



Working Paper Series

***Towards the Unveiling of the Functionalizing Mechanism
of the Creating Shared Value (CSV) Strategy:
The Economics of Competition Utilizing
"Nonprofit Institutions as a Resource Base"***

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Table of Contents

Executive Summary	iv
Key issues and findings of the study	iv
Research methodology and its characteristics	iv
Chapter 1 Introduction: Target and Tasks of the Study	1
1-1: Overview	1
1-2: Study Contents and Objectives	3
Chapter 2 CSV Conceptual Structure	6
2-1: Introduction	6
2-2: Exploring the CSV Conceptual Structure	6
2-3: Configuration of CSV concepts	8
2-4: Target of CSV concept	11
Chapter 3 CSV Concept Transition and Genealogy	16
3-1: Introduction	16
3-2: The Origin of CSV: Private Foundation's Competitive Strategy	16
3-3: The Strategic Philanthropy as the Crux of CSV	18
3-4: The Strategic CSR as a Screening Tool	21
3-5: The CSV Strategy Model: Collective Impact of the Strategic Philanthropy	22
Chapter 4 The Economics of Competition in CSV Strategy and the Involvement of Nonprofit Institutions as a Resource Base	28
4-1: Introduction	28
4-2: Principles and Framework of Philanthropic Leverage	28
4-3: The Economics of Competition based on Hybrid Synergy: The economic rationale of CSV Strategy	33
(1) Capitalizing ghost business investment funds	34
(2) Achieving Self-Sufficiency in Patient Capital	35
(3) Outsourcing and Fables Transformation of CSR Operations and Activities	35
Chapter 5 Deconstructing on CSV Strategic View	38
5-1: Introduction	38
5-2: Strategic Views of the CSV Strategy: A Reflection on the Root	38
(1) A view based on the positioning strategy logic	40
(2) A view based on the location strategy logic	41
(3) A view based on the Economics of Competition using Nonprofit Institutions as a Resource Base	42
5-3: Reinterpretation of various activities constituting the CSV	44
Chapter 6 How to View 'Nonprofit Institutions as a Resource Base'	49
6-1: Introduction	49
6-2: The Concepts of Resources and a Resource Base in Strategic Management Views	49
6-3: The Concept of Institution in Institutionalism and Institutionalization Theories	52
6-4: The Origin of the Resource Base Concept and Its Interpretation within Management Studies	54
6-5: A Viewing on Nonprofit Institutions as the Nexus, Bundle, or Stock of Functions	57
Chapter 7 Conclusion	60
7-1: Reflections on and Implications of the Study	60
7-2: Unveiling Managerial Behavior of Socially Responsible Businesses	63

Reference	66
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List of illustrations

Table 2-1: Concepts related to the configuration of Creating Shared Value	10
Figure 3-1: Structure of the Foundation's Strategy	.....	17
Figure 3-2: Structure of the Strategic Philanthropy	.....	19
Figure 3-3: A Convergence of Interests and Philanthropy's Value	.....	20
Table 3-1 : Meaning Differences in '4 Steps' Phrases between Foundation Strategy and Strategic Philanthropy	.....	20
Figure 3-4: Structure of the Strategic Philanthropy as CSV Strategy	.....	24
Figure 3-5: Financial Flows of the Strategic Philanthropy in the Closed Loop Initiative	.....	24
Figure 3-6: Key Events in the CSV Strategy Process	.....	27
Figure 4-1: 501(c)(3) Regulation Tree	.....	30
Table 4-1 : Private Foundation Typology	.....	31
Figure 4-2: Forms of Private Foundation Expenditure	.....	31
Figure 4-3: Comparative Framework for Measuring the Results of CSV Strategy	.....	34
Figure 5-1: Interaction of various activities in CSV strategy	.....	40
Figure 5-2: The Impact of 'Nonprofit Institutions as a Resource Base' on CSV Strategy	.....	43
Figure 5-3: Framework for Reinterpreting Activities Related to CSV	.....	45
Figure 6-1: Diagram illustrating logical subdivision of the geothermal resource base	.....	55

Executive Summary

Key issues and findings of the study

The main issues and findings of this study are as follows:

- 1) Shared Value or Creating Shared Value (CSV) is defined as specified policies and operational practices; however, its distinctive logic as a "strategy" for gaining competitive advantage remains unspecified and is left unexplored.
- 2) Both conceptually and in strategic actions, CSV and Strategic Philanthropy are synonymous.
- 3) By dealing with corporate donations as business investment funds, CSV strategy realizes that its activities functioning as a distinctive strategy and acquiring its own competitive advantage.
- 4) The CSV strategy cleverly employs philanthropic leverage, which properties of the nonprofit institutions in the U.S., as a mechanism and/or base for competitive advantage.
- 5) In a way, the nonprofit system is incorporated as a resource base of value creation of the firm (i.e., particularly donor company that provide strategic philanthropy).
- 6) Through strategic philanthropy, donor firms astutely leverage nonprofit institutions, significantly compress or streamlining the cost structure in the value-creation process.
- 7) The tangible effects and mechanisms of these dynamics are comprehensively understood through the distinctive lens of Hybrid Synergy,
- 8) The Hybrid Synergy is the action that mainly consists of three processes:
 - a) Capitalizing ghost business investment funds,
 - b) Achieving Self-Sufficiency in Patient Capital,
 - c) Outsourcing and Fables Transformation of CSR Operations and Activities
- 9) The economics of competition, i.e. the economic rationale, in the context of the CSV strategy cannot explain when approached from the perspective of in general cluster development.
- 10) The perspective of "nonprofit institutions as a resource base" is unfortunately still an unexplored new topic in management studies, not only in terms of how to utilize them, but also in terms of understanding their existence.

Research methodology and its characteristics

This study based on a meticulous comparative analysis, juxtaposing an original case analysis by Takaoka (2023b) with a literature review encompassing four pivotal papers by Porter and Kramer (1999; 2002; 2006; 2011). Additionally, insights were drawn from relevant research, including works by Porter et al. (2012), Bockstette and Stamp (2011), and Kramer and Pfitzer (2016), as well as Porter's foundational views of strategy.

It has been more than 10 years since the concept of Shared Value or Creating Shared Value (CSV) was first raised in earnest, and over this period, tangible instances of CSV have been accumulating within the practical operation of the Foundation Strategy Group (FSG)—a nonprofit consulting organization for CSV. As official data on these cases becomes available, the hitherto veiling activities of CSV are emerging with greater clarity. This study, in particular, focuses on the effects generated by the financial flow of collective strategic philanthropy within the Closed Loop Initiative identified by Takaoka (2023b).

The mechanism of competitive advantage of CSV deviates from the logic of the traditional views of strategy (e.g., positioning, location, etc.). It prioritizes initiatives in other dimensions that are different from the market and seeks to gain competitive advantage for the business in the market. It is close to financial strategy that leverages the nonprofit system or institutions. The keys and mechanisms of the economics of competition are in a completely different dimension from the competition image of CSV advocated by its proponents and the implicit understanding of its researchers. This revelation, derived from case analysis, play pivotal in reevaluating existing arguments and controversies related to CSV, fostering the construction of unique understandings and explanations.

Based on this fact, the author has reexamined the various works of the proponents, and it seems that Porter and Kramer (1999;2002;2006;2011) originally held the perspective similar to the insight or findings of this study. Such essence, in which dared to remain veiled in the published papers, may have been practiced earlier in the field of consulting*.

Naturally, the study is not limited to the mere digging of veiling facts, phenomena, and mechanisms. The author highlights the logic that they, and many scholars that had argued the concept, overlooked, and construct its own theoretical interpretation and explanation. The core points are closely connected to the insights and ideas in the “Key issues and findings of the study” section above.

* The reason behind this may have had to do with a willingness to prioritize consulting over the academic search for truth and its explanation. If so, the four co-authored papers at HBR may have been a tremendous publicity to attract consulting clients. Because of CSV consulting (including BOP business and collective impact initiatives) may be a promising business. The key to profitability is advice on how to make corporate donations that effectively utilize the benefits of the nonprofit system and/or institutions in U.S. In case it is somewhat gossipy, the table shows some of the compensation Porter and Kramer getting from the FSG below. And another: It is well known that Porter clearly states that "strategy" and "operational practices" are completely different things. He considers the organizational routines that the Resource-Based View (RBV) of strategy emphasizes as a source of competitive advantage as operational effectiveness, categorizes them as a type of practice, and clearly states that they do not fall under the concept or action of strategy that he thinks. However, in discussions related to CSV, strategic actions related to CSV are often described as "practices" related to business and /or management. Shared Value itself is defined as a type of operational practice. I will leave it to the wise reader to decide what is meant by these descriptions, but in considering CSV's strategy in relation to Porter's view of strategy, one cannot rule out some ambiguity and doubt as to the source of the ideas.

FY	Porter			Kania			Kramer		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
2019	FD	1h	180,000	MD	10h	40,000	MD	60h	350,000
2018	FD	52h	96,000	MD cum O	60h	300,000	MD cum O	60h	390,000
2017	FD	0h	85,000	MD cum O	60h	450,000	MD cum O	60h	420,000
2016	FD	0h	90,000	MD cum O	60h	400,000	MD cum O	60h	380,000
2015	FD	2h	88,000	MD cum O	60h	400,000	MD cum O	60h	400,000
2014	D	2h	155,000	MD cum O	60h	390,000	MD cum O	60h	390,000
2013	D	0h	0	MD cum O	60h	380,000	MD cum O	60h	390,000
2006	D	0h	0	MD cum O	40h	200,000	MD cum O	40h	210,000

Source: FSG's Form 990 for each year; see "Current Officers, Directors Trustees, and Key Employees" column on FSG, INC., Form 990 for each year. This column is usually in Part A-V item of each Form.

(1) Title, (2) Average hours per week, (3) Compensations from FSG and related organizations (fractional amounts of compensation are rounded down). D: director, FD: former director, MD: managing director, O: officer,

The table covers the period during which Porter served in the position from the year FSG received its nonprofit status. However, data for the years 2007-2012 were not available and are therefore unconfirmed. These three persons were the three directors at the time of FSG's inception (when it obtained its nonprofit status). These three individuals were listed in the "Current Officers, Directors Trustees, and Key Employees" column of FSG's original Form 990. The table tracks the compensation and positions held by these three individuals. Since 2013, the FSG has had other officers as well.

Chapter 1

Introduction: Target and Tasks of the Study

1-1: Overview

The concepts of shared value and Creating Shared Value (CSV) have garnered considerable attention in both academic and business circles since their inception by Porter and Kramer (2011; 2006). In their collaborative papers (Porter and Kramer 1999; 2002; 2006; 2011) and works associated with the Foundation Strategic Group (FSG) ⁽¹⁾ they established (Bocksette and Stamp 2011; Porter et al. 2012), terms such as shared value, CSV, and shared value strategy are employed, and the definitions of these concepts have been somewhat outlined. However, the academic literature seldom delves into explaining the term "CSV strategy" ⁽²⁾ and the mechanism that supports its operationalization.

The Study aims to examine specific aspects of the Creating Shared Value (CSV) strategy; endeavors to establish a comprehensive framework for scrutinizing the unique structure and economic rationale of CSV as a strategy to enhance business competitiveness. The foundational premise of this work is rooted in the observation that the conceptualization of shared value as a strategic approach lacks explicit recognition and clarification of its uniqueness in the existing literature, and the explanation by proposers. Consequently, a discernible gap persists, wherein the CSV concept is inadequately presented and understood, often falling into discussions driven by preconceived notions and imagery. The study aims to address these issues by presenting preliminary reflections and providing insights into CSV as a strategic paradigm, elucidating the following tasks; the need for a clear understanding of the structure of the CSV strategy, an elucidation of the mechanism of the economics of competition within the CSV strategy, and addressing challenges associated with the theoretical formulation of the CSV strategy. The real target of addressing preliminary reflections is shedding light on and formulating behaviors related to the management of 'socially responsible businesses' throughout assessing the potential of the CSV structure.

(1) FSG is a CSV consulting organization for companies Co-founded by Mark Kramer co-founded with Harvard Business School Professor Michael Porter in 1999. It was established as Foundation Strategy Group LLC and obtained nonprofit organization status under the charitable organization category (501(c)(3)) in the United States in 2006. Since its transformation into a nonprofit entity, FSG has identified itself as a Social Impact Advisor, emphasizing four main consulting services: 1) Shared value strategy, 2) Design of philanthropic initiatives, 3) Identification of business opportunities aligned with social needs, and 4) Impact assessment for companies and society.

(2) In the work of Porter and Kramer's, there is a description on "Strategy for creating shared value". However, this description does not align with the content intended in this paper as it merely represents a rephrasing of shared value strategy. In other words, the specific strategic actions and logic associated with the concept of shared value remain unclear, both from the proponents and in various discussions on CSV by different scholars.

In summary, the study contends that the CSV strategy effectively leverage the properties of the nonprofit institutions in the United States as a resource base ⁽³⁾. The approach advocates for the mandatory utilization of corporate donations to nonprofit organizations, particularly within cluster development—a pivotal component of the CSV strategy aimed at orchestrating its own business ecosystem and enhancing the profitability of the value creation. By adopting nonprofit institutions as fundamental resources through strategic philanthropy, businesses can acquire a value creation model that generates competitive advantage through a 'Hybrid synergy', ultimately leading to cost reduction and enhanced profitability. The strategic use of corporate donations, commonly known as strategic philanthropy, plays a catalytic role in achieving these outcomes and emerges as a critical activity/tool for the functionalization of CSV strategy.

The author posits that CSV and strategic philanthropy are conceptually and practically synonymous, with strategic philanthropy being positioned as the most critical activity within CSV strategy. This strategic utilization of corporate donations serves as a bridge between for-profit and nonprofit sectors, incorporating benefits, so-called philanthropic leverages, in the nonprofit institutions into the value creation of businesses. Throughout this process, the creating social value and/or benefits takes consideration. The essence of the shared value creation concept lies in connecting this influence to enhancing economic profits for donor companies. Companies contribute (indirectly) to creating social value and/or benefits through donations, with direct implementation carried out by recipient institutions. Furthermore, creating social value and/or benefits, as a CSV mechanism, aims to enhance the competitiveness of donor companies by mediating the restructuring of the business environment, a consequence of social issue resolution by recipient organizations. Given the dependence of CSV strategy success or failure on the operations of donation recipients, they are selected with these effects in mind.

While the causal perspective may resemble an expectation-driven, highly uncertain logic model, filtering the actual effect of hybrid synergy allows for decision-making based on the cost-effectiveness of investment, even if it does not extend to return on investment. More precisely, strategic choices can be made based on the effectiveness of donations as investments. In essence, the value creation style of CSV, acknowledged by proponents and critiqued by opponents, aligns with conventional management and economic paradigms. The CSV concepts and strategy consistently seek and explore ways to position donor companies in advantageous competitive situations. This study, far from presenting a speculative narrative, aims to conduct preliminary reflections for the systematic and logical formulation of understanding, grounded in the lineage of the theories

(3) The idea of the "nonprofit institutions as a resource base" refers to the system of effects resulting from the various properties of the U.S. nonprofit institutional system and the relationships among the various elements in the nonprofit sector that produce them. Rather than a foundation of resources, a composition of resources possessed, and the capabilities or competences to accumulate and utilize them, it refers to a stock of functions that have not been available in the past, and the various properties that accompany the connections that make them manifest. Specifically, it refers to private foundations, which are unique to the U.S. nonprofit system, various regulations on the endowment and charity system, and the federal tax laws that regulate them. Specific programs include the Challenge Fund, Pay for Success that result-related social bonds in U.S., donor-advised funds, and program/mission-related investments, as well as the laws and regulations governing them. See Chapters 3 and 6 for details.

of strategic management and 'Business and Society' field.

1-2: Study Contents and Objectives

This study consists of seven chapters, including the introduction. The introduction presented the theme and outline of this study and some key concepts. These included "CSV strategy", "the economics of competition, i.e., economic rationale, of CSV", "nonprofit institutions as a resource base," "hybrid synergy", and "strategic philanthropy". These concepts will be discussed detailed in the following chapters.

In Chapter 2, we examine the structure of the concept of shared value and shared value creation both as an concept and as an action reality, and how Porter and Kramer (2011; Porter et al. 2012) recognize and refer to the value creation mechanisms, methods, and implications of CSV. To this end, we will first clarify the concept of "CSV strategy" by examining of the relationships among related concepts such as shared value, CSV, and shared value strategy.

Next, we will examine the relationship between the concepts proposed before the concept of shared value and those involved in the formation and structure of the concepts of shared value and CSV. These are "a convergence of interests", "philanthropy's value", "strategic corporate social responsibility", and "strategic philanthropy" (Porter and Kramer 2002; 2006). By examining this relationship, we propose that CSV and strategic philanthropy are conceptually and practically synonymous.

According to Crane et al. (2014a), Porter and Kramer (2006; 2011) criticize the concept of corporate social responsibility (CSR) based on an inappropriate academic understanding. However, to be correct, Porter and Kramer (2006; 2011) criticize existing CSR practices, but they are sympathetic to the view on the relationship and interdependence between "business and society" in CSR.

We reconfirm again how Porter and Kramer (2006;2011; Porter et al. 2012) use the concept of CSV, and what problems they are trying to solve, as the target-range of CSV.

Chapter 3 traces the transition and genealogy of the CSV concept, which initially originated as an idea about "foundation strategy" focused on grant-making foundations, a type of private foundation in the United States (Porter and Kramer 1999). The foundation's provision of grants and management support to working NPOs was positioned to enhance the foundation's legitimacy and create social benefits and/or value. In other words, the improvement, alleviation, and resolution of social issues by the grantee NPOs were regarded as the creation of social value and/or benefits. In the framework of strategic philanthropy, the strategic agent changes from foundations to corporations, and the outcomes of grant-making change from the creation of social value and benefits to the impact on strengthening the competitiveness of donor corporations. This study clarifies that this

way of thinking and practicing strategic philanthropy can be recognized as a prototype for CSV strategy. Using our own interpretation of the case study analysis, we present a model that goes beyond the composition of primitive strategic philanthropy and can be inferred to be a kind of top-level and real composition of CSV strategy. This model will be used as an analytical framework to understand the mechanism by which CSV strategy function as a unique strategy.

Chapter 4 examines the mechanism of the "economics of competition" or economic rationale of CSV strategy, identifying how and why CSV strategy gains competitive advantage. What this study emphasizes as the source and position of competitive advantage of CSV strategy is the relationship with nonprofit organizations to which strategic philanthropy is provided. CSV strategy incorporates the nonprofit institutions and their properties into the business ecosystem as a kind of resource base, and by drawing on the philanthropic leverage unique to the nonprofit sector, they compress the cost structure of the corporate value creation system. This activates the unique monetization mechanism of the CSV strategy. We will present an overview of the nonprofit institutions and its properties that are the focus in this study and present the basic structure that produces philanthropic leverage and the process of attracting it to the for-profit sector. The economics of competition of CSV strategy and its value-creation style will be unraveled through the idea of hybrid synergy.

In Chapter 5, we review how the logic of "economics of competition" in CSV strategy relates to Porter's (1979; 1980;1985;1987;1990;1998a, b) strategic view of positioning and location. We argue that there is an aspect that is overlooked in the existing Porter's (1990; 1998a.b) views of strategy, that is, Porter and Kramer (2011) try to capture, in the logic of the strategy of location, the behavior of CSV as a strategy and the mechanism of its competitive advantage acquisition. And he, or they, believes that this is possible.

However, the uniqueness of the CSV strategy as a strategy, and the mechanism and its real source in the economics of competition, cannot be explained by the methods and logic of cluster development in general, which is the main issue of the location strategy. The CSV strategy does not gain a comparative advantage by merely selecting elements that can reduce the opportunity cost in a specific location. The important significance lies in the fact that the selected elements are nonprofit entities, and that they are connected to the "nonprofit institutions as a resource base" itself. This is the true source and/or reason why comparative advantage can be gained. Because the target selected (as the giving recipients, simultaneously as the position to gain comparative advantage) is nonprofit entities, it becomes possible to build a structure that can leverage philanthropic leverage for the donor's value creation. If the target selected was other entities or institutions else nonprofits, the firms can't obtain the merits. This aspect has been overlooked by Porter and Kramer (2006; 2011; Porter et al. 2012) themselves and by various critics of CSV. We present this outlook by contrasting it with the three guidelines for creating shared value proposed by Porter and Kramer (2011): (1) Reconceiving products and markets, (2) Redefining productivity in the Value Chain, and (3) Building supportive industry

clusters at the company's locations.

Chapter 6 considers how nonprofit institutions and its properties, which this study emphasizes as the resource base for the CSV strategy, can be captured in management studies. This study mainly focuses on the impact of "nonprofit institutions as a resource base" on CSV strategy. However, the "nonprofit institutions as a resource base" has an impact not only on CSV strategy, but also on arguments of the value creation of socially responsible business, which seeks the way businesses and corporations should work toward realizing a sustainable society. The concept of resource base is one of the key concepts in the field of strategic management. Nonprofit institutions are also a relatively frequent component of arguments on business ecosystems and cluster development.

However, to our knowledge, the distinction between institutions in general and nonprofit institutions, and the idea of positioning nonprofit institutions and their various properties as the resource base for value creation in the for-profit sector, is an unexplored area and/or task in the literature. Therefore, in Chapter 6, we examine how the "nonprofit institutions as a resource base" should be understood in reference to various views in the field of management studies that emphasize various concepts such as 'resources', 'resource base', 'institutions', and 'institutionalization'. Similarly, it also considers how we can use it as a perspective for modeling the managerial behavior of socially responsible businesses and their characteristics.

