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Beyond the “Win-Win”

Creating Shared Value Requires Ethical Frameworks

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Porter and Kramer’s Creating Shared Value framework was recently called into question in a stinging attack in this journal. Recognizing that CSV shines as a managerial framework around “win-win” business and society issues—“A cases”—we argue that CSV leaves managers ill-equipped to legitimately manage “B-case” issues, where managers face the prospect of “win-lose” or “lose-win” social engagements. We argue that managers need to bolster CSV with ethical frameworks; specifically, norm-taking and norm-making frameworks. We show, through case illustrations, why managers are better positioned to create shared value legitimately through CSV+, a multi-part framework built around CSV and augmented by ethical frameworks.

Beyond the “Win-Win”: Creating Shared Value Requires Ethical Frameworks

Many managers, policymakers and academics have enthusiastically embraced Porter and Kramer’s idea of Creating Shared Value (CSV).¹ It offers an appealing vision, calling for companies to search for success, not merely by generating financial returns, but by addressing the pressing challenges facing society. Celebrating the concept, McKinsey & Co. gave its award for the best article in *Harvard Business Review* in 2011 to Porter and Kramer’s article. CSV as a strategy tool for corporations has taken off, adopted by HP, Nestlé and Novartis, to name a few leading examples.²

Nevertheless, CSV faces numerous critics in the academy, especially Crane, Palazzo, Spence and Matten, who recently mounted a multipronged attack on the idea in the pages of this journal.³ Crane et al. claim CSV is unoriginal, ignores the tension between social and economic goals, is naïve about the reality of businesses’ ethical compliance, and is based on a shallow conception of the corporation’s role in society.

Porter and Kramer responded by noting that *HBR* does not allow for literature reviews acknowledging related contributions and suggesting that Crane et al. were engaging in a type of “wishful thinking” that drives a wedge between business and society rather than promoting business attention to “corporate responsibility and sustainability.”⁴ Crane et al. responded that they stood by their critique, suggesting that Porter and Kramer’s claims rested on “cherry-picking” of supportive examples and that it was Porter and Kramer who engaged in “wishful thinking” in relation to their beliefs about the implications of CSV.⁵ Ultimately, the two sides talk past each other and the potential of CSV, we believe, is obscured.

In this article, while aligning ourselves with both camps in important ways, we offer a solution to their conceptual impasse that contributes to and gets beyond the debate while building on CSV's merits. We leave aside the charge that CSV is unoriginal and focus on the remainder of the criticisms, all of which concern the adequacy of CSV's attention to business ethics.⁶ In our view, realizing the potential of CSV—not least to restore legitimacy to business—requires a more comprehensive framework that couples CSV with two kinds of ethical frameworks already developed, at least in outline, in the business ethics literature: a *norm-taking* framework that helps a manager identify legitimate non-legal norms to follow, and a *norm-making* framework that picks up the slack when the set of available legal and non-legal norms is evidently not up to the task.

We start by examining the Crane et al. critique of CSV and the response by Porter and Kramer. In our ensuing analysis, we suggest that both parties largely frame the debate around Porter and Kramer's prediction that, if made corporate policy, CSV will give rise to better overall societal outcomes than a policy of narrowly managing a business to maximize profitability in a way that Porter and Kramer believe has undermined the legitimacy of today's business system. Rather than arguing from a public policy perspective about a societal prediction, we emphasize instead a managerial approach that speaks to the practical vantage point of the manager by offering frameworks designed to help the manager succeed. From this perspective, we are able to highlight the strengths of CSV in "win-win" cases, where managers can identify an opportunity to create economic (one win) and social value (two wins) out of the business and society issue presented by the case. Issues that evidence this property we call "A-case" issues. Equally, however, the limitations of CSV are all too apparent where the

win-win of A-case issues cannot be found, leaving either a win-lose where the business profits but society suffers or a lose-win where society gains but at significant cost to the business. We call these “B-case” issues.⁷ Our claim is that strategies capable of sustaining a company’s legitimacy must engage with ethical frameworks—a position that is consistent with the stated premises of Porter and Kramer and the critique of Crane et al.

We illustrate our argument throughout with multiple case examples, especially to demonstrate the effective coupling of CSV with norm-taking and norm-making frameworks, as we propose. Our first example, however, is a B-case that serves to set up the problem by showing why managers are ill-advised to rely on CSV as a standalone framework for handling sensitive points of engagement between business and society.⁸

Labor Standards in Apparel Supply Chains

The key characteristic of a B-case issue is that managers have not (at least as yet) identified a win-win strategy to respond to the societal challenge at hand. To the contrary, profitability and social advantage appear at odds. So-called “sweatshop labor conditions” in apparel factories offer a clear illustration: there are rarely sufficient financial incentives for global brands sourcing from the factories or the factory owners themselves to improve working conditions.⁹ Consider, more specifically, the case for improving the labor and building safety standards in the Bangladeshi apparel industry before the Rana Plaza tragedy forced the issue upon the global brands sourcing from Bangladesh.¹⁰ An investment in safety improvements by companies supplying brands like Walmart, and Benetton would in all likelihood have led to a *reduction* rather than an *increase* in profit margins—a lose-win scenario. Does CSV have anything to tell the brand manager about the implications of the poorer labor conditions (wages, hours, safety standards) on the

ground in Bangladesh compared to the brand's home country? CSV tells managers to be alert to societal challenges that can yield economic returns. Vast differentials in labor conditions raise the worry that the higher home standards were established for a good reason and that the lower standards are, therefore, *prima facie* problematic. From a CSV perspective, the question becomes whether profitability can come from addressing the social issue and improving labor standards.

Perhaps one can develop a story about how investing in improved labor conditions would produce economic advantage.¹¹ If so, the brand manager or factory owner has the backing of CSV to move forward and realize the opportunity. More likely though, one cannot develop such a story. Then the issue yields a B-case because CSV comes up silent. This paper develops a framework that responds to the B-case scenario, to guide managers in formulating strategy designed to provide legitimacy.

Moving Past the Stand-off between Porter and Kramer and Crane et al.

Porter and Kramer's boldest declaration is found in the public policy prediction that "learning how to create shared value is our best chance to legitimize business again."¹² The way to do this is to redefine the purpose of the corporation "as creating shared value, not just profit per se"¹³ —as epitomized in Milton Friedman's doctrine that the social responsibility of business is to increase its profits. Why? Because doing so "will drive the next wave of innovation and productivity growth in the global economy... [and] reshape capitalism and its relationship to society."¹⁴ Crane et al. question this latter claim specifically given that Porter and Kramer expressly recognize that certain legal regulations, such as antitrust law promoting competition, are essential to realizing the promise of CSV to restore the legitimacy of the business system.¹⁵

This positions Crane et al. to raise a crucial question: if legal regulations are so important to the potential of CSV, doesn't that mean that CSV's potential also depends on companies *actually* complying with legal and moral regulations? Without compliance, what's the value of regulation? That is a problem Porter and Kramer sought specifically to set aside in saying that "creating shared value presumes compliance with the law and ethical norms, as well as mitigating any harm caused by the business."¹⁶ It is one thing to assume compliance, however, and another for companies to actually comply, and Crane et al. charge that "the concept of CSV is simply built on the assumption that compliance with these legal and moral standards is a given."¹⁷ Porter and Kramer never claim companies are moral saints. To the contrary, they recognize the risks of capitalism that ignores society—that is how they motivate CSV in the first place. Porter and Kramer's reply does not address Crane et al.'s empirical premise that companies do *not* consistently comply with existing legal and moral standards. Arguably, therefore, this challenge stands unanswered, substantially undermining the plausibility of Porter and Kramer's public policy claim that CSV can help restore the legitimacy of capitalism.

This limitation notwithstanding, Porter and Kramer are also providing a managerial framework. We say that Porter and Kramer and Crane et al. speak past each other because Crane et al.'s critique strikes most directly at the public policy claim itself, leaving unexplored the potential to strengthen CSV as a managerial framework. We agree with Porter and Kramer that the legitimacy of business requires companies to fulfill ethical and legal norms. But what are these norms, and what do they require? Our paper aims to help managers set their sights appropriately in this space, identifying the relevant norms that give legitimate guidance. This includes proposing a framework for *regulatory*

voids where the existing rules of the game (hard law and ethical norms of industries) do not give a roadmap for legitimate business because they do not address the issue at hand, or are too general or obsolete.¹⁸ With our proposal to couple norm-taking and norm-making frameworks with CSV for the B-case issues that stand to do most damage to the legitimacy of business, we hope to help managers live up to Porter and Kramer’s assumptions about ethical compliance and, thereby, bolster the plausibility of their view that CSV can return legitimacy to business. (See Table 1.)

