistic paradigm, I will strive to approach the subsequent discussion and critique without personal bias. I aim not to judge Porter but simply to analyse where the framework is inconsistent with the post-positivistic paradigm in order to establish where the post-positivist notion of proper scientific research has been compromised. These are, of course, the shortcomings that I must subsequently address in my attempt to modify the framework along post-positivist lines.

In order to achieve the post-positivistic overall purpose of research, namely to provide general explanations that go beyond the observation of individual events, it is customary to operationalise theoretic concepts and theories for the purpose of measurement. Logically, since Porter explicitly states that he “searches for generalizations” (quoted above), one would expect that his framework provides some form of measurement option in order to confirm or reject the existence of a given correlation, yet, as shown, this is not the case. Contrarily, the framework provides very little concrete, tangible information. Therefore, the generalisations that Porter claims to have identified become pure postulates, served as objective, incontestable truths. Porter himself asserts that: “In strategy, it is important to focus on generalizations and not on special cases, although they may be extremely important” (Porter, in Argyres & McGahan, 2002: 51) which is interesting because it diametrically contradicts his actual methodology. This is where Porter’s underpinning, theoretical inconsistency is most tangible. According to post-positivistic directives (and perhaps overall academic norm), one does not identify general mechanisms or substantiate their existence by means of anecdotal evidence. Surely, the case study approach can be a very useful tool for obtaining insight that may provide an idea of which general social mechanisms the researcher may subsequently attempt to identify. It does not, however, constitute ‘good (post-positivistic) science’ to claim the existence of general correlations on a non-falsifiable basis.

To illustrate how the eclecticism of Michael Porter has led to meta-theoretically founded critique and confusion, I wish to briefly present a sample of the critiques of Omar Aktouf. Aktouf is a

Canadian professor with a Ph.D. in management from the business school HEC of Montréal. He is of the interpretivist paradigm and interestingly criticises Porter for performing “the linear, fragmented reasoning of classical science” (Aktouf, 2005: 81) in a *positivistic* manner. In a conventional, interpretivistic fashion, Aktouf criticises Porter for analysing various constituents separately in order to understand the whole they form (i.e. the whole is the sum of its parts) thereby disregarding the mutual relations and influences of the various consistencies. This is, of course, interesting because my above analysis confirms the element of unscientific transformation of contextual, case-based observations into general conclusions. In this respect, Aktouf echoes my conclusions (or chronologically, rather the other way around), however, from a very different theoretical platform. Via my meta-theoretical approach to this thesis, I am able to look at this confusion from the distance. Through my analysis, I can therefore refuse that Porter performs positivistic research as claimed by Aktouf, yet it is not difficult to understand how he draws that conclusion (recall that elements of Porter’s epistemology were of a positivistic nature). Basically, I presume, in the same manner that I initially hypothesised that Porter adhered to the paradigm of critical theory: Interpretivism and post-positivism are opposites in many respects whereas critical theory constitutes somewhat of a golden mean (Miller, 2005). Aktouf thus reacts to the elements of Porter’s research that are most different from his own, e.g. the post-positivist inspired part of his teleology. Furthermore, Aktouf’s conclusion is based on the interpretation of Porter’s ontology as realist (equal to both positivism and post-positivism as opposed to the nominal or social constructivist ontologies of interpretivism), however, as I have established, critical theorists have various ontologies which precludes the forming of conclusions on this account.

Porter’s eclecticism thus causes competent scholars to confuse his meta-theoretical views which in turn lead to unfulfilled contextual expectations on part of the reader. Aktouf therefore concludes that Porter’s research “in no way guarantees the scientific rigor he claims for it” (Aktouf, 2005: 76). Instead Aktouf objects to the fact that Porter’s conclusions are presented as “scientific and therefore non-debatable truths” (ibid: 78), an objection that corresponds to my critique of the framework’s apparent objectivity. A direct implication of this lack of theoretical stringency ultimately causes Aktouf to question Porter’s motives for the construction of the framework. He accuses Porter for creating a framework that necessitates professional counselling in order to achieve a successful implementation – all to facilitate his own employment and wealth acquisition. I contend that this accusation emanates from the inconsistency which is a result of a seemingly objective research design combined with Porter’s unconcealed embedded purpose of persuading the reader to adopt Porter’s viewpoints in regard to the potential of capitalism.

However, even if one was to accept the premises of the framework, i.e. that case studies form the evidential basis for the identification of generic correlations, there are still substantial problems

with the empirical foundation of the framework. For instance Porter makes no citations or references to other researchers nor does he provide any data of the cases he uses to substantiate his claims. This makes it impossible to check (read falsify) any of his conclusions or seek additional, elaborating information.

Apart from not providing the full dataset, Porter also presents undefined figures in many of his examples. For instance in the example of the Cisco Networking Academy, an education program on computer networking technology, Porter writes that an investment of \$150 million has facilitated that numerous people have found jobs in the IT industry and “over the span of their careers, the incremental earnings potential of those who have already joined the workforce may approach several billion dollars” (Porter, 2008: 456-457). This is obviously a postulate which is impossible to verify. Furthermore, it depends on the assumption that these people would not have found jobs without this initial investment which is not only equally difficult to verify but also unlikely to be true. I will return to this example shortly.

Additionally, it is arguable that Porter is not sufficiently critical of his empirical evidence. Consider, for instance, the example provided earlier which describes Wal-Mart’s rerouting of its trucks which allowed them to cut 100 million miles from its delivery routes in 2009. One might wonder if this is truly an example of CSV or merely poor route planning in the first place. Once again, it all comes down to the lack of definition of CSV. Is CSV then, in effect, simply every corporate action that benefits both business and the society? This ‘definition’ contains some clear causality issues à la the ‘Chicken or the Egg’. Does CSV create shared value, or is a CSR initiative subsequently classified as CSV because it just happened to create shared value? In either case, it is highly un-academic and very problematic to have an inherently ex post definition of a concept created for implementation purposes. Furthermore, this would gravely obstruct the process of falsification even if I was to successfully construct a measurable version of the framework seeing that every instance of unsuccessful implementation, i.e. profitable for *both* business and society, is then dismissible on grounds that it never really was a CSV initiative to begin with.

Although unrelated to Porter and CSV, Associate Professor of strategy Aneel G. Karnani addresses this problem by use of the illustrative Zone of Opportunity and Zone of Trade-off. Karnani asserts that certain CSR initiatives lie within the Zone of Opportunity and are characterised by their potentiality to increment the total pool of values for both business and society, such as in the Wal-Mart example above. Most CSR initiatives, however, lie in the Zone of Trade-off, such as e.g. wind energy, which is socially beneficial but not competitive in a free market economy without government intervention (Karnani, 2011: 74). Following this line of thought, the *raison d'être* of the CSV framework then must be to generate activities which all lie in the Zone of Opportunity (which are of course still identified by means of their ex post qualities). To follow this reasoning, it is necessary to critically assess the full spectrum of trade-offs

related to each CSV activity in order to confirm that they do not in fact lie in the Zone of Trade-off which would effectively undermine the purpose of its existence. This takes us back to the Cisco example above. Hypothetically, those people who supposedly found jobs in the IT industry as a result of the Cisco Networking Academy, might otherwise have found jobs in different industries which in turn might now struggle to fill their unoccupied positions which again in turn might decrease its production and impede corporate expansion etc. These possible trade-offs are dependent on macroeconomic circumstances such as unemployment rates and are thus completely detached from the CSV framework and yet, possibly, a direct consequence of its implementation. Surely this is merely a hypothetical scenario, but it reflects the position of a range of researchers who believe that there is no such thing as a win-win situation (see e.g. Devinney, 2009; Doane, 2005; Unerman & O'Dwyer, 2007). Consider the Côte d'Ivoire example quoted earlier which Porter has used to visualise the difference between Fair Trade and CSV. Given that Porter is right, and CSV did in fact raise the income of affected cocoa farmers by 300% by increasing efficiency, yields, product quality etc., in relation to trade-offs it is necessary to consider what effect this CSV initiative has on the neighbours of these cocoa farmers. Or if all farmers in a region experience the increase, how then does it affect the chances of the neighbouring region to sell their lower quality, less cost effective crops in a market of higher competition.²⁶ What needs to be considered from a trade-off perspective are the social and geographical *delimitations* to value and a definition of the level of analysis.

