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Business ethics and profit - The impact of corporate social responsibility programs on corporate strategic planning

Alessandro Biscaccianti [a]

[a] *CEREN –Management Department – Groupe ESC Dijon Bourgogne – BP 50 608 – 21006 Dijon cedex*

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Abstract

The aim of this paper is to single out some of the main features of the concept of Corporate Social Performance (CSP) and to understand its impact on corporate strategic planning, business ethics, value creation and profit increase.

CSP is a global concept that encompasses those of Corporate Social Responsibility and Corporate Social Responsiveness. It provides a coherent framework to explore business-society relationships by looking at the social impact of corporations with business criteria of performance measurement, such as quality, efficacy, effectiveness, innovation (Carroll, 1991; Wood, 1991).

Some authors show an attitude of openness and encouragement to the efforts aimed to shape an alternative mindset concerning the role of corporations and business in the contemporary global society. Others consider the idea of corporations having a social responsibility useless and even dangerous, believing that the only social mission of business is to make profit.

The first four chapters describe what are the features of CSP programs, how CSP can be measured and how managers can integrate CSP into their strategic planning practices. The last chapter provides a description of two microcredit banks and an analysis of the strategic issues microcredit institutions have two solve to contribute to the success of socially responsible programs.

Introduction

In 1989, worldwide stock capitalization was 2800 billions of dollars, while total annual financial flows worldwide totaled more than 80000 billion dollars (Osterberg, 1995).

In 1992 worldwide GNP was estimated at 35 trillion of dollars, international trade at 4 trillions, central banks reserves at 0,9 trillion, the value added produced by the companies at around 2,5 trillion and the financial transaction at 500 trillion of dollars. (Attali, 1996)

In 1995, only 19 countries in the world had a GNP higher than 1993 General Motors turnover; while GM employees worldwide were more than the combined population of Danemark, Sweden and the Netherlands (Logan, 1995).

In 1997, US floated companies generated around 58% of national GNP and employed 30% of US workers and managers (Hunter, 1996).

The growth of ethical investment funds urges companies to integrate CSP programs into their strategic planning practices. In 1999, Socially Responsible Investing in the US totaled $2,16 trillion, growing by 82% from 1997, while the broad market grew by 42%. Investments in socially responsible mutual funds (SRMFs) have grown from $162 billion in 1995 to $259 billion in 1997 to $1,5 trillion in 1999 (Stone, 2001)

These numbers show how corporations are the real power center shaping people's life. Shareholders, executives and managers influence over social life is significant. If it is true that corporations plays an important role in contemporary global society, it is true as well that communities have the role to legitimate such an influence by providing companies with a license to operate consistent with their laws and regulations and aimed to protect the future of the communities. As stated by Davis's (1973) Iron Law of Responsibility, 'society grants legitimacy and power to business. In the long run, those who do not use power in a manner which society considers responsible will tend to lose it'[1]

In this context, the analysis of the concept of CSP helps to understand how to make the process of wealth creation more effective and fair (Goyder, 1993). Since companies take advantage of the resources and of the freedom that the communities provide them, the latter are legitimate to ask companies to reciprocate to tackle social and environmental issues. The globalization of the economy and the emergence of a boundaryless environment, make such a phenomenon even more dramatic. Companies are more and more scrutinized and put under pressure by consumers associations and political lobbies. The image in a country can be jeopardized by something happening in another part of the world (Collins, 1993).

Example 1

Before 1973, Shell ranked 7th within world-class petroleum companies. After 1979 it got the 1st rank because of the introduction by Arie de Geus of systemic thinking to implement strategic planning processes and to manage operations. The transformation of Shell in a vanguard learning organization provoked a change in the behaviors of the company towards social and environmental issues. Shell shifted from a concept of ownership to a concept of stewardship (Senge, 1990). All along the '80s Shell has developed close relationships with many stakeholders groups involved in social and environmental activities. However, the worldwide bad impact on Shell's reputation because of its management of Northern Sea Brent Spar platform destruction and its involvement into Nigeria's ecologist leader conviction to death penalty demonstrate that commitment to socially responsible behaviors does not allow any exception. However, if Shell had not built positive relationships with relevant and diverse stakeholders, the impact on its image could have been even worse.

1. Corporate Social Performance, Corporate Social Responsibility and Corporate Social Responsiveness

CSP is a strategic process of mutual commitment between a corporation and its stakeholders. Its purpose is to define a social contract to maximize the welfare of all parties concerned. Welfare maximization should be considered both short term and long term, in order to meet present expectations and needs without endangering the opportunities and the resources of the future generations (Wartick & Cochran, 1985)

The stakeholders are all the subjects participating or contributing to firm's activities, and who, having a stake in the firm, are concerned by the firm's decisions (Bavaria, 1986). The shareholders being one of the constituencies of stakeholders, they should actively participate in the decision making process of implementing CSP programs, while the firm should ensure the continuity of their contribution through commitment to pay dividends and increase share value. This concept enhances the idea of CSP as a systemic mutually interactive and cooperative process between corporations and communities. Appropriate Corporate Governance practices are necessary to reconcile the interests of different stakeholders.