TABLE 1
A Comparison of the Three Approaches

	Porter & Kramer	Crane, Palazzo, Spence & Matten	Our Position
<i>Framework Provided</i>	CSV	None	CSV+
<i>Approach to Porter & Kramer (2011)</i>	Defend	Critical	Constructively critical, building on CSV as a managerial framework
<i>Approach to Ethics</i>	Compliance with ethical (and legal) norms is expressly assumed	Compliance with ethical and legal norms is a serious challenge and assuming otherwise is naïve	Ethical frameworks (that make compliance with ethical norms possible) should be integrated with CSV
<i>Integrating Societal Ends and Corporate Strategy</i>	Managers should focus on opportunities to create social and economic value	CSV focuses on win-win opportunities (A-cases) and ignores the tension between business and society (B-cases)	Managers should follow CSV+ norm-taking framework + norm-making framework in order to address B-cases

In the managerial approach that we pursue, therefore, the objective is to help general managers implement the CSV framework in a way that creates a durable legitimacy for the company. Doing so, we build upon CSV to articulate a more robust framework designed to integrate judgments about norms with A-case strategizing. This is in line with Porter’s methodology throughout his career: “On the Business School side of

the [Charles] river, ceteris paribus assumptions don't work. Managers must consider everything. I concluded [by the late 1970s] that we needed frameworks rather than [economic] models.”¹⁹

Whereas the still-influential Friedman doctrine—telling managers their job is to maximize profits within the law—articulates the narrow conception of capitalism that Porter and Kramer seek to supplant, CSV tells managers their job is to search for opportunities presented by society's broader challenges and develop strategies “that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates.”²⁰ This matters because opportunities to make profit are not created equally when it comes to responding to environmental and social needs. The call to create shared value directs managers to strive to identify business opportunities that meaningfully respond to environmental and social issues and in doing so bolster competitive advantage and economic return.

We build upon CSV to develop a framework that is useful to managers throughout the organization. This is a project worth pursuing, in our view, because we are convinced that the manager who acts through CSV is better equipped to fulfill her role on behalf of her company in its engagement with society than the manager who embraces a narrow conception of capitalism. The basic promise of CSV is found in the clarity of mission it provides to managers to realize CSV: society's needs provide some of the most fruitful business opportunities. A *CSV mindset* trains the manager's attention on opportunities to take on societal and environmental challenges in innovative ways.

Our commitment to CSV is rooted in our agreement with Porter and Kramer that what managers can achieve adopting this mindset is absolutely worth seeking, celebrating

and furthering. Take the recently reported case of cashew apples.²¹ Traditionally, cashew apples constitute waste in the process of harvesting cashews in India, posing an issue of environmental concern. Pepsi is currently pursuing the potential to make juice from cashew apples to compete with the rising popularity of drinks like coconut water. Successful exploitation of cashew apples would create a new source of profit and advantage for Pepsi, while at the same time agricultural communities in India would receive new sources of revenue and labor demand. Turning waste into labor, juice and profit, all other things equal, presents a clear “win-win” opportunity.

What is not to like with a framework pointing up the potential of Pepsi’s cashew juice? Our concern is not whether CSV is sometimes valuable—we are sure it is—but rather whether it is robust as a framework. Does it provide sufficient guidance in the variety of cases likely to confront managers?

B-Case Issues: The Limitation of CSV as a Standalone Framework

We test CSV’s robustness relative to two categories of business and society issues: A-case issues and B-case issues. This distinction, though not set forth in these terms, also seems to underpin Crane et al.’s diminished hopes for CSV.²² In the A-case setting, CSV leads managers to identify and pursue opportunities to make a positive difference in society, where doing so promises economic returns, as Pepsi anticipates with its cashew apple drink. This setting best illustrates the potential of CSV and, naturally, Porter and Kramer’s examples fit this mold. Thus they cite Johnson & Johnson identifying the opportunity to improve the health of employees who smoked tobacco and instituting employee smoking cessation programs, which resulted in \$250 million savings in health care costs.²³ Sharpening the imagination of managers in this way speaks to the

legitimacy of the framework; CSV shines in A-cases where the opportunity at hand showcases the win-win potential of capitalism.

To be sure, A-case and B-case issues can occur simultaneously in the real world of strategy. We can conceive of a continuum of blended case types starting, on one end of the spectrum, with business activities that do not involve much if any engagement with B-case issues and can be seen as “pure” or “purer” A-cases. Johnson & Johnson’s effort to help employees quit smoking may be a good example. On the other end of the spectrum, consider Uber’s worldwide efforts to create a market for ridesharing. There would seem to be an A-case at the core of its strategy—conserving while exploiting capital resources (cars), providing work and perhaps reducing emissions—and yet it is layered on all sides with significant and challenging normative concerns (such as its disregard for regulations governing taxi services and anticompetitive practices).²⁴

The robustness test we apply is simply to ask whether CSV provides sound guidance where managers have *not* identified a win-win A-case: Does CSV provide adequate guidance for B-case issues that are either win-lose (e.g., where continuing to emit destructive but unregulated pollutants benefits the bottom line) or lose-win (e.g., pharmaceutical companies giving away much-needed patent-protected drugs to patients who cannot afford to buy them)? When confronting a B-case issue, *by definition* managers have not found a way to advance the company’s economic interest while also addressing a societal or environmental need/opportunity at hand. Testing the robustness of CSV means asking whether CSV handles B-case issues—alone as a standalone framework—or, instead, has a blind spot when it comes to giving useful guidance to

managers. This concern undermines CSV's claim to robustness outside the boundary condition of win-win A-case issues.

Returning to our example of labor rights issues in apparel, global brand managers cannot, from the standpoint of legitimacy, have nothing to say when asked about labor conditions in supply chains. They need to be able to make sense of the issue of labor standards. Of course, there are many possible answers to this issue. At one extreme, the manager could answer that a transnational company does not have responsibility for workers in the supply chain. Alternatively, the manager could comment that there are certain norms the brand is committed to observe *that are not required by law*. Our point is that whichever conclusion the manager reaches, and whether or not the conclusion is reached soundly, CSV has nothing to contribute. So long as the legitimacy of a company and of business generally depends on managers having sound answers to such questions, CSV will come up short.²⁵

The Workability of the Injunction to Comply with Ethical Norms

Porter and Kramer could interject that they have always presumed that managers will comply with laws and ethical norms (as did Milton Friedman). In their reply to Crane et al. they assert that "legal compliance and a narrow sense of social responsibility are prerequisites to creating shared value."²⁶ These ethical and legal norms, they might argue, create the conditions for societal opportunity to align with business opportunity.

Porter and Kramer do not claim that companies actually do comply with laws and ethical norms. Nevertheless, since they presume compliance, they must (to be consistent) take the position that managers *should* comply with ethical and legal norms. This is a promising path to take towards strengthening the robustness of CSV. We certainly agree

with the foundational status Porter and Kramer assign to ethics and law in CSV inasmuch as they assume managers' compliance. Our analysis by contrast indicates they have not said *enough* with this presumption to articulate a workable framework in CSV.

Returning to the example of Rana Plaza, let us assume, consistent with Porter and Kramer, that managers do seek to comply with ethical norms. What exactly does “a narrow sense of social responsibility,” as Porter and Kramer label ethics, say about supply chain conditions abroad? Are the brands that sourced from factories in Rana Plaza accountable to the workers who died in the building collapse?²⁷ Is it required under a narrow sense of social responsibility to voluntarily reduce profit margins if needed to fund efforts by factories to improve building safety and working conditions? Or would that amount to the kind of “trade-off” that Porter and Kramer claim that CSV transcends?²⁸ These are demanding questions, and the CSV framework cannot help with answers, except to the extent that profitability can be aligned with improvements in labor conditions.²⁹ This criticism resonates with Crane et al.'s objection that the “CSV concept ignores the most pressing social problems corporations are facing along their globally stretched value chains.”³⁰

Even if the injunction to comply with ethical norms were workable—i.e., if managers have a reliable sense of the right norms to follow—it would still not be enough. Complying with ethical norms suffices when there are legitimate ethical norms to be found, and they're also not outdated, insufficiently specified or otherwise illegitimate. In many of the most challenging cases, however, managers face regulatory voids where there isn't a normative regime consistent with the legitimacy of business in society.

This was the case in Rana Plaza. The building collapsed because three additional storeys had been added beyond the five approved, coupled with heavy machinery in a building not designated for industrial use and built on reclaimed swamp land. There are well-established norms—presumably including duties of care that the developers and builders of Rana Plaza had toward the structure’s intended occupants—with which to hold these parties morally (and legally) culpable for decisions about the building that led to its collapse (and the corrupt and careless building inspectors who seemingly allowed this). However, there were not well-established norms governing the conduct of the brands (e.g., KIK, Primark and Walmart) sourcing from Rana Plaza factories. Moreover, brand managers were demanding speedy turnaround, putting additional pressure on working conditions in order to meet the requirements of “fast fashion.”³¹ The principle that the brands bear responsibility for labor conditions in their supply chains has become well-established since the Nike sweatshop scandal in the 1990s, but this general principle does not address what the brands should have been doing about the quality of construction of the garment factories of Bangladesh.³²

Herein lies the regulatory void. No signposts had taken hold in the industry to prevent the tragedy of Rana Plaza (despite numerous factory tragedies in the recent past). The subsequent response of apparel brands to Rana Plaza is instructive. The disaster laid bare the inadequacy of the approach being taken to supply chain management. As we discuss further below, the brands rose from relative passivity to become norm-makers. Thus there are times when—proactively or reactively—norm-making is essential for the legitimacy of business strategy. When does norm-making actually provide a company or industry with legitimacy as to a given business and society issue? That depends on two

different questions: whether the emergent well-established norm works in fact to address the B-case issue, and also whether it was developed with a procedure that carries legitimacy. Both are questions that remain open to contestation and social deliberation.