The fact that Porter does not expound these fundamental issues is a substantial shortcoming of his framework from a post-positivistic and perhaps even academic perspective. This shortcoming is likely a result of Porter's generalisations on the basis of cases which may cause him to neglect the implications and trade-offs on elements outside of his analytical scope or focus area. Undoubtedly, it complicates the measurement of collected benefits.

Conclusively, as shown during this discussion as well as during the previous analyses, there are a number of shortcomings of this framework (the most fundamental of which are summarised in table 5 below) and not all of a meta-theoretical nature. This latter fact is problematical seeing as a simple post-positivistic adjustment towards an underpinning, theoretical consistency will not resolve those deficiencies. I shall now attempt to operationalise the framework and will subsequently need to consider all of these issues in order to achieve a scientifically valuable modification of the CSV framework.

²⁶ See Deborah Doane's for another thought-provoking example showing how McDonald's attempt to tackle obesity challenges led to a loss of biodiversity in apple production.

Table 5: Central shortcomings of the CSV framework

Central shortcomings of the CSV framework
Issue 1: Generalising by means of contextual understanding
Issue 2: Induction/deduction circularity
Issue 3: Apparent objectivity vs. normativity and inherent subjectivity
Issue 4: Lack of definitional clarity
Issue 5: Trade-offs
Issue 6: The lack of measurability

6 PART FIVE – Operationalisation

Through the previous elements of the thesis, I have defined CSR and uncovered the inherent issues of dispute. I have established the importance of the business case of CSR to the field in general and to CSV in particular, and I have addressed the substantial difficulties of measuring it. Furthermore, I have compared CSV to all these findings and thereby uncovered and analysed the underlying assumptions and beliefs of Michael E. Porter. On this basis, I was able to reveal the eclectic nature of Porter's philosophy of science (albeit with most elements from critical theory in comparison to post-positivism) and finally, I have identified and discussed the implications of the inherent eclecticism. I shall now bring all of these elements together in an attempt to operationalise and modify the CSV framework from a post-positivist perspective.

6.1 Operationalising the framework

As established at the onset of this paper, 'to operationalise' is defined as *"the process of strictly defining variables into measurable factors. The process defines fuzzy concepts and allows them to be measured, empirically and quantitatively"* (Shuttleworth, 2008). In other words, it involves identifying exactly what Michael Porter refers to through the phrase Creating Shared Value which ideally will allow us to ultimately measure his concept.

In my view, an operationalisation of Creating Shared Value entails a definition of the terms 'shared' and the term 'value', whereby I assume that 'creating' does not entail ambiguity and thus require definition. By the term 'shared', Porter means that an investment should generate value *both* for the company or collaboration of companies that undertake the investment *and* for society. This clarification however requires further definition. Seeing as all firms regardless of size, structure, industry etc. have CSV opportunities according to Porter (Porter & Kramer, 2011: 67), the term 'company' does not require specific delimitation but may simply be defined as 'any commercial business'. Society, on the other hand, certainly does. As discussed above in relation to both the examples of Cisco and of the farmers of Côte d'Ivoire, there are possible geographical trade-offs that have not been considered in the CSV framework. What does Porter mean by 'society' in this context? Is it strictly the people or places that are directly invested in? Due to Porter's emphasis on cluster development, this cannot be his intended definition. According to Porter, a cluster is defined as *"the geographic concentrations of firms, related businesses,*

suppliers, service providers, and logistical infrastructure in a particular field” (Porter & Kramer, 2011: 72) all elements of which indirectly benefit from CSV. So is ‘society’ then anyone who is affected? This seems to be a much more adequate interpretation of Porter’s intended definition seeing as it would include those companies in the Cisco example who might lose future employees or the neighbouring farmers of Côte d’Ivoire. It does not offer much practical guidance in terms of measurement, however. It is impossible for a researcher to be certain that he or she has identified everyone and everything that has been in some way affected by a change spurred on by the CSV initiative.

The same problem arises when trying to determine Porter’s definition of ‘value’. It is relatively straight forward in a *corporate* perspective where Porter has defined value creation as in businesses, i.e. revenues minus the costs incurred (ibid: 66). This is a direct consequence of the ‘acid test of good corporate philanthropy’ emphasised earlier²⁷ which excludes all intangible benefits from the equation.²⁸ ‘Costs’ are defined as all expenditures necessary for the attainment of the goal which include not only capital investment but also time, resources, labour, R&D etc. However, since Porter does not relate at all to the aspects of measurements, it has not been defined if CFP is to be measured through market based, accounting based or perceptual (survey) methods.

I might assume that ‘value’ for a *society* must then also be defined as benefits minus costs which in turn entails a number of additional definitional difficulties of which I will only mention a few. First, in continuation of the geographical delimitations discussed above one might ask, value for whom? How does Porter mean to define the total pool of value, and, more importantly, how do we determine the ones that should not be included in the calculus (like the neighbouring farmers)? Secondly, the list of possible social benefits is practically infinite which once again makes it impossible for the researcher performing the measurements of CSV to be certain that all resulting benefits have been incorporated into the calculations. Thirdly, even in regard to the ‘simple’, measurable, monetary benefits of society such as additional work places, incremental tax revenues, and cost savings in environmental remediation (just to mention a few), it is more or less impossible to detect the actual causalities and therefore to estimate e.g. how many of the new jobs in a cluster emanate from one specific initiative. Fourthly, many social benefits are intangible and thus difficult to measure, such as e.g. an area’s increased attractiveness or appeal that may exert a pull on new businesses or inhabitants. To complicate matters further all these difficulties are, of course, identical

²⁷ “The acid test of good corporate philanthropy is whether the desired social change is so beneficial to the company that the organization would pursue the change even if no one ever knew about it” (Porter & Kramer, 2002).

²⁸ This is not to say that Porter claims that the intangible benefits do not exist or are not beneficial to the company. According to Porter, however, a CSV initiative should be measured *without* regard to intangible benefits and still increase profitability.

for the measurement of social costs. Finally, Porter's lack of definitional clarity makes it difficult to determine the value (and thus reduction of value) of so called public goods,²⁹ i.e. clean water, air, soil etc., which benefit everyone at no cost. It is unclear how to measure the value of people's loss of public goods as a result of negative externalities in the context of CSV.

