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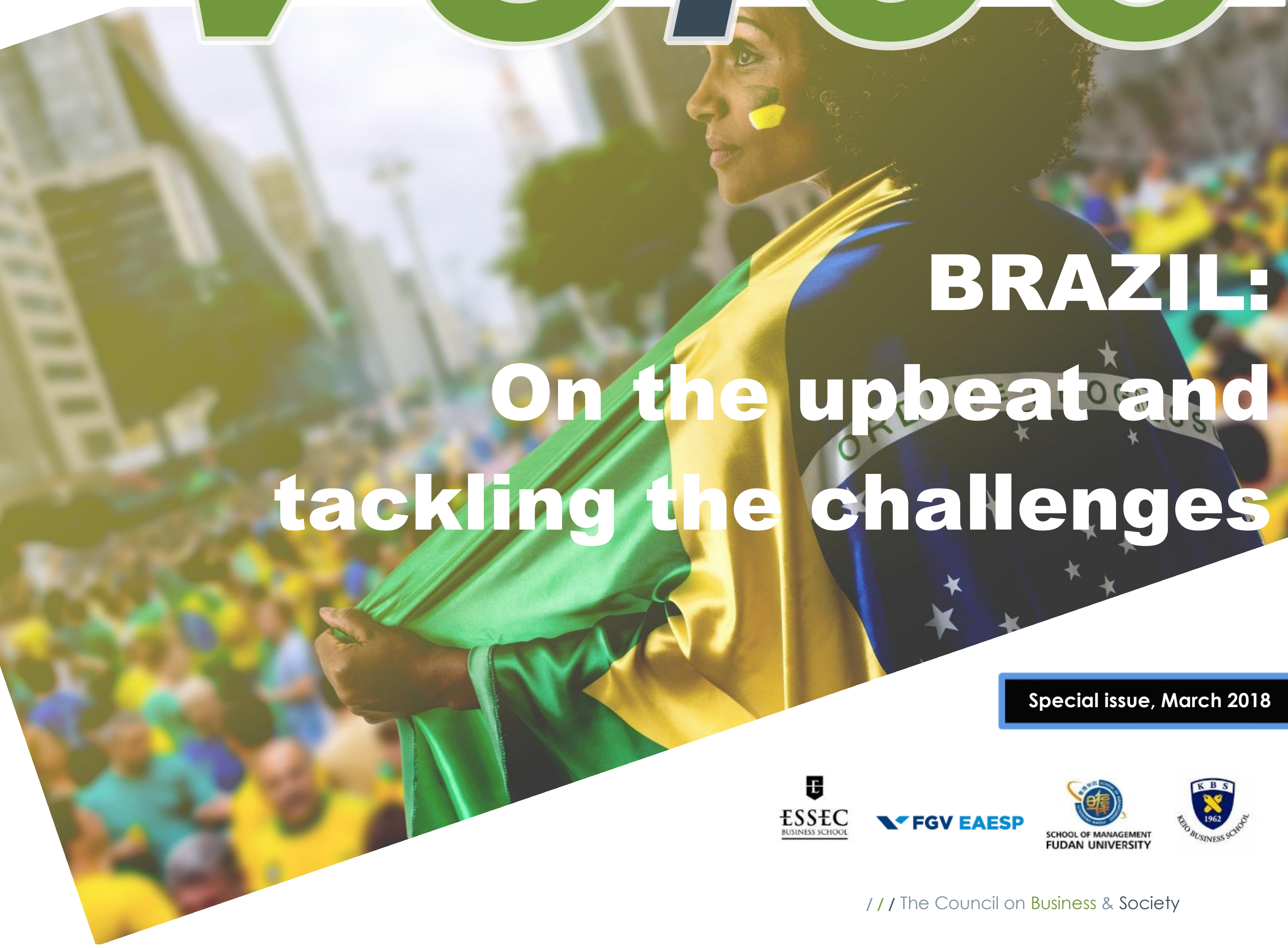
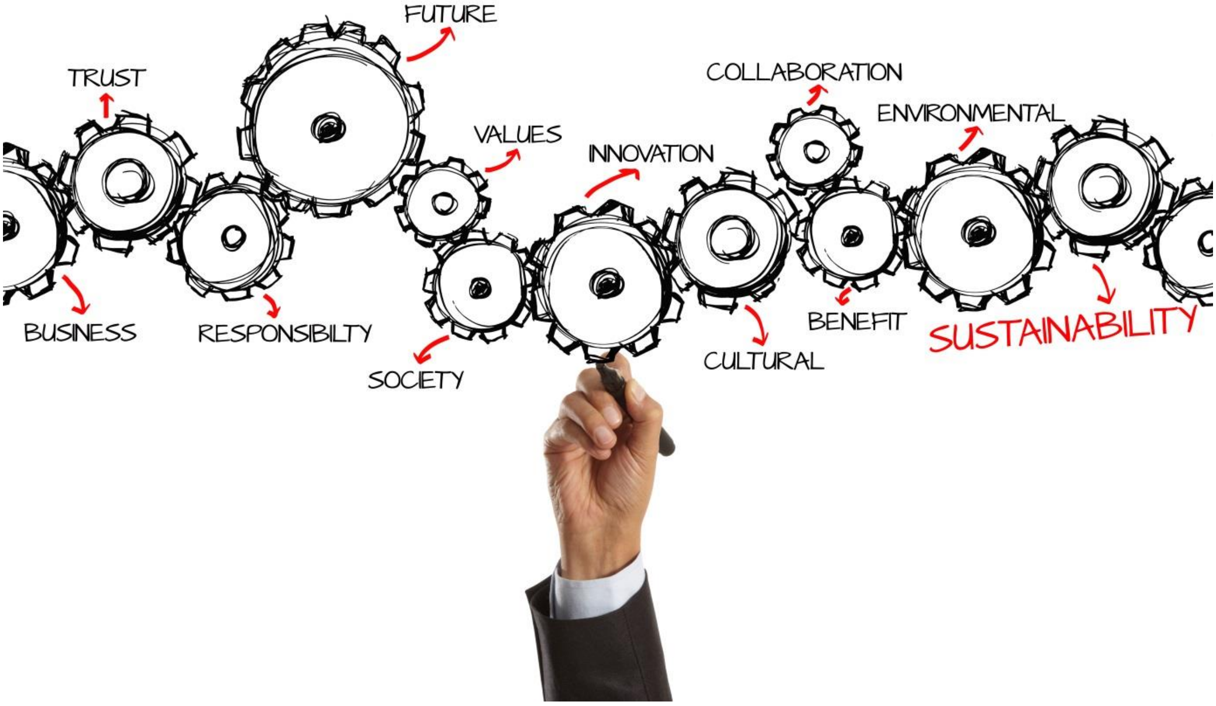


BRAZIL: On the upbeat and tackling the challenges

Special issue, March 2018

ESSEC BUSINESS SCHOOL · FGV EAESP · SCHOOL OF MANAGEMENT FUDAN UNIVERSITY · KEIO BUSINESS SCHOOL



Compiled and edited by Tom Gamble, the Council on Business & Society

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Editorial

By Professor and Vice-Dean, FGV-EAESP, Brazil

Dear Readers,

When surveyed on the countries they wished to gain cultural and business insights into, students at ESSEC Business School put Brazil as their number one choice.