This idea of the "nonprofit institutions as a resource base" is based on the perspective of for-profit sector entities, and its reality refers to the following image: It is the stock of functions that are right next to each other, which we have been aware of their existence but have not been able to utilize them. The functions of the stock are like, metaphorically speaking, another financial ecosystem that is different from that of the for-profit sector.

In the concluding chapter, Chapter 7, we delineate the contributions and implications of this study within the realm of management studies, with particular focus on strategic management including the concept of Creating Shared Value (CSV), and the field of "Business and Society." Furthermore, transcending the confines of CSV strategy, we illuminate the managerial conduct of socially responsible businesses, particularly exploring their value creation methodologies, operational mechanisms, and the challenges they pose to the theoretical underpinnings of socially responsible management.

Chapter 2

CSV Conceptual Structure

2-1: Introduction

It is undeniable that the concepts of shared value and the CSV framework serve as guidelines for corporate value creation. This view tends to adopt an explanation conscious of the genealogy with Porter's (1979; 1980; 1985; 1990; 1998a, b) view of strategy. In this chapter, first and foremost, we will organize the insights of Porter and Kramer (2011; Porter et al., 2012) regarding how they perceive and refer to the mechanism, methods, and implications of value creation through CSV.

2-2: Exploring the CSV Conceptual Structure

Porter and Kramer (2011, p.77) assert explicitly that Creating Shared Value (CSV) constitutes a self-interested initiative, interconnecting the generation of social value with a company's economic value rather than merely serving as a philanthropic endeavor. They further assert that CSV can be seen as a model of value creation broader interpretation of Adam Smith's concept of the "invisible hand" (ibid). They also declare that the purpose of corporation must be redefined from the pursuit of profit to the "creation of shared value" (CSV) and argue that the practice of CSV will help dispel society's doubts about capitalism and restore the legitimacy of business (ibid. p. 64). They also clearly state that shared value is "the right kind of profits" that companies should pursue, and that CSV is the way to achieve this (ibid, p. 77).

Then, the concepts of Shared Value and CSV are defined as follows. Porter and Kramer (2011, p.66) define shared value as "the policies and practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates"; CSV as "identifying and expanding the connections between societal and economic progress." The connection means linkage between "the creation of societal value through company's involvement in the progress of society" and "its economic conditions improvement for the firm".

According to Porter and Kramer (2011, p.65), "Shared value is not about personal values nor is it about "sharing" the value already created by firms -e.g. by redistribution approach -. Instead, it is about expanding the total pool of economic and social value." Furthermore, the concept of shared value is considered not so much a conceptualization of value itself but rather a strategic approach or guideline for value creation intended to enhance a company's competitiveness. This value creation activity involves addressing specific social issues in

the business context and its surroundings. In essence, CSV signifies strategic value creation measures by companies, leveraging the creation of social value and benefits to enhance their competitiveness. However, the actual realization of "creation of social value and benefits by companies" itself poses some challenges.

Subsequently, Porter and Kramer (2011, p.67, p.76) outline three guidelines for the method of Creating Shared Value (CSV). These are:(a)" Reconceiving products and markets" ;(b)" Redefining productivity in the value chain"; and (c)"Building supportive industry clusters at the company's locations" (Enabling local cluster development) (ibid, 2011, p.67). Actual activities aligned with each of these three guidelines correspond to CSV initiatives. These are very compatible with Porter's (1980;1985;1990) view of strategy, i.e., the so-called positioning and location strategies (or rather, they are devised with affinity in mind). However, this (a)~(c) lacks specificity as a guideline for "value creation measures that enable companies to improve their competitiveness by leveraging the creation of social value and/or benefits. To be precise, they do not adequately clarify the reality of CSV strategy.

On the other hand, Bocksette and Stamp (2011, p.4), paper which raised at the same time as Porter and Kramer (2011) by researchers in FSG, define CSV as "an investment in long-term business competitiveness that simultaneously addresses social and environmental goals"; Kramer and Pfitzer (2016,p.82) more succinctly define CSV as "the pursuit of financial success in ways that can also produce societal benefits." These concepts suggest the following: the objective of investments related CSV initiatives is to enhance the competitiveness of one's own business, but the value creation requirement of CSV involves contributing to social and environmental goals in the process. These definitions imply that CSV aims to reconcile and bridge the creation of "societal benefits" with the acquisition and augmentation of a company's economic interests. Furthermore, Porter et al. (2012, p. 4) express strategies that integrate social and competitive strategies "shared value strategies." And they describe shared value strategies that are developed from the identification of the company's unique shared value opportunities as "tailored shared value strategies". Finally, the strategy integrated with the business strategy express as an "integrated shared value strategy". While the term "social strategy" lacks precise elucidation, shared value opportunities refer to value propositions derived from the concept and perspective of shared value, with their realization and provision through business activities implying integration and alignment with business strategy. Tailored shared value strategies seem to indicate a state of integrated shared value strategy extending to the consistency with arrangement of VC for each business.

These descriptions, influenced by Porter's strategic views, suggest that, among the three CSV guidelines (a)~(c) above, the various activities in (b) based on the activities corresponding to (a) are synonymous with "the tailored shared value strategies". However, the distinctiveness of CSV as strategic action, the crux in the strategy of "positioning," remains unclear. The same is ambiguous for the uniqueness of the position, which is

supposed to be the basis for this, the source of competitive advantage that brings above-average earnings to the firm. The explanations by Porter and Kramer (2011, pp.67-68., p.76) and Porter et al. (2012, pp.7-8.) regarding (a) are too general and do not show any difference with the strategic view of positioning. If there is no difference, there is no need to name the existing strategic view as CSV strategy. Nevertheless, according to speculation in this study, it suggests that there exists a unique position and logic for CSV strategy that goes unnoticed in the conventional logic of location strategy for (c) cluster development. However, Such the position and the logics are scarcely explicit in the works of Porter and Kramer (2011; Porter et al., 2012).

2-3: Configuration of CSV concepts

The principles and more concrete configurations of the style of creating value of Creating Shared Value (CSV) approach can be deciphered through the lens of value principles and some concepts predating the shared value paradigm and relevant to the concretization of shared value. These encompass the convergence of interests, "Philanthropy's value", "strategic Corporate Social Responsibility (CSR)", and "Strategic Philanthropy", as articulated by Porter and Kramer (2002; 2006).

Value principles, encapsulating the notion of perceiving value as benefits relative to costs and defining profit as the difference between income and costs, form the foundational principles of Porter's strategy and performance evaluation. In the context of CSV, these are deliberately termed "shared value principle" (ibid, 2011, p.66). The shared value principle emphasizes that activities that cannot continuously produce profits are out of the question, and implies CSV is no exception.

Concepts subsequent to such as the convergence of interests relate to the idea of treating corporate donations as investments. A prominent example is strategic philanthropy, distinguished from charitable donations and reputation-building philanthropy as a concept highlighting systematic practices. Strategic philanthropy is defined as donations focused on enhancing the competitive context, specifically targeting the improvement of a company's competitive advantage (ibid, 2002, p.67). The target of strategic philanthropy is to strengthen the company's competitive position through the enhancement of its competitive context. The resultant concept is philanthropy's value, described by Porter and Kramer (2002, p.58) as the outcomes generated by strategic philanthropy in areas where interests converge. The essence of these outcomes lies in enhancing the competitive position of the donor company through the improvement of its competitive context via strategic philanthropy.

The concepts of convergence of interests and strategic CSR are relevant to the logic of selecting recipients for strategic philanthropy. The former is defined as "the area where corporate donations can simultaneously generate social and economic gains, significantly influencing the company's competitive context" and, thus, meaning a truly strategic domain for corporate donations (ibid, 2002, p.59). This domain implies that donations

as investments yield returns or contribute to returns and be being within the convergence of interests. The term "strategic" indicates the optimal selection of targets for donation as an investment. Strategic CSR functions as the role of filtering concept for this selection.

Porter and Kramer (2006, p.88) defined the strategic CSR as the implementation style of CSR applying insights and concepts based on positioning strategic views. It signifies type of "social issue that contribute to strengthening the competitiveness of donor firms, as result of improve into social situation (in which the competitive context is embedded) such that enable to bring more benefits to the company and to society, through corporate donations (ibid,2006,p.85).

The overview of each conceptual definition for various concepts involved in the formation of CSV is as shown in Table 2-1. Even by referring to only the conceptual definitions of these related terms, it is possible to perceive the concepts of "shared value," "convergence of interests," and "philanthropic value" as essentially the same in meaning, as they are merely paraphrased. It is the strategic philanthropy that is the policy and practice that "enhances the competitiveness of a company by improving the economic and social conditions of the communities in which it operates" and "identifies and extends the link between the creation of social value and the economic enhancement of the company," as targeting "convergence of interests" and "strategic CSR". CSV and strategic philanthropy can be seen as equivalent activities with only a substitution of expressions. At least, it would not be an error to position strategic philanthropy as an important strategic tool for CSV. Rather, by focusing on strategic philanthropy, it is possible to better decipher the strategic logic that operates on the economics of competition of the various activities encompassed in the three guidelines of (a)-(c) proposed as the methods of CSV.

The concept of shared value, and the social value or benefits in CSV, refers to the resolution of social issues around the business context of the donor corporation by the grantee working NPO. In other words, the donor company does not directly create social value through their business activities. The criterion for selecting recipients of strategic philanthropy is not the ability of nonprofit organizations to solve social problems, but whether they can create an effective impact on strengthening their own competitiveness (Takaoka 2009a, p. 40), which is be an indicator of the cost-effectiveness of corporate donations.

Establishing a business ecosystem that employs philanthropy as strategic catalyst to take advantage of the nonprofit organizations around business context of the donor firms, thus involving them in the process of value creation, is recognized as a distinctive and practical relational structure inherent in the CSV strategy.

In order to strengthen the consistency of this perspective, the next chapter examines the evolution of the CSV concept, with the aim of understanding the concept and value creation process of CSV.

Table 2-1: Concepts related to the configuration of Creating Shared Value

Key Concepts	Details of concepts
Shared Value	Policies and business practices that increase a company's competitiveness by improving the economic and social conditions of the communities in which it operates" (Porter and Kramer 2011, p. 66).
CSV SVC (Creating Share Value) (Shared Value Creation)	"Identifying and expanding the link between the creation of social value by contributing to social progress and the economic improvement of the company" (Porter and Kramer 2011, p. 66). "Pursuing financial success in ways that also produce social benefits" (Kramer and Pfitzer 2016, p.82)
Strategic CSR	A concept regarding the types of social issues that companies respond to through philanthropy; social issues whose resolution can contribute to strengthening the company's strategy (competitiveness) by providing benefits to society, the company's VC, and the competitive context. or its implementation mode. ↑ "A CSR implementation style that applies concepts from strategy theory (Porter and Kramer 2006, p. 88), and through corporate philanthropy, by improving the social situation (=competitive context) that brings more benefits to companies and society. Types of corporate social agendas that can strengthen corporate strategy (2006, p.85).
A Convergence of Interests	Expenditure area of philanthropy as an investment that can simultaneously create social value and economic value through reorganization of the competitive context (=expenditure area where corporate philanthropy can be viewed as an investment and can generate returns for the company) ↑ Philanthropy exists in areas where corporate philanthropy (spending) and shareholder interests are compatible, where corporate philanthropy simultaneously generates social and economic gains, and where corporate philanthropy has a significant impact on the company's competitive context. areas that are truly strategic (Porter and Kramer 2002, p.59).
Strategic Philanthropy	Corporate contributions intended to create an impact on the reorganization of competitive contexts that will strengthen the company's competitiveness. ↑ Strategic giving refers to donations that focus on improving competitiveness by strengthening the company's competitive context (Porter and Kramer 2002, p.58, p.67).
Philanthropy's Value	The results produced by strategic philanthropy (i.e., strengthening one's own competitiveness by improving the competitive context) in areas where interests are compatible (Porter and Kramer 2002, p.58).
Collective impact	The organization of an ecosystem (framework) for creating shared value through the collaboration of multiple, especially for-profit, and nonprofit entities, and the results brought about by such collaboration and aggregation. ↑ The concept originally refers to the framework and results of structured cooperation and cooperation among cross-sectional organizations with the goal of social change (Kania and Kramer 2011). Of the three CSV methods, it is considered an essential approach (framework) for "regional cluster development" (Kramer and Pfitzer 2016, p.87)

Source: Based on Porter and Kramer (1999;2002;2006;2011), and Kramer and Pfitzer (2016) with additions and modification

Prior to delving into that analysis, attention will be given to pertinent issues critical for evaluating the validity of this paper's CSV strategic perspective and the formulation of relationship structures. This involves a systematic organization and clarification of various criticisms related to common misconceptions about the CSV concept. Although the ambiguous explanations provided by Porter and Kramer (2011) have contributed to these misconceptions, many critiques misunderstanding the true intent of the CSV concept. Rather than addressing the authentic logic of CSV, these critiques tend to question the premise of CSV itself. In scholarly research, the correct understanding of the proposers' intentions, coupled with the identification and rectification of logical flaws, represents the appropriate methodological stance. It will influence the evaluation of the validity of perspectives in this study. Above all, it will also serve as a reference axis to clarify the original contribution of

this study to CSV research.

2-4: Target of CSV concept

Regarding the insistence on Creating Shared Value (CSV) by Porter and Kramer (2011; 2006; Porter et al. 2012), numerous scholars, especially those within the realm of the "Business and Society" field researching Corporate Social Responsibility (CSR), have raised critiques. Many of these critiques center to the concern that the CSV concept is based on the paradigm of neoclassical economics (Beschorner 2013, p.109; Crane et al. 2014a, p.134, p.139; Wieland 2018, p.12; UN 2014, p.37). Indeed, the legitimacy of business that Porter and Kramer (2011) seek to restore through the CSV concept aligns with a corporate perspective rooted in neoclassical economic paradigms while advocating for the freedom of business to engage in economic activity. In other words, it upholds the notion that corporations, as for-profit entities, are owned by shareholders, and their managerial resources are acceptable only when contributing to shareholder interests. This perspective operates on the principle of maximizing self-interest, premising on that such corporate actions contribute to the development of the socio-economic system. Critiques of the CSV concept mainly converge on two points. Firstly, as long as the neoclassical economic perspective on corporations is assumed, CSV cannot fully escape being a means for maximizing corporate value (it cannot consider and create societal benefits on par with its economic interests). Secondly, when forming a value creation system like CSV, the critique suggests that it considers the interests of stakeholders involved in the process but limits the inclusion of only specific stakeholders on its scope. Furthermore, it tends to view these relationships solely from an economic transaction standpoint.

Wieland (2018, p.18) criticizes the framework for the discover of position and measurement of shared value proposed by Porter et al. (2012, p.4), as arguing that only stakeholders contributing to the enhancement of corporate competitiveness are allowed to engage in the framework of value creation as CSV. Maltz et al. (2011, p.344) contrast the view of Porter and Kramer (2011) with the modified CSV view⁽⁴⁾ by the United Nations and

(4) The United Nations has pointed out that the realization of "sustainable development" requires a transformation of existing value creation. The UN expects business transformation, especially by giant multinational corporations, to play a central role in this transformation. In particular, BOP (base or pyramid) business and CSV are taken up as the model examples. However, it criticizes the existing view of CSV raised by Porter and Kramer (2011) as follows. Their view of CSV may contribute to corporate sustainability, especially to the economic sustainability of companies, but it does not envision a contribution on the sustainability of the socio-economic system itself. UN (2014, p. 37) points out that it is essential to establish a deeper understanding of economic performance and measurement methods, as well as to co-create a value creation system itself based on cooperation with a wider variety of stakeholders. The EU's view of CSR is regarded as a model for this modified view of CSV. The European Commission defines CSR in a Green Paper issued on July 18, 2001, as a concept guiding actions by companies beyond their legal obligations towards society and the environment, involving the integration of concerns into business activities and dialogue with stakeholders (Commission of the European Communities 2001, p.6; European Commission 2011, p.3). It further notes that companies engaging in CSR not only contribute to enhancing competitiveness, exploring new markets, and promoting growth but also form and acquire the foundation for sustainable business models.

This influence is presumed to originate from the trust stakeholders place in companies. The European Commission sees the establishment of trust relationships with stakeholders as a fundamental requirement for involving stakeholders in the company's business development, eliciting cooperation, not only sustaining existing businesses but also facilitating the transition to sustainable enterprises. While maintaining these ideas, the European Commission, in the 2011-14 European CSR Strategy revision issued on October 25, 2011, made slight modifications to the definition of CSR. It redefines CSR as the "responsibility of

the European Union (UN 2014, p.14, p.22, p.37) and make the following propositions. The United Nations and the EU affirm the concept of shared value, positioning CSV as a model for value creation to achieve a "sustainable society." They advocate for the inclusion of a broader range of stakeholders in the value creation system and emphasize co-creation through collaboration with diverse stakeholders, including companies, in the construction of the system. In contrast, Porter and Kramer (2011) emphasize the importance of limiting and selecting stakeholders involved in the shared value creation system, pointing out that this is their focus. Such criticisms and observations, to some extent, hit the mark.

However, it must pay heed to that there is no contradiction or falsehood in Porter and Kramer's (2011) arguments and perspectives. In addition, in that the CSV concept seeks to involve nonprofit organizations and institutions in the value creation system of the firm, it does not seek to limit itself to economic actors alone, nor does it consider only economic transactions. Underlying these criticisms are the following prejudice against and misconceptions on CSV; CSV activities are on market-oriented business activities. The critics think too much that shared value is created through business and in the marketplace, and thus misunderstand the overall picture of CSV.

According to, Crane et al. (2014a, b), Porter and Kramer (2006;2011) propose the concept of CSV as be like method substitute for CSR, based on opportunistic, uncultured criticism on CSR. Even though it is premised on an understanding that is not academically correct, Porter and Kramer (2006, pp.80-83., pp.91-92.; 2011, pp.64-65., pp.76-77.) criticize the way carrying out CSR, rather are sympathetic to the view on the importance of relationship and interdependence between the business and society in CSR. They even deliberately avoid describing such the relationship-view with society as CSR and refer to it as "corporate social integration" (Porter and Kramer 2006, p. 92). In short, the recipient may have misinterpreted that Porter and Kramer (2011) posited CSV as if a model for value creation in socially responsible business. Porter et al. (2012) clearly state that shared value is fundamentally different from value concept or style of value creation such as sustainability and integrated value ⁽⁵⁾ ones. Therefore, the methods, evaluation targets, and indicators for measuring CSV

companies for the impact on society (derived from business actions and the management decisions that drive them)" (European Commission 2011, p.6). The revised definition explicitly includes ethical issues, human rights, and consumer considerations alongside society and the environment. It emphasizes the necessity of integrating consideration for these aspects into business operations and the formulation and implementation processes of corporate strategies, highlighting the coordination with stakeholders when implementing these considerations. The difference between the European Commission's CSR views in 2001 and 2011 lies in the inclusion of the economic sustainability of financial stakeholders related to companies in the conceptualization of CSR in 2001 and the emphasis on considering CSR as a matter to be addressed in the strategic planning and implementation stages, central to the value creation process. This approach aims to mitigate the negative impacts of business activities on society while maximizing the creation of shared value for a broader range of stakeholders, including business owners, shareholders, and investors, contributing to the overall well-being of society (ibid, p.7). For example, while Porter and Kramer (2006; 2011) limit the CSV strategy to addressing strategic CSR issues, critics of the UN and CSV envision value creation that includes addressing challenges categorized by Porter and Kramer (2006; 2011) as passive CSR, thus portraying it as an ideal for CSV.

(5) The concept of integrated value has been raised by Shoemaker and Schlomoda (2020). It concerns the method that capturing value through adjustment with economic value throughout monetizing externalities (external diseconomies) and social impacts. Shoemaker and Schlomoda (2020) present a three-stage method for understanding and calculating integrated value based on its contribution to sustainability. In the context of discussions on similar value concepts or modes of value creation, shared value may bear resemblance to the blended value proposed by Emerson (2003). Wojcik (2016, p.38) suggests that the blended value

outcomes are as well different from those used in impact-weighted accounting and SROI (Social Return on Investments).

Although they are concerned that the capitalism and the legitimacy of business are under threat and are willing to seek a way out, they are not rejecting the existing paradigm of the corporate view itself and are not trying to change or transform it. Rather, they are merely trying to correct the wrong actions of companies and promote healthy competition (Porter and Kramer 2002, pp.57-59.). Porter and Kramer (2002 pp.57-58., p.68; 2011 p.66) have tend to be think that the concepts of shared values and CSV overcome (resolve) Friedman's (1970) criticism of CSR, not only logically affirming corporate social responsibility activities, but also enabling active involvement (and correct implementation).

Friedman (1970), who can be considered fundamentally averse to the concept of CSR, primarily rejects the concept and views of CSR based on two rational grounds (Takaoka, 2009b). These grounds are rooted in the notion of the "infringement of the public nature (or public welfare)." The essence of the logic behind the infringement of public nature can be summarized as follows: the CSR concept, while seemingly promoting societal and public interests, is perceived as, in reality, disrupting public order and causing societal harm. The two types of infringement of public nature are those of the self-responsibility-default type and those of the public-area infringement type. The former view is based on the neoclassical economics view of the corporation and is based on the logic that CSR is not only inconsistent with that view of the corporation, but also deviates from the role allowed for the institution of the corporation, and therefore CSR is an unjustifiable concept and action. The latter view can be summarized as follows. Corporations are only private institutions, and although they have influence, they do not have the authority to solve public problems. Management also is not elected. Nevertheless, if they get involved in social and public issues, they may end up manipulating the public order and privatizing the public space according to their private intentions. CSR is nothing more than a convenient cover to facilitate that.