All these difficulties are of definitional origin and related to the problem of delineation. Even if the various entities could be properly defined from a studying of Porter's collected works, and we could identify a proper method of measurement (e.g. accounting based for CFP or social audits for CSP), we would still face the difficulties identified earlier related to endogeneity, time lag, mediating variables, situational contingencies, and external factors. It would in other words be highly problematic, not to say impossible, through a holistic, integrative approach such as CSV, to conduct a scientifically defendable, post-positivist, representational research that would contribute to our understanding of the regularities and mechanisms that control the social world. CSR is simply too **complex** and too **contextualised** to be measured holistically – at least not until we have achieved further knowledge of the underlying mechanisms of CSR.

Certainly, I am not the only researcher to hold this position. In relation to the **complexity** issue, Rangan, Chase and Karim for instance say: "Considering the many disparate drivers of CSR within a company, and the many different motivations underlying the various initiatives, we find it naïve to expect a company to somehow weave all this together and incorporate it as part of business strategy" (Rangan et al., 2012: 4).³⁰ Likewise, Pedersen and Neergaard (2009) express an identical position in their concluding remarks upon analysing the influence of the manager's perception of CSR upon the CSP of his or her respective company:

Academics have always been attracted to the idea that somewhere, something is somehow able to explain everything about a research object. The underlying assumption seems to be that there is a truth or a core of all social phenomena which can be discovered by using scientific methods. (Pedersen & Neergaard, 2009: 16)

The difficulties that emanate from the **contextualised** nature of CSR, as concluded in the analysis above are highly relevant in an analysis of Porter's CSV framework because the actual strategy for its implementation is dependent on the specific qualities and resources of the corporation which in turn means that according to Porter CSV initiatives are neither homogeneous nor generic. This contextualisation complicates any attempt to measure generic causalities such as the actual CSP/CFP relationship. Carroll and Shabana thus

²⁹ Definition available in appendix II.

³⁰ It should be noted that I do not claim that a holistic strategy cannot be successfully constructed. I have simply shown that the definitional deficiencies of CSV make it impossible to measure the concept in its present holistic shape.

argue that “the inconclusive results from CSP–CFP research may be attributed to factors specific to each situation” (Carroll & Shabana 2010: 94). The same conclusion is reached by Plesner and Neergaard: “Rather than assuming a universal relationship across all industry sectors this paper finds that a number of contextual factors can explain variations in the CSR of companies” Plesner and Neergaard, 2005). Finally, the tenets of New Institutionalism further highlight this point in emphasising the influence of social, contextual institutions on CSR.

Conclusively, the substantial measurement difficulties that emanate from the definitional deficiencies, the complexity, and the contextual nature of CSR render an operationalisation of a holistic, integrative approach such as CSV not only inescapably difficult to perform but, more importantly, inexpedient for achieving the post-positivist purpose of research. If we cannot measure CSV in its present form, the question then is how to modify the framework to comply with the post-positivist directives. The modified version I put forward must be measurable, objective, representational, it must search for generalities, help explain social mechanisms, and it must be possible for other researchers to put it to the test of falsification. The solution I propose in order to make CSV both measureable and generic and simultaneously avoid the contextuality and complexity issues is to search for simple, tangible causalities that exist across or within all contexts. In order to produce a falsifiable statement, it is necessary to exclude all contextual variables from the equation and thereby isolate universal causalities. This approach follows the tenet: the more simplistic the research of study, the easier it is to perform the necessary measures of *ceteris paribus* or simply account for the influence of e.g. mediating variables. This correlation is exemplified by Dr. Philipp Schreck who has stated that “despite the failure to prove a generic CSP/CFP link, research on the financial impact of *individual* CSP components has yielded clearer overall results” (Schreck, 2011: 170, emphasis added). In effect, this calls for a scrutinising fragmentation of the CSV framework in order to identify the inherent causalities implicitly claimed by Porter. The results of this scrutiny will be presented in the subsequent chapter. Hopefully, a future analysis of these causalities will prove able to provide the CSV framework with a much needed level of objectivity and tangibility and, in the process, transform the framework into a post-positivist toolbox which managers can utilise in the process of implementation.

6.2 Modified CSV framework

With this purpose in mind, I have identified the causalities listed in five tables below: Table 6: Profit - Focusing investments, 7: Planet - Effective utilisation of natural resources, 8: People - Improving standards

of living, 9: Value chain integration, and 10: Miscellaneous. The causalities are organised according to content and have been identified according to three criteria: 1) their semantic clarity, 2) their measurability, and 3) whether they can be put to the test of falsification. It must be emphasised that these causalities have been deducted explicitly from the work of Michael Porter and are therefore *not* causalities that I claim exist. Rather, they constitute separate entities of the argument upon which the CSV framework is built. Porter contends that these correlations *may* exist and this separation allows for the measuring that cannot be performed when addressing the framework as a holistic unit. They are, in other words, what remains when the intangible, airy elements of the CSV framework are screened out. It thus follows that these identified causalities may not (all) in fact prove to be actual *causalities* but merely correlations; a fact that future analyses might be able to determine. Likewise, they may not even turn out to be valid in which case the CSV framework would have to be rejected as scientifically futile from a post-positivist perspective.

Each causality thus constitutes the basis for a subsequent study with the aim of establishing or rejecting its generic value. Through such studies, it will be possible to further reduce and concretise the CSV framework in accordance with the post-positivistic directives. The actual execution of such an extensive study is, of course, outside of the scope of this master thesis wherefore, I have added a commentary field to each causality in which – on a strictly theoretical level – I briefly touch upon some of the fundamental issues and interesting aspects of the respective, future analysis.

Table 6: Profit - focusing investments

Profit - Focusing investments	
Causality #1	The larger the corporate investment, the higher the impact on its CFP.
Comments	<i>Interesting due to its apparent lack of consistency with the tenets of capitalism. In capitalism, competition would tend to coerce firms to increase efficiency and spend fewer resources per produced unit. In relation to sustainability, this concept is known as Smart Green Growth which comprises the notion that we are to produce more benefit, at less cost without degrading the natural resources. The two opposites are united, however, within a given interval on a scale which maximises the marginal utility of the last invested euro. Presumably, outside this interval the causality would cease to be true, yet within it is likely to be generally valid.*</i>
Deducted from	<i>The notion that leading companies within a given field may be able to invest more and thus reap the majority of the benefits (4.2.2.2. Freeriders)</i>
Causality #2	The smaller the amount of independent CSV initiatives a given CSR budget has been divided between, the higher the total increase of CFP.
Comments	<i>According to Porter, if a company, say an ice cream manufacturer, sponsors numerous sporting events, donates money for new library books, improves a local road from the factory to the highway, and help build an orphanage in Kenya, surely the CSP has been increased, but both CFP and CSP could have increased substantially more had the company focused on fewer (or just one) initiatives.</i>
Deducted from	<i>Cf. 4.2.2.2 Stakeholder theory and 4.2.3. Concrete guidelines for actual implementation. See also Porter & Kramer, 2006, pp. 83+88</i>
Causality #3	The more specifically and the narrower a CSV initiative is defined, the likelier the company is to achieve its desired effect.
Comments	<i>Another way to improve the focus and emphasis of a CSR strategy is to narrow down the target group of a specific initiative. For instance, Porter describes how Avon Products has focused on one single CSR investment, namely to fund breast cancer prevention, but seeing as the initiative sought to improve the health of all women, and not women of specific strategic importance, it did not create any significant, contextual benefits.</i>
Deducted from	<i>Cf. 4.2.2.8. Freeriders and the Avon example (Porter & Kramer, 2002: 15). See also Porter & Kramer, 2006, p. 83</i>
Causality #4	The closer the alignment between particular elements of a given company (e.g. products, services, customers, employees etc.) and the objective of the CSV investment, the higher the consequent CFP and CSP.
Comments	<i>A testing of this causality constitutes somewhat of a challenge for the researcher. For instance, he or she would have to list a number of criteria in order to measure the degree of alignment.</i>
Deducted from	<i>Cf. 4.2.3. Concrete guidelines for actual implementation. E.g.: "Inevitably, the most fertile opportunities for creating shared value will be closely related to a company's particular business, and in areas most important to the business." (Porter & Kramer, 2011: 75). See also Porter & Kramer, 2006, pp. 80+85+89</i>


*  An approximate graphical illustration, with monetary value of investment on the X-axis and CFP on the Y-axis.