Consequently, a special workshop seminar has been planned and who better to ask to participate than our Council member school partner FGV-EAESP located in Sao Paulo, Brazil, and more specifically Professor and Vice-Dean Tales Andreassi.

The students' choice came as something as a surprise, many of us persuaded that the USA, UK or China would feature in first position. But at second glance, their choice appears all too pertinent and that much more interesting.

For many years hedged as the world's most promising, and likely, future economic power, Brazil slipped back in the 1980s and 90s, seeing itself overtaken by the unexpected surge of China and India. Political complexities and corruption issues have also hampered Brazil's rise on the world stage though the fact remains that the country is the eighth largest economy in the world by nominal *GDP* and eighth largest by purchasing power parity – and this despite the challenges it faces. Moreover, ups and downs in the Brazilian economy are common – leading to the fact that Brazil's capacity for recovery is characteristically high, especially due to the huge domestic market of 200 million people.

Brazil also boasts world leaders in industry and agriculture, leading educational institutions such as Fundação Getulio Vargas (FGV), and is a world reference in social entrepreneurship and social innovation. Moreover, the future holds hope in the guise of a new, younger generation interested in politics and committed to the common good. Altogether, Brazil is a fascinating country on many levels and we hope these articles will provide you with both motivation, food for thought and a thirst for visiting Brazil. Enjoy your reading!

Comments on the topics covered are welcome, as well as your feedback, by visiting our website www.council-business-society.org and dropping us a mail.

Best regards,

Tales Andreassi

Professor and Vice-Dean FGV-EAESP
FGV-EAESP, Council on Business & Society

The Council on Business & Society

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The Council on Business & Society

Recognizing the enormous role business can and must play in helping solve large-scale, global issues facing the world, four business schools from around the world have formed a partnership: *The Council on Business & Society*. Through our individual and collective efforts, we strive to create and disseminate knowledge about those issues and train future business leaders capable of and committed to solving them.

The four schools of the Council on Business & Society are:

- ESSEC Business School, France, Asia-Pacific and Africa-Atlantic
- FGV-EAESP, Brazil
- School of Management, Fudan University, China
- Keio Business School, Japan.

The partner schools share a commitment to and belief in the power of academic excellence, collaboration, innovation, and transformative leadership. Each is a recognised leader in management education and offers a wide range of business-related degrees and executive programmes.

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Articles 1 and 2 of the Council on Business & Society's mission statement:

1. The schools commit themselves to creating and implementing a multi-school process to study a series of critical business and society issues on which they believe providing multicultural integrated perspectives is important;

2. Promote and encourage responsible leadership and business practices within the member schools that include such notions as equal opportunities, equality of gender and origin, sustainable development, ethical leadership and management, social innovation, social entrepreneurship, philanthropy, sustainable business models, ethical finance, and the common good.

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INTO THE LIVES OF WOMEN ENTREPRENEURS IN BRAZIL

By Tales Andreassi

Prof. Tales Andreassi, Vice-Dean of FGV-EAESP Brazil, with fellow researchers Vânia Maria Jorge Nassif, Universidade Nove de Julho, and Maria José Tonelli, FGV-EAESP, share results from their critical incident-based research* into women entrepreneurs. What impacts them behind their business veneer and how do they cope with it?

*Nassif, V. M. J., Andreassi, T., & Tonelli, M. J. (2016). Critical incidents among women entrepreneurs: Personal and professional issues. *Revista de Administração* [RAUSP], *51*(2), 212-224. doi: 10.5700/ rausp1235

Let's go critical

There have been many studies on women entrepreneurs throughout the world focusing on everything from their competencies, decisions to innovate and take risks to gender differences in business administration. This is good news. However, many studies have concentrated on the behaviour and characteristics of these women or else highlight the subordination of women in comparison with men – consequently missing out on the key dimension of the specific problems women entrepreneurs face and how they deal with them.

Prof. Tales Andreassi and his fellow researchers have come up with something different, orienting their research, much in the vein of Dr. Helene Ahl, towards making women the central element of analysis in their role of active agents in business entrepreneurship. This they do using the critical incident technique or CIT, a method first introduced by John Flanagan based on studies he conducted during World War II. Since then, the technique – which typically involves asking respondents to recount a critical experience – has been used in many fields of knowledge to identify significant events and examine how they are managed. In Prof. Andreassi's analysis, a critical situation is understood as a very serious occurrence experienced by the women entrepreneurs who were interviewed that could have led to the closure of their businesses. Many of these occurrences were rooted in the lives behind the role of entrepreneur, meaning that the research succeeds in extracting not only an understanding of the issues related to the management activities of women entrepreneurs, but also the lives, events and emotions behind the purely entrepreneurial mask that indeed tend to interconnect and shape women's business development.

The Brazilian context

As far back as 2001, the OECD pointed to the need for a better understanding of how to promote entrepreneurship among women with a view to eliminating the specific obstacles they face when it comes to creating businesses. The organisation identifies three areas regarding the importance of women as owner-managers of small enterprises: the economic contribution and how they create employment, social relevance and work-family balance, and women's autonomy in the work environment.

In this context, Brazil is an interesting arena for studies, not least because the country has a high rate of entrepreneurs in relation to its population – 32.3% of 18 to 64 year-olds according to figures from the GEM (Global Entrepreneurship Monitor) – and despite a battery of specific administrative difficulties a would-be Brazilian entrepreneur faces. Indeed, among a list of 185 countries, the World Bank places Brazil 130th in terms of how easy it is to conduct business and it comes as no surprise then to learn that 25% of all companies close their doors within the first two years of their creation. What is surprising, however, is that although faced by the double shift of work (i.e. managing a business *and* managing a family) and unfavourable conditions for entrepreneurs in the country, the number of new entrepreneurs who are women reaches a hefty 52,2%. Furthermore, for businesses that manage to stay afloat above the 42-month mark, that figure remains at 42.2%, higher than the 33% of other countries included in the GEM report.

And Brazilian challenges

Studies on the reality of women entrepreneurs in Brazil show that the main challenges they face in a professional context are linked to acceptance, lack of affective and social support, financial difficulties, lack of female entrepreneur role models, lack of knowledge and dedication to achieving success, and finally work-family balance. These studies show that a series of challenges, difficulties, prejudice, lack of education and resources interfere more sharply in the development of businesses run by women. However, they also reveal that women entrepreneurs who have had the opportunity to develop skills and competencies, with or without formal training, have achieved their goals despite their barriers and limitations.