Porter and Kramer (2006:2011) seems to recognize that Creating Shared Value (CSV) holds the potential to address not only the self-responsibility-default type but also to alleviate issues related to the public-area infringement type.

concept might serve as a precedent for shared value. Indeed, both concepts share a common focus on the value creation potential of nonprofit organizations. Both for-profit and nonprofit organizations are positioned as entities generating both economic and social value. However, predating Emerson (2003), Porter and Kramer (1999) introduced the idea of a value creation style underlying CSV. Additionally, CSV also shares with sustainable value proposed by Hart (2007, p.82) and Hart and Milstein (2003, p.65) in that it seeks to balance and bridge social values and benefits and economic benefits of companies based on the traditional corporate perspective. Both seek to change the way companies create value and their management, but CSV is different in that it contributes to extending the life of the existing management paradigm, while sustainable value is oriented toward transforming corporate management and business, including changing the business composition (portfolio of businesses in a corporation). The existing management paradigm here refers to the idea of increasing the margin of profit earning through reduction of operations, job functions, and fixed cost burdens that do not generate added value, as well as through reduction of self-ownership. It refers to a management sense that uncritically accepts excessive cost reductions.

CSV skillfully exploits the role of nonprofit institutions and organizations toward creating economic value. The idea is similar to the process and structure of creating value as social welfare in the value concept or value creation style that Emerson (2003) named blended value. Depending on whether the utilization of nonprofit organizations and institutions is viewed positively as collaboration and cooperation or negatively as exploitation and abuse, the evaluation of CSV value creation may change completely. However, it is clear that the value-creation style of CSV has an aspect of value co-creation with nonprofit institutions and organizations, and that they mutually support each other's main task (their own value creation).

Nonprofit institutions and organizations are not governments or states. Therefore, like the corporate system, they are neither democratically elected nor have the authority to control public order. However, nonprofit organizations exist, at least in principle, to promote the public interest, not for the pursuit of private profit or for earning make. That is why the nonprofit system exists. They recognize that engagement with nonprofit organizations in CSV, or to be drawn the nonprofit institutions into CSV, has a positive impact on securing public approval and legitimacy for CSV activities (Porter and Kramer 2006, p.81, p.83; 2011, p.67, pp.72-74., p.76). The CSV concept focuses on ensuring that companies can compete favorably, and that they can acquire or expand their own profits. However, it is also true that CSV cannot be established if that is it's only the rage of goal.

Above all, the involvement with nonprofit institutions and organizations is not a complementary element to the value creation of CSV but is at the core of the value creation of CSV itself, CSV as a strategy. The movement to utilize nonprofit institutions for corporate value creation is not limited to the CSV concept, although there are differences in the forms of utilization.

The issue is not the limited space in journal in which they contribute (Porter and Kramer 2014), but the resolution of the polysemy of the CSV concept. In Porter and Kramer (2011), Porter et al. (2012), and Bocksette and Stamp (2011), the specifics of how to identify and extend the "connection between the creation of social value through corporate involvement in social progress and the economic enhancement of the company" are the method and logic remain unclear. In the first place, what are the social values and/or benefits that companies are involved in creating, how they are created, and how they contribute to the acquisition and improvement of economic benefits of companies are only explained in a way that can be conveniently interpreted by the reader. Moreover, the lack of alignment with the strategic view of positioning and location has instead contributed to the misperception that CSV value creation can only occur in the marketplace and through business (Crane et al. 2014a; Krzyzanowska and Tkaczyk 2014; Wojcik, 2016).

Even though more than 10 years have passed since the concept of CSV was first proposed, the unique

Towards the Unveiling of the Functionalizing Mechanism of the Creating Shared Value (CSV) Strategy: The Economics of Competition Utilizing "Nonprofit Institutions as a Resource Base

structure of the strategy and the logic of the competition mechanism have still not been properly understood, and there has been no sound criticism, improvement, or development of the inadequacies and problems as ever.

Chapter 3

CSV Concept Transition and Genealogy

3-1: Introduction

The body of work authored by Porter and Kramer (1999; 2002; 2006; 2011) can be viewed as a discourse on the exploration of philanthropy's potential to value creation. They are trying to devise measures to transform giving into an act that contributes to value creation, rather than merely a charitable act or one-time expenditure, whether at the individual or corporate level. It is characterized by the idea of rethinking the financial contributions as investments for the production of economic value through the creation of social impact, whether at the individual or corporate level. Although the strategic agent responsible for value creation changes from foundations to corporations in their papers, construction of method that identifying and utilizing the influence or merits of philanthropy on the value creation of the strategic entity can be said to be the underlying common task in their four co-authored works. With the inclusion of Kramer and Pfitzer's (2016) contributions to their body of work, the evolution of their collective thoughts unfolds, progressing from "foundation strategy" to "corporate strategic philanthropy", followed by "strategic philanthropy in collaboration between corporations and foundations," and culminating in "collective strategic philanthropy involving multiple corporations and foundations." This collective approach corresponds to the collective impact activities within the framework of CSV strategy. Within this chapter, this study traces the conceptual evolution of CSV based on the works of Porter and Kramer (1999; 2002; 2006; 2011) and Kramer and Pfitzer (2016). And exploration reaffirms that CSV and strategic philanthropy are not only conceptually aligned but also practically synonymous, with complementing such observations through interpretation of case analysis by Takaoka (2023b).

3-2: The Origin of CSV: Private Foundation's Competitive Strategy

The concept of shared value or CSV raised by Porter and Kramer (2011) originates from an idea (Porter and Kramer 1999) that was originally presented as a method for developing a competitive strategy for private foundations in U.S. This origin becomes apparent when considering the nomenclature of their corporate CSV consulting entity, FSG, which they established. Notably, the entity prominently features "Foundation Strategy" in its name, underscoring an initial emphasis on foundations. Founded in 1999 as the Foundation Strategy Group LLC, FSG obtained nonprofit status under section 501(c)(3) of the U.S. tax code in 2006, classifying it as public charity. Since obtaining nonprofit status, FSG has declared itself a Social Impact Advisor, delineating its key consulting services as (1) Shared Value Strategy (integrating social and competitive strategy), (2) Philanthropic Initiative Design, (3) Identifying Business Opportunities that Meet Social Needs, and (4) Evaluation of Corporate

and Societal Impact.

Porter and Kramer (1999, pp.126-127.) positioned private foundations, especially grant-making or private non-operating foundations, which are unique to the U.S. nonprofit institutions, as entities that solve various social problems, then presenting the understand of positioning that the solution to social issues is the creation of social value and/or benefits by foundations. Characteristics of the idea was that improving the ability of foundations to solve social problems would contribute to the acquisition and enhancement of their legitimacy as well as provide benefits to society as a whole.

The process of philanthropic value creation by the foundation can be summarized in Figure 3-1. The grant-making foundations were responsible for receiving and managing donations from individuals, corporations, and other donors, and then using the investment profits to provide grants to working NPOs and private operating foundations that work to solve social issues.

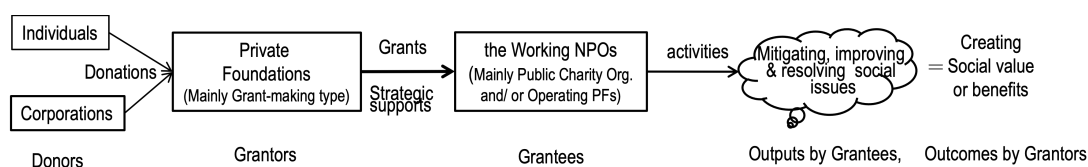


Figure 3-1: Structure of the Foundation's Strategy

Porter and Kramer (1999, pp.123-125.) articulate four challenges designed as policies to augment the value creation achieved by foundations through philanthropy. We shall refer to these as "value enhancement policies through philanthropy." The policies recommend being implemented step by step in the following four tasks, summarized the essence of their contents as follows:

- (1) Selecting the best grant recipients, as be The Foundation's grant recipients.
- (2) Finding and collaborating with partners who support jointly the grantee organization.
- (3) Enhancing of Grantee Capabilities, beyond monetary grants, foundations should actively support to the improvement of grantees' social issue-solving capabilities, providing operational support to fortify their activities; and
- (4) Applying of the competitive strategies knowledge to value creation (activities that fulfill the mission of the organization) by philanthropy and nonprofit organizations,

They posit that the sequential execution of steps (1) through (4) serves to elevate the value creation achieved by foundations through philanthropy. These policies are later denoted as the "4 Steps to Maximization Philanthropy's Value " (Porter and Kramer 2002, p. 62). It is natural to think that a more appropriate understanding is that the key point of this measure is not to implement (1) through (4) in steps, but to implement

(1) through (3) on the basis of (4).

The crux of a grant-making foundation's strategy is deemed to hinge on the careful selection of grantees. The comparison between the foundation's grant amount and the resolution level of social issues—measured by the degree of creating social benefits—addressed by the working NPOs encapsulates the value creation of philanthropy by the foundation, encompassing both efficiency and outcomes. The identification and selection of cost-effective grantees aligned with the foundation's mission not only fortify the foundation's uniqueness but also augment its competitive advantage by securing a position that leads to improved outcomes. The identification of the best grantee represents the foundation's competitive "position" and the relationship formation with the grantee through grant-making means its acquisition.

In this narrative, value creation through philanthropy by foundations entails providing grants to operational NPOs addressing social issues pertinent to each foundation's mission. These NPOs, through their activities, actively contribute to the amelioration, alleviation, or resolution of those specific issues. This process is perceived as synonymous with the foundation's creation of social value and benefits. Foundations indirectly partake in the generation of social value and benefits by extending grants to working NPOs. The expenditure on philanthropy (grants) and the resolution level of social issues serves as indicators that encapsulate the strategic outcomes of the foundation's value creation and the cost-effectiveness of philanthropy.

3-3: The Strategic Philanthropy as the Crux of CSV

In the vision of strategic philanthropy articulated by Porter and Kramer (2002), a metamorphosis unfolds, vividly illustrated in Figure 3-2. The transformation can be distilled into three dimensions. First, the strategy agent shifts from foundations to corporations. Second, the outcomes of philanthropy shift from creating social value and/or benefits via activities for mitigate social issues by the grantee working NPO, to enhancing of competitiveness for the donor corporation. In their outlooks, the competitive enhancement results from the impact of the activities of the working NPO on the competitive context of the donor corporation. Finally, "value enhancement policies through philanthropy" is replaced by "4 steps for maximizing philanthropy's value through strategic philanthropy". The augmentation of the enhancing competitiveness of donor corporations is postulated to materialize through the mediating impact on the improvement of the competitive context, engendered by the tangible outcomes arising from the activities of the grantee working NPO. The outcome yielded by the working NPO are interpreted as the results equivalent to the creation of social value and/or benefits by, as original funds, the corporate donations.

However, the true essence and consequential impact of strategic philanthropy lie in its potent influence on the enhancing competitiveness of donor corporations through the channel of corporate donations. Central to this discourse is the premise that the activities of grantee NPO exert a transformative influence on the business

environment and competitive context of donor corporations, thereby contributing substantively to their heightened competitive advantage. The identification of donation recipients with such intention encapsulates the intrinsic reality of "selecting the best grant recipients".

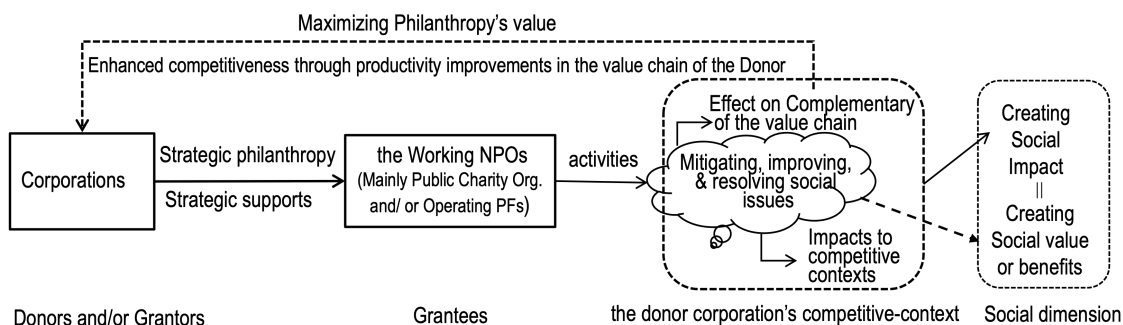


Figure 3-2: Structure of the Strategic Philanthropy

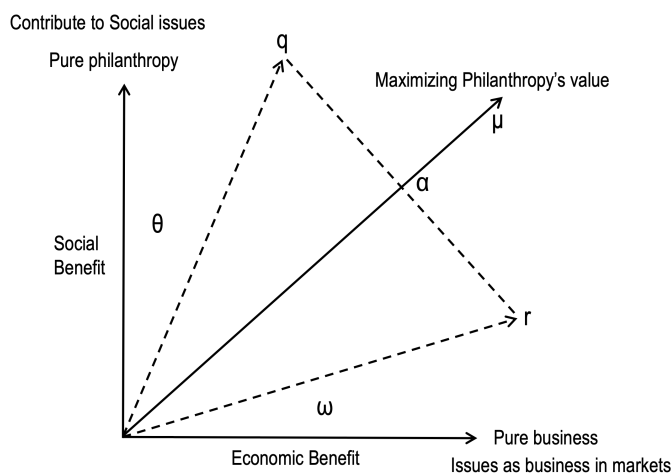
Porter and Kramer (2002, p.58) articulate strategic philanthropy as a purposeful utilization of corporate donations with the intent of influencing the restructuring of the competitive landscape. For instance, leveraging philanthropy to enhance the quality of the business environment in specific regions or locations where a company operates facilitates the harmonization of social and economic goals, resulting in a favorable trajectory for the company's long-term prospects. To distinguish such donations with intent from charitable giving, they refer to as strategic philanthropy (ibid p.67).

Traditional charitable donations are commonly viewed as consumptive, lacking in the generation of tangible returns for the donor. Within the traditional corporate-view, expenditures that do not directly contribute to shareholder interests are often challenging to justify. The strategic philanthropy is grounded in the notion of treating corporate donations as a form of investment expenditure aligning with shareholder interests. Porter and Kramer (2002, p.59, p.61) characterize the domain where corporate philanthropy align with shareholder interests simultaneously creation of social and economic benefits, coining this intersection as a 'convergence of interests.' This convergence is particularly pronounced in areas where corporate philanthropy significantly impacts the competitive context of the donor corporation, thus designating it as the genuinely 'strategic' realm of philanthropy (ibid 2002, p.67). The results produce by strategic philanthropy which target on this 'convergence of interests' domain is called "philanthropy's value" (ibid. 2002, p.58, ibid. pp.62-63).

Figure 3-3 illustrates the relationship between 'convergence of interests' and philanthropy's value in corporate value creation activities. And Table 3-1 details the differences in "value-enhancing policies through philanthropy in the Foundation's Strategy and Strategic Philanthropy.

In Figure 3-3, the Y-axis symbolizes corporate donations viewed as charitable activities detached from business,

while the X-axis represents conventional business activities that may not necessarily consider social dimensions. The triangular region within the figure represents the domain where 'convergence of interests' materializes. The domain indicates the area where corporate philanthropy, which was originally a social expenditure unrelated to business, can create an impact on improving the competitive environment (context) of the company's business (ibid. 2002, p. 59).



Source: Based on Porter and Kramer (2002, p.59,p.62) with additions.
Figure 3-3: A Convergence of interests and Philanthropy's value

Table 3-1 Meaning Differences in '4 Steps' Phrases between Foundation Strategy and Strategic Philanthropy

	Selecting the Best Grantees)	Signaling Other Funders)	Improving the Performance of Grant Recipients)	Advancing Knowledge and Practice)
The Meaning of Comparative phrases in the Foundation's Strategy (Porter and Kramer 1999)	Selection of Working NPOs to work as grantees of the grant-making foundation	Not by the Foundation alone, but in collaboration with other foundations and entities	Management support for working NPOs by a grant-making foundation	Use of Strategic Theory for Foundation Value Creation (Social Impact Creation)
The Meaning of Comparative phrases in 4 Steps of Maximize Philanthropic Value (Porter and Kramer 2002)	Selection of Working NPOs to which companies will contribute corporate donations	Cooperation and collaboration with other companies and entities (e.g., foundations, etc.) rather than solely with the company	Management support by donor companies for working NPOs	Application of Strategy Theory to Corporate Philanthropy
Essence of Comparative phrases	Selection of grantee giving (= competitive advantage position identification)	Search and collaborate with funding partners (sustain and extend competitive advantage)	Management support to improve performance of recipients of funds (= positioning competitive advantage through the implementation of contributions and support)	Utilizing knowledge of 'competitive strategy' and 'strategy for competitive advantage' to Corporate Philanthropy and Value Creation in Nonprofit Organizations

Source: Based on Porter and Kramer (1999, p.; 2002, p.) with additions and modification

The tangible improvement in this environment is directly created by the activities of donated working NPO. The 45-degree diagonal line from point 0 is deemed the optimal line for philanthropy value. However, this optimal line does not imply an optimal equilibrium point along the trade-off curve between social and economic

objectives (see Ozawa 2023). Nor is it an assessment of the cost-effectiveness between 'philanthropy' and 'social value and benefits created by donated NPO'. Philanthropy's value means the feedback for enhancing competition of the donor corporation that generated through the enhancement of business and competitive context via the activities of contributed working NPO. The philanthropy's value means the cost-effectiveness of "the amount of philanthropic expenditures" and "the degree of influence to enhancement of competitiveness of donor firm". Along the optimal region, extending from point 0 to α to μ , the expansion of value creation is guided as the ideal approach to maximize philanthropy value. Porter and Kramer (2002 pp.63-66.) refer to the 4 steps as the method for maximizing philanthropy's value.

3-4: The Strategic CSR as a Screening Tool

The pivotal factor influencing the viability of philanthropic value creation lies in the judicious selection and/or identification of recipients for grants and contributions. A significance role in this discernment process is the concept of "strategic CSR". They refer to CSR implementation styles that apply the concepts and findings of positioning strategy as strategic CSR (Porter and Kramer 2006, p. 88). Their definition posits strategic CSR as the type of social issue that enable the strategic philanthropy to generate benefits for both business and society. In essence, strategic CSR encapsulates the spectrum of strategic philanthropy.

Porter and Kramer (2006, p.89) argue that the strategic philanthropy targeting strategic CSR is an investment that "unlocks shared value." It is this investment that is one's to social aspects enabling strengthen the competitiveness of donor firm. This provides compelling evidence that strategic philanthropy and CSV are fundamentally interchangeable, not only as concept but also actual strategic activities. The enhancement of social issues through the endeavors of NPOs operating with grants is positioned as the cultivation of social value and benefits through corporate involvement, catalyzed by corporate giving. Furthermore, the presumed prerequisite for the enhancing competitiveness acquired by donor firm is the improvement of "competitive or business context" by the activities of these NPOs.

Porter and Kramer (2006, p.85) initially categorize social issues into three types based on their intensity of connection to business: (1) generic social issues, (2) social impact in the value chain (VC), and (3) social dimensions of the competitive context. While type (1) is the issue that critical from a societal perspective, the issues are distant from business operations and have minimal impact on long-term competitiveness. Type (2) refers to challenges emanating from the societal impact of a company's VC on its business activities or related areas. Type (3) refers to factors in social dimension that are not directly related to the business or value chain, but can influence them (Porter and Kramer 2002, p. 86). Issues related to (1) and (2), allowing involvement limited to creating effects mitigating negative impacts generated by VC, are categorized as passive CSR. Issues within (3) and (2), enabling involvement contributing to both strengthening the company's competitiveness and providing social benefits, are classified as strategic CSR. The latter is designated as the

target for strategic philanthropy (ibid 2006, pp.88-89). Passive CSR issues, while contributing to the creation of social value and benefits, remain issues where economic feedback for the company is not anticipated.

To filtering of issues within Type (2), a framework for VC analysis named the Inside-Out Approach is employed (ibid 2006, p.86). The Outside-In analysis framework corresponding to Type (3) is so-called the Diamond Model (ibid 2006, p.87; Porter 1990; Magretta 2012, pp.214-15.). Porter's (1985) VC concept consists of two layers of activity (job function) chains: Primary activities, forming the chain of activities that directly create added value, and Support activities, forming the chain of activities that do not directly create added value but support the primary activities. The filtering of social impact in each of these strata is the subject of the Inside-Out Approach analysis.

Porter and Kramer (2002, p.58) defined the competitive context as the quality of the business environment in the location or locations where the company operates already from the stage of the strategic philanthropy conception, and the elemental structure that defines the quality correspond to the elements in four categories of the diamond model (ibid. 2006, p.87). These are (1) factor conditions, (2) demand conditions, (3) context for strategy and competition, and (4) related and supporting industries (ibid. 2002, p. 60). Porter and Kramer (2002, p.60) consider a cluster to be the range of relationships that can be bounded as a network of effects due to the interconnection of specific factors within four categories.

From the intersection analysis of these two screening, issues related to strategic CSR are extracted. However, these are issues where corporate involvement through philanthropy is deemed valuable, not necessarily the direct recipients of donations. The selection of the "best recipient of donations" is inferred to follow the following steps: Firstly, list working NPOs involved in the company's VC, or its surroundings related to strategic CSR issues. Then, compare and consider the cost-effectiveness of the company's contribution to improving its competitiveness based on the enhancement of the competitive environment for each working NPO. Ultimately, the recipient of corporate giving is selected by comparing strategic issues. The substantive judgment factors are believed to include the occasional priority of strategic issues, the speed of feedback, and other considerations, rather than the amount of expenditure. In some cases, the strategic use of corporate giving to create favorable locational conditions for the company's value creation is also considered (for example, by establishing cooperation systems with donated working NPOs and others).