Table 7: Planet - Effective utilisation of natural resources

Planet - Effective utilisation of natural resources	
Causality #5a	Innovations within methods of production, distribution or product design increases a company's CFP.
Causality #5b	Innovations within methods of production, distribution or product design decreases waste and negative externalities.
<i>Comments</i>	<i>Dual causalities such as this must both be true for CSV to occur. This causality concerns the triangle of smart innovations (e.g. measurable by the introduction of new technologies), public good benefits (e.g. measurable by reduction of emissions), and CFP. The respective values are to exceed the cost of innovation wherefore an estimation of the monetary cost of waste and externalities is obligatory. Because the possible financial savings are not instant but ongoing a detection of the timeframe of surplus is advisable.</i>
<i>Deducted from</i>	<i>See e.g. Porter & Kramer, 2011, p. 69. Explored in depth throughout Porter & von der Linde, 1995. (Cf. 4.2.2.5. The dichotomy between corporations and society, 4.2.2.6. Externalities.)</i>
Causality #6	A decrease in consumption of natural resources per unit of output increases productivity.
<i>Comments</i>	<i>This causality refers to the effective utilization of resources. If the natural resource consumption is held constant and the consumption per unit of output is decreased, the quantity of production is presumed to rise. Allow me to illustrate by means of a hypothetical but realistic Danish example. If a pig farmer is able to increase the exploitation of the nutrients of his or her pigs' feet by 1 percentage point from 81 to 82%, the pigs will grow more on less fodder and produce less manure which releases air polluting ammonia. Thereby the farmer will make X amount of additional euro pr. kg. pig and save the environment of X kg. ammonia, i.e. increased CSP and CFP.</i>
<i>Deducted from</i>	<i>See Porter & Kramer, 2006, p. 83, e.g. "Efficient utilization of land, water, energy, and other natural resources makes business more productive." (Cf. 4.2.2.5. The dichotomy between corporations and society, 4.2.2.6. Externalities.)</i>
Causality #7	The higher CFP of the company, the less waste and externalities it produces
<i>Comments</i>	<i>To extend the illustration from above, a pig farm smells bad which causes nuisance for its neighbours. Therefore a farmer is compelled to invest in costly ventilation systems to minimise the risk of a forced shutdown. This investment increases the public good (air) and CSP but not its CFP. A comparative analysis is required of similar companies with differing CFPs in order to test the causality.</i>
<i>Deducted from</i>	<i>See Porter & Kramer, 2011, p. 70, e.g. "As suppliers get stronger, their environmental impact often falls dramatically, which further improves their efficiency." Also explored in Porter & van der Linde, 1995</i>

Table 8: People - Improving standards of living

People - Improving standards of living	
Causality 8a	Targeting lower-income and disadvantaged consumer segments increases a company's CFP.
Causality 8b	The availability of these products increases the overall standard of living of these segments.
Comments	<i>A comparison with the benefits achieved from the targeting of alternative consumer segments is necessary. Unless it can be established that targeting lower-income consumers generally produces comparatively better returns, the weighing of CSP becomes the core aspect. More social benefit will be created by selling 100 cell phones to lower-income consumers with a return of one euro pr unit than by selling 50 at twice the price to high-income consumers with a return of two euro pr unit.</i>
Deducted from	<i>See Porter & Kramer, 2011, p. 68, e.g. "The societal benefits of providing appropriate products to lower-income and disadvantaged consumer segments can be profound, while the profits for companies can be substantial," and "equal or greater opportunities arise from servicing disadvantaged communities and developing countries..." etc. See also example of Vodafone in Kenya.</i>
Causality #9	Investments in improving the product safety for consumers leads to an increase of customers.
Comments	<i>One might hypothesise in advance that this causality is dependent on the possible consequent price increase that might result in a relative loss of customers. However, interestingly, analyses show that a 5% increase of customer retention can double profits (Zyman, 2001: 193), which means that a customer count is not an adequate surrogate for CFP increase.</i>
Deducted from	<i>See Porter & Kramer, 2006, pp. 80+83, e.g. "Safe products and working conditions not only attract customers but lower the internal costs of accidents." (p. 83)</i>

Table 9: Value chain integration

Value chain integration	
Causality #10	The more a company shares technology and information and provides financing to its suppliers, the higher volumes and quality of supplies it will be able to obtain.
Comments	<i>This is a classic CSR tenet related to upstream value chain integration.</i>
Deducted from	<i>See Porter & Kramer, 2011, p. 70, e.g. "Today some companies are beginning to understand that marginalized suppliers cannot remain productive or sustain, much less improve, their quality. By increasing access to inputs, sharing technology, and providing financing, companies can improve supplier quality and productivity while ensuring access to growing volume" (Cf. 4.2.2.8 Freeriders)</i>
Causality #11	The use of local suppliers increases CFP.
Comments	<i>From a social perspective, the use of local suppliers is surely preferable in order to develop the local economy, reduce the CO₂ footprint etc. Likewise from a corporate perspective it is preferable in terms of freshness (in case of perishable commodities) and quality control. I contend, however, that research will show that sometimes it is simply cheaper to acquire goods from afar which would falsify this causality. At the very least, this research requires an establishment of certain prerequisites on part of the supplier; a lower limit to e.g. production volume for it to be comparable to foreign suppliers.</i>
Deducted from	<i>See Porter & Kramer, 2011, pp. 70-72.</i>
Causality #12	An increase of the strength of the cluster of a given company leads to a higher CFP.
Comments	<i>See appendix II for a definition of cluster. A researcher, who was to test this causality, would face substantial difficulties in measuring the total 'strength' of the cluster and would possibly be compelled to identify and utilize a surrogate (such as the number of businesses in the cluster). Alternatively, he or she could choose to identify a number of firms that were representative of the cluster. Either way, an operationalization of 'strength' would be obligatory.</i>
Deducted from	<i>See Porter & Kramer, 2011, pp. 70-75, e.g. "Clusters are prominent in all successful and growing regional economies and play a crucial role in driving productivity, innovation, and competitiveness" (p. 72). See also Porter & Kramer, 2006, p. 84. (Cf. 4.2.2.8 Freeriders).</i>