Together with his colleagues, Prof. Andreassi's research – part of an international project conducted simultaneously in a number of countries – covered 115 women entrepreneurs who were interviewed with a total of 126 critical incidents identified. Almost all the incidents focused on the business rather than the personal (4%). 86% of the women interviewed had business partners and 67% of them ran businesses in the services sector, generally employing from 4 to 15 employees. The critical incidents recorded showed two major themes: on the one hand, aspects resulting from family relationships or relationships with partners and friends in their business and, on the other, practical managerial aspects. Moreover, it was found that there was a link between the growth of the business, for instance in a period of expansion, and the type of incident that was brought to the

forefront during the interview – missed deadlines for refurbishing or financing for changes, for example.

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Overcoming the entrepreneurial obstacle course

The interviews highlighted that practical, daily management issues had a critical impact on businesses, notably in the finance, human resources, marketing and operations side but also on the Brazilian-specific context of legalizing the business and moving from the informal economy to fully-legal and tax-paying status. However, the affective and emotional factors cited by the interviewees also pointed towards an overlap with professional issues and showed that critical incidents of a personal nature experienced by Brazilian women entrepreneurs are more recurrent than with their international counterparts. Indeed, individual, family, group and social factors influence every phase of the entrepreneurship process.

The greatest difficulties encountered by Brazilian women entrepreneurs were finance, people management and the business environment, as well as issues related to clients, uncertainty and the transition from the informal to the formal market. Many of them had experienced unpleasant situations in their business partnerships – suppliers, employees, partners, etc. – stating that it was difficult to deal with people, even in small groups: either they acted impetuously or recoiled from conflict – something that led to awareness that there was a need to find balance in this area they identified as their major obstacle. Many of the descriptions of critical incidents indeed showed that these relationships involved high intensity emotions that led to reactions that, in turn, influenced the reorganization of businesses.

So how did they cope with these challenges and setbacks? Strategies included, despite the intensity of emotions, in keeping an emotional balance in the face of difficulties and seeking rational and practical solutions to keep the business afloat. Top-heavy administrative obligations, bureaucracy and unreasonable requirements for small businesses were met with women entrepreneurs seeking more training in order to open up perspectives and widen their network.

There were many situations reported by the women entrepreneurs in which strong emotions involving family members and business partners affected the development of their businesses. And although coping strategies were common enough by entrepreneurial standards, regardless of gender (overcoming fear and anger, starting over from scratch, going back to school to gain the necessary skills for the development of the business, attending business fairs and hard work), there was a clear expression for the need to learn how to separate their personal lives from their professional lives.

The critical incidents experienced and reported by the women entrepreneurs in the Brazilian context affect both their personal and professional lives and, in both cases, emotions are always highly intense. However, one characteristic that stood out in their reports of critical incidents is their persistence never to give up and to learn how to deal with different unexpected situations in their daily lives. From the results of their research, Prof. Andreassi and his colleagues claim that women entrepreneurs are objective, clear and persistent, and have will power. They are also creative when it comes to coping with situations, as they create support strategies for handling their double functions of family and work. In the face of personal and professional difficulties or both, entrepreneurial characteristics were identified that differed from non-entrepreneurial characteristics, showing women's persistence, courage and determination to overcome obstacles and, above all, ensure the survival of their businesses. Behind the lives of Brazilian women entrepreneurs are emotions, doubt, anger, setbacks and sadness – but there is also that fighting spirit specific to those who dare to enterprise and no doubt laughter that goes with it, sometimes in adversity and especially in those heady moments of success. The fact that women wishing to access power share a demanding, even idealized, vision of how these influential bodies should function, means that they are participating in the construction of a 'long-lasting governance' model which is both demanding and perhaps more adapted to confront the challenges that a is faced with in our disruptive world. Women, in this light, are potential drivers of positive change.

Prof. Tales Andreassi

SHEDDING LIGHT ON THE SHADOW ECONOMY: *What trade-offs should governments make?*

By Cristina Terra

Cristina Terra, Professor of Economics at ESSEC Business School, shares her research into the effects of regulations and policies on the informal economy and points the world's governments towards a dilemma: should the shadow economy be tolerated after all?

Common to both developed and developing economies, the shadow economy – economic activity that snubs taxes, social charges and in many cases labor law regulations – nevertheless corresponds to a large part of the economy in developing countries, in some cases representing more than half of economic activities. As a percentage of GDP, it ranges from 25-60% in South America, from 13-50% in Asia, and stands at around 15% in OECD countries with a peak at 30% in some European countries. For Cristina Terra, the figures point – as opposed to much previous academic literature on the subject – towards the acknowledgement that the informal economy simply cannot be treated as a residual sector. It is no wonder that governments throughout the world, eager to retrieve much-needed revenues, have been trying to figure out the informal economy issue for some time.

Prof. Cristina Terra of ESSEC Business School, together with fellow researchers from UCP and the IZA – the German Institute for the Study of Labour – have carried out original research* into the shadow economy that puts the practice of government regulation and fiscal policies to the test – with surprising results for the dilemma over whether to adopt hard or soft approaches to informal economic practices.

**Informality in developing economies: Regulation and fiscal policies* – published in the Journal of Economic Dynamics & Control, Elsevier.

Under the lens

Although widespread, the informal economy is associated with a number of undesirable characteristics. Informal firms tend to be less productive, pay lower wages, and flaunt laws protecting employee rights and working conditions. Their very existence puts in check the rule of law and the integrity of public institutions. The obvious strategy would be for governments to adopt a hard line, repressive approach, but policies aimed at reducing informality, however, seem to have a number of undesirable effects. It is generally argued that unemployment and informality are the two faces of the same coin and that policy makers cannot contend with the latter without harming the former. Moreover, such policies may also induce undesirable effects on wage inequality.

The aim of Cristina Terra's research, focusing on developing countries in Latin America and specifically Brazil, was therefore to investigate the overall impact of state policies to reduce the shadow economy and seek to detect whether a possible trade-off exists. To do this, a model was developed that treated the informal sector not as a residual sector but as part-and-parcel of the wider economic system. The model – novel in many ways – incorporated the definitions of informality as a low-productivity, zero-tax sector with higher turnover and easier adaptation to the labour market. Other features of the model included the avoidance of costs stemming from regulations, lower market entry costs and the fact that the informal economy is not subject to wage agreements set by collective bargaining. Overall, Cristina Terra's model generated a more competitive informal sector than had usually been adopted for research. As such, this enabled both a more realistic analysis of existing policies and the study of alternative economic policies to decrease informality.

The dilemma

Governments in developing countries are faced with a dilemma. A hard or soft approach to the shadow economy? And to what extent should a government tolerate acceptance of its existence? The logic is to adopt hard tactics of enforcing the law with sanctions and strengthening the detection of informal working while introducing policies to encourage those who are tempted to work in the informal economy to swap sides, such as decreasing the costs related to starting up a business. Indeed, the statistics gathered point toward the fact that, among the Latin American countries included in the research, the informal sector tends to be larger in countries where barriers to market entry – that is, the creation of businesses – are stricter.

Professor Terra's research showed this to be true. By lessening market regulation and thereby decreasing entry costs to the formal sector, both the rate of the shadow economy and unemployment decrease simultaneously. This means that there is not necessarily room for a trade-off between these two elements.