3-5: The CSV Strategy Model: Collective Impact of the Strategic Philanthropy

The activities that fall under this establishment are strategic philanthropy mediated by foundations, including their own corporate foundations, and their collective or systematic implementation. For the latter, the concept and techniques of collective impact are used. Collective impact is a concept that originally referred to "a framework for structured collaboration among organizations across sectors with the goal of social change and

the results of that collaboration.) (Kania and Kramer 2011;Takaoka 2023a) 。Kramer and Pfitzer (2016) position the execution of this strategic philanthropy as specific activities falling under the (2) ‘finding and collaborating with other funders’ within the spectrum of "value enhancement policies through philanthropy.”

This value-creating framework of philanthropy can be captured in the composition shown in Figure 3-4. The schematic representation of the philanthropic value creation framework, depicted in Figure 3-4, mirrors an amalgamation of foundation strategy (Figure 3-1) and strategic philanthropy (Figure 3-2). The noteworthy aspect lies in the delivery of strategic philanthropy to working nonprofit organizations (NPOs) through foundations, including those associated with the donor company's corporate foundation. This gives rise to a relational structure wherein donor companies and foundations unite in addressing strategic issues, jointly contributing funds and support to a common objective.

The financial trajectory of "Donor Company → Private Foundation → Working NPOs" accentuates the value creation impact of philanthropy more profoundly than a direct flow between the donor company and Working NPOs. Through leveraging operations and reciprocal donations among foundations, corporate contribution funds can be aggregated and amplified within the nonprofit sector, transcending mere expenditure. Even in instances where a corporate foundation predominantly relies on the corporate donations of a specific company, it is essential to recognize that the corporation and the foundation maintain distinct organizational identities. Nevertheless, collaborations of this nature are not only institutionally viable but intentionally instituted, as expounded upon in the ensuing chapter. Illustrative instances of such collaborations exist, and Figure 3-4 encapsulates one such exemplar.

Figure 3-5 offers a comprehensive view of this pragmatic example, outlining a structure of collective strategic philanthropy involving multiple companies and corporate foundations. It more develops from a basic model where a foundation intervenes between a corporation and Working NPOs. The author interprets this configuration as a rare phenomenon emblematic of the pinnacle of "CSV strategy." Figure 3-5 specifically delineates a segment of the financial flow within the initiative known as Closed Loop in North America, a project highlighted by Kramer and Pfitzer (2016) as an embodiment of collective impact. This depiction builds upon the insights garnered from an in-depth proprietary investigation by Takaoka (2023b, pp.11-18), refining and enhancing the content. From the standpoint of (1) Wal-Mart and (3) Coca-Cola in Figure 3-5, it mirrors the funding mechanism for cluster development facilitated by corporate donations, offering insights into a fragment of the organizational processes and composition within the business ecosystem encapsulated in the CSV strategy.

Towards the Unveiling of the Functionalizing Mechanism of the Creating Shared Value (CSV) Strategy: The Economics of Competition Utilizing "Nonprofit Institutions as a Resource Base

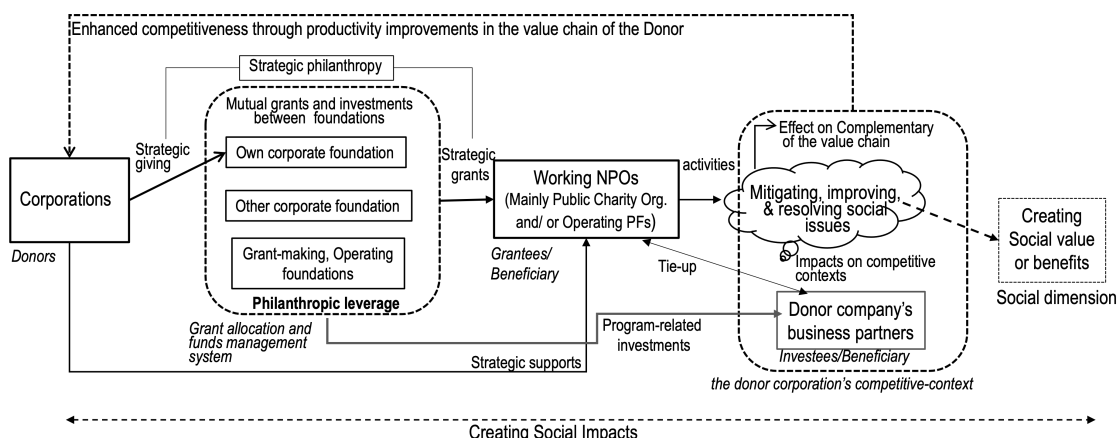
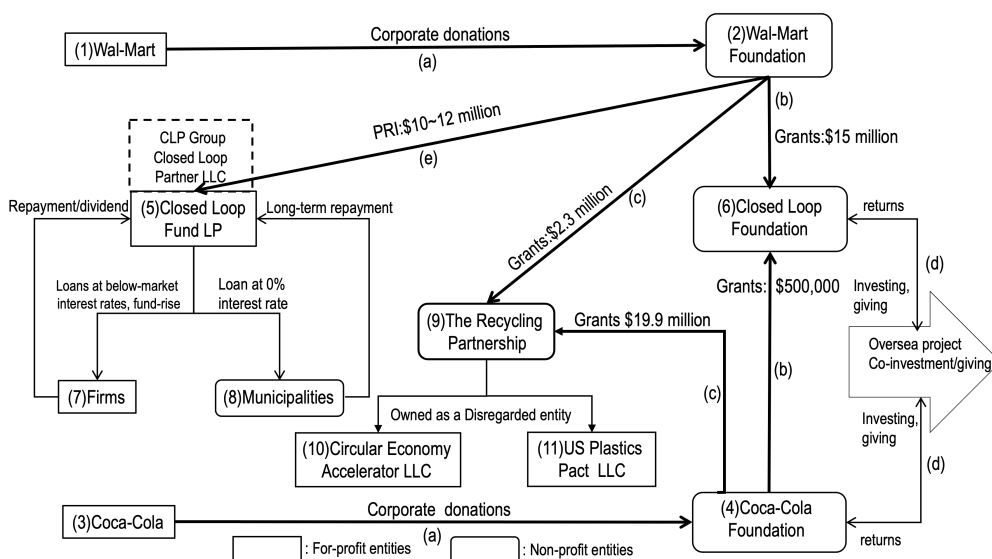


Figure 3-4: Structure of the Strategic Philanthropy as CSV Strategy



Source: Based on Takaoka (2023b, p.18) with additions and modification

Figure 3-5: Financial Flows of the Strategic Philanthropy in the Closed Loop Initiative

The Closed Loop initiative represents a collaborative endeavor spanning multiple sectors, with the overarching goal of cultivating a circular socioeconomic framework, particularly within the context of North America. This initiative, conceived within the Closed Loop Partners council, which was established in April 2013 and boasts a membership exceeding 70 entities hailing from governmental, industrial, and academic spheres, underscores a concerted effort to foster sustainability and resource efficiency. (1) Wal-Mart, (2) Wal-Mart Foundation, (3) Coca-Cola, and (9) The Recycling Partnership, shown in Figure 3-5, have been members since its inception (Takaoka 2023b, p. 12). According to Kramer and Pfitzer (2016, p.83), Wal-Mart-led activities began in earnest with a \$100 million capital contribution from 10 companies in the council. Specifically, two investment fund companies were established in April 2014, Closed Loop Fund GP LLC and (5) Closed Loop Fund LP shown in Figure 3-5 (Takaoka 2023b, p.11). Currently, Closed Loop Partners LLC, an investment management company established in 2016, and the group's corporate foundation, (6) Closed Loop Foundation, established in 2015, play a central role in developing an investment business that supports entities that fit its philosophy.

(1) Wal-Mart and (3) Coca-Cola in Figure 3-5 corresponds to the donors who contributed a part of the major source of funds for the Closed Loop activity, which was not specified in detail in Kramer and Pfitzer (2016, p. 83). (2) The Wal-Mart Foundation and (4) the Coca-Cola Foundation are corporate foundations that rely almost exclusively on corporate donations from (1) and (2), and foundations, including (6) the Closed Loop Foundation, play the role of grantors that allocate funds for public interest activities, including Closed Loop activities. (5) Closed Loop Fund and (9) The Recycling Partnership are the main beneficiaries (investees/grantees) in Figure 3-5. In 2015, (2) Wal-Mart Foundation granted \$15 million, while (4) Coca-Cola Foundation granted \$500,000 in sum 2018 and 2019 to (6) Closed Loop Foundation. The Closed Loop Foundation, using the donations, is cooperating with other foundations and local NPOs to implement recycling system development, labor environment improvement, and vocational skills development projects overseas (Takaoka 2023b, p.13).

The Recycling Partnership, established as a 501(c)(3) public charity in 2012, operates as an Working NPO engaged in the pragmatic facets of the Closed Loop initiative. By the close of 2020, it had received grants of \$2.3 million from Wal-Mart Foundation and \$19.9 million from Coca-Cola Foundation⁽⁶⁾. Additionally, it collaborates with Coca-Cola Foundation and Closed Loop Partners LLC in Every Bottle Back initiative⁽⁷⁾. Operating these activities are two Limited Liability Company (LLC) entities owned by The Recycling Partnership as a disregarded entity: Circular Economy Accelerator LLC and US Plastics Pact LLC. US Plastics Pact is engaged in the implementation and promotion of the U.S. Plastics Agreement⁽⁸⁾, while Circular Economy Accelerator is engaged in lobbying activities that nonprofit entities are generally unable to perform. Specifically, it collects and analyzes information on recycling policies and industry issues and requirements in order to lobby for U.S. recycling policies.

A noteworthy financial trajectory in Figure 3-5 involves the program-related investment (PRI) from Wal-Mart Foundation to Closed Loop Fund. Over the period from 2014 to 2019, Wal-Mart Foundation consistently contributed approximately \$2 million annually, amounting to a total of \$10-12 million. Closed Loop Fund which a for-profit entity, stands as a legitimate investment destination for the foundation due to its involvement in debt/equity finance for businesses and municipalities engaged in building a circular society, offering below-market interest rates (zero interest for municipalities). This positions it as an eligible entity under the PRI system. Wal-Mart Foundation's typical grant initiatives involve numerous small charitable contributions to charitable organizations in the vicinity of Wal-Mart stores⁽⁹⁾. The funding extended to Closed Loop Fund

(6) See Wal-Mart Foundation Form 990-PF 2021 Part XIV, The Cola-Cola Foundation INC. Form 990-PF 2020 Part XV Line 3.

(7) See <https://recyclingpartnership.org/everybottleback/>

(8) An agreement for a cross-sectional coordination and collaboration of agencies to establish a system for the design, use, and reuse of plastic packaging throughout the U.S. See below for details: <https://usplasticspact.org/>

(9) The standard amount is approximately several thousand to several tens of thousands of dollars, with the majority of the donations being around \$100,000 in the largest cases. For more details on the company's donation trends through the Wal-Mart Foundation, see Ching et al. (2022).

represents a remarkably unique case in terms of both form and scale, constituting the foundation's inaugural PRI initiative ⁽¹⁰⁾.

In Figure 3-5, the financial flow of (a) signifies the conduit of corporate donations, (b) elucidates the financial maneuvers of foundations, embracing operations, mutual aid, and funds-interactions among these vital entities. Meanwhile, (c) articulates the funding trajectory from foundations to Working NPOs, accentuating the pivotal role foundations play in underpinning public-charity initiatives. A transformative pattern, (d), emerges, amalgamating elements from both (b) and (c), predominantly within the nonprofit sector but extending its influence beyond borders. A compelling instance is the collaborative venture between the Closed Loop Foundation and the Coca-Cola Foundation, actualized in Puerto Rico from September 2018 to July 2019. This initiative aimed to propel recycling infrastructure in overseas forward, with funds also serving as capital for Base of Pyramid (BOP) businesses. An exemplar of this is the Coletivo initiative in Brazil, an undertaking by Coca-Cola, strategically designed to fortify distribution and supply chains through the establishment of vocational training systems for the youth.

While (a) manifests as the flow of financial contributions from the for-profit to the nonprofit sector, (b), (c), and (d) delineate the complex financial interactions within the nonprofit realm. Conversely, (e) represents a distinctive flow, signaling resources moving from the nonprofit sector back to the for-profit sector. This intriguing cycle involves corporate contributions to the nonprofit sector, subsequently undergoing operational processes within foundations, and eventually re-circulating as funds directed toward for-profit sector initiatives.

This comprehensive analysis of cross-sector financial flows presents a nuanced understanding of the dynamic interactions and resource allocations among corporations, foundations, and operational NPOs. It offers invaluable insights into the pivotal role these financial flows play in shaping CSV strategy, the business ecosystem of the CSV, and its business models.

In unveiling the intricate dynamics of the CSV strategy, we present Figure 3-6 ⁽¹¹⁾ as a comprehensive abstraction, encapsulating the interplay of the key activities that constitute this strategic framework. Building upon the foundations laid out in Figures 3-4 and 3-5, this visualization underscores the integral linkages between pivotal activities within the CSV strategy.

(10) Since then, the Wal-Mart Foundation has made another PRI. The foundation contributed \$950,000 as PRIs and \$5 million as grants to Working Capital the Supply Chain Innovation Investment Fund LP in 2017. The Working Capital Fund is one of investment companies established in a similar framework to Closed Loop that support entities engaged in improving labour practices, such as labour exploitation prevention and ethical hiring and promotion, throughout the United States and in developing countries where U.S. companies have operations, particularly in developing countries (See Wal-Mart Foundation 2021 Form 990-PF, Part XIV).

(11) This illustrative framework is adapted from the "shared value measurement" framework in Porter et al. (2012, p.4), but the details of the stage setting and activities are originally devised.

Towards the Unveiling of the Functionalizing Mechanism of the Creating Shared Value (CSV) Strategy: The Economics of Competition Utilizing "Nonprofit Institutions as a Resource Base

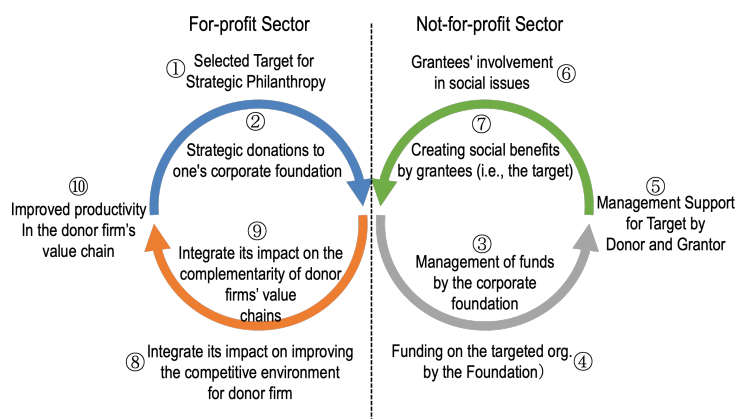


Figure 3-6: Key Events in the CSV Strategy Process

Porter and Kramer (2011), Porter et al. (2012), and Kramer and Pfitzer (2016) not clearly indicate that foundations, particularly corporate foundation those associated with strategic philanthropic in the donor corporation, can play a transformative role. Though they refrain from explicitly stating that foundation or corporate foundation intervention, specifically enhances the efficacy of strategic philanthropy, the joint implementation of strategic philanthropy has been endorsed since the era of "Foundation Strategy." Furthermore, the incorporation of philanthropic design as a consulting service by entities like FSG reflects an awareness of the advantages of leveraging the foundation system. While not explicitly advocating for foundation, in particular corporate foundation intervention, the foundation is essential to the viability of CSV strategy stands robustly.

Corporate donations in the guise of strategic philanthropy develops dynamic capital flows traversing both the for-profit and nonprofit sectors. This strategic deployment not only harnesses the unique benefits of "philanthropic leverage" inherent in the nonprofit system on the for-profit sector, but also significantly contributes to value creation within the for-profit sector. The financial flow of collective strategic philanthropy its pivotal role in functioning the "economics of competition" of the CSV strategy.

In the next Chapter, we examine philanthropic leverage, which determines the competitive economics of CSV strategy, and discuss the mechanism of CSV strategy.

Chapter 4

The Economics of Competition in CSV Strategy and the Involvement of Nonprofit Institutions as a Resource Base

4-1: Introduction

This chapter explores the CSV strategy's 'economic competitiveness' mechanism by examining the relationship between philanthropic leverage, nonprofit institutions serving as a resource base, and its various associated properties. More specifically, we provide an overview of philanthropic leverage and the emergence of private foundations in the United States involved in its development. These nonprofit institutions and their properties play a crucial role as a foundation for the functioning of CSV utilizing strategic philanthropy. Subsequently, we elucidate the role and process of philanthropic leverage in the 'economic competitiveness' of CSV strategy through the concept of 'Hybrid Synergy', which manifests as effects derived not from the scale (quantity) of investments but from the path's investments take. Mainly, it involves the flow of funds, originating from the for-profit sector, passing through the nonprofit sector and effectively circulating back into the for-profit sector. Such fund flows are strategically orchestrated through corporate donations, known as strategic philanthropy.

4-2: Principles and Framework of Philanthropic Leverage

Philanthropic leverage, a conceptual cornerstone of strategic charitable donations (Frumkin, 2000; 2010), revolves around optimizing the dual objectives of public benefit and personal satisfaction for donors (Frumkin, 2010, p.22). Described as strategic philanthropy or the strategic utilization of donations, this paradigm aims to realize a value proposition that maximizes both the societal impact of charitable contributions and the fulfillment experienced by the donor. Coined by Frumkin (2010, p.61), 'philanthropic leverage' encapsulates the concerted efforts and diverse effects stemming from maximizing donation outcomes through engagement with nonprofit institutions.

These strategic approaches span a broad spectrum of policies, ranging from discussions centered on augmenting contribution amounts through appeals for tax incentives targeting individuals and corporate donors to deliberations on the efficient and effective utilization of donations for heightened social value creation (Frumkin, 2000)⁽¹²⁾. A consistent theme underpinning these discussions is the principle of financial leverage facilitated by harnessing benefits within the nonprofit landscape, including tax advantages linked to charitable contributions. A common thread is the functions given to financial leverage achieved by utilizing benefits applied

(12) Although there is some overlap in content, Frumkin (2000) presents 20 policies.

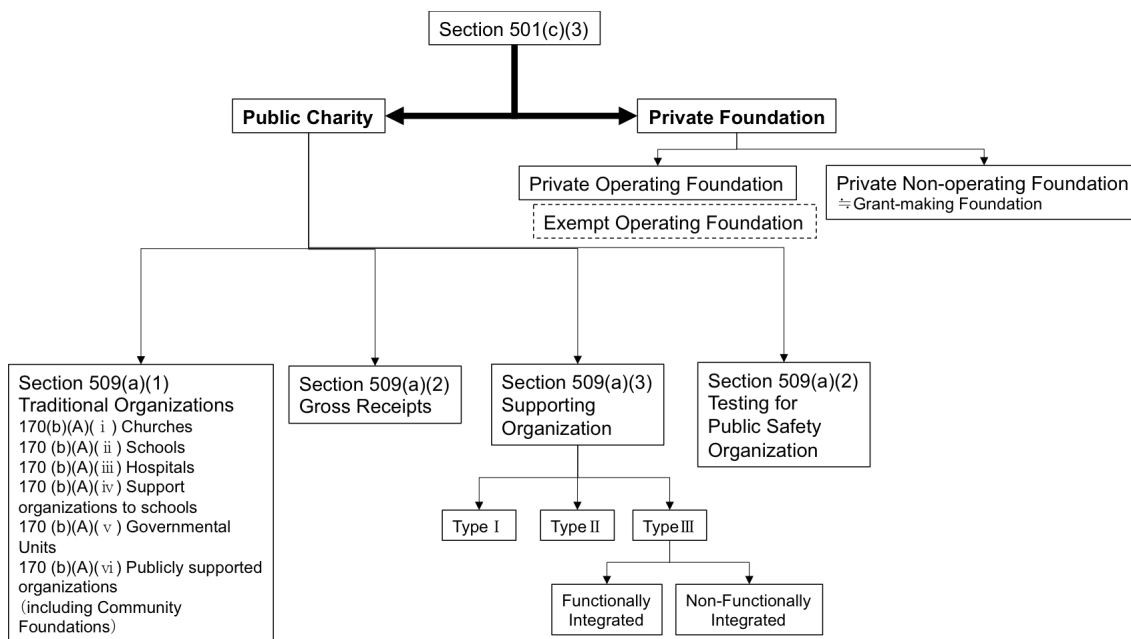
under the nonprofit regime, such as tax advantages associated with charitable contributions. In particular, the properties linked to the financial leverage functions of private foundations, especially grant-making foundations in the United States, become crucial.

In the United States, the federal tax qualification of 501(c)(3) status, illustrated in Figure 4-1, broadly classifies the entities into public charities and private foundations. While cash donations to the former enjoy higher deduction benefits, contributions to foundations provide greater flexibility in funding pools and fund augmentation possibilities (Takaoka 2022a). Furthermore, the earnings of entities with this qualification are generally treated as tax-exempt, including financial strategies, as long as they meet the qualification requirements (Takaoka 2022b). Thus, the private foundation system in the United States has historically functioned as a tax shelter. At its core, the institutional framework of private foundations plays a pivotal role.

Under federal tax law, private foundations encompass operating and non-operating foundations. The former may be treated as "Exempt operating foundation" via some additional deduction procedure. In contrast, non-operating foundations predominantly provide grants to public charities and operating foundations, directing their efforts toward facilitating various charitable, social, or community problem-solving activities. Also called grant-making foundations because their primary mission is to provide grants exclusively to public charities and operating foundations.