We conclude that CSV alone does not provide a robust managerial framework. We now turn to our proposed fix—the incorporation of norm-taking and norm-making frameworks—and two potential candidate frameworks that could answer the need.

Towards a More Robust CSV Framework

Our skepticism about the comprehensiveness of Porter and Kramer’s account of the CSV framework is twofold. First, the pervasiveness of B-case issues in the business environment—like labor conditions in the supply chain or the case of unregulated pollution—makes us doubt Porter and Kramer are right when they say that CSV “provides an overall, strategic view of how to think about the role of the corporation in society.”³³ Managers’ responsibility for sustaining the moral legitimacy of business does not allow them to mistakenly assume there are no B-case issues. They have to look beyond the achievement of profitability and competitive advantage in making strategy.³⁴ Sustaining the moral legitimacy of business *beyond* win-win A-cases is also part of a manager’s job description, and business has a fundamental strategic role to play in B-case issues that CSV does not address. The second basis for our skepticism reflects Porter and Kramer’s aspiration that companies will comply with “ethical norms” and “a narrow sense of social responsibility”. Translating their assumption that managers will live up to ethical and legal norms into actual compliance is easier said than done—as Crane et al. claim, they seem “naïve about the challenges of business compliance.”³⁵ What we

emphasize is that simply telling managers that they are assumed to comply with ethical norms does not help them do so. Managers would benefit from a framework for that too.

Our solution is to build on Porter and Kramer’s injunction that managers should comply with ethical norms to yield a CSV-inspired framework that is more robust in relation to B-case issues. First, managers need a *norm-taking* framework to help them discern the norms they should (as per Porter and Kramer) follow in B-case issues: what are the well-established norms that apply to the issue? However, this would be insufficient. Managers can face regulatory voids, as we have shown in our discussion of Rana Plaza. In these cases—and whenever there is reason to doubt that the existing normative regime works—managers need a *norm-making* framework. The Pelican Gambits framework, discussed below, provides guidance to help managers reach the judgment that norm-making is required.³⁶

The union of CSV with norm-taking and norm-making frameworks is a “marriage of necessity.”³⁷ The necessity results from the fact that CSV doesn’t work in B-cases. Although a business ethicist could ask many theoretical questions about how this “marriage” works, because we are proposing a framework—an ordered inquiry into strategy that provides “a kind of Everyman’s conceptual scheme”³⁸—we would argue that possible theoretical incongruities between the modules do not matter if the design gets managers to ask the right questions in a reasonable and pragmatic way. We call our proposal CSV+ because of its structure: CSV + [norm-taking framework] + [norm-making framework]. In the balance of the paper we show how such a conjunction of frameworks is plausible and meant to work.

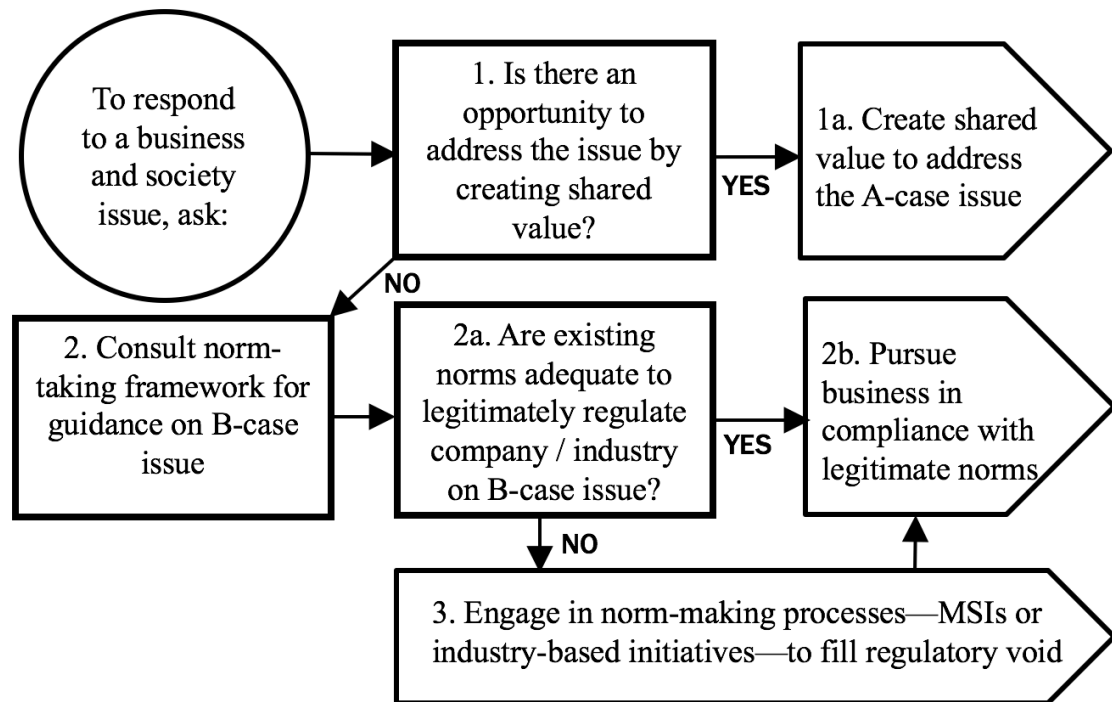
Our claim is principally the proposition that CSV+ is superior to CSV alone. However, to illustrate how CSV+ would work we rely upon candidate “off the rack” frameworks of the two sorts, drawing from the business ethics literature. We show, with supporting examples, the distinctive contributions of the two types of ethical frameworks we propose as complements of CSV in response to B-case issues. CSV+ is intended to provide managers with the high-level support they need from a framework to legitimately manage business and society engagement. In our view, only if managers adopt this approach to CSV can business ever hope to come close to Porter and Kramer’s public policy vision for the restored legitimacy of capitalism.

We begin by introducing a prominent, social contracts approach to business ethics, Donaldson and Dunfee’s Integrative Social Contracts Theory (ISCT), as an instructive conception of a norm-taking framework—recognizing there are others. Next, we discuss norm-making frameworks and their two components: a framework for *when* to make norms, and a framework for *how* to do so. To illustrate the “when” component of norm-making, we discuss the Pelican Gambits framework, also developed by Donaldson. We set forth a barebones “how” framework that identifies the two major categories of norm-making modes and their respective strengths and limitations. (See Figure 1.)

Before moving forward, we should address an important objection that has been made of Porter’s approach to strategy, which arguably could apply to CSV+ as well. Henry Mintzberg memorably criticized Porter’s approach to strategy as the “design school,” pointing to unrealistic assumptions about how strategy actually gets executed, including the supposition that strategy making is a linear, rational and hierarchical process.³⁹ While acknowledging Mintzberg’s critique, we align ourselves with the design

school in what follows, but with two important qualifications. First, the managerial framework we propose is normative and not meant to provide a theory about how companies enact strategy. Second, our proposal is addressed to managers throughout the organization, not just top executives, so that decision making at every level is informed by attentiveness to the potential for A-cases as well as the need for norm-taking and norm-making in relation to B-case issues.⁴⁰

FIGURE 1
The CSV+ Framework



Another objection is the argument that CSV could survive as a legitimate standalone framework complemented only by a reputation management mindset that tells managers to act so as to preserve company reputations. Our reply is that the tried and true strategy to protect a reputation is to act legitimately in the first place, as scholars across millennia have recognized.⁴¹ CSV+ provides a framework for acting legitimately, not just

appearing to do so. Volkswagen shareholders learning of the company's jaw-dropping emissions fraud in 2015 must have wished management had internalized this lesson.

The Role for a Norm-Taking Framework: Integrative Social Contracts Theory

B-case issues are neither exceptional nor immaterial, but frequent and often severe. They regularly present themselves in global value chains, where companies operate under multiple jurisdictions and cultural value systems. Trusting that a company's moral legitimacy will be sustained by legal regulation is not an option (supposing it ever were domestically), as apparel brands discovered with Rana Plaza. Even if laws exist, they may not be enforced (as in the construction of Rana Plaza or in bribery of public officials in many countries) or the laws may be at odds with important and more general norms.⁴²

A norm-taking framework must first help managers *identify* legitimate norms and, second, *prescribe* what to do when managers identify an applicable norm. The business ethics field has proposed approaches with this in mind, of which “[o]ne of the most prominent conceptual frameworks recently offered... is that of integrative social contracts theory (ISCT) developed by Thomas Donaldson and Thomas Dunfee.”⁴³ We use ISCT to show how a norm-taking framework can pick up where CSV leaves off. ISCT serves well as an illustrative example because it provides a systematic and clear managerial framework for dealing with B-case issues, important limitations notwithstanding.⁴⁴

The intuition behind ISCT is that economic communities around the world take myriad forms, and regardless of which, they are norm-makers unto themselves. New York's Diamond District, for example, is renowned for its unusually demanding

standards of candor and honor.⁴⁵ In ISCT, “microsocial” norms like these—e.g., act honorably to an utmost degree—are conceived to morally bind their members on two conditions. The first is that the norms are *authentic*, meaning they are well established in a community that gives members a meaningful right of exit (i.e., the norms are truly voluntary for the bound party) and a right of voice to weigh in on and influence community norms.⁴⁶ The second requirement is that they are consistent with “*hypernorms*.” In contrast to microsocial norms founded in economic communities, hypernorms are meant to provide universal prescriptions—they apply across communities—based upon principles that concern human well-being and rights.⁴⁷

To identify hypernorms, ISCT tells managers to look to overlapping principles that have evolved across secular and religious traditions and remain deeply embedded in human society transculturally. How are managers to discern the content of hypernorms? Commentators have noted that ISCT sometimes provides only vague guidance.⁴⁸ Yet Donaldson and Dunfee’s point for managers is clear: the deepest norms of human conduct apply globally and limit the scope of legitimate business activity. One source of relevant hypernorms for business is the United Nations Global Compact (UNGC), which offers principles based in agreements such as the Universal Declaration of Human Rights.