Fiscal policies designed to lower taxes on payroll – and therefore give a boost to business and the formal economy – carry with them their own set of negative by-products: lower taxes imply higher wages, meaning higher rates of inequality. Furthermore, if advantageous fiscal policy is also accompanied by government crackdown and the enforcement of anti-informality measures, then the effect – although decreasing the shadow economy – is seen to be a rise in unemployment. Indeed, increasing informality detection alone seems to appear the least preferable policy option for governments, since it both increases unemployment and reduces wages. To some extent, this could explain why the shadow economy is so widely tolerated.

The policy choice?

For developing countries where in some cases the informal sector employs represents more than half of the labour force, the choice therefore seems to be one of laying emphasis on making it easier for businesses to enter the market via deregulation while softening the use of fiscal policy – lowering taxes on payroll – and the use of enforcement and sanction. In a nutshell, the carrot is preferable to the stick – but not just any old carrot.

A number of developing economies with large informal sectors have undergone significant trade liberalization policies. It may be argued that the effects of trade liberalization are qualitatively similar to those of a product market deregulation. Cristina Terra believes, though, that further research in this area is called for, with the development of a full-fledged open economy model with an informal sector. This will be the centre of her next research project.

Prof. Cristina Terra

A DEEPER LOOK AT SOCIAL INNOVATION

By Mario Aquino Alves

Social innovation and the social entrepreneur are increasingly being referred to as one of the bricks of a new, fairer and more bottom-up capitalism. Prof. Mario Aquino Alves of FGV-EAESP Brazil explores the many facets of social innovation to share a clearer view of what it is and how it works.

By Prof. Mario Aquino Alves, FGV-EAESP. Based on the research paper Digital Social Money Implementation by Grassroots Organizations: Combining Bottom-Up and Top-Down Strategies for Social Innovations, by Mario Aquino Alves, Eduardo Diniz, Adrian Kemmer Cernev, Eros Nascimento.

It all seems so simple at first glance. There is the word *social*. And there is the word *innovation*. Not surprising then that we might initially tend to understand social innovation as innovation aimed at improving the lives of the poorer members of our society. But that interpretation may indeed be influenced by both our own culture – be it Latin or Francophone or English-speaking – or whether we work in the field of business, an NGO, or local government. In fact, as with many fields of study, its facets are multiple, each seen in a different light depending upon school of thought, policy or even values. Let's look closer at these.

Social innovation seen from academia

Academia has traditionally associated social innovation with the literature of social and economic development with particular focus on communities. It means working directly with – and within – these especially with people living in a vulnerable context. As such, it is often the structural causes of this vulnerability – poverty, unemployment, illiteracy – that are emphasized, as well as the influence of political power and the need to mobilize people to create social change. Social innovation therefore carries with it a notion of change in behaviours and the striving to implement initiatives aimed at freeing people from their limiting social contexts and environments.

Social innovation seen from business and management

Social innovation from a business dimension tends to see things in two ways: firstly, the link to the social character of a venture, with the firm's transactions linked to and benefitting society; and secondly, the potential of social innovation as a tool to boost entrepreneurship, collaboration between companies and NGOs, and the dimension of social business. Moreover, the role of the social entrepreneur is emphasized – those entrepreneurs who have a vision for social change, have the financial resources to support such ideas and all the skills of successful businessmen, as well as a great desire for social change. Seen from a business and management angle, the social entrepreneur may also be seen as someone who seeks an opportunity to fulfil demands that the State's social initiatives and policies can't or simply won't provide.

Social innovation seen from different languages

It is interesting to note that differences in definition occur through different cultural dimensions. The French tradition of social economy, for example, sees social innovation as a keystone to representing a new response to an unsatisfactory social injustice that in all likeliness will occur across all sectors of society. It aims at the well-being of individuals and the community. American scientific research circles, however, have tended to use the notion of social innovation to sustain different theoretical and ideological positions on the nature of innovation in contemporary society. These include such concepts as Porter and Kramer's notion of shared value creation: doing good for society is fine, but profit for business should also be a pre-requisite; or the notion that social innovation should be encouraged because its end effect is increased shareholder value.

How does social innovation work?

It is argued that social innovation may take several forms. The first, and perhaps most obvious, is that of a product or technology. Such innovations include WHILL's new generation of wheel chairs in Japan, the Wikipedia Zero project in South Africa, where Wiki can be accessed free of charge on any mobile phone, or digital social money developed by the Instituto Palmas in Brazil. On the other hand, some researchers also define social innovation as a process, the result of cooperation between a variety of multiple actors and a collective process of learning and knowledge creation. This may also include what still other researchers see as the need for user involvement – opting to buy fair-trade products or those where a percentage of profit is transferred to community or education initiatives or even participating in the development of the social innovation itself.

Apart from its form, much depends on social innovation strategy – how it sees the light of day, is developed and sold. This inevitably involves the question of governance. Traditional approaches to social innovation have forwarded the argument that in order to achieve impact, scaling up and replication, social innovations are necessarily a process of top-down governance, especially to overcome problems in communities with low social capital or where even in the presence of some sort of social capital, rent-seeking behaviour occurs. On the other hand, the argument for bottom-up strategies also finds its place in the social innovation debate. Here, bottom-up stands for grassroots organisations, citizens, NGOs or cooperatives seizing the initiative over government or firms and taking the lead in development strategy.

Mario Aquino Alves advocates that a mix of strategies can occur – and indeed be used – to develop social innovations. His argument is that if social innovation aims to improve both the individual, the community and/or the organization/firm, then it can occur from any of these, in different forms, and from different players interacting at all levels in a relational process. Social innovation is therefore both bottom-up *and* top-down in nature.

Prof. Alves attempts to prove this through research into the grassroots organization Instituto Palmas in Brazil, which first grew from organizing its community and later became recognized nationwide as a model of social innovation, community empowerment and collaborative collective learning. Basing research on the relational model of social innovation, he and fellow researchers Eduardo Diniz and Adrian Kemmer Cernev, studied the non-profit organization over time, from a bottom-up period covering Instituto Palmas' beginnings and the development of a local Community Development Bank (CDB), to a top-down period that saw it employing a replication strategy to disseminate social innovations, and finally a 'tech venture' period in recent times that has seen the development of digital cash – or digital social money.

As such, Mario Aquino Alves' research provides a telling case study of how an organization that grew from local community to nationwide recognition and dissemination of social innovation employed a number of strategies that combined multi-stakeholders and multi-level involvement driven from both the grassroots up, and top institutions down. Indeed, Prof. Alves sees this combination as an essential element in the success of such an organization and its projects.

Prof. Mario Aquino Alves

OPENING UP THE INCUBATOR'S BLACK BOX

By Tales Andreassi

Tales Andreassi, Professor of Entrepreneurship and Vice-Dean of FGV-EAESP, Brazil, opens up his research into incubators and start-up survival. Studying the insides of incubators reveals a key factor as to whether their start-ups succeed or fail.