In this context, it is crucial to clarify that entities commonly identified as community foundations or public foundations are not to be conflated with private foundations; rather, they are nonprofit organizations designated as public charities under tax law. Similarly, the term "corporate foundations" lacks official classification in tax law; it is an informal label underscoring distinctions in endowment origin and governance structure. Table 4-1 illustrates the typology of such designations. Expressions like corporate foundations or family foundations denote private foundations where specific individuals or their family assets establish the foundational endowment. If contributors and affiliated individuals participate in the Foundation's operation as board members, it assumes the character of a family foundation. Conversely, if the Foundation operates under an independent governance structure detached from the donors or their relatives who made the contributions, it is termed an independent foundation. Corporate foundations frequently arise from donations from a specific company or its founder and often function as grant-making foundations. Governance practices contribute to distinctions between structures resembling family foundations and those resembling independent foundations. Notably, some foundations, even if initially set up as family foundations, may evolve into independent foundations over time, which exemplified by the transition of the Ford Foundation. Independent foundations operate similarly to grant-making foundations (non-operating foundations). They generally do not seek active fundraising or public financial support, as they make grants based on their charitable endowments. It is characterized by the fact that in addition to the rules provided to private foundations, it must follow additional specific rules as a grant-making

foundation.



Source: IRS (2023) others ⁽¹³⁾

Figure 4-1: 501(c)(3) Regulation Tree

Frumkin (2000 pp. 43-44.) primarily prescribes the following policies as highly effective philanthropic leverage, including fund-operations and mutual contributions among private foundations. They are the followings by foundations (mainly grant-making foundations):

- (i) Capacity Development Support and Engagement with the working NPOs,
- (ii) Agency Finance towards nonprofit and for-profit entities, and
- (iii) Establishment and ownership of Subsidiary Foundations.

All of these are related to the creation of the following effects:pooling of funds among the interconnected groups

(13) Figure 4-1 and Table 4-1 were prepared by the author with reference to the following sources. It is a 14-page pamphlet entitled "Navigating Legal and Ethical Issues," posted in PDF format on the Web by the Council on Foundation (<https://cof.org/>), formally known as Council on Foundations Inc (Nonprofit certification since November 1957; EIN:13-6068327; Grant-making Foundations Type), a national association of state foundation councils in the United States. The date of creation and publication is unknown, and as of February 16, 2024, the material has been removed from the web. Figure 4-1 is based on the diagram on page 2 of the pamphlet, and Table 4-1 is referred to the description on page 1. In addition, descriptions of private foundations in the text refer to the contents of the same document. However, the page address of the said document is unknown (except for the producer's name in the PDF file data: Maggie Osborn) and seems to have been deleted, and there is no intention to use it without permission, but to show the background in order to avoid suspicion of plagiarism. The content of the figures in Figure 4-1 and Table 4-1 and the related statements in the text have been verified for errors by consulting the IRS (2023), which is cited as the source, and the following Web site. It is reasonable to assume that the IRS regulation is the original source of the pamphlet, although the fiscal year is different.

<https://www.irs.gov/charities-non-profits/private-foundations>

<https://www.irs.gov/charities-non-profits/charitable-organizations/private-foundations>

<https://www.irs.gov/charities-non-profits/private-foundations/private-operating-foundations>

<https://www.irs.gov/charities-non-profits/private-foundations/definition-of-exempt-operating-foundation>

<https://www.irs.gov/charities-non-profits/private-foundations/grant-making-foundations>

<https://www.irs.gov/charities-non-profits/private-foundations/life-cycle-of-a-private-foundation-starting-out>

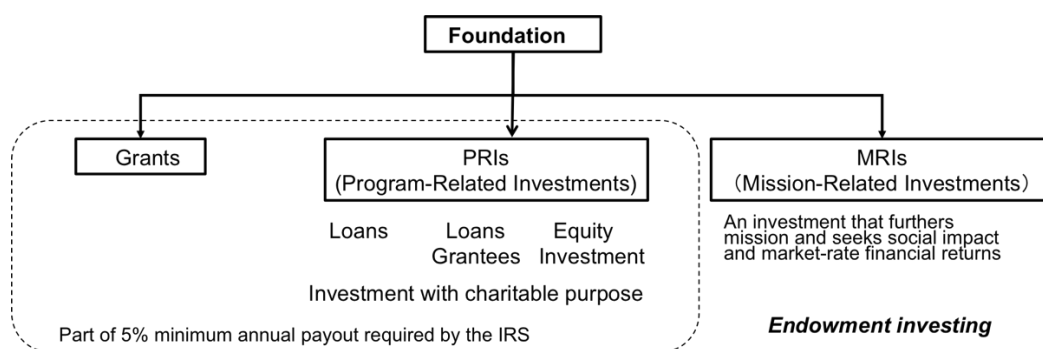
<https://www.irs.gov/charities-non-profits/charitable-organizations/exemption-requirements-501c3-organizations>

Table 4-1: Private Foundation Typology

Classification on Code of 501(c)(3)	IRS-defined terms	Common name in legal provisions	Common name by fund attribute or governance types
Public Charity	Community Foundation, Public Foundation		Family Foundation, Corporate Foundation, Independent Foundation
Private Foundation	Private Operating Foundation (Exempt Operating Foundation), Private Non-operating Foundation	Grant-making Foundation	

Source: IRS (2023)

within the nonprofit sector, contribution to securing and augmenting funds to be contributed to solving social issues, through mutual investments. (i) is the concept of positioning foundations as patient capitalists for working NPOs, and (ii) and (iii) are related to the formation of a nonprofit business ecosystem starting from nonprofit groups or foundations and are policies that focus on improving the ability to implement social benefit-creating projects through collective structures (Takaoka 2023b). Within the realm of agency finance, PRI (Program-Related Investments) and MRI (Mission-Related Investments) emerge as distinctive methods. Foundation funding contributions take various forms, broadly categorized into grants, PRI, and MRI, as depicted in Figure 4-2. PRI encompasses debt finance, debt guarantees, and equity finance. Both grant and PRI activities align with the legal requirement for foundations to allocate 5% of their assets annually to charitable and public welfare support, ensuring compliance with the obligation to maintain their qualifying status. This commitment includes the allocation of investment returns to public activities. In contrast, MRI, which includes contributions from the basic endowment, mandates a direct alignment with the foundation's mission, resembling conventional investment activities while considering permissible financial returns and the promotion of its mission.



Source: Prasad et al. (2020, p.8)

Figure 4-2: Forms of Private Foundation Expenditure

Debt/equity finance from foundations to for-profit entities, including PRI and MRI, complies with various regulations within the nonprofit framework, making it legally permissible. PRIs are more focused on philanthropic purposes than MRIs and are not return-oriented financial expenditures. In addition to debt and equity financing, there are also debt guarantees, and it is true that there is a wide range in the nature of

investment, but it is important to note that through these schemes, funds can flow from the nonprofit sector to the for-profit sector. The fundamental rationale underpinning the feasibility of such fund flows is contingent upon evaluating whether the activities of investee entities align with public welfare objectives.

Furthermore, besides being a Foundation's subsidiary, it can get the subsidiary foundation to own a for-profit entity as an LLC to strengthen its activities in addressing societal challenges (See Takaoka 2022b; 2023). The precision of fund pooling within the group and funding targeted activities can be enhanced through mutual grants between the parent foundation and its subsidiary foundation. When the subsidiary foundation owns an LLC entity, and subsequently transforms it into an S corporation where pass-through taxation is applied, the pooling of funds within the group becomes more robust, thus amplifying philanthropic leverage (Shoemaker and Brokner 2000, pp. 237-239.).

The strategic philanthropy corresponds to the activity corresponding to (i) which positions the company as a strategic agent¹⁴. Grants from foundations to working NPOs and debt and equity financing to for-profit entities of the public charity type correspond to the activities described in (ii). The concrete activity of (iii) is for working NPOs, especially community foundations of the public charity type, to own an entity in LLC form for themselves or their subsidiary foundations. Activity (i) aligns with methods elucidated by Porter and Kramer (1999, pp. 123-125; p. 130; 2011, pp. 62-66) that coinciding with the roles that foundations as grantors or corporations as donors should undertake when strategically conducting donations.

Applying the Closed Loop model, Figure 3-5's (C)(e) aligns with activity (ii), and the ownership of (10)(11) by the (9) Recycling Partnership exemplifies the effects under (iii) within the framework of CSV strategy. While Porter and Kramer (1999, p. 123; 2002, p. 64; 2006, p. 85; 2011, p. 76), Kramer and Pfitzer (2016, p. 89) emphasize the collective implementation of strategic philanthropy for a more assured realization of strategic intent, they do not explicitly delineate the financial flow path of 'corporation → foundation → working NPOs.' Moreover, they do not specifically highlight the utilization of corporate foundations. Nevertheless, it is conceivable that they would acknowledge the potential impact of these approaches. In the implementation of CSV strategy, a corporate foundation emerges as a pivotal factor alongside strategic philanthropy, augmenting the utilization of "the nonprofit institutions as a resource base" and potentially enhancing the precision of CSV strategy implementation.

(14) Porter and Kramer (1999) positioned U.S. grant-making foundations as social value/benefit generators and applied the knowledge of positioning strategy to develop the foundation's strategy. Social value in this context refers to the resolution of social issues, etc., and the direct solution is provided by working NPOs. The foundation's activities through grants to working NPOs are positioned as activities to create social value and enhance the legitimacy of the foundation. The selection of grant recipients (working NPOs) that matched the foundation's mission was equivalent to positioning, and the amount of grant (philanthropy of the foundation) and the actual results of solving social issues of the grantee NPOs were the cost-effectiveness of the philanthropy. The prospect was the most important indicator in selecting grant recipients (i.e., identifying positions). The logic of strategic philanthropy changes the composition of this relationship from the foundation to the corporation (the grant relationship between the corporation and the working NPOs), and the selection criteria and role of the working NPOs are changed from solving social issues to contributing to the competitiveness of the donor corporation.

4-3: The Economics of Competition based on Hybrid Synergy: The economic rationale of CSV Strategy

It is well-known that Ansoff (1965, pp. 77-79) introduced the concept of synergy based on the notion of 'economies of scope.' He compared two groups of firms. Diversified firm and a group of firms with multiple businesses each operating independently. To acquire identical sales, the former had the advantage over the latter in that they were able to reduce their total investment by using fewer operating expenses and capital expenditures due to the overlapping use of resources. Ansoff (ibid pp. 86-90.) viewed the area where this overlap effect operates as 'merits on competition'¹⁵, establishing it as a guideline for business diversification.

Chang (1988) suggested that synergy rooted in the economy of scale in investment (limited to the for-profit sector) also relates to the collective effects within a business entity that can identify boundaries, potentially reducing and offsetting risk assessments in the Capital Asset Pricing Model (CAPM).

This study, however, shifts the focus from the scale of investment to the pathway or trajectory of investment, homing in on the effects arising from differences in fund flows dedicated to business environment development. We will call this hybrid synergy because the effects are caused by the use of nonprofit institutions or by financial flows that come and go between the for-profit and nonprofit sectors.

In Figure 4-3, (i) delineates the general flow of funds for business investments, portraying transactions and investments between economic entities contributing to business environment development. (ii) illustrates the conventional flow of funds from for-profit entities to nonprofit entities through general donations, wherein the utilization of philanthropic leverage beyond tax deductions from taxable income is constrained.

Strategic philanthropy had involved utilizing corporate donations to enhance the company's competitiveness. Donations to nonprofit organizations with a high potential to improve the company's business environment effectively equate to the cost of outsourcing or delegating business environment development. Figure 4-3 (iii) illustrate with the fundamental pattern for the financial route of strategic philanthropy incorporating philanthropic leverage. However, the funding route through foundations in (iv) enhances the effects of philanthropic leverage, particularly by increasing the potential for fund pooling within groups, as illustrated earlier. When the Foundation is associated with the donor company or has a strong partnership, there is a greater potential for higher strategic precision.

(15) Ansoff (1965, pp. 77-79.) describes originally this "merits on competition" as 'competitive advantage'. However, the meaning, the field and/or structure that it is positioned, of competitive advantage in contemporary strategic management views, including the positioning-view, differs from, in so to avoid confusion, we use the term "merits on competition" here.

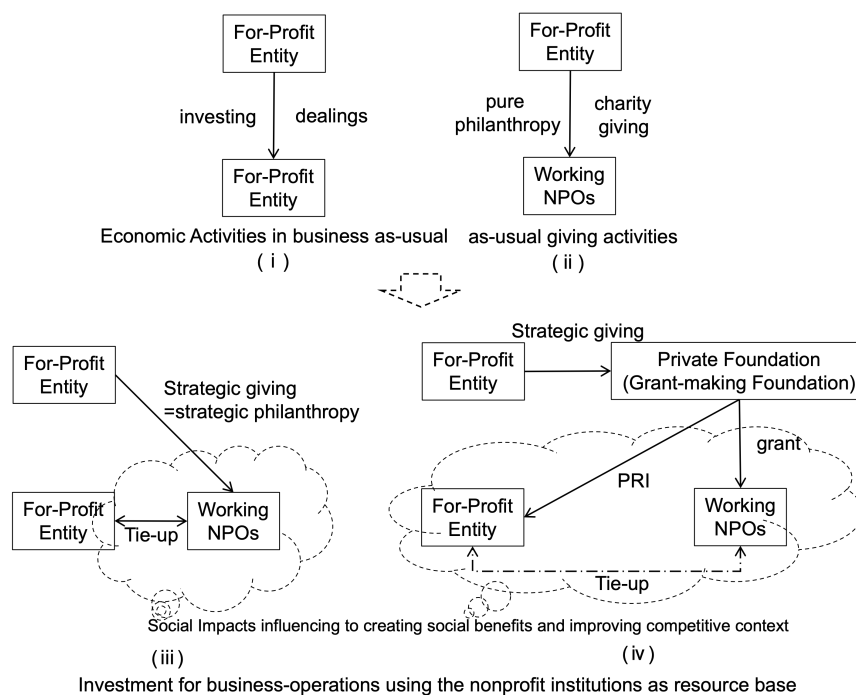


Figure 4-3: Comparative Framework for Measuring the Results of CSV Strategy

The strategic philanthropy concept, and thus the CSV concept, was an idea that advocated the financial flows in (iii); because (ii) does not result in a financial expenditure that is consistent with the 'convergence of interests'. The difference in investment paths is based on the difference between group of (i) (iii) and group of (ii) (iii). These financial contributions consider as investment expenditures, and the comparison of the difference in their effects is the basic framework of the understanding of results. Since (iv) encompasses (iii), the relationship in (iv) is assumed and explained. The Hybrid Synergy that acts on the "economics of competition" of donor firm that utilize the philanthropic leverage operates primarily through three avenues: (1) capitalization similar in the ghost investment of corporate donations, (2) achieving self-sufficiency in patient capital, and (3) outsourcing CSR functions and activities. The three avenues provide a comprehensive explaining of the dynamics underlying the utilization of philanthropic leverage.

(1) Capitalizing ghost business investment funds: The role of the working NPO that granted is to create a business environment for the donor company that carry out strategic philanthropic. The funds (e.g., the fund flows like (c) and (e) in Figure 3-5) derived from corporate donations and provided as grants or PRIs to the working NPO and for-profit sector entities via foundations, including funds directly contributed by donor companies to the working NPO, play a role for donor company that is virtually equivalent to business funds for improving their own and surrounding business environments. Corporate donations intended to have this effect were the strategic philanthropy. As these funds are accounted for as corporate donations, they represent expenditures without needing recovery, akin to ghost-like business investment funds that entail minimal investment risk and costs for the donor corporation. Functioning as separate entries on financial statements,

these ghost-like business investment funds require no recovery for the donor corporation, making them a cost-effective and low-risk source of operational funds. Adopting the donation form enables the conversion of funds that essentially require no recovery, suppressing various expenses and their redirection towards business investments. The funding path mediated through foundations (iv in Figure 4-3) have to be more cost-effective and reinforces the effects of cost reduction and fund pooling compared to the direct path from "corporation → working NPOs" (iii in Figure 4-3). For instance, if Wal-Mart directly invests in the Closed Loop Fund (See Figure 3-5), it involves the typical economic activity where Wal-Mart bears investment risks and costs. However, when Wal-Mart contributes to Wal-Mart Foundation as a corporate donation and the Foundation then invests in the Closed Loop Fund as a PRI (See a,e in Figure 3-5), Wal-Mart is relieved of the need to bear investment risks. Notably, funds from foundations to for-profit entities (such as the fund flow (e) in Figure 3-5) harbor benefits not typically encountered in regular economic transactions within the for-profit sector. This constitutes the second aspect of achieving self-sufficiency in patient capital.

(2) Achieving Self-Sufficiency in Patient Capital: For-profit entities comprising the value chain (VC) of donor corporations that have received PRI from foundations can raise capital at a lower cost than entities of similar size and industry. This is because the capital originates from donations rather than through fundraising based on standard business risk assessments or expected returns as assumed by the Capital Asset Pricing Model (CAPM) through the market. Therefore, such for-profit entities can control their Weighted Average Cost of Capital (WACC) more effectively than their competitors, consequently obtaining a favorable financial structure that contributes to a positive evaluation of Return on Invested Capital (ROIC) (Takaoka, 2018, pp.35-37; 2022b, pp.59-63). This for-profit entity can be more proactive in carrying out activities that contribute to improving the business environment and competitiveness of the donor corporation at a lower cost than the competition or at the same level of expense. In other words, as the donor corporation can implement strategic philanthropy, the organization of value-chain contributing to enhancing the competitiveness of donor corporations can be carried out more cost-effectively. This is tantamount to donor firms using strategic philanthropy as a catalyst to exploit the nonprofit institutions to produce, along with a fund pool, the following effects: self-generating of and supplying "Patient Capital" to the related companies in value chain. As a result, the donor corporation can more advantageously pursue enhancing their business environment and the productivity improvement of value chain compared to normal economic activities. Raising capital-charge at a low allows entities such as the Closed Loop Fund in Figure 3-5 to provide funding to companies contributing to constructing a circular economic system below market average and at 0% to municipalities. This makes organizing an ecosystem in line with Wal-Mart's intentions easy and favorable. This effect is a merit that does not manifest in the cash flow of regular economic activities, as illustrated in Figure 4-3-(i).

(3) Outsourcing and Fabless Transformation of CSR Operations and Activities: The impact of outsourcing and Fabless Transformation of CSR Operations and Activities lies in the potential for donor

companies to avoid the in-house burden of existing or future low value-added, high fixed-cost tasks. CSR-related activities and operations, especially the latter, contribute sparingly to value addition, with a significant proportion of high fixed costs, including physical and human elements ⁽¹⁶⁾. Strategic philanthropy, in the form of corporate donations, functions similarly to outsourcing fees for operational support by working NPOs in the business environment. It is equivalent to outsourcing fees for delegating a part of the company's operations or activities (functions and roles) to such NPOs. This effect also contributes to the Fables transformation of overhead and high-fixed-cost element operations that contribute little to value-added creation by leveraging corporate donations. Although the term "Fables transformation of CSR operations" is only metaphorical, its principles and concepts closely align with the management mindset (decision-making) oriented towards Fables transformation by means of smile curve analysis. The Smile Curve analysis focuses on the compression of cost structures and risk avoidance through avoiding in-house incorporation of assembly functions requiring substantial fixed cost burdens due to the prolonged recovery period of significant capital investments and increased uncertainty in matured societies, resonates with this effect. The logic of outsourcing non-core tasks (activities) with low-value additions that do not involve the core of the strategy is also positively embraced in the positioning strategic view (Magretta 2012,p.218). The outsourcing of operations (activities) that do not relate to the core of the strategy and have low potential for value-added creation is viewed positively. The activities corresponding to the separated functions try to be complemented by using resources outside the company on a case-by-case basis. It has an affinity with the management sense reflecting the shared economy paradigm (Rifkin 2014). CSV strategy, at least, the effect of this hybrid synergy, holds the concept of treating CSR-related tasks and activities similarly to assembly functions. For instance, if Wal-Mart or Coca-Cola were to undertake the construction and operation of the backward channel for consumer goods packaging recycling as an in-house task, either individually or collaboratively, it would entail significant costs. Moreover, this job functions falls under support activities in the value chain composition and does not directly contribute to value creation. Furthermore, due to being a fixed cost factor, the additional cost burden could potentially impede primary activities, i.e., activities responsible for value addition. While this example targets future opportunity cost avoidance, it is also feasible to implement the separation and integrated execution of low-value additional indirect expenses and high fixed-cost element tasks, especially those in support activities, which are already in-house. In fact, this effect is the intended aim of the CSV strategy.

These effects do not act independently but have overlapping and mutually reinforcing aspects. (1) involves the choice between conducting business environment development, as illustrated in Figure 4-3 (i) or (iv), to achieve equivalent outcomes. Opting for the latter, that is, adopting the form of donations and effectively entrusting nonprofit organizations, allows donor companies to conduct business environment development at low risk and cost. The difference in whether to conduct as a usual economic deal or entrust them to nonprofit organizations becomes a vital indicator of the financial results of the initial capital contribution. Furthermore, (2)

(16) For example, it may be easier to imagine if we assume to efforts to address the various issues of ISO 26000.

enhances the financial structure of partner companies that constitute the donor company's value chain, creating favorable conditions for the donor company and strengthening its competitive environment. This effect enables the donor company to organize its value chain at a lower cost or more advantageously than competitors. Additionally, (3) facilitates the handling as variable costs for tasks with strong fixed cost elements and opens avenues to compress the cost structure in the company's value creation system through avoidance of include of such the costs. This (3) might be the CSV strategy's most practical and precise effect. For grasp this financial outcome, the changes in free cash flow become an indicator.