In defining CSP programs, shareholders and managers should choose those actions that will maximize the welfare of the community by providing the desired goods and services while minimizing financial, social and environmental costs. (Farmer & Hogue, 1985).

The outcome of such new way of thinking and behaving in the last two decades has been the development of best practices like client-suppliers partnership, TQM, environmental awareness, decentralization and participative management, network and learning organizations.

Directly related to the decision making process (Steiner, 1975; Lodge, 1978), CSP is a component of the strategic planning process, and can be studied by making reference to:

- two types of environment - internal and external to the firm
- two levels - direct and indirect responsibility (Davis, 1960; McGuire, 1963);
- three principles – social legitimacy (institutional), public responsibility (organizational), managerial discretion (individual) (Wood, 1991)
- four domains - economic, legal, ethical and discretionary responsibilities (Davis, 1973; Preston & Post, 1975; Carroll, 1979; Wood, 1991)

The increasing globalization and complexity of the business environment and society requires managers to distinguish direct and indirect social responsibilities of corporations. Direct responsibilities are those related to the soundness of the operations of the company. Indirect responsibilities are those related to the power and influence that the company has on the life of the community (L'Etang, 1995).

[1] Davis, K.; *The Case For and Against Business Assumption of Social Responsibility*; Academy of Management Journal, 1973, n.16, p.314

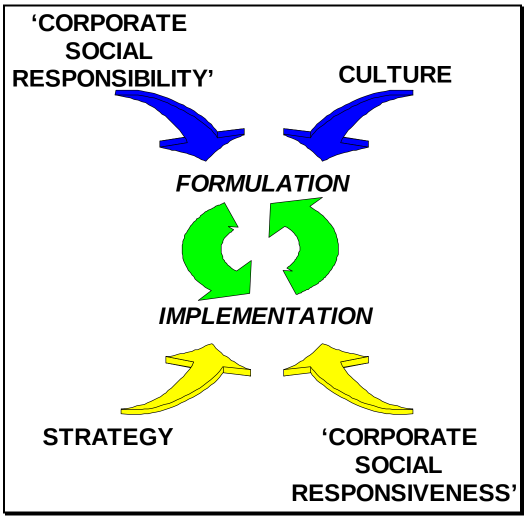
Crossing the three principles with the four domains allows to identify the possible outcomes of Corporate Social Performance, as showed in the following table (Wood, 1991):

Domains	CSP principles		
	Social Legitimacy (Institutional)	Public Responsibility (Organizational)	Managerial Discretion (Individual)
Economic	Produce required and appropriate goods and services, provide jobs, increase shareholders value, optimize stakeholders welfare	Price goods and services to reflect true production costs by incorporating all externalities	Produce ecologically sound products, use low polluting technologies, cut costs with recycling
Legal	Obey laws, regulations and local mores. Don't lobby for or expect privileged positions in public policy	Work for public policies representing enlightened self-interests	Take advantage of regulatory requirements to innovate in products or technologies
Ethical	Follow fundamental ethical principles (e.g.: honesty in product labeling)	Provide full and accurate product use information to enhance user safety beyond legal requirement	Implement vanguard management practices to increase the health of the workforce
Discretionary	Act as a good citizen in all matters beyond law and ethical rules. Return a portion of revenues to the community	Invest the firm's charitable resources in social issues related to the firm's primary and secondary involvements with society	Choose charitable investments that actually pay off in social problem solving to foster effectiveness in social and affirmative actions

By making reference to the Formulation/Implementation dichotomy, the previous table constitutes a useful tool in the formulation phase of strategic planning to identify what are the possible targets of CSP programs. In the implementation phase it can be used as a diagnostic tool to assess their completeness and consistency.

The concept of Corporate Social Responsibility has to be made relative to the culture of the corporation and has much in common with the strategy design, while the concept of Corporate Social Responsiveness concerns implementation (Salbu, 1993).

While Corporate Social Responsibility addresses the issue of direct and indirect responsibilities at the level of moral judgments (good or bad), Corporate Social Responsiveness relates to the pragmatics of decision making and action planning/implementation (right or wrong). The two concepts are not mutually exclusive, because the former aims to define the substance of the process of social commitment and the latter aims to create mechanisms and procedures to implement it.