The theory of ISCT generates a framework by prompting thought experiments to help managers identify applicable microsocial norms and hypernorms.⁴⁹ When coupled with CSV, the norms that ISCT deems legitimate and binding represent a moral constraint on the pursuit of shared value. Where managers cannot identify binding norms, ISCT says that managers enjoy “moral free space”, meaning they “have substantial discretion in deciding how to respond to stakeholder claims and interests.”⁵⁰ Outside the

bind of microsocial or universal obligation, managers can develop business opportunities entirely with a view to their other commitments, including the pursuit of competitive advantage. Questions of business strategy, such as choices of market to expand into or technological capability to invest in, may largely fall within moral free space.

Managers need a norm-taking framework and ISCT is a strong candidate because it is designed to provide guidance to business. Consider a new executive installed by the private equity acquirer of a forestry company. There are numerous hot button issues surrounding forestry today. Does it matter whether harvested forests are depleted? Do managers need to worry about other environmental impacts? What about the status of indigenous peoples who spend their lives in forests that could be legally harvested? Porter and Kramer implicitly tell the executive to follow applicable ethical norms. How to figure out what that means, though, has not yet been made part of the CSV story.

ISCT tells the executive to identify applicable microsocial norms and hypernorms. These norms can run the gamut from vague and implicit standards to norms that while non-legal bear a strong resemblance to hard law, encompassing “processes and institutions, both formal and informal, that guide and restrain the collective activities of a group.”⁵¹ There are potential human rights concerns in loss of habitat of indigenous peoples, and there are likely other relevant hypernorms as well, certainly in the Universal Declaration of Human Rights. One of the virtues of *microsocial* norms is often to bring concrete content to deep-tissue moral principles like human rights. In forestry, this has been realized, however imperfectly, through a series of voluntary certification schemes, of which the Forestry Stewardship Council (FSC), founded in 1993, was first and remains the standard bearer. FSC resulted from a multi-stakeholder initiative—forestry

companies, environmental NGOs and forest certification organizations (a prototypical case of *norm-making*, as later discussed).

FSC has established and updated a set of ten principles, with detailed criteria. It does not enforce these principles as if they were law. FSC provides certification to forest owners who conform to FSC Principles—with the right of exit ISCT demands. The question for forestry companies today is whether to comply with the FSC or another norm-making organization’s certification standards, as a matter of *norm-taking*. Suppose the acquired company in our scenario is a member of FSC. This means there are relevant microsocial norms to help the executive answer the questions raised above, specifically, FSC commitments to:

- Maintain or restore the ecosystem, its biodiversity, resources, landscapes;
- Identify and uphold indigenous peoples’ rights of ownership and use of land and resources.

Forestry company managers are not given a blank slate—they should do what appears to be in the best interest of the company, while considering societal needs and impacts. There are carefully developed and well-established FSC norms that speak to the issues faced by forestry companies. According to ISCT, these norms are legitimate and binding because they result from voluntary participation that allows for voice and exit and are not seemingly in conflict with any putative hypernorms. The nature of the FSC process makes for a compelling case that the legitimacy of this company would rest on its managers meeting (or beating) FSC certification standards. Isn’t this consistent with what Porter and Kramer mean by “a narrow sense of social responsibility”?

The design of ISCT facilitates the integration of frameworks: managers and their companies can and should pursue CSV subject to the legitimate microsocial norms of the relevant communities identified by applying the framework, provided they are not inconsistent with relevant hypernorms. Where the manager is in moral free space, i.e., there are no well-established microsocial norms or hypernorms to bind, CSV's own imperatives operate without impediment. Coupling CSV with ISCT, managers can pursue CSV while also heeding legitimate norms. Thus ISCT provides a managerial framework that helps fill the gap in CSV and make good on Porter and Kramer's injunction to comply with ethical norms.⁵²

Complementing CSV with a suitable norm-taking framework, like ISCT, is the first step for a managerial framework that goes beyond the win-win logic of CSV to address B-case issues. Now we turn to cases where norm-taking alone will not suffice.

The Role for a Norm-Making Framework

A norm-taking framework is unable to give a manager normative guidance where there are regulatory voids. This can result from two basic scenarios. First, there are no well-established, legitimate and non-obsolete norms to provide guidance for the B-case issue at hand. Alternatively, the well-established, legitimate and non-obsolete norm that is on point is too general, meaning the norm is neither tailored nor specified with respect to the B-case issue.⁵³ Because these spaces exist, norm-taking alone cannot provide guidance across the whole spectrum of B-case issues: it is silent or speaks too generally in regulatory voids. Moreover, CSV supplemented only with a norm-taking framework gives managers the impression of moral free space if there is a regulatory void and the guidance is simply to create shared value when, in fact, norm-making may be required.

Regulatory voids mean that the rules of the game that companies face in the market are incomplete and capable of promoting more mischief than welfare.⁵⁴ Porter and Kramer recognize this, as they care about the quality of the rules of the game. For starters, competition depends on good rules. “Strict antitrust policy,” they say, “is essential to ensure that the benefits of company success flow to customers, suppliers, and workers.”⁵⁵ But they do not leave the rules of the game to government alone: “Major competitors may also need to work together on precompetitive framework conditions, something that has not been common in reputation-driven CSR initiatives.”⁵⁶ Fashioning (or refashioning) an industry’s precompetitive framework conditions serves as a pathway to tackling societal problems and realizing CSV.⁵⁷

Again, Porter and Kramer say nothing about *when* and *how* managers should go about collaborating to articulate norms that establish precompetitive framework conditions. What are the signs that it is time for industry collaboration to refresh norms (as resulted in the FSC 20 years ago)? Who needs to be in the conversation? (the FSC includes NGOs as well as companies). When is multi-sector collaboration needed? These questions fall into the domain of a *norm-making* framework, designed to address precompetitive framework conditions by closing regulatory voids as they become manifest, and ready to be written over with new norms. We start with the “*when*” component of norm-making before addressing the “*how*.”

When to Become a Norm-Maker

The *precompetitive* framework conditions that Porter and Kramer reference do not get established once and for all. The dynamism of business means that yesterday’s well-established norms in an industry may well be stale today, as demonstrated in industries as

diverse as resource extraction (fracking) and taxis (Uber). In the pharmaceutical industry in the 1990s, companies operated within a web of well-established industry-based norms—norms reflecting the primacy of research and the industry rights to recoup R&D costs and to profit through monopolistic pricing of patent-protected medicines—when the HIV virus spread worldwide. With the discovery of antiretroviral drugs that could prevent death from AIDS, companies faced demands for their distribution in sub-Saharan Africa, where the disease was most prevalent but the afflicted population least able to pay. Industry norms did not account for this unprecedented case. Big pharma was confronting a regulatory void, pressing around price and distribution strategies that could address the health pandemic. Making new norms for the industry would mean renovating precompetitive framework conditions *as of that point in time*.⁵⁸ The “when” question, at least in hindsight, is whether big pharma companies with components of the triple cocktail of lifesaving HIV drugs responded as quickly as they could or should have.

The point of the “when” component of a norm-making framework, therefore, is to help a manager discern the conditions that make it timely to declare the existing normative framework inadequate. When is it time to break out of business as usual in order to revise and update the industry’s governing norms? The generic answer, already introduced, is that managers should look beyond the existing rules of the game when those rules do not clearly enjoy legitimacy—when they give no good answer to the business and society issue at hand (norms are missing or too general) or bad answers (norms are obsolete). When the HIV crisis exploded in sub-Saharan Africa, the existing rules of the game did not speak to the dynamics of the case—a life-threatening epidemic that patented drugs had proven capable of fighting off, but with little prospect of

generating economic return in this market. Whether this is seen as a case of missing norms or obsolete norms does not matter for purposes of the “when” framework. The conclusion is the same: it was time to move beyond existing legal rights and non-legal norms to adapt the rules of the game to a new reality.