Porter and Kramer (1999, pp. 123-125; 2002, p. 65) recommend combining donations with management support to enhance the effects of strategic philanthropy, aligning the results generated by the working NPOs with the donor company's strategic intent. However, achieving precision improvement requires collaboration and alignment between the donor companies and foundations, including the corporate foundation, in selecting donation recipients and using funds⁽¹⁷⁾. Collective strategic philanthropy utilizing collective impact is likely to contribute to avoiding future opportunity costs more than sole strategic philanthropy by avoiding self-burden in such endeavors.

(17) This is not a fictitious assumption. In the U.S., donations made to foundations through the donor-advised fund system are guaranteed to provide to the designated grantees. In other words, even if a foundation intervenes, the funds are sure to be disbursed to the donor company's intention or choice. This system is one of the properties of "the nonprofit institutions as a resource base". However, corporate foundation is different entities with the corporation that provided the endowment, and its basic possessions are owned by foundation itself. They are independent institutions. However, as long as it is not the type of Independent Foundation, it is possible for people related to the company, such as the company in question or the founder's family, to serve on the board of directors of the corporate foundation, and through such human networks, the company and the corporate foundation can effectively cooperate with each other.

Chapter 5

Deconstructing CSV Strategic View

5-1: Introduction

The CSV's strategic view is based on Porter's strategic view, which has two interpretations: positioning and location. While related to the logic of CSV strategy, these ideas do not fully explain its essential logic and the strategies' starting points are fundamentally different. The main issue is that Porter's view fails to explain the fundamental mechanism of the economics of competition in the context of CSV strategy. While attempting to capture the strategic logic of CSV in relation to his devised cluster development method, the methods and logic of cluster development in general cannot explain those functionalize the CSV strategy. Simply selecting elements that can suppress opportunity cost in location does not constitute a comparative advantage that contributes to the economics of competition in the CSV strategy. The source of comparative advantage comes from the properties of nonprofit institutions. Porter and Kramer (2011) fail to miss these points in their explanation.

In this chapter, we reaffirm the strategic logic of CSV strategy as conceived by Porter and Kramer (2011) by contrasting it with Porter's (1980; 1985; 1990; 1998a, b) view of strategy. The logic of CSV strategy can be interpreted in two ways. However, by emphasizing the difference between cluster developments in general and those in CSV strategy, we note that the existing view cannot explain the true functionalizing principle of CSV strategy. The relational structure of the various activities related to the concept of CSV will be reconstructed in this section. The concept of CSV had often been misunderstood and misinterpreted.

5-2: Strategic Views of the CSV Strategy: A Reflection on the Root

Porter's (1979; 1980; 1985; 1990; 1998a, b) original focus is on controlling competition (Magretta 2012, p. 212). This is also true for the CSV concept (Porter and Kramer 2011 et al.). The concept of CSV is developed in relation to the identification of factors that affect competition and the understanding and manipulation of their impact processes, even if it addresses social issues and constraints.

In the strategic view of positioning, strategy refers to discovering and selecting positions with above-average earnings potential that can be leveraged to gain a competitive advantage. Positioning to the selected position means strategic action. When the position has unique that differentiated from the competitors, the position has significance on the competition. The method of discovering and identifying the position in the "Competitive Strategy" was the five-force analysis and the unique value proposition (Porter 1980).

The position and value propositions were in a place (space) within industry or industries, with competition in the marketplace in mind. Both its position and value proposition targeted the same. Organizing a "tailored value chain (TVC)" that would realize a value proposition suitable with that advantageous position was equivalent to positioning. Finding/selecting a position and setting a value proposition was equivalent to finding/identifying the source of competitive advantage. Likewise, the formation of TVCs had been corresponded to gaining and sustaining competitive advantage through the position defense (Porter 1985). In addition to these policies, the strategic logic of the "Strategy for Competitive Advantage" taught that companies should never engage in activities that are not compatible with the position and value proposition they have chosen to sustain their competitive advantage (Porter 1985; Magretta 2012, pp.137-140.).

Afterward, Porter (1990) shifted his attention to understanding and controlling the impact of the location conditions that support business progress and/or quality on the competition. He introduced the concept of the 'complementarity of the value chain' and included the impact of location on value chain productivity as a target for competition control. According to Porter (1998a, p.78, p.86, p.87), comparative advantage of a country or region is not inherent to a particular location which the conventional thinking assists, but can be developed through the selection of factors, such as various resources, that can suppress opportunity costs ex post facto. By doing so, it emphasized the possibility of organizing favorable location conditions that can contribute to productivity improvement. In other words, he argued that by independently selecting various factors, it is possible to establish a relationship that can result in a comparative advantage. The author identifies a new source of competitive advantage, the competitive context, which exists outside of the industry and market. Developing this context is seen as a way to acquire and maintain a competitive advantage in the market. Specifically, Porter (1998a, b) suggests cluster development as a means to achieve this.

The logic based on the strategic view of positioning and location will also be followed in the conception of CSV. Porter and Kramer (2011, p. 66, pp. 75-76.; 2006 pp. 88-89.) point out that "strategy is about choosing a unique position and organizing and operating a unique VC to realize its advantage"; also emphasizes that the requirement to develop CSV as a strategy involves adding a social dimension to the value proposition that serves as the basis for the uniqueness of the strategy. From the stage of strategic philanthropy, in which preceded the CSV concept, they defined the competitive context as "the quality of the business environment in the location or locations where the company operates" (Porter and Kramer 2002, p. 58), and realized that strategic philanthropy could be a measure to improve the business environment; also devised ways to use the creation of comparative advantage to help the competition.

Porter and Kramer (2011, p. 67) presented CSV methods that are conscious of the relationship with the logic of positioning and location strategy views. These methods are categorized into three activities: (a) reconceiving

products and markets, (b) redefining productivity in the value chain, and (c) enabling local cluster development. The initiatives of (a)~(c) consist of various activities related to the following matters (Takaoka 2016, pp.74-76.). The initiatives in (a) are activities related to the discovery and commercialization of societal needs that can be addressed through the application of technologies and know-how that supporting the company's products and services (Porter and Kramer 2011, pp.67-68., p.76; Porter et al. 2012, pp.7-8.); the initiatives in (b) are activities related to reviewing and refining the existing consistency of VC as a business system to reflect changes in the business environment resulting from technological innovation and shifts in social trends (ibid., 2011, pp. 68-71.; ibid., 2012, pp. 8-9.); the (c) are activities related to the development of business infrastructure surrounding VC and its cost sharing, in particular, the improvement of lost opportunities and cost-benefit oriented responses to social constraints (ibid, 2011, pp.72-75.; ibid, 2012, pp.9-10.).

Porter and Kramer (2011 p.67, p.76) state that each of these (a)-(c) can contribute to the creation of shared value, either independently or in conjunction and complementarity with each other. However, as the strategic logic of CSV, two paths of operation can be assumed for the pattern of interaction and complementation of (a) through (c). These two paths are (a)→(b)+(c) and (c)→(b)→(a), as shown in Figure 5-1. The former reflects conventional positioning logic, while the latter reflects the comparative advantage of location logic.

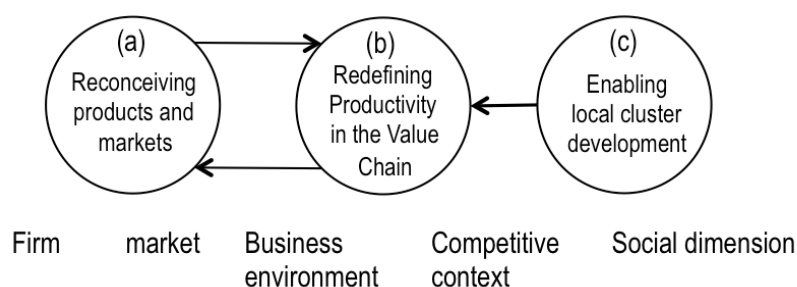


Figure 5-1: Interaction of various activities in CSV strategy

(1) A view based on the positioning strategy logic: the path of interaction, (a)→(b)→(c) or (a)→(b) + (c), is understood as follows: (a) approaches the reevaluation of the business and market from the perspective of shared value and the reconstruction of the value proposition. This corresponds to the identification of the position and the (re)discovery of a competitive advantage position from a CSV perspective; (b) corresponds to a TVC organization or restructuring that aligns with the value proposition in (a). This would correspond to 'positioning' into the position, i.e., gaining (and partially sustaining) a competitive advantage; (c) activities embody the complementarity of VC in relation to CSV, and are assumed to work towards the robustness of TVC, and are related to the maintenance of competitive advantage.

The logic of the CSV strategy can be inferred from the following view: Competitive advantage, either through cost advantage or relatively high prices of the product or service (a), is achieved by TVC in (b). The development of clusters of (c) affects the productivity enhancement and retention of TVC in (b), which, in other

words, sustains competitive advantage through its impact on the complementarity of VC. The main process of CSV strategy based on the strategic view of positioning consist of; to identifying value propositions based on the shared value perspective as positions, and to organizing TVC accordingly; Cluster development is posited in a complementary activity that contributes to the robustness of the TVC. First, Embracing the "social dimension in the value proposition", Then, starting point from (a), (b) is organized; and (c) is positioned as a complementary activity to (b) while guiding a thorough trade-off between activities that are inconsistent with its value proposition.

Porter et al. (2012, p.4) refer to the strategy that integrates social strategy and competitive strategy "shared value strategy" and the strategy that is organized from the identification of the company's own shared value opportunities "tailored shared value strategy. Moreover, the shared value strategy integrated with the business strategy is referred to "integrated shared value strategies. Shared value opportunities refer to value propositions identified from the shared value concept, and realizing and provisioning that through business activities means the integrated or unified with the business strategy. This approach is consistent with the logic behind the conception of (a) as the starting point.

(2) A view based on the location strategy logic: the logic of the strategy of location, i.e., the path of interaction, $(c) \rightarrow (b) \rightarrow (a)$ or $(c) \rightarrow (b)+(a)$, is understood as follows: First, it creates the conditions of location to utilize comparative advantage through the suppression of opportunity costs; second, its effect on "the complementarity of VC" contributes to strengthening the productivity of VC, ultimately enhance the competitiveness of products or services related in the business in the marketplace. This is the understanding that, starting from (c), the identification (selection) of specific factors in the social dimension plays an important role as a position from which competition can develop favorably.

Porter and Kramer (2011 p.66) had been defined the shared value "as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates". In addition, they had also pointed out that CSV is about firms "identifying and expanding the connections between societal and economic progress". The logic starting from the activities in (c) is in line with this view, while the logic starting from the activities in (a) does not align with it. The former logic or approach assumes a place for a position in the market or in the business itself, rather than in the periphery of the business development, and receives compensation through the business. It is assumed that social benefits will be created through the business. In the logic or approach, the factors related to its social benefits are used as a factor in the differentiation of products and services. In other words, in this logic, the company is not trying to improve its competitiveness by creating social value and/or benefits.

As a concrete part of (c), the CSV strategy requires the firm to choose specific nonprofit organizations, and to

provide strategic giving to them. This activity was marked the starting point of the CSV strategy. The objective was to enhance the company's competitiveness. The donor company aims to improve social and economic conditions by supporting working NPOs that address social issues in the regions and VCs where they operate.

The strategic philanthropy was the idea of strengthening the competitiveness of a firm through its involvement in indirectly the creation of social benefits and value. In location development, specific grantee NPOs are selected, that can be determined to have a comparative advantage over other organizations or factors, due to reduce the opportunity costs. It was the selection of the grantee NPO who was the starting point for developing a competitive advantage and serves as the unique position of the CSV strategy. The composition can be assumed to be such that the activities related to (c) contribute to the highly productive VC formation in (b). Such logic is an understanding based on the strategic view of location.

(3) A view based on the Economics of Competition using Nonprofit Institutions as a Resource Base:

Impacts of 'Nonprofit Institutions as a Resource base': Many scholars tend to perceive the former logic as the strategic view of CSV (Crane et al. 2014; Krzyzanowska and Tkaczyk 2014; Takaoka 2016; Wojcik 2016). Besides, they mistakenly believe that the creation of corporate social value and benefits as CSV is produced through business in the market. It is too often assumed that CSV strategy is a discussion primarily focused on the dimensions of markets and business. It tends to be understood that solving social issues through the provision of products and services corresponds to the creation of social value and benefits by companies. Many scholars erroneously assume that at least the CSV concept is intended to do this (Dembek et al. 2016; McWilliam et al. 2011).

It is certainly not impossible to assume the process (a)→(c)→(b) if the selection of elements in (c) is done in anticipation of the competitive advantage of the products or services in (a). However, this would not be consistent with the idea of setting value proposition based on social needs. It is because the domain of value proposition and position do not coincide. This is because the source of competitive advantage (i.e., position) that contributes to the realization of the value proposition based on the idea of shared value is not in the market or industry where contact with customers, the target of the value proposition, is assumed, but in the social dimension.

The logic of the CSV strategy envisioned by Porter and Kramer (2011) is probably the latter (i.e., c→b→a). However, the conventional view and logic of location strategy or cluster development cannot sufficiently shed light on the sources and mechanisms that make CSV function and realize as a strategy.

Existing cluster development focuses on the choice of whether element X has a lower opportunity cost than element Y. In the view, it is believing that this choice allows for the organization of locations that can take

advantage of comparative advantage. The logic is that the location condition will contribute to the productivity enhancement of the value chain and enable the company to strengthen its competitiveness. If a specific nonprofit organization is selected because it is a location factor (i.e., has a comparative advantage) that can better contain opportunity costs than other nonprofits or for-profit organizations around the business context, then it may fit within the logic of a conventional cluster development or location strategy.

However, the source of comparative advantage of cluster development in context of the CSV strategy is not only established by the selection of elements by the firm that be the strategic agent. It is significant that the selected element is some nonprofit institutions. In other words, the focus of cluster development in the CSV strategy is not meaningful if it forms a relationship with a for-profit institution, rather with a nonprofit institution. The CSV strategy can be established and realized by utilizing nonprofit institutions, particularly the properties derived in the nonprofit sector, as a resource base, as shown in Figure 5-2.

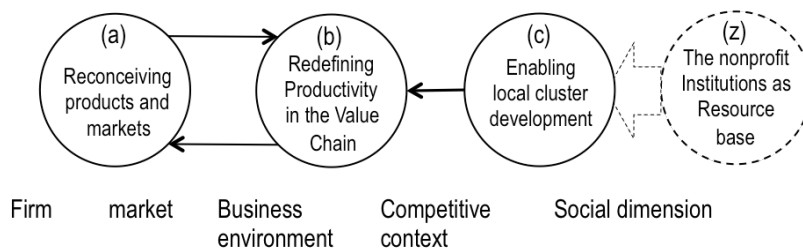


Figure 5-2: The Impact of 'Nonprofit Institutions as a Resource Base' on CSV Strategy

In the study, we have been viewed CSV and strategic philanthropy as synonymous, both conceptually and the actual conditions in actions. At least, we have argued that the strategic philanthropy is the main tool of CSV and the element that determines the uniqueness of CSV strategy and their configuration. The strategic philanthropy is not specifically mentioned in the three methods of CSV, which (a) "Reconceiving products and markets"; (b)"Redefining productivity in the value chain", and (c)"Enabling local cluster development; and may appear unrelated to them. However, it should not be overlooked that it is the strategic philanthropy that is the indispensable activity of cluster developments or orchestration of location conditions in the setting of a CSV strategy.

The strategic philanthropy may not be essential in cluster development in general. However, when focusing on CSV, cluster developments that does not utilize strategic philanthropy will not be able to establish the CSV strategy. Moreover, it is the contention of this study that functionalization of CSV strategy relies on to use the properties in the nonprofit institutions as a resource base to its advantage in creating value for itself, rather not on the logic of location strategies in general. The logic of the impact flow of the usual location strategy or cluster development, which is to organize a location with a comparative advantage by proactively selecting factors that can suppress opportunity costs, thereby enhancing the productivity of the VC, which in turn has a positive

impact on the value creation of the company as a strategic entity, can be followed in the CSV strategy. However, the key to "the economics of competition" and "the functionalization" of CSV strategy is that the source yielded merits is the utilization of properties of the nonprofit institutions, catalyzed by donations to nonprofit organizations, which has been neglected in existing explanations. These are the original indication and findings of this study.

Porter and Kramer (1999; 2011) probably also recognized and intended these advantages, which is why they placed the selection of nonprofit organizations and the use of strategic philanthropy at the core of their CSV initiative. In a broader sense, Porter (1998a, pp. 77-79.), Porter and Kramer (2002, pp. 60-61., p. 66; 2011, p. 76) may also view implicitly the nonprofit institutions as a resource base. They are recommended the use of institutions because they recognize the advantages of using institutions both in the strategy of location and in the cluster developments in the CSV initiative. These institutions include nonprofit institutions. They point out that a cluster is a link where resources and know-how necessary for the business of a specific industry are accumulated, and a lot of industry-specific information and knowledge are accumulated there, and these characteristics have been historically cultivated; the characteristics of the cluster, including the difficulty of transfer and imitation, are the source of advantages of "the cluster or its location". There, competition, and cooperation coexist, and emergence of innovation is promoted, according to their views. They also consider various institutions other than the nonprofit one and their interactions, implying that the nonprofit institutions or organizations encompassed by the cluster is one of the resource bases, although they do not focus exclusively on the nonprofit institutions.

However, it is one thing to point out the fact that in CSV strategy, various properties of nonprofit institutions, such as philanthropic leverage, contribute to the 'economics of competition' of CSV strategy, and another thing to include and formulate the idea of 'nonprofit institutions as a resource base' in strategic theories and in the theoretical system of managerial behaviors of the corporation. Even using the findings of various frameworks that have dealt with 'resource base' and 'institutions', the task of inclusion this idea of "nonprofit institutions as a resource base" in theoretical formation is not easy. This issue is discussed in the next chapter.

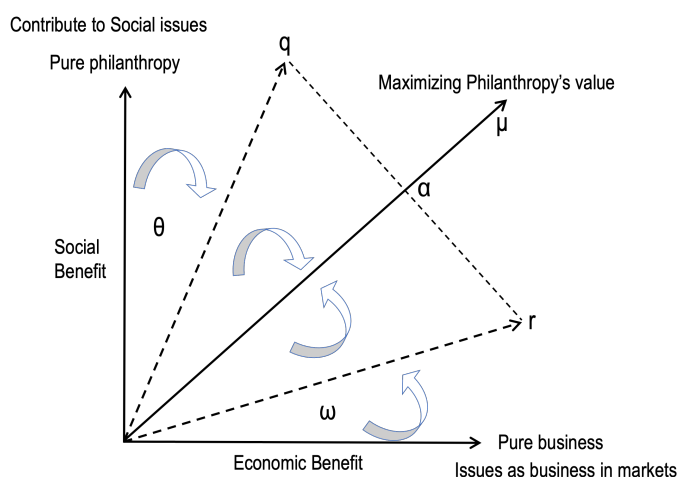
5-3: Reinterpretation of various activities constituting the CSV

In the light of the previous discussion, let us recapitulate the structure or configuration of the various activities of CSV, which are often misunderstood. The logic model of the impact flows of the strategic philanthropy could envisage the following processes. The model could be formulated as follows: (1) the provision of donations to working NPOs operating in the area where the donor company is located or around its business; (2) the improvement and solution of social issues through the activities of the working NPOs; (3) the impact on the improvement on the restructuring of the business environment and competitive context of the donor company; and (4) the contribution to strengthening its own competitive position through this restructuring. The (2) is the

creation of social value and benefits in the strategic philanthropy, which was not directly created by companies. Companies are indirectly involved in their creation through donations. The selection of donors is naturally made in anticipation of the (4). This understanding of the impact process is the impact process of CSV strategy as conceived by the advocates. This process also contributes to understanding the logic of measuring the outcomes of CSV strategy.

Regarding the structure and methods of value creation through the strategic philanthropy, there were concepts of 'a convergence of interests' and 'philanthropy's value'. The former was an area of expenditure where corporate donations could contribute to the company's own economic interests in line with shareholder interests. Their relationship could be depicted as in Figure 5-3. Given the previous discussion on the inextricability of the concepts of strategic philanthropy and CSV, Figures 5-3 can also be positioned as a model for maximizing shared value. Shared value is a paraphrase of 'a convergence of interests', which is the almost same concept, and it would be logically consistent to regard philanthropy's value as a CSV outcome indicator.

Some caution needs to be exercised in deciphering the depiction in Figure 5-3. Figure 5-3 depicts philanthropic value creation as a quadratic function of social and economic benefits; the 45-degree line is the location of philanthropy's value, and the method of its creation and maximization was the 4 Steps of Philanthropic Value Maximization (see Table 3-1).



Source: Based on Porter and Kramer (2002, p.) with additions and modification

Figure 5-3: Framework for Reinterpreting Activities Related to CSV

The depiction in this diagram gives the impression that the shared value is the outcome of a balance between social and economic benefits. It triggers a misinterpretation as if companies are supposed to create the two benefits through specific actions (i.e. through the strategic philanthropy). This may have contributed to the misconception that CSV is an activity that creates social and economic value through competition in the

marketplace through business. This may have drawn attention to (a) of the three avenues of CSV and created the misconception that the CSV concept or strategy envisages (a)-led logic and activities.