The Corporate Social Responsibility dimension is important to stimulate proactivity, to lead visionary strategies on the long term. The Corporate Social Responsiveness dimension is necessary to develop reactivity, to ensure short term sound management of the operations.

Corporate Social Responsiveness is the ability of a company to recognize and respond effectively to social challenges (Ackerman and Bauer, 1976;

Salbu, 1993, Carroll, 1991), and can be explained by confronting several approaches on a continuum, as shown in the following table (MacAdam, 1973; Wilson, 1974; Davis & Blomstrom, 1975):

<table>
<tr><td>Wilson</td><td colspan="2">Reaction</td><td colspan="2">Defense</td><td colspan="2">Adaptation</td><td colspan="2">Proaction</td></tr>
<tr><td>MacAdam</td><td colspan="2">Fighting</td><td colspan="2">Complying</td><td colspan="2">Innovating</td><td colspan="2">Leading</td></tr>
<tr><td>Davis et Blomstrom</td><td>Denying</td><td colspan="2">Lobbying</td><td colspan="2">Complying</td><td colspan="2">Negotiating</td><td>Problem-solving</td></tr>
<tr><td>Carroll</td><td colspan="8">Doing nothing … Doing too much
Corporate Social Responsiveness … Corporate Social Responsibility</td></tr>
</table>

Approaching responsiveness in a simplistic way could push corporations to circumvent the application of moral philosophy in ethical decision making. If the desire to make good decisions is pre-empted by the more pragmatic end of responding to environmental cues, corporate strategy entirely usurps the obligation to assess independently the results of one' s actions (Freeman & Gilbert, 1988). The risk for managers is then to focus too much on the left side of the continuum, instead of taking the risk (and seizing the opportunities) of adopting a more advanced mindset in approaching the issues related to Corporate Social Responsiveness.

Example 2

German car makers demonstrated an outstanding capacity of leveraging Corporate Social Responsiveness actions when, in the 80s, they decided to lobby to push the German government to impose catalytic cars by the mid 90s. In fact, they understood that the growing popularity of the Green Party was not just a temporary fashion due to may 1968, but that on the contrary it was going to become one of the main constituencies of the German political and social environment. On the other end, German carmakers could understand it because of the specific German corporate governance structure which makes Corporate Socially Responsible practices a landmark in their strategic planning (as their involvement in students' training demonstrates). The combination of the two approaches pushed German carmakers to invest heavily into R&D to be the first to develop the catalytic technology which then became a standard in Europe.

For a CSP program to be viable, it is necessary to put together long term vision and short term efficiency. This means nurturing a sound approach to Corporate Social Responsibility (through the building of a visionary corporate culture) while adopting the appropriate level of Corporate Social Responsiveness (through the definition and implementation of viable strategies consistent with the expectations of the social environment). CSP programs should be seen as processes based on voluntary and explicit commitment to accept both economic and social responsibility (Carroll, 1979).

Profit is of course necessary to provide companies with the resources necessary to effectively impact the evolution of the communities in which they operate. At the same time, economics, laws and regulations are no longer the only factors that companies should take into account when defining their strategy, as the recent Enron and Andersen events demonstrate. In fact, profit is strictly related to the reputation of the company, and *the values of the brand* make *the value of the brand* (Grayson, 1996). Several researches carried out in the USA (see later) show that, in general, socially responsible corporations outperform or perform as well as traditional ones in the financial market.

Business ethics becomes then a critical element to help managers in the appropriate design and implementation of viable strategies, and no longer as just a constraint on the way to the maximization of the profit.

2.. Measuring Corporate Social Performance

The definition of proper methods, parameters and indicators allowing the corporation and its stakeholders to monitor and evaluate CSP is paramount to foster social effectiveness and economic efficacy and to sustain long term programs.

To monitor social actions is necessary to check the correct implementation of the programs. At the same time stakeholders need to have a way to assess the social behavior of corporations in order to take a decision whether or not deliver the license to operate to the corporation. The fact that corporations have to look at a broad panel of stakeholders other than shareholders complicates the issue of measurement of their performances. In fact, while it is relatively easy to gather and elaborate data to provide information on financial performance, the same cannot be said for social performance. However, this need is more and more compelling, because of the dramatic changes in the features of international competition due to the globalization of the economy and society. The competitive advantage of corporations is more and more based on human resources, skills and knowledge; this amplifies the importance of the role of the stakeholders, and therefore the commitment of corporations to socially responsible behavior and performance.

To assess CSP programs it is necessary to check their matching with Corporate Social Responsibility statement, their use of socially responsive processes, their impact on social issues (Wartick & Cochran, 1985). The following paragraphs provide an overview of methods like the social audit and parameters used by institutions to screen social behavior of corporations.