Table 10: Miscellaneous

Miscellaneous	
Causality #13	<i>The higher the firm's market surveillance of upcoming social needs, the higher its degree of differentiation and consequent CFP.</i>
<i>Comments</i>	<i>Market surveillance may e.g. be measures by the amount of hours allocated to this purpose. Differentiation may e.g. be measured through qualitative customer surveys on brand, image, and/or reputation. Presumably, there is an upper limit to this causality which should be detected, i.e. a point of decreasing or even negative economy of scale following which the marginal utility of the next invested euro is non-existent. Arguably, depending on the 'needs' that are being monitored, this is not strictly a CSV related causality. This constitutes an operational challenge of definition on part of the researcher.</i>
<i>Deducted from</i>	<i>E.g. "An ongoing exploration of societal needs will lead companies to discover new opportunities for differentiation and repositioning in traditional markets, and to recognize the potential of new markets they previously overlooked" (Porter & Kramer, 2011: 68).</i>
Causality #14	<i>Spending excess capital on improved productivity leads to higher increase of CFP than spending excess capital on price reductions.</i>
<i>Comments</i>	<i>Requires comparative analyses of two companies of similar size, competitive context etc. or of two investment scenarios for the same firm in order to minimize as many intervening factors of uncertainty as possible. Possible falsifications may be related to short term vs. long term profits and an attempted establishment of the limited time frame of price reductions is advisable.</i>
<i>Deducted from</i>	<i>E.g. "Improving productivity will often trump lower prices" (Porter & Kramer, 2011: 70).</i>

The instrumental value for managers of this modified version of CSV lies in the statistical visualisation of the probability of a given action leading to a respective result which would emanate from the empirical, quantitative testing of these causalities (or correlations). Such statistics would help managers identify the CSR strategy with the highest probability of positive returns on the triple bottom line.

Furthermore, tests of mediating variables, external factors, or of specific corporate or industrial characteristics may provide elaborating information into the *reasons* why a given causality does not hold true in specific situations. This may help managers avoid initiatives that are beneficial for a majority of businesses but not for his or her specific company (which may be part of the service industry, be located in an LME, have more than 300 employees or something else.)

This fact emphasises the essential point made by Pedersen & Neergaard (2009: 16) that "essentially, there are no logical limits to the hypothetical relationships which can be formulated and tested regarding CSR and various individual, organisational, industrial, and national characteristics." I very much agree with this observation which corresponds with the post-positivistic aim of establishing generic rather than specific causalities. Surely, another review of the CSV articles with less stringent demands of clarity and measurability could have produced additional causalities. They would, however, correspond poorly to the post-positivistic directives seeing as they would be increasingly contextual or increasingly intangible.

Therefore, this modified version of the CSV framework that is presented through 14 causalities above represent the concrete, tangible residue that remains after pouring the framework through a theoretical post-positivistic sieve. These are the measurable elements of CSV, stripped of any inherent purpose, subjectivity, and normativity. However, in accordance with the post-positivistic paradigm it is essential to test any such theoretical statement of causality by means of falsification in order to establish its *generic* value. This process is particularly essential in this case, due to the methodological deficiencies related to the induction/deduction circularity upon which these causalities are founded.³¹ Until such an analysis has been performed, and the non-valid causalities have been removed, this measurable, modified version of CSV does not meet the post-positivistic requirements.

However, as always in empirical testing within the social sciences, we cannot expect to prove any of the causalities wholly right or wrong. As described in the PoS section, the method of falsification within the social sciences is a theoretical ideal. Due to the complex nature of society and its many interweaving correlations, one rejected instance does not falsify a given causality. It is undoubtedly possible to produce examples to ‘falsify’ each of these causalities. However, the aim of post-positivism in the real world – away from the perfect, constant world of theory and philosophy of science – is to approximate truly generic causalities which, if measured correctly, hold true in *a substantial majority* of empiric cases. Without an extensive empirical knowledge base, it is difficult for me at this point to establish and define the exact point of ‘substantial majority’ (whether it is most appropriate to require a 99%, 95%, 92% success rate or something else). I will therefore refer to this required success rate simply as *the point of generic approximation*. Any causality that holds true in a smaller percentage of empiric cases, under correct methods of measurement, is to be considered falsified. This continuous reduction of the CSV framework will enable the detection of the tangible essentiality of the framework which is to form the foundation of the final, post-positivistic version of CSV.

Clearly, due to time, space, and resource limitations, I am unable to perform this process of falsification which would lead to an identification of the causalities which would have a success rate below the point of generic approximation and should consequently be excluded from the post-positivist version of CSV. However, for the sake of illustration, I will conclude this dissertation with a presentation of the *hypothesised* post-positivistic CSV (presented in table 11 below). This hypothesised modification consists of those causalities that I estimate are *likely* to have a success rate higher than the point of generic approximation. In other words, it contains the post-positivistic core of the CSV framework. Although this estimation is based on an academic study of the CSR literature, it is scientifically unsubstantiated and

³¹ Cf. table 5 and associated chapter.

should be regarded as such. Allow me to emphasise, however, that the forming of hypotheses does not compromise the scientific value of post-positivist research – they simply call for discussion and further research.

Table 11: Hypothesised post-positivistic version of CSV

Hypothesised post-positivistic modification of CSV	
Profit - Focusing investments	
Causality #1	<i>The larger the corporate investment on CSV, the higher the impact on its CFP</i>
Causality #2	<i>The smaller the amount of independent CSV initiatives a given CSR budget has been divided between, the higher the total increase of CFP</i>
Causality #3	<i>The more specifically and the narrower a CSV initiative is defined, the likelier the company is to achieve its desired effect</i>
Planet - Effective utilisation of natural resources	
Causality #5a	<i>Innovations within methods of production, distribution or product design increases a company's CFP</i>
Causality #5b	<i>Innovations within methods of production, distribution or product design decreases waste and negative externalities</i>
Causality #7	<i>The higher CFP of the company, the less waste and externalities it produces</i>
Value chain integration	
Causality #11	<i>The more a company shares technology and information and provides financing to its suppliers, the higher volumes and quality of supplies it will be able to obtain</i>

7 Evaluation of causality approach

In order to close the academic circle, I wish to briefly evaluate whether the identified shortcomings of the CSV framework, summarised in table 5 have been adequately addressed through its reduction into separate, measurable causalities as well as briefly discuss the disadvantages involved with the rejection of the holistic approach employed by Porter.

7.1 Addressing the central shortcomings of CSV

Issue 1: Generalising by means of contextual understanding

Due to my adherence to the approach to CSR offered by New Institutionalism, like Porter I face the problem of regarding CSR as an inherently contextual phenomenon while aiming for generic scientific results. I believe that the contextual institutions greatly affect the specific manifestation of CSR yet, unlike Porter, I recognise the fundamental value of a consistent philosophy of science. I therefore prioritise the search for general explanations and adopt my approach accordingly. Thus, while the view of CSR embedded in New Institutionalism certainly complicates the identification of generalities, the simplistic approach of individual causalities offers a way to steer clear of this shortcoming by facilitating an identification of generic correlations that are valid *transversely* to various institutions.

Issue 2: Induction/deduction circularity

The above causalities still emanate from Porter's inductive methodology and his empirical case studies. However, seeing as they will no longer be substantiated by means of the same cases and can be independently falsified, the induction/deduction circularity no longer is present.

Issue 3: Apparent objectivity vs. normativity and inherent subjectivity

This issue has been resolved by means of objective scientific research methods, which arise as a direct result of the post-positivistic paradigm.

Issue 4: Lack of definitional clarity

The shortcoming of the actual CSV framework related to the lack definitional clarity, of course, has not been resolved by breaking up the framework into separate entities. Seeing as Porter has not provided any kind of solution to this problem, the only way to correct this shortcoming had been to decide upon a definition that I personally found to be the most appropriate. However, this would fall outside of the objective of this dissertation to adapt the existing framework to the post-positivist philosophy of science, not to define it on a subjective basis. That being said, the process of falsification of the listed causalities may be able to provide tangible results which eventually could lead to a clearer notion of what the CSV framework actually is and which elements must be rejected.