However, on the Y-axis, the indicator 'pure philanthropy' is appended alongside the social benefits; on the X-axis, the indicator 'pure business' is appended alongside the economic benefits. The indicators in Fig. 5-3 can be viewed as follows, which will make it easier to understand the outcome measurement of CSV and extract the actual picture of the shared value concept; the Y-axis is the amount of donations; the inside of the triangle is 'donations to nonprofit organizations' as the strategic philanthropy; and, if the economic benefits of the X-axis are replaced by some 'financial outcome' for the company. Such rearrangement does not deviate from the reality of CSV. This is because shared value is, where donations are seen as an investment, based on cost-effectiveness as an outcome measure. Working NPOs are selected and identified in anticipation of their impact on the competitiveness of donor company. Donations to identified working NPOs incorporate in the logic model of the strategic philanthropy impact flows. The role of the working NPOs was to improve and solve social issues linked to the improvement of the business environment and competitive context of donor companies. It was assumed that this would lead to an increase in the productivity of the donor company's VC, and therefore to an increase in competitiveness. Therefore, it was not the corporate donation itself, but the donation to specific working NPOs that was seen as synonymous with the creation of social value and/or benefits. The following differences can be assumed for financial outcomes as economic benefits for the donor firm; as a activity with expecting equivalent results, it is the comparative rating value attributed to the difference between doing it as a business (i.e. usual economic activity) or doing it as the form intervening charitable act. It is reasonable to regard the outcome indicator as cost-effectiveness, in which the donation is regarded as an investment, and, adopting this perspective, the overall picture and the specifics of the structure of the CSV concept or strategy can be seen from Figure 5-3 as follows.

First, the area within the triangle at point Oqr corresponds to the domain recognized as the creation of shared value and is the domain compatible with the CSV strategy, while the activities in the area between the y-axis and point q (i.e. the θ -area) and between the x-axis and point r (i.e. the Ω -area) might be called quasi-CSV activities, not necessarily involving selection of nonprofit organizations or corporate donations. Passive CSR activities would also be encompassed within these domains. Activities in the θ -region or activities that bring the y-axis closer to the dotted line q are equivalent to the concept of Strategic Sociality (Kanai 1999; Kanai and Iwata 1997), while activities in the Ω -region or activities that bring the x-axis closer to the dotted line r are equivalent to cause-related marketing (CRM), etc. The former can be described as an activity that transforms social issues into market issues, while the latter encompasses social elements in market issues.

Strategic Sociality is a concept that captures business activities aimed at bridging social value and benefit creation and economic profit through following; the business has potential social significance but are not

expected to be profitable in short term, with the aim of developing them over the long term and gaining first mover advantage in the future. The upfront investment in the period prior to profitability is close, in part, expenditures that is virtually like donations. However, the company is directly responsible for the creation of social benefits as well as bearing the risks and costs.

CRM, on the other hand, uses the relationship with social causes as a differentiating factor for products and services; promote the fact that the purchase of the product or service in question contributes to social contribution activities (i.e. improvement of a specific social issues); thereby expecting lead to an increase in sales of the product or service in question. This activity is a combination of marketing and matching gifts. It may be a pioneering idea to add a social element to the value proposition and to make the business more favorable. It is consistent with the idea of 'Reconceiving products and markets' based on the perspective of shared value. The value proposition and the position are in the same domain and coincide.

The decisive difference between activities in the θ or Ω regions and the inside Oqr triangle in Figure 5-3 is whether the company directly bears the costs and risks of creating social value and/or benefits, and whether they are implemented within or in conjunction with the business, as envisaged by the shared value strategy (note this is not the CSV strategy). The basic principle of CSV activities is that companies do not undertake these role or functions directly. In addition, activities within the triangle have some range (difference). The 4 steps of maximizing philanthropy's value through strategic philanthropy (see Table 3-1) are considered and introduced as a method to extend shared value in Porter and Kramer (1999, pp126-127.; 2002, pp.62-66.), but it might appropriate to understand them as measures to bring dotted lines q and r closer to the 45-degree line.

The 45-degree line is neither the equilibrium-point between social value/benefit and economic benefit/value that a company aims to create nor the optimal region on the trade-off curve of multiple goals (see Ozawa 2023). It means the indicator of the cost-effectiveness of the donations in the form of strategic philanthropy for the donor company. The maximization of shared value, that is, the scale and quantity of shared value, depends in principle on the total amount of donations made to the same target with the same goal, whether single or collective, in our view.

The CSV is consistently oriented toward ensuring the efficiency of financial expenditures with the form of corporate donations to enhance the competitiveness of the firm giving. According to Porter et al. (2012, pp. 13-17.), the grasping of CSV outcomes differs from that of the integrated value concept in that it follows a conventional evaluation method that regards the return on invested capital as important, although there are differences in terms of expenditure destination and the framework for measuring outcomes. That is, the economic return of the expenditure and its cost-effectiveness are the targets for understanding outcomes. Strictly, it may be difficult to grasp the results in the form of return on invested capital, but through the

intervention of effects of the hybrid synergy, we can measure to some extent the cost-effectiveness of expenditures that consider the corporate donation as a business investment. Although there is no single outcome, and it is difficult to determine the numerical value of the outcome from the outside, it might be possible to show the quasi-indicators to grasp for comparative advantage. First, there is a difference between the spending as an economic act and as donations, and second, a difference between mere charitable donations and the strategic philanthropy. It may also be useful to compare the cost savings gained by effectively outsourcing certain tasks to a nonprofit organization through with corporate donations versus doing them in-house. In addition, changes in free cash flow from outsourcing or fables transformation certain low value-added and high fixed cost operations could also be used as an indicator to determine financial performance.

Porter and Kramer (2011, p.66, pp.76-77.;2006 p.84; Porter et al. 2012 pp.10-12.) argue that only with the grasping of such economic outcomes can CSV be implemented in accordance with value principle and CSR activities be justified.

Chapter 6

How to View "Nonprofit Institutions as a Resource Base"

6-1: Introduction

The CSV strategy goes beyond the dimension of cooperation with specific nonprofit organizations and works by utilizing the nonprofit institutions as a resource base for its own value creation. By utilizing philanthropic leverage derived from the institutions of nonprofit, the CSV strategy gains economics of competition.

However, neither the idea of "nonprofit institutions as a resource base" nor an understanding of its properties and their impact on competitive advantage and value creation is an unexplored topic in academic studies. Even in perspectives that emphasize the existing concepts of "resource base" and "institutions", it has not been directly addressed. To the best of our knowledge, there is almost no discussion of the idea of positioning nonprofit institutions as a resource base for corporate value creation.

Beyond the CSV strategy, nonprofit institutions are becoming an important resource base for corporate value creation. Examples include the Acumen Fund's promotion of the Base or Bottom of Pyramid (BOP) Business deals, the Impact Maker's use of the Benefit Corporation system combined with Newman's Own Exception, a special rule for private foundations. Although the forms of use vary, the tendency to use the nonprofit institutions as a resource base is becoming the standard for socially responsible business. In the shared economy paradigm, it may become the norm for the nonprofit sector to take on the role of bearing the various costs of the for-profit sector.

In this chapter, we examine how to understand "nonprofit institutions as a resource base" by referring to the findings of RBV (resource-based view), dynamic capabilities, and institution of institutionalization theories. The relevance of the idea of "nonprofit institutions as a resource base" to the concepts of resources, resource base, institutions, and institutionalization in management studies will be discuss. For this purpose, we will randomly select a summary of each theory that may be relevant to the study of "nonprofit institutions as a resource base" and use it as an axis of contrast for the study of its resource base, although it may become somewhat opportunistic.

6-2: The Concepts of Resources and a Resource Base in Strategic Management Views

In management studies, the perspectives of RBV and dynamic capabilities have focused on resources and resource bases as the source, acquisition, and sustaining factors of competitive advantage.

Wernerfelt (1984) is one of the germinal papers that literally proposed the "resource-based view of the firm. He focuses on "resources themselves" rather than "resource bases. He defines resources as "tangible and intangible assets that are factors that affect the strength or weakness of a firm and that are semi-permanently associated with the firm at a particular point in time" (ibid., p. 172). Eisenhardt and Martin (2000 p.1106) define resources in RBV as "specific physical, human, and organizational assets that firms can use in their value creation activities. Barney (1986; 1991 p.112) emphasizes that the following characteristics are the basic requirements that define resources (and resource base) in RBV. That is, whether it is the "peculiarity of the resources possessed by the firm and/or their resource composition in the firm" or the "peculiarity of the organizational capabilities, such as the know-how in using them and the routines in forming them", there is "path dependency" in the formation of the resource base, "difficulty in perfect imitation", and "difficulty in trading and acquisition through the market".

This resource composition or its accumulation patterns and utilization routines/abilities are positioned as the basis for the source, acquisition, and sustaining of competitive advantage. Wernerfelt (1984 pp. 172-173.), for example, named it the resource position barrier, analogous to the entry barrier, as the competitive advantage is maintained by a monopolistic position in resource acquisition, rather than from a position within an industry and its defense. He suggested that the ability of certain firms to acquire more resources available for production or to acquire scarce resources and the ability to use resources in unique ways are sources of competitive advantage for firms and are the factors that sustain the advantage. Rumelt (1984, pp.566-567) called the action of limiting the ex-post equilibrium of rents among individual firms the isolating mechanism, and pointed out that it protects the idiosyncratic differences in the ability of firms to gain competitive advantage. In other words, he pointed out that the isolating mechanism enables the persistence of competitive advantage (Lippman and Rumelt 1982; 2003).

Isolation mechanisms can be broadly classified as (a) capability-based, (b) position-based, and (c) exogenous to a firm (Rumelt 1984). The (a) is the properties associated with resources or capabilities possessed by a firm, the (b) derive from the interdependence with a firm's strategic choices, resource composition and the environment in which it is embedded, and the (c) is institutional factors over which the firm organization has no independent control (e.g., social norms, culture, political influences, regulations, etc.) as isolating factors (see Hoopes and Madsen 2022 pp. 6-7. , pp. 9-15.). In (a), the isolating mechanism is mainly manifested within the firm, while in (b), it is mainly manifested outside the firm. In (c), the isolating mechanism emerges in a social dimension beyond the domain of market, industry, and business context. The starting points at which each isolating mechanism is activated, and acts are different.

The RBV takes of the logic (a), while the strategic view of positioning takes the isolating mechanism of (b) as

the logics of source, gaining and sustaining of competitive advantage. The resource-positioning barrier is the logic that explains competitive advantage in a kind of conjoined form of (a) and (b). And related to (c) is the institutionalization theory; the isolation mechanism of (c) is also related to the logic of a position and its defense of competitive advantage in CSV strategy.

Regarding the views of competitive advantage emphasis on resources or capability, Hart (1995; 1997) and Hart and Dowell (2011) present an original idea that has been overlooked by the mainstream. It is the concept of Natural resource-based view (NRBV). Hart (1995, p. 991) argued that, in the context of the demand to build a sustainable society, "corporate strategy and competitive advantage must be rooted in the ability to promote environmentally sustainable economic activities. The capabilities as resources emphasized in NRBV consist of the following three components. These are: first, the ability to dramatically increase the wealth produced by companies in harmony with the carrying capacity of the earth; second, the ability to use limited resources more efficiently and to carry out production activities; and finally, the ability to transform unsustainable existing business structures into sustainable business structures in a sustainable manner.

Hart (1995; 2007) proposes a management for change methodology called the Sustainable Value Portfolio (SVP) to implement and manage these three capabilities in a unified way within a single framework. In these discussions, the following capabilities are positioned as important resources (Hart 2007); These include the ability to relate and coordinate with actors other than economic actors, and the learning capacity to tolerate differences in senses and perspectives and to link these differences to self-transformation.

On the other hand, the dynamic capability view emphasizes the resource base. Helfat et al (2007, p.4) define "resources" in dynamic capability theories as "tangible and intangible human assets (or resources) and the ability to own, manage, or have priority access to them. Based on this, Helfat et al (2007, p.4) synthesize the views of various authors and define dynamic capabilities as "the capability of an organization to purposefully create, extend, and modify its resource base".

In dynamic capability views, the scope of the resource base is not limited to within a particular business organization. The resource base extends both inside and outside the firm and focuses on the firm's ability to create, expand, and modify. For example, Teece (2007, p. 1319) views dynamic capabilities as "the ability to form, restructure, and transform relationships with various elements that constitute the peripheral environment outside the market and industry. He also positions dynamic capability as the key to bringing innovation into a firm's value system and achieving profitability. This suggests that dynamic capabilities are not limited to the inside of a particular firm. Furthermore, Teece (2014, pp. 341-342.;2022, note 2) distinguishes between dynamic capability and strategy as follows. While he defines strategy as "management's choices for going to market and countering rivals", he points out that dynamic capabilities are "the identification of opportunities, the

development of business models, and the alignment of the organization". He also notes that dynamic capability and strategy operate on different time scales (Teece 2022, p.20).

The dynamic capabilities perspective assumes that capabilities are applied to a wide range of factors beyond markets and industries, including social dimensions. A specific target is the business ecosystem. In its view, firms are embedded in the business ecosystem. The business ecosystem is defined as a community composed of firms and the organizations, institutions, and individuals that influence their customers and suppliers. The business ecosystem includes suppliers, regulatory and legal authorities, supervisory bodies, educational and research institutions, etc., and is the business infrastructure that supports the creation of innovation and influences the nature of competition (Teece 2007). The dynamic capabilities view, especially that of Teece (2007;2014;2022), emphasizes the orchestration and restructuring of the resource base, which consists of a wide range of resources owned by various entities. In this view, the resource base itself is not necessarily owned by anyone, but the meta-capability that enables the use and sharing of resources and properties owned by others are important.

6-3: The Concept of Institution in Institutionalism and Institutionalization Theories

In general, institutions are seen as constraints that regulate the behavior of actors in the environment to which the institutions are applied. More precisely, it is not the institution itself, but the norms, rules, and practices formed within the framework of the institution that are thought to promote isomorphism in the external characteristics and behavioral patterns of actors in the same environment.

Meyer and Rowan (1977, pp. 341-342), for example, point out that following rationality as a norm means following "institutionalized rules" rather than the institution itself, or introducing the institutionalized elements into an organization. The institutionalized rules are defined as "patterns that have taken root in society as models or interpretations born of mutual exchange" (ibid, p. 341).

Scott (2008, p. 79) suggests the concept of "institutional carriers" as one of the concepts that represent their institutionalized rules. He describes it as a "vehicle that carrying idea". Scott and Meyer (1982, p.12) propose two types of frameworks in which "institutionalized rules" emerge: technological and institutional environments. The former is "an environment in which organizations are rewarded for effective and efficient control of the production system" and corresponds to a competitive market (ibid, p.12). The latter is "an environment characterized by rules and procedures to which individual organizations must conform in order to gain legitimacy and support" in the same environment (ibid, p.123). The concepts of institutions and institutionalization are primarily concerned with the latter.

However, DiMaggio and Powell (1983, p.147), the proponents of the new approach to institutionalism in

organizational studies, propose the concept of the organizational field, which is similar to the technical environment. The organizational field refers to the place where collective rationality is formed through competitive practices. However, what distinguishes the concept of the organizational field from the conceptual specification of the technological environment is that it recognizes that even through competition a reference axis of justification is formed that is not completely dominated by economic rationality and serves as a model of isomorphism.

Regardless of the economic or social environment, it is not the institution itself that regulates the actions of actors and guides their isomorphism, but the ideas that are universally accepted as rational. Institutions in institutional theory and institutionalization theory refer to the framework that structures rationality, and the focus is on understanding the collective ideas that determine rationality and the process and mechanism of their acceptance, rather than on institutions.

If so, institutionalism and institutionalization theories would have the following points as theoretical components
The ability of actors to recognize their environment and interpret their situation. This is because it is not possible to explain the isomorphic collective action and the differentiated behavior of different organizations in the same environment by ignoring the actor's ability to interpret the situation.

In general, institutional theories or institutionalization theories are a concept that captures the process of isomorphism of actors in the same environment and may be thought to have nothing to do with differentiation or diversity. However, Oliver (1997) emphasizes the actor's ability to recognize and interpret the environment and argues that institutionalization theory not only captures the process of actor isomorphism under the same environment, but can also explain heterogeneity and differentiation, in other words, diversity.

Oliver (1997) found that the institutionalization theories and RBV findings are complementary, rather than opposing; attempted to synthesize the two theories by elucidating the influence of institutions on managers' resource choices. Applying the isolating mechanism suggested by Rumelt (1984), Oliver (1997) proposed the concept of institutional isolating mechanisms, which are a type of exogenous isolating mechanism. Oliver (1997) attempted to understand how the properties of the institutional context in which firms are embedded influence the persistent heterogeneity of firms.

According to Oliver (1997), components of these institutional properties include influences external to the firm, such as the state, society, and other actors, and organizational characteristics internal to the firm, such as its organizational legacy, culture, and organizational politics. As an external influence, Oliver (1997) argued that formal rule systems established by regulatory agencies and the state act as barriers and isolate existing firms from potential rivals by maintaining imperfect market conditions.

Oliver (1997) suggests that institutionalization perspectives can explain how different organizations exhibit fixed behaviors under the same environment by considering the effects of institutions on managers. She pointed out that organizations adopt different patterns of behavior even in the same environment, depending on how managers interpret norms and practices that have rationality under specific institutions, and each pattern becomes fixed. The personalities that support the managers' perception and interpretation of the environment are also a target of consideration.

The institutional isolating mechanism explains how institutions influence management's perceptions, which in turn create differences in what resources are used and how they are used, in the composition of firms' resources and the patterns of their accumulation and utilization, and how their behavioral patterns become fixed and sharply differentiated from those of other behavioral patterns.

Uenishi (2014) also points out the potential in the view of institutionalization theories to grasp strategic behavior as follows. If organizations would become isomorphic on the axis of reference of the collective rationality formed under the organizational field, organizations will be possible to predict the behavior of competitors, as well. Therefore, depending on management's perception of the environment, it may be possible to adopt strategic behavior that undermines isomorphism. Therefore, depending on the manager's perception of the environment, it may be possible to adopt strategic behavior that goes against the isomorphism. In other words, it is possible to capture the aspect of choosing unique behavior that differs from the standard, with in the perspective. Uenishi (2014) emphasizes that institutionalization theory originally has the potential to capture the differentiated behavior and dexterity (smart, tough, and clever aspects) of actors under the same environment and institutions.

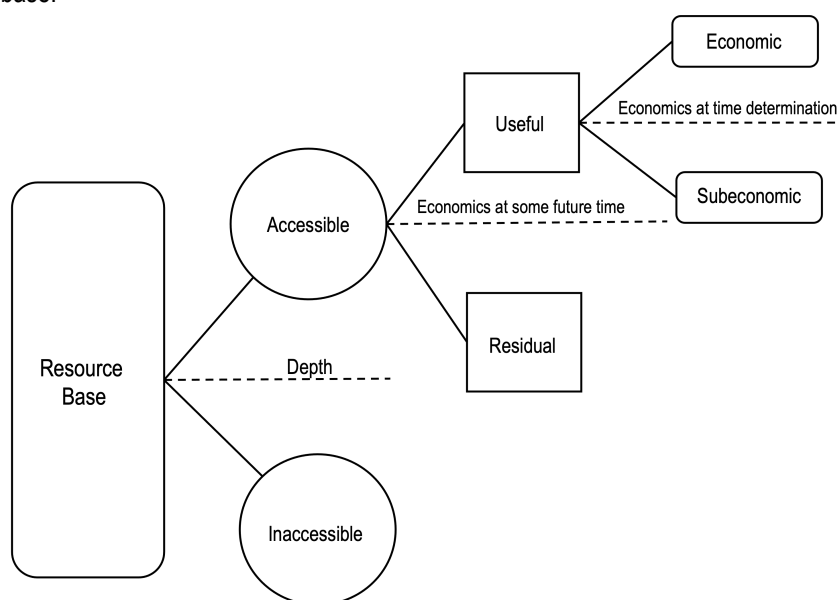
The capacity of the sensing, which Teece (2013) refers to one as constituting dynamic capabilities, is highly affinity with this actor's ability to read and interpret his/her embedded situation and enact the environment.

6-4: The Origin of the Resource Base Concept and Its Interpretation within Management Studies

The term resource base is apparently derived from the geological literature on mineral and energy resources (Muffler and Cataldi 1978); the concept of resource base is defined as follows. The resource base refers to "the aggregate of all material in the Earth's crust (excluding the mantle), regardless of its actual existence or the cost of its exploitation" (Schurr and Netschert 1960, p. 297). The distribution of resources in the crust itself is the concept of the resource base (Schanz, 1975, p. 11). As shown in Figure 6-1, the resource base includes not only accessible resources but also inaccessible resources. The resource base includes not only economically rational resources but also those that are accessible but lack use value. Therefore, although resources are a component of the resource base, resources and the resource base are not same concepts.

The concept of 'nonprofit institutions as the resource base' is derived from a corporate perspective in the for-profit sector. The focus is not on the foundation of resources, but on the resource base itself. This refers to the vast amount of resource stock available, which has been recognized to exist but may not necessarily be possessed or utilized by someone.

However, entities in the for-profit sector can only utilize the resources of the nonprofit sector to the extent that they create their own private foundations, use those foundations as tax shelters by making donations to their own foundations, and obtain deductions from their taxable income. However, institutional reforms and the creation of a path for funds to flow from the for-profit sector to the nonprofit sector have emerged a resource stock that can be used to create value for donor firms. This has led to the concept of 'nonprofit institutions as the resource base.'



Source: Adapted from Muffler and Cataldi (1978, p.57).

Figure 6-1: Diagram illustrating logical subdivision of the geothermal resource base

However, entities in the for-profit sector can only utilize the resources of the nonprofit sector to the extent that they create their own private foundations, use those foundations as tax shelters by making donations to their own foundations, and obtain deductions from their taxable income. However, institutional reforms and the creation of a path for funds to flow from the for-profit sector to the nonprofit sector have emerged a resource stock that can be used to create value for donor firms. This has led to the concept of 'nonprofit institutions as the resource base.'

As properties of the nonprofit institutions that have made this possible, this study focused on the nonprofit institutions, mainly private foundations in the United States. As the properties or composition of the institutions, the systems of Challenge Fund, Pay for Success, and donor-advised funds are included.