When a company considers shareholders as the unique category of stakeholders to pay attention to, the company tends to put in place mainly financial indicators (pre-tax earnings, profit per share, growth rate, market share….). Many people think that to assess the performance of a company, what matters is the bottom line. This type of model is typical of the industrial capitalistic society of the 19^{th} and 20^{th} century, when capital where accumulated into machines and production processes and when the human factor was considered just a cost of production. In the 21^{st} century company, wealth production is essentially based on people's competencies and customer service. (Blair, 1995). Since the human factor becomes more and more important in the companies of the 21^{st} century, they will have to progressively take into bigger consideration the stakeholders other than the shareholders. Therefore, measuring the performance of a company only from a financial point of view appears to be inconsistent and even dangerous.

Identifying new ways of measuring the performance of a company can be useful to provide people that are willing to invest in the company with a better perception of company's competitive position over a longer period of time. Moreover, quite often financial problems are provoked by bad management practices towards stakeholders as customers, suppliers, competitors, employees etc… From this perspective, non-financial indicators are often useful to drive a broader and more effective analysis of the context of the company. (Jacobs et Kleiner, 1995).

Designing and implementing a measurement system based not only on financial performance indicators impacts more that the simple strategic management and decision-making processes. It affects the culture of the company (Eccles, 1991; Willman & Miller, 1995) because it contributes to highlight the moral foundations of the values of a corporation, and the consistency of the norms used to translate them into day-to-day operations. (Jacobs & Kleiner, 1995).

Such an approach is difficult because at least three reasons:

- first, non-financial indicators are often considered as less important than the financial ones (Jacobs & Kleiner, 1995);
- second, setting appropriate non-financial indicators is a difficult task;
- third, controlling systems are designed for crunching quantitative data, (Eccles, 1991) while the indicators describing social performance are often qualitative ones.

However, it exists three types of methods to assess Corporate Social Performance:

- a social audit, carried out by an independent auditor or by an internal auditor, to analyze actions and programs in social field and assess non-financial performance;
- an external audit of the performance of the share of the company (in this case, only floated companies could be assessed);
- an internal assessment of non-financial performance.

With regards to the social audit approach, since 1970 the Council on Economic Priorities (CEP) assesses the degree of social performance of the biggest American corporations by sending them a form to fill in and then by auditing them (Hollister, Will, Tepper Marlin, 1994). The aim of the CEP is to provide the consumers with information on the behaviors of the company and its impact on the communities, without taking into consideration the financial aspect.

Up to 6 categories of various non-financial indicators concerning CSP have been identified and are used to scrutinize companies' practice (Rockness and Williams, 1988; Goyder, 1993;

Hollister, Will, Tepper Marlin, 1994; Waddock and Graves, 1997; Verschoor and Murphy, 2002):

- community relations (donations, contribution to the economically disadvantaged, support to job training)
- minorities and women (corporate hiring and promotion of women and minority employees, health care, child care, elder care)
- employees (no lay-off plans, hiring and promoting the disabled, work safety programs, cash profit sharing, good union relations, training and competencies development)
- environmental (investments in R&D; development, processing and use of products and services that minimize environmental damage or that are environmentally safe, involvement with nuclear power)
- customer relations (quality management programs, customer satisfaction measures)
- ethical issues (defense contracts and weapons development, business with repressive regimes, alcohol gambling tobacco)

The outcome of the rich discussion in the academic environment as well as on the medias has been the establishment of several independent bodies who developed methods to follow up the level of Corporate Social Performance, both through financial and not-financial measurements.

Example 3 *Since the beginning of the 70s, the Council on Economic Priorities (CEP) scrutinizes the behavior of the major American corporations and provide information to the stakeholders and the public. The following list (1997) represent the heading of the dimensions on which the CEP measure the Corporate Social Performance of a company. The CEP send a questionnaire based on the following items to the company, which self-answer the questionnaire. The CEP makes them random controls to verify the data provided by the company.*	
Natural Environment	*Environmental policies; Packaging; Recycling; Use of natural resources; Community health; Energy saving; Production accidents* *Investing in environmentally clean technologies*
Charity & philanthropy	*Money donations; Goods & services donations; Contributing to not-for-profit organizations;*
Involvement into community life	*Social programs partnership; Easying employees participation to voluntary work into the community; Impact of company actions on the community*
Affirmative action	*Number of women and minority members appointed to executive position; Total purchasing from women or minority led companies; Legal actions*
Health & family benefits	*Health insurance; Maternity leave ; Retirement scheme*
Work environment	*Safety and quality of work; Professional training; Flexible working hours*
Stakeholders information	*Availability and diffusion of information on social, financial and production activities of the company*
Defense contract	*Quantity and quality of military businesses*
Testing on animals	*Refusal of animal testing; Protocols for execution of animal testing*