The modified version itself consists of 14 causalities that are unambiguous and can be operationalised, i.e. defined and measured, wherefore the issue has not permeated into the modified version and must be considered resolved in the final post-positivistic version.

Issue 5: Trade-offs

Unfortunately, the trade-off issue has not been resolved. The analysis of individual causalities involves the measuring of the influence of variable A on variable B, and thus completely neglects any elements that do not exert an influence on this correlation. What should be emphasised, however, is that unlike a holistic approach, it does not give the appearance of complete inclusion but rather seek to actively exclude intervening variables wherefore the trade-off issue carries less significance in the modified version.

Issue 6: The lack of measurability

The lack of measurability has been resolved.

7.2 Personal critique of causality approach and choice of focus

Surely, there are a number of advantages and disadvantages connected to almost any choice of strategy or approach. The foremost advantage of a holistic approach, such as CSV, is the relative inclusiveness that allows for an integration of numerous correlational aspects of a given topic. It is difficult to administer and

difficult to measure, but a successful holistic model offers a superior understanding of details. By employing a much more minimalistic approach, which searches for independent, unrelated social mechanisms, I steer clear of numerous CSV related problems but at the expense of the whole picture as exemplified by the lack of resolution of the trade-off issue. My experience is, however, that our general knowledge of the CSR mechanisms is still too limited to form holistic models that cannot too easily be falsified. That being said, the CSV framework constitutes an interesting basis for a future construction of a holistic model based on consistent post-positivist perspectives due to its downplay of corporate non-monetary benefits of CSR.

Furthermore, any choice we make, strategic or otherwise, entails a trade-off – something we did not chose to focus on. Thus although I have sought to include the most essential aspects of CSR, there are a number interesting problems that I have not included in this analysis, partly due to choices of delineation and partly because the given aspects are of minor significance in the CSV framework. For instance, although I have dismissed the *agency theory* as too simplistic, that does not reflect the position that the managerial aspects should be disregarded all together. Contrarily, evidence shows that the values and beliefs of managers, their style of leadership, and the degree of internal support and commitment to a certain investment all affect the probability of successful implementation of CSR investments (Brown et al, 2009). These aspects have not been investigated in this dissertation, yet they offer interesting possibilities for the detection of additional generic causalities and supplementary insight to the modified version of CSV.

8 Conclusion

As this research shows, there are different notions and perceptions of ‘good science’. The underlying paradigm of individual researchers greatly affects our approach to problem solving activities, our purpose of investigation, and consequently defines our criteria of estimation of scientific value. We are therefore inclined to criticise studies which are conducted according to a different set of criteria without recognising that our personal biases are obstructing a truly objective evaluation of the study on its own sound scientific premises – a phenomenon known as the incommensurability of paradigms. In this dissertation, I have shown that awareness of the underlying principles of philosophy of science greatly facilitates the distinction between general academic deficiencies and points of criticisms emanating from different theoretical affiliations. Furthermore, the structured application of scientific theory as an analytical apparatus compose an effective instrument through which to separate and understand the various constituents comprising any given model, theory, or framework.

In this manner, via an investigation of how Michael E. Porter relates to the key issues of the field of CSR, I was able to detect a number of ontological, epistemological, teleological, axiological, and methodological affiliations that comprise the foundation of the CSV framework. This investigation allowed me to test the initial hypothesis that Porter adheres to the philosophy of science known as critical theory. This research revealed a Porterian eclecticism, which leans on numerous aspects of critical theory but is *not theoretically consistent*. Contrarily, Porter’s eclecticism includes elements of inherently post-positivistic nature, some of which are outright incompatible with the scientific perspectives of critical theory. This meta-theoretical analysis thereby revealed a number of deficiencies of the CSV framework of a strictly meta-theoretical nature which emanate directly from the established eclecticism. Examples of such deficiencies include generalising by means of contextual understanding, an apparent objectivity while being unmistakably normative, and a lack of measurability. However, this dissection of the framework in accordance with classical categories from the field of scientific theory also facilitated the revelation of a number of problem areas that do *not* emanate from Porter’s eclectic philosophy of science but reflect much more generic, academic deficiencies. All these shortcomings obstructed the operationalisation of the CSV framework, and I consequently concluded that I could not construct a measurable version of CSV in its holistic form which would adequately resolve the inherent problem areas and, more importantly, would satisfy fundamental post-positivist requirements.

In order to fulfil these post-positivist prerequisites, I therefore deducted 14 causalities which all allow for empirical testing and may be put to the required test of falsification. Such a process will reveal the post-positivistic core of the CSV framework and identify the elements of CSV that live up to the post-positivistic notion of good science. Seeing as the actual testing of these causalities was outside the scope of this thesis, I ultimately presented a hypothesised version consisting of the seven causalities that I believe are likely to hold against the test of falsification.

All in all, I have shown that it is possible, applicable, and highly enlightening to analyse a framework (or a theory, concept, model or the like) from a scientific theory perspective so that the meta-theoretical, logical consistency is revealed. This allows for an objective examination of the recommendations or political instruments that are derived from the given theory. If this theory is inherently and logically inconsistent then these instruments can only produce consistent results by chance or coincidence which surely dissolves their instrumental value. We simply cannot make important social and financial decisions on the basis of an instrument which emanates from an inconsistent, challengeable theoretical foundation.

Furthermore, I have shown that it is possible not simply to perform this meta-theoretical analysis but to apply this approach as an actual apparatus that allows for a modification of the established deficiencies. In this manner, I was able to extract the elements of the CSV framework that I believe are relevant from a post-positivistic perspective, and thereby construct a version of CSV which in itself is theoretically consistent and fulfills my meta-theoretical notion of 'good science'. After the required process of falsification and empirical testing, the remaining causalities will constitute the post-positivistic, modified version of CSV which I believe is sufficiently solid and theoretically consistent to be recommended to companies and managers to contribute with instrumental value in their CSR related decision making processes.

8.1 Future perspectives

Along these lines, I ultimately wish to make a few remarks on the future implications of the present research on the horizontal and vertical level respectively.

Horizontally, during this research I have developed a method of analysis, which could prove highly enlightening within multiple fields of the social sciences. By following this structure, a researcher acquires fascinating insights into the underlying elements of a given study in cases where this information

has not been explicitly provided. Knowledge of these assumptions adds an additional layer of analysis and helps the reader prevent personal biases and the experience of unfulfilled expectations. Furthermore, as established on several occasions, it allows for an evaluation of a given research under its own premises, which in turn facilitates the deduction of alternative approaches and insights, which would otherwise have been dismissed on grounds of unscientific research. The potentiality of analyses structured according to categories of philosophy of science should be investigated further.

On the vertical level, it is simply necessary to acquire a deeper knowledge of the mechanisms that govern CSR. We simply cannot optimise a process unless we understand the underlying mechanisms and criteria of its existence. This thesis has listed a number of causalities that constitute the measurable core of CSV. Quantitative, empirical testing of these causalities could produce substantial, instrumental value to corporate managers. Surely, I do not claim to have detected the key to the establishment of the business case for CSR. However, this work produces a theoretically founded point of departure that may provide a little help in defining the prerequisites for strategic CSR. As quoted above, Pedersen and Neergard (2009) notes that there are no logical limits to the causalities that can be tested in relation to CSR. For this very reason, it is necessary to establish a qualified, well-founded, theoretically based impetus to guide our further research.