Note that when the legitimacy of the old rules of the game is questionable yet the new rules, even if promising, are not yet well established, the decision to become a follower of the new rules—to be a *norm-taker* in their regard—is sometimes tantamount to norm-making. Norm-taking and norm-making blur together substantively in these cases. Norm-taking can serve to reinforce a norm and extend the norm’s legitimacy. Joining the UNGC, especially in the earliest days, could fairly be seen as an act of norm-making that says to peers “the UNGC is legitimate and worth joining.”

Scholars have only recently begun to bring greater definition and concreteness to this generic framework. In a recent article in this journal, Donaldson and Schoemaker address the question of “when” to make norms for high stakes cases where the business strategies being pursued in regulatory voids could spawn systemic risk.⁵⁹ They propose a framework to help executives avert systemic risk and rescue their industries, highlighting their potential role as institutional activists to help prevent debacles like the collapse of Arthur Andersen and even the financial crisis.⁶⁰ Moving beyond the command of short-term interest, these executives should, in Donaldson and Schoemaker’s metaphor, take a hint from pelicans in nature that regularly undertake “gambits” to effect a “short-term sacrifice for the sake of better managing long-term risk.”⁶¹ While Porter and Kramer call on managers to do the same, the difference is that Donaldson and Schoemaker provide a framework and a motivation for doing so.

An exemplar case cited by Donaldson and Schoemaker is the Responsible Care Initiative (RCI), instituted by leaders in the Canadian chemical industry three decades ago after the Union Carbide Bhopal disaster questioned industry legitimacy. Its purpose was to help manage risks affecting safety, environment, and health with a reach across more than 50 countries and covering about 90% of global chemical production and shipment.⁶² RCI has helped restore legitimacy to the chemical industry after Bhopal by virtue of the norms, guidelines and process that emerged from a concern for safety lapses.

The Pelican Gambit framework is built around six risk factors that can indicate a need for a norm-making initiative that looks past company short-term interests. They fall into two categories. First, risk factors associated with regulatory voids: *innovation is rapid, regulators are weak, too much is hidden, and experts are few*. Fast change, as with fracking, spurs regulatory voids, and weak regulators cannot keep up, especially under the influence of company interests. When too much about actual industry practice is hidden, “[n]orms become prevalent that would be difficult to explain if exposed,”⁶³ and when experts are few, defective ideas can propagate, as with the financial engineering of Credit Default Obligations (CDOs), whose sub-prime toxicity marked the financial crisis.

The second category involves forces that interfere with the detection of, or response to, regulatory voids: *“hush” prevails, and critics are ignored*. The tobacco hush that stifled open discussion of the risks of smoking created a cocoon in which tobacco companies could act as if they were in moral free space, rather than responsively adjusting their practices out of the social awareness of the risks. When critics are ignored, executives can pretend there is moral free space even after the alarms are being sounded.

Put together, these six factors are meant to trigger hyperawareness of dangerous regulatory voids for executives who may be insulated from sharp feedback.

Whether managers rely upon the generic framework above (i.e., is there a regulatory void?) or take guidance from the tailored Pelican Gambits framework (or similar), the next question becomes *how* to execute upon the imperative established.

How to Become a Norm-Maker

In our exposition of CSV+, we have laid out the potential limitations of norm-taking and explored when, instead, the manager might be advised to identify new norms for guidance. We conclude our account of CSV+ by turning finally to consider how to undertake norm-making. Again, we note that the theory of norm-making by companies might be said to be in its infancy and less developed than norm-taking. Nonetheless, we will identify and contrast two major norm-making approaches evident in the literature. Following the “go” signal given by the “when” component of a norm-making framework, the generic next step is for managers to evaluate the B-case issue and the regulatory void and then decide whether to engage with one of the two approaches, norm-making by company association or multi-stakeholder initiative (MSI). In addition, each mode could be pursued in a one-industry or multi-industry format (see Table 2).

TABLE 2
Modes of Norm-Making

	<i>Company Only</i>	<i>MSI</i>
<i>One Industry</i>	Alliance (Rana Plaza); Sustainable Forestry Initiative	Accord (Rana Plaza); Forest Stewardship Council
<i>Multi-industry</i>	U.S. Chamber of	UNGC; ISO26000; Fair

	Commerce; Business Roundtable	Labor Association; Global Reporting Initiative
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Norm-making through company associations—whether via principles applicable to members, certification schemes or otherwise—is evident in Pelican Gambits like the RCI, as we discussed. Likewise, the Sustainable Forestry Initiative, associated with the American Forest & Paper Association (AF&PA), is a company-only counterpart of FSC. It also issues norms, such as: “To use and promote among other forest landowners sustainable forestry practices that are both scientifically credible and economically, environmentally and socially responsible.”⁶⁴ However, there are no NGOs as members.⁶⁵

Pelican Gambits could also operate through MSIs. Consistent with Scherer and Palazzo, they would be intended to create a deep and durable form of legitimacy as a result of deliberative discourse with the various constituencies (i.e., stakeholders) impacted by the business activity.⁶⁶ Well-known examples of MSIs include the FSC; the Accord on Fire and Building Safety in Bangladesh (discussed below); the Marine Stewardship Council (fishing); and the Roundtable on Sustainable Palm Oil.⁶⁷

The contrast between the MSI and the company association is precisely that the latter’s norms could result entirely from company-only deliberation. This difference reflects the distinct justifications for the two approaches. Donaldson and Schoemaker emphasize company-driven initiatives and justify the Pelican Gambits framework upon an enlightened self-interest point of view (i.e., better standards for better business). The alternative of multi-stakeholder discourse in general and MSIs in particular emerges from the political philosopher Jürgen Habermas’s ideas about deliberative democracy and has been justified with a prosocial logic.⁶⁸ On this view (which is also grounded in part on a

perceived inadequacy of norm-taking-only approaches to management), nation states in a globalized world lack power to address issues of public concern or to define standards for corporate behavior, and that leaves the onus upon companies to engage in deliberative democracy through multi-stakeholder norm-making.

As well as norm-making within a single industry, multiple industries can be involved in norm-making. This can also be through company associations, such as the U.S. Chamber of Commerce or the Business Roundtable, or through MSIs, such as the UNGC and ISO26000, both of which reached beyond industry members to include NGOs and governments, among others, in the deliberative processes that have given rise to comprehensive norms that companies can use.⁶⁹

Norm-making at the multi-industry rather than the single industry level is likely to be preferable in three circumstances. First, the B-case issue affects all industries, as is often the case with human rights issues. Second, even if not spanning all industries, the issue is more efficiently or effectively addressed with cross-industry collaboration. In politics, interest groups strengthen with numbers and size, and this provides industry players a reason to coalesce around joint normative projects with allies inside and outside their industry. Third, the issue cannot be legitimately addressed in one industry alone; labor rights and trade or tax policy are good examples.⁷⁰ (See Table 2.)

A company may also both declare a regulatory void and fill it in one fell swoop through strategic innovation, skipping multi-party norm-making. Many celebrated the policy adopted by CVS, a US pharmacy retailer, to lead by example and stop selling tobacco well before the issue of pharmacies selling tobacco had gained traction and despite a substantial loss of revenue. According to Helena Foulkes, CVS president, “[t]he

removal of cigarettes and other tobacco products from our stores is an important step in helping Americans to quit smoking and get healthy.”⁷¹ CVS initiated a dialogue forcing competitors to decide whether a new norm—no tobacco products in pharmacies—has become part of the legitimate rules of the game in the industry.

Rana Plaza Reprised

In the aftermath of the April 2013 Rana Plaza disaster, leaders in the global apparel industry faced a major threat to the industry’s moral legitimacy, parallel (if not in scale) to the threat faced by the chemical industry following the Bhopal disaster.⁷² The disaster raised questions about brands’ supply chain practices and their monitoring of suppliers and promotion of safety for workers. They had failed to engage in norm-making in time to prevent the Rana Plaza tragedy—no “when” framework had triggered prescient action. Nevertheless, immediately following the tragedy, numerous brands responded to the crisis with collaborative norm-making processes.

Two approaches emerged, one by European companies, the Accord on Fire and Building Safety in Bangladesh (the Accord); the other by US firms (notably, Walmart and The Gap), the Alliance for Bangladesh Worker Safety (the Alliance). They issued different sets of norms applicable to their members that address labor conditions, especially safety.⁷³ Members of the Accord collaborated with NGOs and labor unions in the prototypical format of an MSI and in line—at least aspirationally—with the Habermasian conception of deliberative democracy. The legitimacy of the Alliance’s industry-based initiative, on the other hand, depends more on how well its norms function on the ground. Nonetheless, Accord members are exposed to a possible legal liability,

whereas joining the Alliance should not subject the member to legal risk. Time will tell which set of norms will work better to protect worker safety.⁷⁴

How can a manager know which of these two modes of norm-making to apply? For the purposes of this paper, we suggest asking simply: what are the respective advantages and disadvantages of an industry-based initiative versus an MSI—or one industry versus multi-industry approaches—*on the specific facts*? An MSI would generally have stronger grounds for claiming legitimacy as well as the informational advantages that come from involving stakeholders in the norm-making process. The industry-based initiative, in contrast, has the potential for greater speed in reaching agreement and nimbler adaptation that comes from the similarity of members' interests.