From the paper: *Being flexible through customization – The impact of incubator focus and customization strategies on incubatee survival and growth*. Johanna Vanderstraeten, Arjen van Witteloostuijn, Paul Matthyssens, Tales Andreassi.

The smaller they come, the quicker they fall

It's an exceptional fact: politicians, economists, academics and professionals themselves all agree on one thing. The thing in question? That new business brings adrenaline to a country's economy and helps it stride onwards towards growth. But despite this, start-ups suffer –

from both newness on the market, their smallness, lack of legitimacy and connections, fewer resources and less access to knowledge than their grown-up counterparts – and this suffering often provokes a high failure rate. This high failure rate – 30-40% in their first year according to **OECD** figures – can actually spur governments to try to compensate for market failures, one type of state intervention being the nurturing of start-ups in business incubators.

This all sounds very good news for those buzzing with a business idea and ready to create their company. However, there is a glitch. Both practitioners and policy-makers alike have little in-depth knowledge about incubators. Moreover, academic research has only just begun to scratch the surface of understanding on incubators' internal operations and service offering. To quote Sean M. Hackett and David M. Dilts, respectively of Waseda University and Dilts & Partners, a consulting firm, 'it is not surprising that an incubator's internal service offering is often referred to as part of a "black box"'.

Does the specialized incubator guarantee success for startups?

Not knowing the reasons for success or failure in hatching sturdy new businesses is analogous to an entrepreneur with a great idea but without a market survey, business model or business plan. Tales Andreassi, Professor at **FGV-EAESP**, one of South America's leading academic institutions, decided to open the black box further together with fellow researchers Johanna Vanderstraeten, Arjen van Witteloostuijn, and Paul Matthyssens from the University of Antwerp. What they probed about for was an insight into the relationships between an incubator's industry focus and its degree of service customization. This, they thought, might actually pinpoint a key factor indicating the capacity of an incubator to foster successful start-ups.

Sole music

A common tune among policy-makers and practitioners alike was that if an incubator focused on a single-industry – for example, digital applications – the chances of survival for a young start-up with an idea in this field would dramatically increase. Typically, incubators either offer offices and communication services, business services, or facilities and equipment services. As the number of incubators grew from the 1980s onwards, it was only natural for them to begin to compete, ever-increasingly, with other organisations in the incubation industry to attract start-ups. And as a consequence, academics and practitioners shifted their attention from merely listing incubator services to highlighting best practices and strategy formulation, viewing them much in the same way as they would true companies together with their internal processes, identity, administration and external communication. This accounts, in large, for the view that industry-specific focus worked best.

It's not what you do but the way that you do it

Surprisingly, Andreassi *et al* found no evidence that opting for a specific industry directly enhances incubatee performance. Indeed, incubators offering diversity of both services *and* diversity in industry-specific incubatees seemed to fare as well as, or even better than, those without diversity. Moreover, they state that it is not the type of services being offered that creates incubatee value, but rather the way such services are offered that ultimately defines the incubator's value proposition. Moreover, both diversified and specialized incubators may be able to attain a competitive advantage – but it is not as much the *what* but the *how* that is necessary for an incubator's industry focus to actually result in higher incubatee performances.

As such, it was found that in cases where incubators pursued a service customization strategy for their start up incubatees, regardless of whether they focused on a specific industry or housed young companies from various industries, it had a positive influence on their performance. For difference and diversity in an incubator's service offer means two key things: start-ups benefit by gaining access to novel resources and they also see a whole new, and diverse, network opportunity opens up before them. This in turn creates ideas, innovation and ultimately value creation for the products or services the start-ups sell. This is news for those who believe industry-focus is essential: focused incubators can only increase incubatee survival and growth when they also follow a service customization strategy. Incubator managers and incubator support organizations might use this information to simultaneously decide upon the incubator's scope and its service offering strategy. For practitioners and policymakers alike, offering the "right" assistance is pivotal for increased incubatee survival and growth rates.

Prof. Tales Andreassi

CAN FINANCIAL MARKETS PUSH FOR CSR?

By Adrian Zicari

Those in advanced and developed industrial countries may be tempted to view emerging markets as irresponsible producers of pollution and a culprit for much of the world's global warming. But research on South America by Prof. Adrian Zicari of ESSEC Business School reveals a surge in local-specific sustainability indexes for investors seeking a clearer picture of firms' responsible business practices.

Adrian Zicari is Full Teaching Professor in the Accounting and Management Control Department and Director of the Center of Excellence Management and Society at ESSEC Business School.

Fact and fog, smug and smog

It's a fact – things are getting better. Doom-laden prime-time TV reports of industrial pollution and global warming apart, social responsible investing and sustainability indexing are two clear examples of a tangible effort to make things go in the right direction. Across the world, they are surging. Socially responsible investing (SRI), sometimes known as green or ethical investing, is all about gaining financial return while seeking to invest in firms demonstrating a conscious effort to improve their impact on business, society and the environment. For an investor to make that decision to place his money wisely – and responsibly – he needs to know what a firm is actually doing in terms of responsible business practice and how it performs. This is where the sustainability index comes in – stocks quoted in terms of environmental, social or governance (ESG) criteria.

Such indexes have been around for some time in industrialised and developed economies, encouraged by the UN Global Impact initiative of 1999. The US Dow Jones Sustainability Index (DJSI) or the London-based FTSEGood index, respectively launched in 1999 and 2001, are good examples that some make use of to point a condemning finger at stock markets in developing or emerging economies without such indexes. Such moralising from the world's richest may not be entirely justified – firstly because their own emergence tended to occur at a mature stage of the market. And secondly because, in a global context of increasing reference to sustainability indexes for investor decisions, some developing markets are attempting to make good. They are doing this via the launch of indexes that tailor to local contexts as well as solving the challenges of their comparative low market liquidity and the high cost to the potential investor of obtaining correct and proven information needed for their investment decisions. Such an example is Latin America, and more specifically Brazil, Mexico and Chile, the focus of detailed research on SRI by Prof. Adrian Zicari of ESSEC Business School.

A clean sleight

Prof. Zicari points to SRI developing in Latin America in a different way from those of developed markets, with Brazil, Mexico and Chile providing an approach that could prove interesting for other emerging countries either in the region or elsewhere in the world. As Prof. Zicari states, this ongoing surge of Sustainability Indices in three Latin American countries is remarkable. SRI is still quite new in the region, the situation largely contrasting with that of developed markets where SRI has become a common investment practice. One sixth of funds invested by professional managers in the United States, for example, is related to some approach of SRI (US SIF, 2014).

What sets the Latin American approach apart is the direct participation of local stock exchanges that aim to gather a critical mass of highly respected stakeholders. This has mainly come about through a combination of two factors – the limited nature of stock exchanges in South America and the cost of obtaining ESG data.

In developed markets, this assessment data is collected by investment funds or by social rating agencies which makes the cost of obtaining it high for investors in developing countries. By using indexes created by their local stock markets and whose composition is freely distributed so that any investor can use the information at no cost, Brazil, Mexico and Chile have creatively detoured this onerous aspect.

