Oh, Mr Porter

The new big idea from business’s greatest living guru seems a bit undercooked

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Apology

HE HAS been one of the world’s leading business thinkers for three decades. His work on strategy forms the foundation-stone of business-school courses the world over. Business titans and prime ministers beat a path to his door. In so far as there is an official line in the managerial world, Michael Porter lays it down. Mr Porter’s recent books are as chunky as his earlier ones: his 2006 tome on health-care reform might have been more influential had it made more concessions to the reader. His students smirk at his arriving for classes with an entourage of flunkies. But most regard his lessons as high-points of their time at Harvard.

Yet Mr Porter has not had the equivalent of a number-one hit since “The Competitive Advantage of Nations” 20 years ago. He is also discovering that there is a downside to hobnobbing with the world’s most powerful people. Like Tony Blair, Britain’s former prime minister, and Howard Davies, who resigned last week as director of the London School of Economics, he helped to engineer the rapprochement between the West and Libya’s murderous Qaddafi regime. Mr Porter’s boasts about his dinners with Saif al-Islam Qaddafi now seem deeply embarrassing.

So for the sake of Mr Porter’s brand a good deal depends on the reception of his latest big idea. He claims to have found nothing less than a formula for reinventing capitalism: “shared value”. Old-fashioned capitalists focus too narrowly on profits, he argues. Newfangled corporate social responsibility (CSR)
types are bewitched by the idea that there is a tension between business and society. But shared value offers companies a way to pursue their self-interest while also acting in the common good. It will unleash a cascade of innovation and productivity gains. And provide capitalism with the popular legitimacy it clearly needs.

What does this mean in practice? Mr Porter focuses on three things. First, the need to create market "ecosystems", especially when selling to the poorest in developing countries; this may require firms to make partnerships with NGOs and governments. Second, expanding their value chains to include such unconventional partners. And third, creating new industrial clusters.

Some of the examples Mr Porter provides are already familiar. GE's "ecomagination" strategy of creating environmentally friendly products is said to be responsible for $18 billion in annual revenues. Walmart has saved a fortune by reducing wasteful packaging. IBM and Intel are helping utilities cut power use. Five per cent of Unilever's sales in India now come from an army of underprivileged women entrepreneurs. Some are less well-known, such as a scheme to support small cocoa farmers in Côte d'Ivoire, which raised their incomes by over 300% by improving yields, product quality and procurement.

Opinion is divided on Mr Porter's big new idea. He thinks "shared value" may have at least as big an impact as his earlier work. Many corporate titans echo his sentiments. The bosses of PepsiCo, Nestlé, Prudential (of Britain) and Petrobras expressed enthusiasm about his arguments at the recent Davos summit. However, Larry Summers, a former American Treasury secretary and a colleague of Mr Porter's at Harvard, was overheard asking "Do you seriously believe this [expletive unrecorded]?

Mr Porter is right to worry that capitalism is suffering a crisis of legitimacy. The 2007-08 global economic panic has generated widespread worries that the capitalist system is too short-term and too crisis-prone. He is also right that CSR—the boardroom's favourite response to this crisis of legitimacy—is a tired label. Two of its loudest corporate proponents, Enron and BP, messed up dramatically. Few people outside the public-relations industry can listen to the CSR mantras of "win-win" and "doing well by doing good" without grimacing.

Mr Porter's examples suggest he is mostly concerned with encouraging companies to be less short-termist: he thinks they should understand better that environmental damage harms the bottom line too, so it is in their direct interest to curb it; and firms selling in the emerging world must do more to help consumer markets develop. But none of this is new: efforts have been made for years to get companies to see the full benefits of cutting pollution, while emerging-world giants like Hindustan Unilever and Tata are well aware that they are in the business of creating and shaping markets. There is a striking similarity between shared value and Jed Emerson's concept of blended value, in which firms seek simultaneously to pursue profit and social and environmental targets. There is also an overlap with Stuart Hart's 2005 book, "Capitalism at the Crossroads".

Is there no alternative?

Worse, it is not clear that Mr Porter has come up with any tangible improvement on the current way of doing business. Is it true that shared value will "drive the next wave of innovation and productivity growth in the global economy", or merely a pious hope? For all we know the next such wave may come from energy-hungry, socially divisive businesses, given the paucity of evidence Mr Porter offers to support his thesis. His arguments have some common flaws: he persistently plays down the difficult trade-offs that businesses often have to make, even in ventures with clear potential for social good (eg, advising a ravaged country on how to cut poverty, at the risk of bolstering its dictatorship). In arguing that "the purpose of the corporation must be redefined as creating shared value, not just profit per se," he risks giving politicians carte blanche to meddle in the private sector.

No one should underestimate Mr Porter's intellectual energy or ambition. He has colonised entire fields of business theory. He has published 18 books to date. But for "shared value" to have the same impact that his earlier output undoubtedly had, he will need to do a lot more work on the idea.
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