Bibliography

- Aktouf, Omar (2005). The False Expectations of Michael Porter's Strategic Management Framework. *Revista Gestão e Planejamento*, año 6 (no. 11), 75-94
- Andersen, Ib & Harald Enderud (1990). 'Det teoretiske forarbejde'. In Ib Andersen (ed.), *Valg af Organisations-Sociologiske Metoder : Et kombinationsperspektiv*. København: Samfundslitteratur. In pp. 79-103
- Argyres, Nicholas & Anita M. McGahan (2002). An Interview with Michael Porter. *Academy of Management Executive*, vol. 15 (no. 2), pp. 43-53
- Bird, Alexander, (2011), "Thomas Kuhn", in *The Stanford Encyclopedia of Philosophy (Winter 2011 Edition)*, Edward N. Zalta (ed.), URL = <http://plato.stanford.edu/archives/win2011/entries/thomas-kuhn/> (26 Sep, 2012)
- Bhattacharyya, Som Sekhar, Arunditya Sahay, Ashok Pratap Arora & Abha Chaturvedi, (2008). A toolkit for designing firm level strategic corporate social responsibility (CSR) initiatives. *Social Responsibility Journal*, Vol. 4 (3), pp. 265 – 282
- Blomgren, Atle (2011). Does Corporate Social Responsibility Influence Profit Margins? A Case Study of Executive Perceptions. *Corporate Social Responsibility and Environmental Management*, Vol. 18, pp. 263-274
- Brown, Vernon (27 Feb. 2011). The Reflectivist Critique of Positivist IR Theory. Retrieved from e-International Relations, <http://www.e-ir.info/2011/02/27/the-reflectivist-critique-of-positivist-ir-theory/> (26 Nov. 2012)
- Brown, Dana , Anne Roemer-Mahler & Antje Vetterlein (2009). Theorising Transnational Corporations as Social Actors: An Analysis of Corporate Motivations. Ed. Lita Lundquist, International Center for Business and Politics, CBS, Working Paper, no. 61
- Bruch, Heike & Frank Walter (Fall 2005). The Keys to Rethinking Corporate Philanthropy. *MIT Sloan Management Review*, Vol. 47 (no. 1), pp. 48-55
- Buch-Hansen, Hubert and Peter Nielsen (2005). *Kritisk Realisme*. Frederiksberg: Roskilde Universitetsforlag
- Carroll, Archie B. & Kareem M. Shabana (2010). The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice. *International Journal of Management Reviews*, pp. 85-105
- Devinney, Timothy M. (May 2009). Is The Socially Responsible Corporation a Myth. *Academy of Management Perspectives*, pp. 44-56
- Doane, Deborah (2005). The Myth of CSR. *Stanford Social Innovation Review*, pp. 23-29
- Downes, Larry (23 Feb. 2007). Beyond Porter. Contributed by *Context Magazine*, retrieved from http://www.libyaforum.org/archive/index2.php?option=com_content&do_pdf=1&id=4121, (26 Nov. 2012)
- Donaldson, Thomas & Lee E. Preston (1995). The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. *The Academy of Management Review*, Vol. 20 (no. 1), pp. 65-91

- Drews, Manuela (2010). Measuring the business and societal benefits of corporate responsibility. *Corporate Governance*, Vol. 10 (4), pp. 421-431
- Friedman, Milton (13 Sep, 1970). The Social Responsibility of Business is to Increase its Profits, *The New York Times Magazine*
- Harfield, Toby (1998), 'Strategic Management and Michael Porter: A postmodern reading', available at http://www.mngt.waikato.ac.nz/ejrot/Vol4_1/harfield.pdf (14 Dec. 2012)
- *Harvard Business School, Institute for Strategy and Society*, Competition and Society (n.d.), retrieved from <http://www.isc.hbs.edu/society.htm> (6 Dec. 2012)
- Huggins, Robert & Hiro Izushi (2011). Chap. 13: 'Conclusion: Porter's perspective'. In *Competition, Competitive Advantage, and Clusters: The Ideas of Michael Porter*. Retrieved from: Oxford Scholarship Online, <http://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780199578030.001.0001/acprof-9780199578030-chapter-13> (1st Dec. 2012)
- Jensen, Uffe Juul (1980). *Videnskabsteori 1*. København: Berlinske Forlag. Chap. 1-3, 5 & 7-8, in pp. 7-70, 106-147 & 181-235
- Kapstein, Ethan B. (Sep. - Oct., 2001). The Corporate Ethics Crusade. *Foreign Affairs*, Vol. 80 (no. 5), pp. 105-119
- Karnani, Aneel (Winter 2011). "Doing Well by Doing Good": The Grand Illusion. *California Management Review*, Vol. 53 (no. 2), pp. 69-86
- Knudsen, Jette Steen (5 May, 2011). Company Delistings from the UN Global Compact: Limited Business Demand or Domestic Governance Failure? *Journal of Business Ethics*, pp. 1-19
- Lantos, Geoffrey P. (2001). The Boundaries of Strategic Corporate Social Responsibility. *Journal of Consumer Marketing*, Vol. 18 (7), pp. 595 – 632
- Leavy, Brian (2012). Getting back to what matters - Creating long-term economic and social value. *Strategy & Leadership*, Vol. 40 (4), pp. 12-20
- Lor, Peter (2011). *International and Comparative Librarianship: A thematic approach*, chap 3: 'Preparing for research - Metatheoretical Considerations', retrieved from:
- <http://pjl原因.files.wordpress.com/2010/06/chapter-3-draft-2011-04-152.pdf> (11 Dec. 2012)
- Luo, Jiao, Stephan Meier & Felix Oberholzer-Gee (2012). No News is Good News: CSR Strategy and Newspaper Coverage of Negative Firm Events. Harvard Business School, Working Paper no. 12-091
- Matten, Dirk and Jeremy Moon (2008). "Implicit" and "Explicit" CSR: A Conceptual Framework for a Comparative Understanding of Corporate Social Responsibility. *Academy of Management Review* 2008, Vol. 33 (no. 2), pp. 404–424.
- Meehan, John, Karon Meehan & Adam Richards (2006). Corporate social responsibility: the 3C-SR model. *International Journal of Social Economics*, Vol. 33 (5), pp. 386 - 398
- Miller, Katherine (2005). *Communication Theories: Perspectives, processes, and contexts*. 2nd ed. New York: McGraw-Hill. Chap. 1-5, in pp. 1-82
- Orlitzky, Marc, Frank L. Schmidt & Sara L. Rynes (2003). Corporate Social and Financial Performance: A Meta-analysis. *Organization Studies*, Vol. 24 (3), pp. 403-441
- Pedersen, Esben Rahbek & Peter Neergaard (2009). What matters to managers? The what's, why's, and how's of corporate social responsibility in a multinational corporation. Retrieved from: itemsweb.esade.es/wi/invierte/AbstractsEABIS/Neergaard.doc (11 Dec. 2012)