Does it work?

In Brazil, the Sao Paulo stock exchange created the ISE corporate sustainability index as far back as 2005 – the fourth in the world and the second in an emerging market. Data is collected on a voluntary basis and corresponds to seven different criteria: general, product nature, corporate governance, economic and finance, environmental, social, and climate change. Both a good score and a minimum liquidity are required before selection is made. All in all, the index does not seem to have better returns compared to a classical investment portfolio. However, it can be argued that SRI investors may still prefer to invest in companies with better ESG performance even if financial results remain similar. Moreover, it can be said that the ISE directly influences corporate practice, appearing attractive to firms wishing to make their reputations visible, gain knowledge and exert influence on competitors and suppliers via their presence in the index.

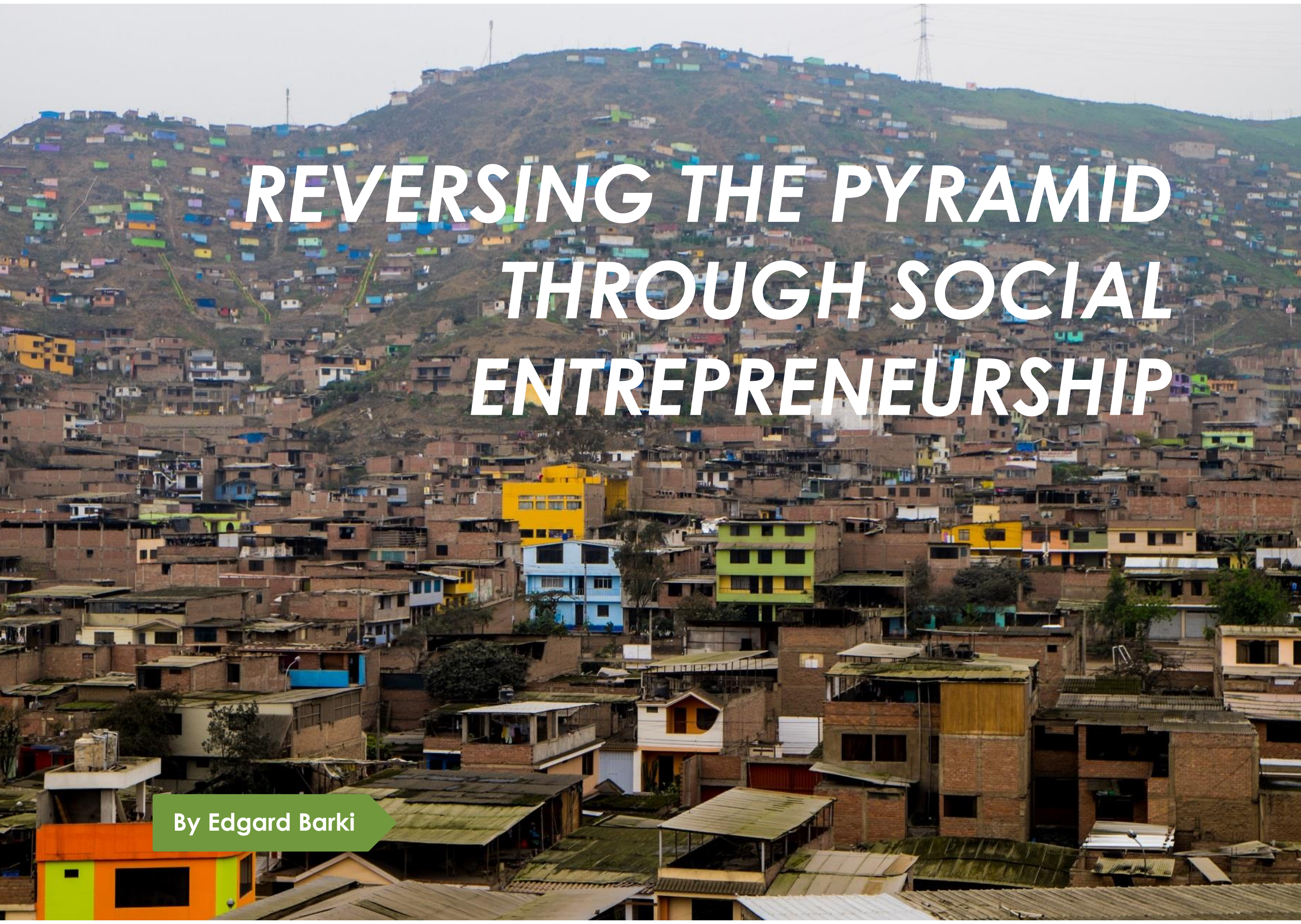
Mexico has the *IPC Sustentable*, created by the Mexican stock exchange in 2011 with the involvement of the European ESG rating agency, Eiris. Here too, a requirement is minimum liquidity and companies are assessed on three criteria – environmental (50% of the score), social (40%), and governance (10%). As with the Brazilian ISE, the *IPC Sustentable* changes its list of companies yearly.

The latest newcomer is the Chilean Sustainability Index jointly launched in 2015 by the stock exchange and S&P Dow Jones. Known as the Dow Jones Sustainability Index Chile, it follows a best-in-class approach – cherry-picking the best companies and with no exclusion of sector – with assessment made on the basis of information submitted by listed companies. If a company decides not to answer the questionnaire, the evaluators can use publicly available data. The biggest difference from the Brazilian and Mexican indexes is the use of the Dow Jones name. It will be interesting to see in the next few years if this choice of launching a sustainability index with a widely known brand will accelerate the international awareness for this Index.

Prof. Adrian Zicari

Helping responsible investors make their decisions

For investors, the most valuable information is not the Index composition itself but the methodology for assessing ESG performance. This is where the Dow Jones Sustainability Index Chile "best-in-class" approach may prove difficult for the socially responsible investor to swallow. Controversial businesses such as oil and tobacco can be included and, given that only the very best firms are selected, many firms with very good responsible business reputations may remain off the radar screen. As a result, Sustainability Indexes cannot perfectly replace the lack of ESG rating agencies. Indeed, both serve different purposes: the former are meant for reference or benchmark for SRI portfolios while ESG rating agencies evaluate the ESG performance of particular firms. This said, information from Sustainability Indexes in the context of Latin America can still help SRI investors to make their decisions. And for responsible investors, where there is no index to glean there are always corporate reports to read, announcements to hear – or the doom-laden prime-time TV news to watch.



REVERSING THE PYRAMID THROUGH SOCIAL ENTREPRENEURSHIP

By Edgard Barki

Edgard Barki, Head of the Entrepreneurship Research Center at FGV Brazil, base of the pyramid researcher and expert on social enterprise, shares his experience on the Brazilian testing ground.

More than one model of social enterprise

As the idea of business with a wider purpose slowly but surely gains ground around the world, social enterprise is increasingly being seen as an effective way to hit several birds with one stone – create jobs, empower civil society, foster community bonds and innovatively lift people left on the sidelines off the poverty line. But whereas the social entrepreneur largely seeks to develop an initiative that has a social or environmental impact, social entrepreneurship is not a one-model affair, states Prof. Edgard Barki of FGV-EAESP.