Conclusion

CSV+ leads managers to continually ask two questions in parallel. First, from CSV: *Is there a societal or environmental need that your company is positioned to address?* In other words, *is there an opportunity to Create Shared Value?* Second, from the norm-taking framework: *Are there legitimate norms to follow?* (see Figure 1). Answering “no” to the first question should lead the manager to continue searching for a CSV opportunity. Answering “no” to the second question prompts the manager to become a norm-maker. Sometimes, in practice, these questions can interact—exploiting the CSV opportunity in cashew apples, for example, could raise questions about labor and environmental standards, and may then prompt norm-making.

The importance of a comprehensive framework is to help managers—at all levels of the organization—spot the right issues and ask the right questions. That starts with the search for CSV. What Porter and Kramer call the “old, narrow view of capitalism”—

seeking an increased *share* value at the next quarter—leads managers to focus on very different issues than when searching for durable *shared* value. Whereas Porter and Kramer presume compliance with legal and ethical standards, CSV+ instructs the manager to embrace a norm-taking framework and we present ISCT as an exemplar for identifying and applying binding normative content. These two steps position the manager to ask what it will take to execute on any shared value opportunity identified, including what norms need to be observed. If the existing set of norms is not adequate to the task, CSV+ then prompts norm-making.

We have contributed to the debate about CSV begun by Crane et al. in this journal by drawing from both sides (see Table 1). We agree with Porter and Kramer that CSV provides a more legitimate conception of business than the “old, narrow view” and with Crane et al. that CSV ignores the tensions between business and society. So we have bolstered the CSV framework at the engagement point between business and society with two ethical frameworks designed to deal with B-case issues. If this helps managers to retain the legitimacy of their companies, then we will have pushed towards Porter and Kramer’s public policy aspiration that the adoption of CSV can bring business to a heightened level of social legitimacy.

There are some limitations to what we have set forth that should be noted. We have put CSV+ to the test with one specific norm-taking framework, ISCT. Other norm-taking frameworks could be applied. The move from norm-taking to norm-making in our framework is based on potentially uncertain doubts about whether the existing normative regime is legitimate and adequate enough to be relied upon. We left open-ended the definitions of legitimacy and adequacy as limits on norm-taking (Figure 1). Thus we fall

back on doubt as the basis for norm-making: *when in doubt, become a norm-maker*. With respect to *how* to become a norm-maker, we go only so far as identifying the different modes available (Table 2) and the respective advantages and disadvantages of each.

Arguably, the most important limitations owe to the early stage of development of the idea of CSV itself. Crucially, the CSV literature has not yet addressed what we call *portfolio and distribution problems*: How should a company best select among the variety of potential A-case issues it could address? How should it determine an appropriate distribution of value across stakeholders? These concerns point, in turn, to the question of how to quantify shared value to help make strategic choices. Managers have experience quantifying profitability and comparing alternative strategies in terms of their contribution to competitive advantage. How should managers compare one A-case strategy with another, if both promise similar contribution to profitability and competitive advantage? The answer would seem to involve the societal side of shared value, but Porter and Kramer have said nothing about quantifying this value in commensurable terms (nor have they endorsed this as the right way to think about portfolio and distribution problems).⁷⁵

What about non-consequentialist ethical considerations that could factor into building a portfolio of CSV strategies? How should companies decide whether to provide a benefit to one community if that would mean withholding benefits—or even creating negative issues—for another? We have not addressed these distribution problems because we have sought, in the first place, to address the basic framework for CSV at the level of a single strategy. Nevertheless, this is an important area for future work by CSV researchers.⁷⁶ The default answer provided by our conceptualization of CSV+ is that

questions of this variety are very much open to social discourse and contestation and that norms can be developed to provide answers.

Endnotes

¹ Michael E. Porter and Mark R. Kramer, “Creating Shared Value: How to reinvent capitalism—and unleash a wave of innovation and growth,” *Harvard Business Review*, 89/1-2 (January/February 2011): 62-77.

² See Krzysztof Dembek, Prakash Singh, and Vikram Bhakoo, “Literature Review of Shared Value: A Theoretical Concept or a Management Buzzword?” *Journal of Business Ethics*, (forthcoming).

³ Andrew Crane, Guido Palazzo, Laura J. Spence, and Dirk Matten, “Contesting the Value of ‘Creating Shared Value,’” *California Management Review*, 56/2 (Winter 2014a): 130-49.

⁴ Michael E. Porter and Mark R. Kramer, “A response to Andrew Crane et al.’s article by Michael E. Porter and Mark R. Kramer,” *California Management Review*, 56/2 (Winter 2014): 149-51 (at p. 150).

⁵ Andrew Crane, Guido Palazzo, Laura J. Spence, and Dirk Matten, “Andrew Crane, Guido Palazzo, Laura J. Spence, and Dirk Matten reply,” *California Management Review*, 56/2 (Winter 2014b): 151-53.

⁶ While in their reply to Crane et al., Porter and Kramer (2014) acknowledge a debt to “numerous” other writers, not mentioned by them (or by Crane et al.) is Peter Drucker. The criticism of CSV as unoriginal is not our primary concern, but Drucker’s writing is a notable omission—and noteworthy in ways relevant to our thesis. Drucker, like Porter, was widely viewed as a management guru. Unlike Porter, he was also a contemporary and critic of Milton Friedman. He advanced an idea remarkably similar to CSV. In *CMR* in 1984, Drucker wrote that “it will become increasingly important to stress that business can discharge its ‘social responsibilities’ only if it converts them into ‘self-interest’, that is into business opportunities.” (p. 59). By way of example, Drucker cites Julius Rosenwald, “whose innovation of the county farm agent system turned mail order company Sears Roebuck into America’s first national retailer while developing the skills, knowledge and productivity of U.S. farmers” (Smith, 2009: 78). This is what Nestle is doing today with the farmers in its supply chain—and calling CSV. See: Peter Drucker, “The New Meaning of Corporate Social Responsibility,” *California Management Review*, XXVI (Winter 1984): 53-63; N. Craig Smith, “Bounded Goodness: Marketing Implications of Drucker on Corporate Responsibility,” *Journal of the Academy of Marketing Science*, 37 (2009): 73-84. Also questioning the originality of CSV are: Thomas Beschorner, “Creating Shared Value: The One-Trick Pony Approach,” *Business Ethics Journal Review*, 1/17 (2013): 106–112; Laura P. Hartman and Patricia H. Werhane, “Shared Value as an Incomplete Mental Model,” *Business Ethics Journal Review*, 1/6 (2013): 36–43.

⁷ In the real world of strategy, as we will see below, A-case issues may well appear with B-case issues, and in varying proportions, yielding a continuum of blended case types.

⁸ Note that the summaries we provide of these examples are intended to be illustrative and a basis for grasping CSV and the CSV+ framework we propose rather than a comprehensive and nuanced account of the relevant business situations.

⁹ See, for example, Thomas L. Carson, “Free Exchange for Mutual Benefit: Sweatshops and Maitland’s ‘Classic Liberal Standard,’” *Journal of Business Ethics*, 112 /1 (January 2013): 127-135. The claim of a lack of financial incentive to consider labor standards is less true for luxury brands, suggests *The Economist* (“Sweating for Fashion,” *The Economist*, March 4, 2004).

¹⁰ Rana Plaza was a building housing factories producing apparel for global brands. It collapsed with over 1,100 factory workers losing their lives. See: The Associated Press, “Death Toll in Bangladesh Passes 1,100,” *The New York Times*, May 11, 2013.

¹¹ Richard M. Locke’s recent book, *The promise and limits of private power: Promoting labor standards in a global economy* (Cambridge, UK: Cambridge University Press, 2013), suggests that a “capability-building” approach to supply chain management can enhance safety and grow the economic pie.

¹² Porter and Kramer, op. cit. (2011), p. 64.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ For example, Porter and Kramer, op. cit. (2011), p. 74, say “regulation will be needed to limit the pursuit of exploitative, unfair, or deceptive practices in which companies benefit at the expense of society.”

¹⁶ Porter and Kramer, op. cit. (2011), p. 75.

¹⁷ Crane et al., op. cit. (2014a), p. 139. This is aside from questions about the adequacy of the laws and regulations that do exist, especially when business is conducted globally while much regulation of business activity operates at a national level (e.g., corporate tax avoidance).

¹⁸ The next step after strategic formulation is implementation, and within the organization this raises a number of concerns that have recently been examined in the behavioral ethics field. See, for example, Linda K. Treviño, Gary R. Weaver, and Scott J. Reynolds, “Behavioral Ethics in Organizations: A Review,” *Journal of Management*, 32/6 (2006): 951-990; Max H. Bazerman and Ann E. Tenbrunsel, *Blind spots: Why we fail to do what's right and what to do about it* (Princeton, NJ: Princeton University Press, 2011). Managers have biases and get derailed from the commitments that they themselves embrace, like following the CSV framework—with or without ethical frameworks. These are also crucial issues in implementation. Our paper is meant for the manager seeking heuristics for articulating a strategic vision worth implementing in the first place, notwithstanding the inevitable difficulties doing so.