With regards to the financial performance audit approach, several survey have been carried out in the USA to evaluate the stock performance and the profitability of socially responsible companies to provide investors with reliable information based on Standard&Poor' s 500 and Fortune 500 sets. The results show that in general socially responsible companies outperform or perform as well as *classical* companies[2]. Specifically, (a) 77% of the

[2] Eight criteria have been used to rank the financial performance of each company: (1)one-year total return, (2) three-year total

Best Corporate Citizens is also included in the S&P 500 Index, (b) 64% of the Best Corporate Citizens are included in the 2001 Fortune 500 ranking, 68% of the Best Corporate Citizens are also ranked as Most Admired by Fortune[3] (Verschoor & Murphy, 2002). In 1996, more than 500 investment founds invested more than 600 billions of dollars by taking into consideration the social commitment of the companies Moreover, 12 over 21 surveys showed that it exists a positive or neutral correlation between the social commitment of the company and its stock performance, while only one exhibits a negative correlation. (Pava et Krausz, 1996). Positive bi-directional relationship between CSP and financial performance has been found by Waddock and Graves (1997). The same research showed a direct relation between CSP and best practices in management (stakeholders' management, customer service, employees centered management, clean environmental processes, programs aimed to help community, etc…).

Other surveys show that socially committed companies are less risky than classical ones, and therefore more attractive for investment and pension funds (Graves & Waddock, 1994; Shane et Spicer, 1983). The lower level of risk for those companies that implement CSP programs is explained by a reduction in the number and magnitude of internal and external conflicts (Salbu, 1992; Hawken, 1993; Makover, 1994; Waddock et Graves, 1995; Reder, 1996).

Benchmarking with other companies and social audits are very effective techniques to internally assess the level of CSP (Jacobs et Kleiner, 1995; Natale et Ford, 1994). Benchmarking should be aimed to educate people and not only to measure CSP (Makover, 1994). Many indicators can be measured : energy used per produced item, percentage of recycled materials, raw materials consumption and waste reduction, philanthropy etc…

return, (3) one-year sales growth, (4) three-year average annual sales growth, (5) one-year profit growth; (6) Three-year average annual profit growth; (7) net profit margins, (8) return on equity. (Verschoor & Murphy, 2002)

[3] The attributes for the Most Admired Corporation by Fortune are: innovation, quality of management, employee talent, financial soundness, use of corporate assets, long-term investment value, social responsibility, quality of products/services. (Verschoor & Murphy, 2002)

Example 4

The CEP approach has been used by The Body Shop to design and implement the guidelines for the following checklist, used both for internal social audit and for franchisees' and suppliers' assessment. (Hanson, 1996)

Values and mission of the company	*Goals of the company; support of the business manager*
Relationships with shareholders	*Financial Performance; quality of information; corporate governance principles; management practices*
Relationships with customers	*Social usefulness of products; quality of products; quality control; caring of customers complains; ways of promoting products; information on products*
Relationships with employees	*Salaries and benefits; HR policies; affirmative action for women and minorities; commitment for long-life employment and career development; policies aimed to balance family and work life; workers safety*
Relationship with franchisees	*Franchising contracts; information; management of franchisees' complaints; spreading of social objectives by the franchisees*
Relationships with suppliers	*Payment conditions; diffusion of social objectives by the suppliers*
Fair trade and help to developing communities	*Programs design and objectives; programs results; employees voluntary work support;*
Relationships with the community	*Involvement into local community actions; donations and philanthropy*
Environmental actions	*Pollution reduction; energy saving programs; management of environmental issues*
Relationships with the external environment	*Quality of communication; Openness; reaction to critics*
Contribution to social change	*Animal testing; environmental/ health issues; human rights*

3. Government’s role and CSP programs

Because of the growing globalization of economy and society, the power and influence of corporations is increasing. Corporations are therefore asked to play a new role in order to protect and enhance the welfare of the society as a whole and to bear some of the responsibilities that heretofore were given to the government.

Fostering CSP does not mean denying the role of the Government in enhancing social welfare or pushing corporations to take over government prerogatives. Each party should concentrate on its own domains focusing on its core competencies to achieve a better and more effective distribution of duties (Levitt, 1958), to increase the effectiveness of its action, to create a more equitable society and sustainable development.

Businesses are not responsible for solving all social problems. However, at the level of direct responsibility (Davis, 1960, McGuire, 1973, Wood, 1991) they should avoid causing problems and act to solve the problems they cause. At the level of indirect responsibility they should use their competencies to help solve social issues that are more or less directly related with their operations. Finally, corporations might find useful to participate in social programs that are not strictly related to their field of operations.