There are several options open to the aspiring social (ad)venturer. One possibility is to create an NGO-type structure that has as its main objective social impact though which is not financially sustainable due to its operations being funded by donations. On the other hand, some entrepreneurs may choose to create social enterprises adopting business models that diminish social vulnerability or negative environmental impact but avoid dependency on donations through their sales of products or services. Broadly speaking, these types of social enterprises have two operating models. In the first, as defined by Muhammed Yunus, Nobel Peace Laureate and the founder of the Grameen Bank, the organisation's profits are reinvested in the company with no distribution of dividends, the purpose being to avoid dilemma between fostering social impact and maximizing shareholder benefits. The mantra here is "no loss, no dividends". On the other spectrum, other types of social enterprises accept distribution of dividends in order to attract more investment. In Brazil, one of the most active countries in the world in terms of social entrepreneurship, most social enterprises do accept dividend distribution.

Brazil, a testing ground

Why is Brazil so active in responsible enterprise? Paradoxically, Prof. Barki states that it may have to do with the fact that Brazil is one of the most unequal countries of the world, where services such as education, health and housing are inadequately offered in quantity and/or quality by the Government. True, the state offers universal health and education for the population, but the best schools in Brazil are private and it is not too uncommon to find people having to wait for months or even years for surgery. As such, many basic needs are not fulfilled – something that enables social enterprises to fill the gap. And demand is high.

Under such a context, social enterprises seek innovation in order to offer these services with high quality and low cost. But besides the difficulty of offering these types of services, social enterprises also suffer from a high degree of bureaucracy in the country, struggling to both attract and retain talent as well as raise capital. Moreover, although they offer products and services that should be provided by the Government, social enterprises pay the same high taxes as other, traditional for-profit companies.

A cornerstone in the pyramid

The main beneficiaries of social enterprises in Brazil are those at the base of the pyramid – people earning less than US$ 8 per day. Typically, social enterprises flourish mainly in the education, health, housing and financial services sectors, though there is currently increased interest in social enterprises in the fields of recycling and clean energy.

Brazil is noted for its success stories in terms of social innovation and entrepreneurship, those such as *Banco Palmas*, the developer of a social local currency, serving as a model for many others around the globe. A more recent, and successful, initiative – *Terra Nova* – focuses on the housing sector.

Many cities throughout Brazil are marked by the absence of proper shelter for the poorest – something that gives rise to families illegally occupying private property and the appearance of shanty housing with no access to light, water and proper sanitation. Brazilian society tends to view the occupants as unwelcome invaders and the families run the daily risk of being evicted. *Terra Nova*, one of the organisations dealing with the issue, takes on negotiations between the people that illegally occupy a private property and the landowner in such a way as to ensure that families pay monthly instalments for their presence. This payment eventually leads to the opportunity to gain the property rights to the land. The initiative is beneficial on several levels: the original owner receives money for land, and the families become owners – a turning point in their lives that leads to a feeling of belonging to society since they also gain access to basic services such as water and energy. Moreover, they also gain something that most of us in developed countries take for granted – a zip code. Not only does having one increase self-esteem, families also feel that much safer as it dispels the fear of eviction and opens the way for improving the quality of their housing without the risk of losing everything overnight. The government also wins: the initiative solves a social and relevant problem, not to mention sparing it the nasty legal and ethical issues such situations can generate. *Terra Nova* is financially sustainable too, having also received financing from the impact investor *MOV Investimentos*.

Another example is the social enterprise *4you2* which operates in the education sector. With a large majority of modestly-off Brazilians unable to speak English, this can be an important differential in getting a job and gaining self-esteem. *4you2* tackles this problem by offering good quality, low cost English classes for the base of the pyramid populations. The difference lies in the fact that *4you2*'s teachers are not volunteers but paid professionals, English-speakers living in Brazil for 6 months to a year and seeking a different kind of teaching experience. This has an advantage, since the students don't just take English lessons but also earn a cultural experience, discussing Brazilian culture with their teachers and themselves reaching out to other ways of living beyond the limits of the poor districts.

Hatching social entrepreneurs

Edgard Barki is involved in an innovative project to build an incubator dedicated to nesting social enterprises. 'In Brazil, most social entrepreneurs come from the high income classes trying to solve a problem of the base of the pyramid,' he states. Inversely, the objective of the incubator, NIP, is to accelerate and support social entrepreneurs that come from the peripheries of São Paulo city. NIP will see the light of day thanks to a partnership between FGV – a foundation created in 1944 and home to a cluster of leading South American higher education institutions – Artemisia, the largest Brazilian accelerator of social enterprises and A BANCA, a social organization with grassroots in the outskirts of São Paulo city.

The focus of the incubator is to find and foster entrepreneurs that have a social impact and need management tools. Workshops and mentoring will be the staple diet during a six-month period, after which fledgling social entrepreneurs will present a business plan and, depending on the quality and perspective of the business offer, gain access to a seed fund of US$ 7,000 and another six months of mentoring.

For the first semester of 2018, the NIP has mapped 51 social enterprises, five of which have been selected for acceleration. The whole process will be based at A BANCA, placed at the heart of the community, close to the entrepreneurs, and with an unparalleled knowledge of both the entrepreneurs themselves and the challenges they face.

There are still many obstacles to surmount when it comes to social enterprise, notably that of finding good business models that are at the same time characterized by effective social impact and the potential to scale up and be financially sustainable. Pressing too, is the need to support social entrepreneurs in managerial skills and to offer a higher variety of access to capital. 'Most investments currently available are for the beginning of the operation,' says Prof. Barki, 'or else are aimed at well-developed businesses. There is a gap in the support and investment offered to small organisations that have an already-proven sales record, but aren't yet prepared to raise bigger capital.' But as business with a societal purpose slowly but surely gains ground in Brazil and around the world, maybe these young birds need to sing louder that their bold enterprise is able to effectively hit several others with one stone.

Prof. Edgard Barki

The Fourth Financial Statement: When finance turns innovatively green

By Adrian Zicari

Adrian Zicari, Prof. of Accounting and Management Control and Director of CEMAS at ESSEC Business School, and Luis Perera Aldama, Senior Partner at PwC Chile, look into an innovative use of Value-added Reporting – called the Fourth Financial Statement – as a tool for corporate sustainability.

From the original article published by Emerald Insight: *Value-added reporting as a tool for sustainability: a Latin American experience, by Luis Perera Aldama and Adrián Zicari.*

Why a CSR report?

People in all walks of professional life are aware of, and most probably concerned by, social and environmental issues. But it is only recently that the idea that firms should have a social responsibility has been generally accepted. Indeed, when CSR is mentioned, reactions may still vacillate between the wary, the ironic, the convinced and the unaware of just what CSR means. This might in part be due to the fact that CSR – as with many concepts – has variants, if not different schools of thought, according, not least, to where you live in the world. But as a general definition, it could be said that CSR is the commitment of businesses to contribute to sustainable economic development (i.e. generate profit and employment) while balancing the interests of everyone – employees, local community, society at large and even the planet.