¹⁹ Michael E. Porter as quoted in Nicholas Argyres and Anita M. McGahan, “An Interview with Michael Porter: Michael Porter on Competitive Strategy,” *Academy of Management Executive*, 16/2 (2002): 41–53, see p. 43. Economic models are devices for explaining and symmetrically predicting the behavior of economic entities (such as markets, firms, individual agents, etc.) through economic laws. See Daniel M. Hausman, *The inexact and separate science of economics* (Cambridge, CB: Cambridge University Press, 1992), p. 124; John Stuart Mill, “On the definition of political economy and the method of investigation,” 1836, repr. in J. M. Robson, ed., *The collected works of John Stuart Mill*, (Toronto: University of Toronto Press, 1967, Vol. 4); John Stuart Mill, *A system of logic* (London: Longmann, Green & Co., 1843). While economists tend to believe that they have found the basic economic laws that govern economic phenomena, they are also aware of many disturbing causes and interferences. In order to allow their models to work, they have introduced *ceteris paribus* laws, i.e., laws that pertain only to special conditions. For example: The Law of Demand: Under the condition of perfect competition, an increase of demand of a commodity leads to an increase of price, given that the quantity of the supply of the commodity remains constant. See (John T. Roberts, “There are no laws of the social sciences,” in Christopher Hitchcock, ed., *Contemporary debates in philosophy of science* (Oxford: Blackwell Publishing, 2004): 151-167; Harold Kincaid, “There are laws in the social sciences,” in Christopher Hitchcock, ed., *Contemporary debates in philosophy of science* (Oxford: Blackwell Publishing, 2004): 168-185; Alexander Reutlinger and Matthias Unterhuber, “Thinking about Non-Universal Laws,” *Erkenntnis*, 79 (December 2014): 1703-1713. In management, Porter indicates, economic models that are based on *ceteris paribus* laws are not of much use: Idealizing (e.g., market entry and exit barriers), ignoring disturbing causes (e.g., the power of suppliers) and interferences (e.g., the actual intensity of competition in an industry) is a luxury no manager can afford.

²⁰ Porter and Kramer, op. cit. (2011), p. 66.

²¹ Stephanie Strom, “Cashew Juice, the Apple of Pepsi’s Eye,” *The New York Times*, August 8, 2014.

²² Crane et al., op. cit. (2014a), p. 136.

²³ Porter and Kramer, op. cit. (2011), p. 71.

²⁴ N. Craig Smith and Erin McCormick, “Uber and the Ethics of Sharing: Exploring the Societal Promises and Responsibilities of the Sharing Economy.” INSEAD case study 2016.

²⁵ The same goes for questions concerning the split of the surplus across a supply chain. Porter and Kramer may rightly say that shared value is not “about ‘sharing’ the value already created by firms—a redistribution approach.”, op. cit. (2011), p. 65. That is altogether a different matter from the question whether a company is paying its workers and suppliers fairly. The latter is a normative question, one that is

fought out, and sometimes settled, in the public sphere. If CSV is not about sharing value, it can provide no insight as to legitimate surplus splits. That is where norm-taking and -making frameworks come in.

²⁶ Porter and Kramer, op. cit. (2014), p. 150.

²⁷ Dan Viederman, "Supply chains and forced labour after Rana Plaza: On the first anniversary of the fall of the Rana Plaza, have western suppliers learned their lesson?" *The Guardian*, April 24, 2014.

²⁸ Porter and Kramer, op. cit. (2011), p. 64.

²⁹ The plot gets even thicker once information asymmetries are taken into account. What level of responsibility do the global brands have to take to neutralize information asymmetries? Information asymmetries are a central issue in managing supply chains, with multiple links. Ever since the Nike sweatshop scandal in the 1990s, it has become well established that transnational companies do have responsibility all the way to the labor stage of the supply chain, even if the parameters of that responsibility remain vague. See Richard M. Locke and Monica Romis, "Improving work conditions in global supply chains," *MIT Sloan Management Review*, 48 (Winter 2007): 53-62. CSV has no principle for directing managers to ascertain and then conform to a standard of responsibility for labor conditions abroad, nor does CSV provide a framework for filling any regulatory void.

³⁰ Crane et al., op. cit. (2014a), p. 140.

³¹ Lucy Siegle, "Rana Plaza a year on: Did fast fashion brands learn anything at all?" *The Guardian*, April 20, 2014.

³² Locke and Romis, op. cit.

³³ Porter and Kramer, op. cit. (2014), p. 149.

³⁴ Andreas G. Scherer, Guido Palazzo, and David Seidl, "Managing Legitimacy in Complex and Heterogeneous Environments: Sustainable Development in a Globalized World," *Journal of Management Studies*, 50/2 (2013): 259-84.

³⁵ Crane et al., op. cit. (2014a), p. 131.

³⁶ Thomas Donaldson and Paul J.H. Schoemaker, "Self-Inflicted Industry Wounds: Early Warning Signals and Pelican Gambits," *California Management Review*, 55/2 (Winter 2013): 24-45.

³⁷ Gary R. Weaver and Linda K. Treviño, "Normative and Empirical Business Ethics: Separation, Marriage of Convenience, Or Marriage of Necessity?" *Business Ethics Quarterly*, 4/2 (April 1994): 129-143.

³⁸ Kenneth R. Andrews, "The Progress of Professional Education for Business" *Theological Education*, 5 (Spring 1969): 144-66, 162.

³⁹ Henry Mintzberg, "The design school: reconsidering the basic premises of strategic management," *Strategic Management Journal*, 11/3 (March 1990): 171-195.

⁴⁰ By recognizing the fit between CSV+ and Mintzberg's critique of the design school, *ibid.*, we can also demonstrate the logic that connects CSV+ to recent advances in the organizational theory of CSR. Andreas Rasche, Frank G. A. de Bakker, and Jeremy Moon, "Complete and partial organizing for corporate social responsibility," *Journal of Business Ethics*, 115/4 (2013), 651-663, concerns how CSR is organized, once a commitment has been made: "organization, whether partial or complete, is the result of deliberate decisions by individuals or by other organizations" (p. 653). The key question CSV+ helps with is whether to make that commitment in the first place, why and how to do so, and whether to continue renewing that commitment. Rasche et al. distinguish two avenues for implementing CSR: complete and partial organizing. Complete organizing involves implementation of CSR commitments from within a hierarchy, and the decision to do so clearly emerges from the endorsement of a set of norms, whether made or taken. Partial organizing involves norm-making with external parties, whether in the Accord or Alliance model. Michael Pirson and Shann Turnbull, "Decentralized Governance Structures are Able to Handle CSR Induced Complexity Better," *Business & Society*, online first (2016), argue for the importance of

decentralized decision making that embraces complexity for successful CSR. Married to CSV+ this argument leads to a human manager sensitive to both the search for A-cases and the norm-taking and norm-making calls of B-cases *at every node*.

⁴¹ From Aristotle to many others up to the current day. See, for example, Richard Shell, “When is it Legal to Lie in Negotiations?,” *MIT Sloan Management Review*, 32/3 (Spring 1991): 93-101. This objection mentioned would suggest that the motivation for Walmart’s leadership in the Alliance for Bangladesh Worker Safety—an industry initiative formed in the wake of the Rana Plaza tragedy—might have been solely to protect the intangible asset of its reputation so as to preserve profitability going forward. David P. Baron, Maretno A. Harjoto, and Hoje Jo, “The economics and politics of corporate social performance,” *Business and Politics*, 13/2 (August 2011): 1-46. Activists assail a company’s reputation to provoke changes in standards, and whether or not the standards sought by activists have merit, companies have reputations to lose, or gain. Even scholars who advocate the importance of norm-making and moral discourse for the legitimacy of business have argued that companies also need to become dexterous in handling reputation threats. Scherer, Palazzo, and Seidl, *op. cit.* Following the Rana Plaza crash, no doubt, brands had reputations to defend.

The reason we argue in this paper for coupling CSV with ethical frameworks rather than with reputation management is three-fold. First, a framework for reputation management would not provide a master framework, as both Porter and Kramer and we aim to provide, but rather a limited *contextual* framework for reputation threats, akin to Porter and Kramer’s work on philanthropy. Second, the motivation to protect or enhance a company’s reputation does not amount to a framework for doing so, as Porter and Kramer observed in 2006:

[R]eputation is used by many companies to justify CSR initiatives on the grounds that they will improve a company’s image, strengthen its brand, enliven morale, and even raise the value of its stock. These justifications have advanced thinking in the field, but none offers sufficient guidance for the difficult choices corporate leaders must make.

⁴² We recognize there may be value chain issues that could be addressed by CSV in the future. To this point, however, the success of CSV initiatives to tackle these issues remains hypothetical, and Porter acknowledges that social entrepreneurship approaches, including CSV, cannot address all societal problems without assistance from other institutions (see Driver, *op. cit.*, p. 424).