Example 5

An automaker should invest resources in enhancing car’s safety and reducing air pollution. However, it should be concerned by car accidents injuries and therefore participate to communication and training programs on safe driving.

When the automaker set operations in a country with low level of education, it might find interesting to invest in educational programs to increase the performance of the local workforce

The goal of a process of CSP is therefore the definition of a social contract between corporations and their stakeholders aimed to maximize the welfare of the communities from which corporations receive their license to operate. Encouraging the participation of the community in the design and in the implementation of corporate strategy fosters pluralism in the society and helps to protect critical interests like consumers health and environment cleanness (Ness, 1992). In a nutshell, it is useful to preserve democracy and to help capitalism to survive (Hawken, 1993)

4. Reconciling shareholders value creation and stakeholders welfare maximization

According to the opponents of CSP programs, the unique responsibility of a company is to increase its profit by respecting the rules of the game and by enhancing individual freedom. Devoting resources to help the local community should be done only if this can be profitable in term of tax breaks or local management practices (Friedman, 1970).

The challenge for the supporters of CSP programs is then to show that is possible to balance individual freedom with collective interests, the quest for individual profit with the protection of the welfare of the community (Wood, 1996). Several researches carried out on the economic performance of some self-defined socially responsible corporations show that these corporations at least perform as well as ‘normal’ corporation, and very often outperform their competitors. CSP program can then enhance shareholders value while increasing community’s welfare by designing and implementing corporate strategy from a truly economical perspective[4]. When management meets the demands of multiple stakeholders by looking at long term effectiveness instead of focusing too much on short term efficiency and profitability (Hawken, 1993) shareholders have a greater financial return (Ruf, Muralidhar, Brown, Janney & Paul, 2001).

As equity becomes a large component of top management wealth, top managers will be increasingly concerned with the long-term profitability of company stock (Zahra et al., 1993). Concern for long-term performance of the company may induce top managers to invest in quality products and services and to avoid environmental issues with subsequent fines and bad reputation. Also, a positive behavior towards communities may also be considered as a useful strategic tool to enhance the competitive position of the company (Fama & Jensen, 1983).

Example 6

The track of positive mutual relationship between the company and the communities that characterized Usinor’s business policies helped the company to get the goodwill of the community when, starting from the late 70’s, it had to tackle the crisis of the iron industry, due to the economical downturn caused by the oil shock, the serendipitous

[4] In ancient Greek, the word *oikonomia* (economy) makes reference to the management of the house in order to increase on the long term the value of the properties for all the members of the family’. To express the concept of ‘manipulation of the properties and goods to maximize their monetary value on the short term’ the ancient Greeks used the word *chrematistics* (Hawken, 1993). According to Hawkin, Friedman position focus on a chrematistic approach, instead of an economical one.

changes in the markets and the increased competition from low prices countries. Massive lay-offs have been possible because Usinor, the Trade Unions and the communities in which its plants where located decided to work together to identify new businesses to be seeded/supported and jointly acted to provide employees with new competencies and viable alternative jobs. Thanks to the effectiveness and the efficiency of its restructuring strategy, Usinor could reinforce its competitive position allowing it to become in 2002 Arcelor, the world largest iron producer

The following table shows a survey carried out by the Canadian branch of McKenzie Group International and based on interviews with CEOs of major corporations. It provides an interesting analysis of the factors which most impact the competitive advantage of the companies in the last fifty years (Grayson, 1996).

Year	Factors of competitive advantage
1960-1969	**Price**
1970-1979	**Choice** + prix
1980-84	**Quality** + choice + prix
1985-93	**Customer service** + quality + choice + price
1996-…	**Understanding of social issues (poverty, environment, health)** + customer service + quality + choice + process

With regards to the argument that corporations must maximize their profit while respecting the rules of the game, Lodge (1978) posits that communities can impose some constraints to the companies to define the role that they have to play in the society. Such constraints should be consistent with the community's cultural mindset. The globalization of the business environment in the nineties put in evidence that business practices can provoke a process of globalization of the cultures (*the global village*). From this perspective, the Corporate Social Responsibility approach might help to reduce the unwanted side effects of globalization of the economy.

5. Strategic issues for microcredit banks to implement socially responsible actions[5]

Microcredit institutions facilitate the development of relationships between corporations and communities, becoming then a critical actor for the development of CSP programs. Particularly, the role of microcredit institutions is paramount in developing countries: they provide credits to the poorest part of the population, which allow them to create sustainable businesses. The consequent increase of the wealth of the community create the conditions favorable to the set up of viable operations by bigger companies. To appropriately play these roles to act for the development of CSP requires the use of the very same strategic and operational skills needed for the development of successful 'normal' business (Quadir, 2003).