- Perrini, Francesco, Angeloantonio Russo, Antonio Tencati & Clodia Vurro (2012). Deconstructing the Relationship Between Corporate Social and Financial Performance. *Journal of Business Ethics*, Vol. 102 (1), pp. 59-76
- Pivato, Sergio, Nicola Misano & Antonio Tencatti (Jan. 2008). The Impact of Corporate Social Responsibility on Consumer Trust: The Case of Organic Food. *Business Ethics: A European Review*, Vol. 17 (no. 17), pp. 3-12
- Plesner, Mark Anton & Peter Neergaard (Sep. 2005). Corporate Financial and Social Performance: A Contextual Explanation of Variations in Corporate Social Performance.
- Porter, Michael E. (2008). *On Competition*. Boston: Harvard Business School Publishing Corporation, chap. 1, & 12-14 in pp. 3-35 & 431-506
- Porter, Michael E. & Class van der Linde (1995). Toward a New Conception of the Environment-Competitiveness Relationship. *Journal of Economic Perspectives*, Vol. 9 (4), pp. 97-118
- Porter, Michael E. & Mark R. Kramer (1999). Philanthropy's New Agenda: Creating Value. *Harvard Business Review*, Vol. 77 (no. 6), pp. 121-130
- Porter, Michael E. & Mark R. Kramer (Dec. 2002). The Competitive Advantage of Corporate Philanthropy. *Harvard Business Review*, Vol. 80 (no. 12), pp. 56-69
- Porter, Michael E. & Mark R. Kramer (Dec. 2006). Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility. *Harvard Business Review*, Vol. 84 (no. 12), pp. 78-91
- Porter, Michael E. & Mark R. Kramer (Jan/Feb. 2011). The Big Idea: Creating Shared Value. *Harvard Business Review*, Vol. 89 (no. 1/2), pp. 62-77
- Rangan, Kash, Lisa A. Chase & Sohail Karim (2012). Why Every Company Needs a CSR Strategy and How to Build It. Harvard Business School, Working Paper no. 12-088
- Rasmussen, Erik S., Per Østergaard & Suzanne C. Beckmann (2006). *Essentials of Social Science Research Methodology*. Odense: University Press of Southern Denmark. Chap. 1-3, in pp. 9-92
- Reich, Robert B. (1998). The New Meaning of Corporate Social Responsibility. *California Management Review*, Vol. 40 (no. 2), pp. 8-17
- Schaltegger, Stefan & Terje Synnestvedt (2002). The link between 'green' and economic success: Environmental management as the crucial trigger between environmental and economic performance. *Journal of Environmental Management* 65 (4), pp. 339-346.
- Schawbel, Dan (10 Sep. 2012). Michael E. Porter on Why Companies Must Address Social Issues. Retrieved from <http://www.forbes.com/sites/danschawbel/2012/10/09/michael-e-porter-on-why-companies-must-address-social-issues/> (28 Nov. 2012)
- Schreck, Philipp (2011). Reviewing the Business Case for Corporate Social Responsibility: New Evidence and Analysis. *Journal of Business Ethics*, Vol. 103 (no. 2), pp. 167-188
- Schumpeter, blog (Mar 10th 2011). Oh, Mr. Porter. The new big idea from business's greatest living guru seems a bit undercooked. *The Economist*. Available at <http://www.economist.com/node/18330445> (28 Nov. 2012)
- Shuttleworth, Martyn (2008). Opretationalization. Retrieved from Explorable, <http://explorable.com/operationalization.html> (10 Dec. 2012)
- The Economist Intelligence unit (Feb. 2008). Doing Good: Business and the Sustainability Challenge. *The Economist*, pp. 1-52

- Thornton, Stephen, (2011), "Karl Popper", *The Stanford Encyclopedia of Philosophy (Winter 2011 Edition)*, Edward N. Zalta (ed.), URL = <http://plato.stanford.edu/archives/win2011/entries/popper/> (3 Oct, 2012)
- Unerman, Jeffrey & Brendan O'Dwyer (2007). The Business Case for Regulation of Corporate Social Responsibility and Accountability. *Accounting Forum*, Vol. 31, pp. 332-353
- Vogel, David J. (Summer 2005). Is there a Market for Virtue? The Business Case for Corporate Social Responsibility. *California Management Review*, Vol. 47 (4), pp. 19-45
- Weber, Manuela (2008). The Business Case for Corporate Social Responsibility: A Company-level Measurement Approach for CSR. *European Management Journal*, Vol.26 (no. 4), pp. 247– 261
- Willis, Jerry W. (2007). *Foundations of Qualitative Research, Interpretive and Critical Approaches*. Thousand Oaks: SAGE Publications, Inc. Chapter 3: 'Foundational Issues, Postpositivist and Critical Perspectives', pp. 67-95
- Zyman, Sergio (2001). *The End of Advertising As We Know It*. New Jersey: John Wiley & Sons, inc.

Appendix I: List of abbreviations

- CFP (Corporate Financial Performance)
- CME (Coordinated Market Economy)
- CoC (Code of Conduct)
- CSP (Corporate Social Performance)
- CSR (Corporate Social Responsibility)
- CSV (Creating Shared Value)
- EPS (Earning per Share)
- FLO (Fair Trade Labeling Organizations)
- HBS (Harvard Business School)
- LME (Liberal Market Economy)
- NGO (Non-Governmental Organisation)
- OECD (Organization for Economic Cooperation and Development)
- ROA (Return on Assets)
- ROE (Return on Equity)
- SRI (Socially Responsible Investment)

Appendix II: Definitions of addressed concepts

- Axiology: The nature and role of values.
- CFP: “a company’s financial viability, or the extent to which a company achieves its economic goals” (Orlitzky, 2003: 411).
- Cluster: “The geographic concentrations of firms, related businesses, suppliers, service providers, and logistical infrastructure in a particular field” (Porter & Kramer, 2011: 72)
- CSP: “a business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationships” (Wood, quoted in Orlitzky, 2003: 403).
- CSR: “A concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment” by integrating “social and environmental concerns in their business operations and in their interaction with their stakeholders” (Europe Commission, quoted in Weber: 247).
- Epistemology: The nature of knowledge.
- Externalities: “A side effect or consequence of an industrial or commercial activity that affects other parties without this being reflected in the cost...” Oxford Dictionary, URL: http://oxforddictionaries.com/definition/american_english/externality (10 Dec., 2012)
- Institutions: “Stable, valued, recurring patterns of behavior,” defined by their adaptability, complexity, autonomy, and coherence (Matten & Moon, 2008: 406).
- Intangibles: *see ‘non-monetary benefits’*.
- Mediating variable: “Intervening factors that can change the impact of X on Y... [and they] aim to estimate the way a variable Z affects the impact of X on Y” (Wendy K. Olsen, see bibliography).
- Methodology: The means of acquiring knowledge.
- Monetary benefits: Benefits with “direct financial effects as well as benefits that do not directly lead to cash flows but can nevertheless be measured in monetary terms”, e.g. brand value (Weber, 2008: 250).
- Non-monetary benefits: Benefits that are “not directly measured in monetary terms but nevertheless influence company competitiveness” (ibid).
- Ontology: The nature of the world.
- Operationalisation: “The process of strictly defining variables into measurable factors. The process defines fuzzy concepts and allows them to be measured, empirically and quantitatively” (Shuttleworth, 2008).

- Paradigm: “A basic belief system or worldview that guides the investigator, not only in choices of method but in ontologically and epistemologically fundamental ways” (Lor, 2011: 2).
- Point of generic approximation: An undefined, post-positivistic point of demarcation which separates falsified causalities from ones that are sufficiently valid to be considered generic within the social sciences.
- Public Goods: “A product that one individual can consume without reducing its availability to another individual and from which no one is excluded.” Investopedia, URL: <http://www.investopedia.com/terms/p/public-good.asp> (15 Dec. 2012)
- Stakeholders: “Any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman quoted in Perrini et al., 2012: 62).
- Tangibles: *see ‘monetary benefits’.*
- Teleology: The purpose of knowledge