A Challenge Fund is a program related to special accounts established within governments and nonprofit foundations. It is a system that specifically allows financial contributions to for-profit entities that contribute to solving social issues in the community, and is a special fund that establishes a dedicated account within a specific nonprofit institution. It is a type of fund within a fund. The program had established to raise funds to support the creation of social impact and to distribute as competitive funds to projects that solve social issues (Pompa 2013). The handling of returns varies between countries, but they may be eligible for tax benefits. In other words, not-for-profit organizations can offer equity or debt financing to for-profit entities that aim to address social issues, and also receive a return on their investment, while may qualify for preferential tax treatment.

Donor-advised funds are also a type of fund within a fund, and the fund that manages and administers the fund would be obligated to contribute grants to targets designated by the donor. This would be a useful system for ensuring the accuracy of strategic philanthropy. Pay for Success (PFS) is an outcome-linked bond, commonly referred to as a social bond, but in the United States it is called the PFS⁽¹⁸⁾. The government or nonprofit foundations pays compensation to the organization that provided the CSOs with the funds for their activities according to the results of the activities of nonprofit organizations and civil society organizations (CSOs) involved in solving social issues (Cohen 2021, p.31). In other words, it is a type of finance contract. When result related bonds are applied, for example, when a private foundation grants a grant to a public charity and the charity achieves a remarkable result (e.g., solving a social problem), the government or others pay the foundation for the achievement of that result. In this way, the foundation can enhance the preservation of its assets. In the U.S., it is not uncommon for challenge funds to be managed in combination with PFS⁽¹⁹⁾.

The popularity of results-related bonds can be attributed to institutional reforms and enactments related to social impact investment, which have garnered global attention in recent years. These trends⁽²⁰⁾ have played an important role in the emergence and strengthening of the "nonprofit institutions as the resource base". Although the timing is a little off, a new nonprofit-related system called fonds de donation was established in France in 2008. It was enacted with the intention of creating a system that would function similarly to private foundations or endowment funds in the United States (Inoue 2010), although this is a somewhat forced summary. The funds

(18) PFS is called SBB (social benefit bonds) in Australia and SIC (social impact contract) in France, and similar schemes exist.

(19) In February 2018, after nearly five years, the U.S. Congress passed the Social Impact Partnership to Pay for Results Act (SIPPPRA), which mutually strengthens impact investing and PFS (Heinrich et al. 2019; Tsuda, et al. Okazaki 2018, p. 35). In addition, the PFS is being expanded from the end of 2020 to 2009 (see Legislative Analysis and Public Policy Association 2021).

(20) For example, although the timing is a little off, a new nonprofit-related system called fonds de donation was established in France in 2008. It was enacted with the intention of creating a system that would function similarly to private foundations or endowment funds in the United States (Inoue 2010), although this is a somewhat forced summary. The funds have the role on reward-pay of SIC, social bonds in France. Furthermore, Danone's community and ecosystem funds can be understood as a corporate strategy to produce effects similar to the properties of the "nonprofit system as a resource base" created mainly by private foundations in the United States, using the old and new nonprofit system in France. See Danone ed. (2020) *Danone: One Planet, One Health: Universal Registration Document Annual Financial Report 2020*; Groupe Danone [2007] 2006 Annual Report on Form 20-F, US Securities and Exchange Commission

have the role on reward-pay of SIC, social bonds in France.

Both for-profit and nonprofit sector entities engage in economic activities. Nonprofit entities also engage in revenue-producing businesses. Each entity in both sectors had its own financing mechanism. Although the rules are different, the entities in both sectors are economic entities. The decisive difference between for-profit and nonprofit entities lies in the possibility of allocating earnings or surplus to the contributors (investors) of the capital or endowments of the entity in question. Each sector has existed in a parallel world to the other. However, with the revision and enactment of various regulations, coupled with an increased global focus on sustainability, certain ties of various properties in the nonprofit sector have emerged for companies in the for-profit sector, which play a role as another financial ecosystem, separate from that in the for-profit sector. This is the reality of the "nonprofit institutions as the resource base" and its properties.

6-5: A Viewing on Nonprofit Institutions as the Nexus, Bundle, or Stock of Functions

Porter and Kramer (2002; 2011) were among the first to realize that the nonprofit institutions has an enormous impact on corporate value creation in the for-profit sector, and they sought to use its properties to help create value to the donor corporations. The important means were the corporate donations of strategic philanthropy, and the coordination related private foundation relationships.

Wernerfelt (1984, p.175), with the understanding of the effects of M&A in mind, classified the nature of resources newly acquired by strategic agents into two broad categories: related supplementary and related complementary. The former refers to acquiring more of the resources already possessed, while the latter refers to acquiring resources that effectively combine with the resources already possessed. The nonprofit institutions as a resource base is similar to the concept of "related complementary". Nonprofit institutions are resources that are external to corporations and be within social dimension that goes beyond the market and the periphery of the business environment. The ability to coordinate cooperation between corporations and foundations, including the development of human networks involved in governance, will be critical to the advantageous use of nonprofit institutions. This is because the existence of one's own foundation and the know-how to cooperate with nonprofit institutions will determine priority access to the resource base and will be involved in the organization and restructuring of the resource base.

The use of the nonprofit institutions may correspond to a restructuring of the resource base itself rather than to a strategy, given Teece's (2014;2022) distinction between strategy and dynamic capability. This is because CSV strategy did not focus on the market as their main battleground. It can be viewed as an activity to find the resource base that contributes to the creation of the company's value within the social dimension and to orchestrate a business model that encompasses this resource base.

Wernerfelt (2011) later focused on the firms' resource acquisition process itself, beyond the different nature of the new resources they acquire, and pointed out that existing resource stocks create asymmetries in the competition for new resources (Barney et al. 2011, p.1306). In other words, it suggested that the existing resource stock becomes a stumbling block to change in a changing business environment. It suggested that the organizational routines that endorse the accumulation pattern of existing resource stocks will be transformed into "core rigidity" due to environmental changes, and therefore, the dynamic capabilities to restructure the resource base and to lead such restructuring is an indispensable capability for sustainable competitive advantage.

In contrast, Hoopes and Madsen (2022, p. 20) emphasize that the understanding of isolating mechanisms specific to business ecosystems, including cost-sharing mechanisms therein, remains unexplored. Dynamic capabilities views emphasize the relational dynamism associated with the renewal of the resource base as a factor related to competitive advantage. Nevertheless, if it views the securing of sustainable competitive advantage of the focal organization from the perspective of the relationship between the focal organization and the resource base or other entities comprising the business ecosystem, rather than the relationship as a whole, we ridicule it as not much different from a positioning-based isolating mechanism. As (an unintended) consequence of this view, he criticizes the resulting in the return back to the competitive advantage view of positioning.

Akao (2010, pp. 105-109.) points out that Teece (2007) emphasizes the orchestration of business ecosystems as a target for applying dynamic capability because he intends the following two cost reduction measures: first, the reduction of acquisition and transfer costs related to the renewal of resources and capabilities within the firm, and second, the reduction of costs related to the utilization of external resources and capabilities by redefining the boundaries of the firm. He suggests that the dynamic capabilities view aims to ensure sustainable competitive advantage by avoiding the inclusion of low value-added functions in the company through the organization of the business ecosystem, outsourcing the existing such functions, and using or in some cases temporarily sharing resources held by others outside the company. It implies that the aim of business ecosystem formation, and the effect of the innovation it produces, is the downsizing of the cost burden of the focal organization, and that downsizing is the principle that protects sustainable competitive advantage.

The nonprofit institutions as a resource base were resources in the possession of others that were exactly in line with this positioning (i.e., understanding). In fact, in our view, the CSV strategy has utilized the corporate donation of strategic philanthropy as fees to outsource the low value-added, high fixed-cost elements of its own work to nonprofits to perform these functions on its behalf. The CSV strategy was precisely this kind of use of the nonprofit institutions to secure competitive advantage. Although the nonprofit institutions may be a kind of constraint for nonprofit organizations, the nonprofit institutions as a resource base can be a useful resource

stock for for-profit entities, depending on how they utilize it. This is, even if the only limit of the contribution at the present is to reduce the cost structure in their own value-creating system.

Thompson (1967) once shed light on the understanding of the organizational action an organization not only adapts its organizational structure to the characteristics of the environment in which it is located, but also reshapes the environment itself, bringing it partially within its own discretionary scope to suit its own convenience. His perspective suggest that organizations have such capabilities attached to them. The capabilities may be related to both to the sensing and the enacting. The act of utilizing nonprofit institutions as a resource base, not limited to the CSV strategy, can be seen as an act of organizing various elements that straddle the for-profit and nonprofit sectors and institutionalizing them as a cooperative system, regardless of whether or not call it organizing a business ecosystem or expanding the organizational field. Such action, as Uenishi(2014) points out, is not following the model of isomorphism, but is tough, clever act of proactively creating the model of isomorphism.

However, using the nonprofit system as a resource base exclusively for downsizing cost structures and streamlining financial strength may be a waste of the stock of resources or functions. In addition to innovations that contribute to the compression of the cost structure in such value creation, it is also necessary to explore measures and logics for securing a sustainable competitive advantage by using nonprofit institutions as a resource base.

Chapter 7

Conclusion

7-1: Reflections on and Implications of the Study

This study has examined the "economics of competition" of CSV strategy and the unique logic of CSV as a strategy, with reference to the idea of "nonprofit institutions as a resource base". The strategic logic of competitive advantage in CSV strategy was likely based on the logic of location strategy rather than the strategic view of positioning. However, there was a mechanism that is unique to the CSV strategy. The proponents and other critical scholars of CSV had overlooked the mechanism of "economics of competition" that is unique to CSV strategy. Key to a systematic and in-depth understanding of the CSV strategy has been the positioning of strategic philanthropy in the CSV concept. In this study, CSV and strategic philanthropy have considered synonymous, both conceptually and in actual practice. This understanding has facilitated the unveiling of the competitive and strategic logic of CSV strategy, its mechanisms, and captures its results.

In the cluster development of CSV strategy, the key to success has been the formation of relationships with nonprofit organizations through the provision of corporate donations in the form of strategic philanthropy. In the discussion of cluster development in general, the understanding or explanation is based on the logic that a strategic agent gains a comparative advantage by selecting factors that can contain opportunity costs in a specific location, which in turn has a positive impact on the productivity of the value chain and increases the competitiveness of the strategic agent. In the CSV strategy, however, the acquisition of comparative advantage had been not possible only through the selection of the strategic agent. It had been significant that the selected entity was a nonprofit organization. Without providing corporate donations to specific nonprofit organizations and implementing cluster development through the activities of these nonprofit organizations, the CSV strategy will not work as designed. The donor firms, through their corporate donations, had been tantamount to allowing specific nonprofit organizations to develop clusters on their behalf in accordance with their own strategic intent.

When a company engages in cluster development as a usual economic activity, it naturally bears the associated costs and risks. However, if corporate donations are used as a de facto commission for cluster development, not only can tax savings be realized, but the costs and risks of cluster development can also be reduced. The effect described had derived from the effect of 'philanthropic leverage', which are benefits unique to the nonprofit sector. This concept has been being incorporated into the value creation of for-profit firms through the following financial flows.

The funds originally in for-profit sector had been provided to the nonprofit sector the form in corporate donations. In many cases, the recipients of these funds were private foundations, one of the hallmarks of the U.S. nonprofit institutions. These foundations had provided grants to nonprofit organizations that are best suited to enhance the competitive context of the donor companies. In addition, the foundation had financed in the donor's business partners in the for-profit sector through program-related investments (PRIs) or other means. By funneling these funds derived from originally earned income in the for-profit sector (i.e., corporate giving) through the nonprofit sector and effectively back into the for-profit sector, cluster development catalyzed by corporate giving could maximize financial leverage for value creation for the donor firm.

In the study, we had been called the effect or action as hybrid synergy. In addition to the tax-saving effect, donating could have three additional effects on the donor firms. Firstly, it could secure ghost business funds/capitals that can be used to improve the business environment. Secondly, it could self-generate and supply patient capital to the related companies that make up the company's VC. Lastly, it could outsource low value-added and high fixed-cost operations of the donor company itself, which can be called 'Fableszation' or "Fables transformation."

The former two had the effect of making it possible for the donor firms to develop their business environment at low cost and risk. The first has the equivalent effect of spending corporate donations to nonprofit organizations as the cost of having the nonprofit organization act on behalf of the business environment development. The funds are contributed to the form of donations, so no further accounting is required. Above all, the funds do not need to be recovered. Because the accounting of the expenditure is treated as donations, even though it has virtually the same effect as a business investment.

The second effect was to help donor firms become more competitive by strengthening the financial structure of their business partners in for-profit sector. Because the funds provided by foundations and others to the donor firms' business partners had been funded by donations, the firms affiliated with the donor firm can raise capital more cheaply than market standards. As a result, firms affiliated with the donor firm could run their businesses better than their competitors. It has contributed to strengthening the productivity of the donor firm's VC, thereby increasing the likelihood of improving the competitiveness of the donor firm. These two benefits are mainly related to the improvement of the donor firm's business environment and had been the comparative effects of treating the corporate donation as effectively a business investment.

The third, on the other hand, affects the donor company itself. Under the pretext of social responsibility and social contribution, it paved the way for a significant reduction in the company's cost structure by outsourcing low value-added and high fixed cost activities. In fact, it was closer to the fables of job functions in the

company than a mere outsourcing. In other words, rather than having a nonprofit organization temporarily perform a specific task on behalf of the firm, it had could be inferred that this is based on an intention to avoid internalizing the task itself within the firm. It was effect that might be the most reliable and effective outcome of strategic philanthropy, the use of corporate giving.

It was the understanding of this study that these effects on the economics of competition depend on the ability to use the nonprofit institutions as a resource base for their value creation. This effect had a depended on the ability of the for-profit sector to absorb the philanthropic leverage generated by the various characteristics of U.S. nonprofit institutions into its economic activities. This absorption of the effect in the for-profit sector made it possible to secure a comparative advantage in the development of clusters as a CSV strategy. In other words, the source of competitive advantage in the CSV strategy was not in the market or industry, but in the social dimension, and securing it is an essential condition for gaining competitive advantage in the CSV strategy. The specifics were the selection of nonprofit organizations that were best suited to strengthen the company's business environment in a particular location and the provision of corporate donations to these organizations.

In the study, it was able to clearly present the sources of competitive advantage of CSV strategy, as well as the logic and measures for their discovery and acquisition (i.e., positioning). In fact, however, the logic and mechanism for sustaining the competitive advantage remain somewhat ambiguous, because although the formation of relationships with nonprofit organizations that are convenient for the donor firms is essential for sustaining the competitive advantage of the CSV strategy, it is uncertain whether sustaining relationships with specific nonprofit organizations will contribute to sustaining the competitive advantage of the CSV strategy. Rather, even if relationships with nonprofit organizations are essential, it may be more effective to frequently change the nonprofit organizations to which donations are made than to establish a long-term relationship with a particular nonprofit organization. However, even if the working NPOs are replaced, it will be desirable to have a regular relationship with private foundations, including one's own corporate foundation. For these reasons, which emphasize the clever use of the entire nonprofit institution, including private foundations, rather than the mere use of a specific nonprofit organization, this study adopted the "nonprofit institutions as a resource base" perspective. We had also explored how the "nonprofit institutions as a resource base" can be understood theoretically. We had tried to examine the relationship between various theories dealing with the concepts of "resources", "resource base", "institutions" and "institutionalization" in management studies, albeit in a somewhat opportunistic manner.

In strategic management views that deal with the concepts of "resources" and "resource base," which are more closely related to the concept of competitive advantage, the term "resource base" is generally used to refer to the foundation of resources and capabilities that contribute to the source, acquisition, and sustaining of competitive advantage for the specific firm. In the study, however, the concept of "resource base" was

understood as follows. It was that the nonprofit institutions themselves are viewed as a mass of unused resources or functional stock that has not been utilized in existing the economic activities of firms in the for-profit sector, even though they are aware of its existence.

The study of "nonprofit institutions as a resource base" has just begun, and the validity of this idea cannot be judged at this time. However, it is undeniable that with the development of the shared economy, various nonprofit institutions in exchange for corporate donations, and the nonprofit system itself, may increasingly bear part of the cost burden of the economic activities of enterprises in the for-profit sector. It may arise a significant difference in competitiveness between firms that are able to use the U.S. nonprofit system as a resource base for their own value creation and those that are not. The presence or absence of a similar system may also result in a gap in national competitiveness. However, there is much that is unknown about how nonprofit institutions act as a resource base and the mechanisms by which they do so, not only with respect to the sustaining competitive advantage of specific firms, but also with respect to 1) the sustaining competitive advantage of sustainable businesses, 2) the sustained competitive advantage of socially responsible firms, and 3) whether there are differences in the sustainability of competitive advantage due to differences in firm or management characteristics.

Brushing up the idea of "nonprofit institutions as a resource base" together with understanding the mechanism and logic of sustainable competitive advantage of the CSV strategy is the task of this study that needs to be addressed immediately.

Indeed, the nature of the rents generated by the CSV strategy may differ between the stages of gaining and sustaining that competitive advantage. Moreover, the nature of the rents generated by the CSV strategy may differ between the stages of gaining and maintaining competitive advantage. Similarly, mechanism sustaining the rents may differ from those assumed in the dynamic capabilities view. In addition, the following issues need to be addressed.

7-2: Unveiling Managerial Behavior of Socially Responsible Businesses

Porter (1998a p.83; Porter and Kramer 2011, p.72, p.77) identifies the promotion of innovation as the significance of cluster development. Indeed, the CSV strategy involves the creation of innovation by the form of re-editing the links between managerial resources for value creation. Specifically, by incorporating the benefit of philanthropic leverage embedded in the nonprofit institutions, the CSV strategy will create innovations that contribute to compressing the cost structure of value creation of the firm, including the various related organizations that make up the value chain for the donor firm. Value creation using these nonprofit institutions will certainly support the nurturing and growth of businesses, not only existing businesses but also new businesses. Donated capital is associated with the endowment effect of the cost of capital. It functions as

so-called patient capital. The endowment effect of the cost of capital lowers the WACC of the company, making its financial structure, which acts on its ROIC, more favorable than its competitors (Takaoka 2018, p. 36).

Hart (2007; Hart and Milstein 2003) had pointed out that sustainable development requires the creation of enormous amounts of new wealth; and it is corporations that must take on the role or responsibility of creating this wealth. This "responsibility" or "role" has two connotations. First, although the corporation (as a system as well as an entity) is central to the creation of wealth in the socio-economic system, the social role of corporations is not only to create wealth, but also to innovate the system of wealth creation itself, which is at the core of legitimacy. At the same time, Hart (2007) emphasizes that the existing model of corporate value creation cannot ensure sustainability; the extension of the existing paradigm of business and value creation will not realize the creation of great wealth for sustainable development. The second meaning of "responsibility" has to do with transforming an unsustainable business structure or portfolio into a sustainable one in a sustainable way, i.e. transforming the business and its value creation system itself. For this purpose, the Sustainable Value Portfolio (SVP) framework has been proposed as a method for managing change.

The same is true for Ansoff (1965) and Teece (2007; 2014), who advocated the management of transformation (change) as the inner reality of strategic management. Ansoff (1965) distinguishes between "competitive management" and "strategic management"; the former means management to get more profit from existing businesses, while the latter means management to diversify business or transform the existing business structure. Teece (2007; 2014) also makes a distinction between ordinary capabilities and dynamic capabilities to the same effect in distinguishing between management capabilities as follows; the former is the ability to gain more profit from existing operations or their improvement or expansion, while the latter is the ability to create and acquire a new profit base. Hart's (2007) SVP is also based on the same idea as strategic management and dynamic capabilities, while competitive management and ordinary capabilities are also ideas of the same idea.

For companies to contribute to the realization of a sustainable society, how to recoup huge new investments and bear costs until they become profitable become important management issues. Regardless of whether the demand for corporate social responsibility is viewed as a constraint or an opportunity, socially responsible management also must bear a cost burden that may not directly contribute to value creation. Recovering investments and absorbing costs associated with these costs are unavoidable issues. This is also a perennial challenge for companies and management studies.

Through the SVP, Hart (2007) proposes a way not only to reduce costs, but also to transform the role of the firm in value creation and the nature of the firm itself. On the other hand, the CSV strategy proposed by Porter and Kramer (2011) only contributes to streamlining the financial structure of the company in an efficient way. For the implementation of sustainable business and socially responsible management, which require huge cost

burdens, the methods of reducing and sharing the cost in value creation of the CSV strategy are a wisdom that cannot be overlooked. However, it may not support the emergence of new businesses itself, and it may not generate new fundamental growth. In other words, there might unfortunately little creating for new value and the system.

Therefore, the unveiling is required as a future development of the study; it is the socially responsible businesses and its management that use nonprofit institutions as a resource base for value creation in a different way from CSV strategy, through some comparative studies. As one of the upcoming tasks, it will be included to demonstrate the effects and results of the economics of competition of CSV strategy, which is based on financial analysis.

This study only illustrates one type of value creation using nonprofit institutions as a resource base. However, it would be served as some degree of comparative axis for understanding the financial results of the CSV strategy, as well as for examining other similar value creation patterns and the mechanisms of the economics of competition.

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Towards the Unveiling of the Functionalizing Mechanism of the Creating Shared Value (CSV) Strategy: The Economics of Competition Utilizing "Nonprofit Institutions as a Resource Base

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Towards the Unveiling of the Functionalizing Mechanism of the Creating Shared Value (CSV) Strategy: The Economics of Competition Utilizing "Nonprofit Institutions as a Resource Base

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