From a strategic planning point of view, the future of microcredit institutions depends on their capability of ensuring *accessibility* and *viability*. As explained in detail later, to achieve such strategic goals they have to increase their efficiency, make their offer fit to customer needs through innovation, decentralize their organization to make the decision making process faster and sounder, diversify their risk.

Accessibility is the capability of a microcredit institution to serve the poorest classes to allow them to contribute to the economical development of a country, to get advantage from this contribution. The consequence is then the possibility for people to impact on the political environment. Accessibility is necessary to increase the number of clients and therefore to leverage economies of scale. For this type of market, what matters is the number of clients, because it is not sure that any improvement in the services provided and increase in their pricing can be effective on the long term.

5 This section is based on a specific large set of readings, as reported in the bibliography. No specific citations are made in the test.

Example 7

Grameen Bank (Rural Bank) has been created in Bangladesh in 1975 by Muhammad Yunus, professor of economics at the University of Chittagong, based on the experience he made in a small village at the beginning of the 70s. Yunus noticed that women were forced to accept incredibly low prices for their fabrics, because of their need of rapid cash. In fact, either they had to reimburse their credits or they had to pay the rent of the loom. In both cases, the costs where extremely high, and they could not accumulate the capital necessary to get the full ownership of their production.

Yunus decided to help these women to create their own self-financing system by creating the Grameen Bank. He wanted to provide more autonomy to the peasants for them increase their revenues and therefore reduce their dependence upon legal or black financial markets.

The Grameen Bank does not ask for a guarantee, but it asks the applicant to the credit to create a small community of 4 other peasants; this community becomes fully responsible for the reimbursement of the credit allowed to the applicant. The Grameen Bank finances any project directly related to a productive activity (poultry or cow, rice cultivation tools, looms and fabrics…).

In 1999, the average loan was 70 €, that is a nice amount of money in a country where the pro-capita GDP did not exceed 250 €.The rate of interest was 20%, which is quite high but still much lower than those observed in the black financial market. With regards to the legal financial market, it is still practically inaccessible to poor entrepreneurs because of the need of guarantees and the cost of credit.

The community meets each week under the supervision of a representative of the bank, who is in charge of collecting the weekly reimbursements and to follow up the projects. The money collected by Grameen Bank is re-invested in other projects or deposited in a normal bank at the rate of 4,5%.. The rate of reimbursement of Grameen Bank credits is 98%, thanks to the help of the communities and the agreements between the bank and the entrepreneurs if an unforeseeable event happens. Grameen Bank has very tight relationship with local authorities and local influential people, which helps to reduce the risk of non reimbursement, even if it makes it longer if any problem happens.

In the 90s Grameen Bank increased the number of clients from 870000 to 2 million, the number of villages concerned by the projects from 19000 to 37000. In 1999 Grameen Bank reimbursed credits totaled more than $2 billions, it employed 12000 people and 92% of its capital was owned by the debtors (represented in the Board of Directors by 9 people over 13). Such a rapid growth has been managed by decentralizing as much as possible operations and decision-making processes.

What are the secrets of Gramen Bank? A simple business model, low direct and indirect costs, pay a lot of attention to the details before allowing any credit, the effectiveness of the communities in ensuring the follow up of the projects and backing up those debtors who cannot reimburse their credit, an effective training of young competent and committed employees, a culture open to innovation through experience and mutual learning.

To increase accessibility microcredit banks need to focus on customer needs by understanding the context in which the microentrepreneurs operate. They need as well to propose innovating financial services at the lower possible costs.

Financial innovation can be pursued by:

- increasing the reimbursement time to make it fitting with the economic cycle of the microentrepreneur (frequency of harvesting, seasonality of the sales etc…). It requires an effective risk analysis to avoid unforeseen difficulties for the entrepreneur.
- Reducing transaction costs by increasing the number of people considered eligible for the credit.
- Improvement of the assessment process to better screen in advance good clients

Regardless which innovation is proposed, accessibility can be increased only if social practices innovate. Rakyat Bank of Indonesia asked to a team of social scientists (anthropologists, sociologists, economists, psychologist) to identify which were the features of the products offered in specific part of the country.

Decentralization is another key strategic point to foster accessibility to microcredit products and services. This requires a high level of coordination and transparency between the employees of the microcredit institution, especially for what concerns the analysis of the risk and the implementation of the procedures.

Focusing on customer's needs means providing products and services other than financial ones. The following list shows some products and services which could be proposed to the microentrepreneurs:

- information on their existing and potential markets

- availability of technologies and methods useful to increase productivity
- help in managing negotiations and networks
- health care and social security systems
- training and consulting on any topic related to business management.