⁴³ George G. Brenkert, “ISCT, hypernorms, and business: A reinterpretation,” *Journal of Business Ethics*, 88/4 (October 2009): 645–658. See also J. (Hans) van Oosterhout, Pursey P. M. A. R. Heugens, and Muel Kaptein, “The Internal Morality of Contracting: Advancing the Contractualist Endeavor in Business Ethics,” *Academy of Management Review*, 31/3 (2006): 521–539; Dirk U. Gilbert and Michael Behnam, “Advancing Integrative Social Contracts Theory: A Habermasian Perspective,” *Journal of Business Ethics*, 89/2 (October 2009): 215-234. Also see special issue on ISCT in *Journal of Business Ethics*, 88/4 (October 2009).

⁴⁴ Alan Strudler, “Guest Editor’s Introduction: Normative Business Ethics in a Global Economy: New Directions on Donaldsonian Themes,” *Business Ethics Quarterly*, 25/4 (October 2015): xvii-xxi; Andreas G. Scherer, “Can Hypernorms Be Justified? Insights from A Discourse–Ethical Perspective,” *Business Ethics Quarterly*, 25/4 (October 2015): 489-516; Nien-hê Hsieh, “The Social Contract Model of Corporate Purpose and Responsibility,” *Business Ethics Quarterly*, 25/4 (October 2015): 433-460; Andrew Stark, “Inverting Donaldson’s Framework: A Managerial Approach To International Conflicts Of Cultural And Economic Norms,” *Business Ethics Quarterly*, 25/4 (October 2015): 1-24; Amy J. Sepinwall, “Denying Corporate Rights and Punishing Corporate Wrongs,” *Business Ethics Quarterly*, 25/4 (October 2015): 1-18; Peter L. Jennings and Manuel Velasquez, “Towards an Ethical Wealth of Nations: An Institutional Perspective on the Relation between Ethical Values and National Economic Prosperity,” *Business Ethics Quarterly*, 25/4 (October 2015): 461-488; Margaret M. Blair, “Of Corporations, Courts, Personhood, and Morality,” *Business Ethics Quarterly*, 25/4 (October 2015): 415-431.

⁴⁵ Barak D. Richman, “How community institutions create economic advantage: Jewish diamond merchants in New York,” *Law & Social Inquiry*, 31/2 (Spring 2006): 383-420.

⁴⁶ Donaldson and Dunfee, op. cit. (1999), pp. 83-116.

⁴⁷ Ibid., pp. 49-81.

⁴⁸ See discussions of this problem in Brenkert, op. cit. (2009); Thomas W. Dunfee, "A Critical Perspective of Integrative Social Contracts Theory: Recurring Criticisms and Next Generation Research Topics," *Journal of Business Ethics*, 68/3 (October 2006): 303-328; Gilbert and Benham, op.cit. (2009).

⁴⁹ Donaldson and Dunfee, op. cit. (1999), pp. 63-73, 102-112.

⁵⁰ Ibid., pp. 49-81.

⁵¹ Robert O. Keohane, *Power and governance in a partially globalized world* (New York: Routledge, 2002): 15. See also Nils Brunsson, Andreas Rasche, and David Seidl, "The dynamics of standardization: Three perspectives on standards in organization studies," *Organization Studies*, 33/5-6 (2012): 613-632.

⁵² Donaldson summarizes the interaction between CSV and norm-taking in a recent review of CSV:

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

Thomas Donaldson, "Shared values that are lost in translation," *Financial Times* (April 23, 2014).

⁵³ A third category of issues result from cases where there is a material conflict between the guidance given by (non-obsolete) well-established norms. Donaldson and Dunfee, op. cit. (1999) attempt to provide a norm-taking solution to conflicting norms with a series of decision rules for adjudicating conflicts. A further complication results from conflicting, or contested, accounts of the legitimacy of the respective norms in conflict.

⁵⁴ Oliver Williamson, for example, emphasizes that contract law (i.e., rules of the game) is the source of opportunism that undercuts the attractiveness of governance of transactions through arms-length co-venturing. See Oliver E. Williamson, "Comparative economic organization: The analysis of discrete structural alternatives," *Administrative Science Quarterly*, 36/2 (June 1991): 269-296.

⁵⁵ Porter and Kramer, op. cit. (2011), p. 74.

⁵⁶ Porter and Kramer, op. cit. (2011), p. 76.

⁵⁷ Indeed, Porter's recent endeavor, the "Social Progress Index," quantifies the dimensions that promote social progress and indicates that in many countries the relevant background institutions are deficient. See Michael E. Porter and Scott Stern, "Social Progress Index 2015: Executive Summary," <<https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-cr-social-progress-index-executive-summary-2015.pdf>>.

⁵⁸ Sushil Vachani and N. Craig Smith, "Socially Responsible Pricing: Lessons from the Pricing of AIDS Drugs in Developing Countries," *California Management Review*, 47/1 (Fall 2004): 117-144.

⁵⁹ Donaldson and Schoemaker, op. cit., 24-45.

⁶⁰ Ibid. Also see: Thomas Donaldson, "The Epistemic Fault Line in Corporate Governance," *Academy of Management Review*, 37/2 (2012): 256-271; and Joseph L. Bower, Herman B. Leonard, and Lynn Sharp Paine, *Capitalism at Risk: Rethinking the Role of Business* (Boston, MA: Harvard Business Review Press, 2011).

⁶¹ Donaldson and Schoemaker, op. cit., p. 30.

⁶² Ibid., p. 31.

⁶³ Ibid., p. 30.

⁶⁴ “SFI 2015-2019 Fiber Sourcing Standard”, <<http://www.sfiprogram.org/files/pdf/2015-2019-standardsandrules-section-3-pdf/>>.

⁶⁵ The Sustainable Forestry Initiative does include a diverse range of experts on its external review panel.

⁶⁶ Andreas Georg Scherer and Guido Palazzo, “Toward a political conception of corporate responsibility: Business and society seen from a Habermasian perspective,” *Academy of Management Review*, 32/4 (October 2007): 1096-1120. See also Andreas G. Scherer, Andreas Rasche, Guido Palazzo, André Spicer, “Managing for Political Corporate Social Responsibility – New Challenges and Directions for PCSR 2.0,” *Journal of Management Studies*, 53/3 (May 2016): 273-298.

⁶⁷ Sébastien Mena and Guido Palazzo, “Input and output legitimacy of multi-stakeholder initiatives,” *Business Ethics Quarterly*, 22/03 (July 2012): 534-535.

⁶⁸ Habermas envisions a deliberative democracy where governance results from discourse among multiple constituencies, i.e., stakeholders. As applied to business, that suggests that companies need to actively participate in norm-making rules of the game that work all around. See Mena and Palazzo, op. cit.; Dirk U. Gilbert and Andreas Rasche, “Discourse Ethics and Social Accountability: The Ethics of SA 8000,” *Business Ethics Quarterly*, 17/02 (April 2007): 187-216; Scherer and Palazzo, op. cit. (2007).

⁶⁹ Other examples include the Fair Labor Association (FLA), which seeks to promote fairer working conditions throughout the world across industries; and the Global Reporting Initiative (GRI), which establishes guidelines for corporate sustainability reports.

⁷⁰ Mena and Palazzo, op. cit.

⁷¹ “We’re Tobacco Free”, <<https://www.cvshealth.com/newsroom/tobacco-free/>>.

⁷² Donaldson and Schoemaker, op. cit.

⁷³ Alliance for Bangladesh Worker Safety (see <http://www.bangladeshworkersafety.org/>); Accord on Fire and Building Safety in Bangladesh (see <http://bangladeshaccord.org/>); John A. Quelch and Margaret L. Rodriguez, “Rana Plaza: Bangladesh Garment Tragedy (A),” Harvard Business School Case 514-034, September 2013.

⁷⁴ Accord, op. cit.; Alliance, op. cit. See generally Sarah Labowitz and Dorothée Baumann-Pauly, “Business as Usual is Not an Option Supply Chains and Sourcing after Rana Plaza,” (April 2014) <http://www.stern.nyu.edu/sites/default/files/assets/documents/con_047408.pdf>.

⁷⁵ See Michael E. Porter, Greg Hills, Marc Pfitzer, Sonja Patscheke, and Elizabeth Hawkins, “Measuring Shared Value: How to Unlock Value by Linking Social and Business Results,” FSG Report, <https://sharedvalue.org/sites/default/files/resource-files/Measuring_Shared_Value.pdf>. A recent special issue in the *Academy of Management Review* tackles the problem of conceptualizing the contribution of business to society. See Thomas M. Jones, Thomas Donaldson, R. Edward Freeman, Jeffrey S. Harrison, Carrie R. Leana, Joseph T. Mahoney, and Jone L. Pearce, “Management Theory and Social Welfare: Contributions and Challenges,” *Academy of Management Review*, 41/2 (2016): 216-228; and Emilio Marti and Andreas G. Scherer, “Financial Regulation and Social Welfare: The Critical Contribution of Management Theory,” *Academy of Management Review*, 41/2 (2016): 298-323.

⁷⁶ This is roughly analogous to the difference between business strategy and corporate strategy, where portfolio problems define the terrain. See Michael E. Porter, “From competitive advantage to corporate strategy,” in M. Goold and K. Sommers Luchs, ed., *Managing the multibusiness company: Strategic issues for diversified groups*, (New York 1996): 285-314.