Viability is the capability of the microcredit bank to self-finance and to make decent profit. The key for viability is a steady growth of the number of clients coupled with an high rate of reimbursement in order to reduce the cost of money and the dependence from subsidies and external helps.

To reduce the cost of lent money, microcredit institutions need to act as any other financial institution: lower their costs through economies of scale and optimization of their operations, has the highest possible rate of reimbursement, provide the highest possible rate for de deposits to have fresh money to invest, asks commissions and penalties for uncovered money withdrawals, ensure the reduction of the risk through the diversification of the debtors.

In a Mali microcredit bank, the net rate of interest for the money lent was up to 25%. Even if it might seem very high, it is still cheaper just because it allows the inhabitants of the villages to have a small credit (impossible with the normal financial institutions because of the high filing costs and the minimum required amount of the credit) without going to the black parallel financial markets.

Any microcredit institution has to strategically diversify its portfolio of clients, in order to avoid the dependence from only one or two industrial sectors. This is not easy to do because in developing countries microcredits are often required for activities directly or indirectly linked with agriculture. If any problem affects the industry, the microcredit bank might go bankrupt. Therefore, it has to have enough own capitals to resist to difficult periods.

Rapid growth is not a viable answer to viability, because it might provoke cash crisis or risk crisis. Moreover, rapid growth might provoke a cultural crisis, because the microcredit institution could forget is primary purpose of serving the less wealthy people, and therefore disrupt its core culture.

The most adequate answer is the decentralization of the operations for the decision makers to be as close as possible to the microentrepreneurs, to visit them in their operations instead of waiting for them in the office, and to capture as many information as possible about new viable potential businesses or difficulties for existing clients.

Example 8

BancoSol is a private bank operating in Bolivia. It differentiates itself from other banks by targeting microentrepreneurs seeking small loans and having low level of unpaid credits. Created in 1986, in 1991 BancoSol had lent more than $27 millions to 13.300 entrepreneurs (77% women), with a reimbursement rate of nearly 100%. Only $2000 where not reimbursed. In 1991, BancoSol capital was of $4 millions; 75% of BancoSol shareholders are ONGs and donators, while 25% are influential Bolivian politicians of businessmen.

As at Grameen Bank, loans are allowed only to communities of debtors. The project on the contrary must be at least running for one year before being considered. The minimum loan allowed is $80 (face to $3000 allowed by 'classical' banks). In 1997, BancoSol has 29 outlets and 70000 clients (40% of Bolivian bank clients), has a deposit portfolio of $35 million (1/4 of total money deposits in Bolivia) and loans $80 million.

What are the secrets of the success of BancoSol ? Its reputation (it is floated at NYSE) and its fit to customer (microentrepreneurs) needs

Conclusion

From a strategic planning point of view, taking into account the Corporate Social Performance perspective raises some useful questions to be addressed in the strategy formulation and implementation phases:

- in a global business environment, to which communities a multinational corporation is responsible: home, hosts or all of them?
- What values, laws, regulations, best practices should apply: home, hosts or both?
- How to deal with social specificities and how to address various change issues in the different sites?
- How executives and managers should balance short-term shareholders' expectations and long-term stakeholders interests?
- Who defines corporations' public responsibilities?
- How social performance is measured?

All these questions are not easy to be answered and yet impact heavily strategic design and day-to-day operations. The temptation could be then for executives and managers either to ignore them, either to concentrate too much. Both approaches are to be avoided, because anytime Corporate Social Performance programs are considered distinct from 'real' or 'business' corporate performance, then they lose their viability and usefulness and contribute to widen the gap between business and society. As stated by Wood (1991) '*corporate social policy emerges in organizations to guide decision making (a) in areas where problems recur (…) and (b) in areas of great interest and importance to the organization, so that threats or opportunities in these areas can be handled more effectively. Speaking ideally, a comprehensive corporate social policy, fully institutionalized and operational, would be the logical final outcome of corporate behavior motivated by principles of responsibility and occurring through socially responsive processes. Speaking practically, corporate social policy has to do with the incorporation of social issues and impacts anywhere within the body of company policy, formal or informal, whether or not institutionalized or operational'*[6].

However, what really matters is the social and business impact that such programs have, regardless if they are short-term one-shot initiatives or long-term institutionalized actions, and if they are implemented by 'normal' corporations, ONGs, microcredit banks or any other type of organization. What makes the success and the effectiveness of such programs is the capability of all the stakeholders to think systemically, to think globally and to act locally, to develop true partnership to protect one common stake: the increase of the wealth for as many human beings as possible.

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