Firms have an interest in showing what their positive impact is on all these stakeholders. Because they might be convinced that they have an ethical duty to. They might also believe that they can contribute to improving the world through their activity or product. And they certainly believe that positive communication is good for their organisation and that, in the end run, investors will prefer to commit money to a company that does good for people, planet and profit rather than one oriented only and entirely towards profit.

The problem is that CSR is a complex notion and hard to measure. As such, advocates for CSR reporting have tended to use new and extended models of reporting rather than traditional accounting methods which are seen as unable to cater for this complexity.

A fourth financial statement

However, Adrian Zicari and Luis Perera Aldama think differently. They contend that traditional accounting, and more specifically the value-added statement (VAS), can indeed be used as a tool, and a complement to, CSR measurement. More specifically, Luis Perera Aldama in his role at PricewaterhouseCoopers, tailored a VAS which he termed The Fourth Financial Statement, and which is now used by over 15 firms in South America to show how companies create value and how that value is distributed among each category of stakeholder – employees, shareholders, community, taxes, suppliers and reinvestment. Interestingly, this innovation is particularly suited to the continent and its emerging economies. Moreover, it is a tool that can quite relevantly be used by emerging countries on other continents. This is because the concerns of emerging countries are weighted differently from those of already advanced economies: wealth has to be first created in order to close the gap with the developed world, and then that wealth has to be distributed in order to improve usually unequal income distribution. Intentionally and provocatively named, the Fourth Financial Statement implies that it should be used as an integral part of the firm's annual accounts, accompanying and complementing the traditional other three statements: balance, P&L and cash flow.

Back to the future

As a value-added report, the Fourth Financial Statement model finds its precursor in the UK of the late 1970s and early 1980s and the sudden increase in VAS reporting sparked by a discussion paper presented by the Institute of Chartered Accountants in England and Wales (ICAEW). The paper revolutionized the landscape by identifying that not only shareholders but seven different groups of stakeholders had 'the right to information and whose information needs should be recognised by corporate reports'. In the years following the paper, four accounting bodies and a number of UK firms published VAS reports though the phenomenon rapidly began to disappear with the coming to power of the Thatcher government in 1979, an occurrence – mirrored in Spain – which led to the conclusion that VAS reporting seems to emerge with underperforming or emerging economies rather than established and vibrant ones. Indeed, the financial crises of 2009 and 2011 once again saw a resurgence of the VAS with both the Inter-American Accountants Conference and the Global Reporting Initiative calling for this kind of reporting. One conclusion was that the VAS both reflects aspects of CSR performance – particularly value creation – and helps create improved development of CSR within firms.

The fourth dimension

Developed by Luis Perera Aldama, the Fourth Financial Statement builds on existing VAS models and promotes a simple yet very perspicacious dimension: the breaking down of the profit and loss (P&L) statement into how much value a company creates and how it distributes that value. To obtain the value creation, sales revenue minus direct costs linked to creating the product or service is calculated. The distribution of this value is then displayed in the various sums paid to different company stakeholders: employees, shareholders, taxes, banks and financial suppliers, and the community and environment. In this way, the distribution pattern clearly shows the economic impact of the firm on society by making explicit the proportion of value received by each stakeholder.

The Fourth Financial Statement is unique, too, in that it is accompanied by a comprehensive set of sustainability/CSR-related notes presenting information and performance indicators aligned with other, predominant reporting standards and guidelines. It is also flexible enough to be transferred to other standards that could appear in the future. And beautifully simple in that data for the statement comes from conventional accounting.

CSR VAS in action

Among the increasing number of companies using the Fourth Financial Statement model is the British-Australian mining company BHP Bilton for a division based in Chile – in this case for the last six years. The experience showed that producing the statement first time round calls for enormous effort due to the need to analyze great amounts of information and for the financial team to become familiarized with the model. However, once over the first experience, managers from the company praise the model for the way it makes understanding the numbers easy and facilitates the communication of CSR-related performance to both internal and external stakeholders. Another company using the model in Colombia highlighted the fact that managers from accounts and the CSR departments worked together to implement the model – in sharp contrast to the classic case of sustainability reporting being seen by employees as the 'toy' of CSR managers only. Kimberly Clark, the manufacturer of personal and healthcare products and a recognised leader in CSR, uses the Fourth Financial Statement model as a tool for ongoing dialogue with internal stakeholders, thus encouraging CSR to be the concern of departments as diverse as sales (which proposed using the CSR results as a selling argument) and HR. Last but not least, ANTEL, the state-run telecom company of Uruguay, is now considering using the model as an aid for target setting, strategy implementation and monitoring.

Towards a fifth dimension?

Zicari and Perera Aldama's research and assessment of the Fourth Financial Statement in action focuses mainly on large firms, though they state that the model can also be used in SMEs. It may also be of especially relevant use for emerging economies given the argument that CSR adapts to, and evolves differently in, different parts of the world. Moreover, as CSR has its origins in developed countries, it tends to be focused on its own roots while ignoring or de-emphasizing priorities in emerging countries. As such, the future might well see VAS being used in Africa and various parts of Asia and adapted to local practices and specifics.

The beauty of the model lies in its applicability, not only as a CSR reporting tool but as a way of defining how to manage the firm's business and pursuing different distribution strategies. For example, one company might choose to pay higher average wages to a smaller workforce, while another might consider its duty to recruit more people. It also makes things crystal clear. Making financial donations to the community from generated profits is fine but it is not the be-all and end-all of good CSR practice. The amount of taxes paid to local and national government, or the costs related to paying for the services of suppliers, is also an indicator of how the company makes its ecosystem and satellites benefit from its business activity.

Despite the initial workload involved in implementing the Fourth Financial Statement, despite the hurdles of getting people to work together across departments; and despite the still common temptation to outsource the process of CSR reporting, the model makes a difference. It becomes the report of all those working in the firm – a far cry from the common situation in which a sustainability report remains the isolated action of a well-intentioned CSR office, with few readers inside the company and even fewer readers outside. It provides an innovative answer to the challenge of wealth distribution in South America and a way in which to 'walk the talk' by voluntarily disclosing extremely relevant information. All in all, VAS and the Fourth Financial Statement model add a new, innovative, practical and motivating dimension to CSR in firms.

Prof. Adrian Zicari

Social Innovation strategies – from bottom to top

By Mario Aquino Alves

Prof. Mario Aquino Alves of FGV-EAESP Brazil focuses on the Instituo Palmas and its digital social money initiative to argue that social innovation can blend both top-down and bottom-up strategies to reach success – but perhaps at a price.

Not one, but several strategies to reach success

Traditional approaches to social innovation have argued that in order to achieve impact, scaling up and replication, social innovations are necessarily a process of top-down governance, especially to overcome problems in communities with low social capital or where even in the presence of some sort of social capital, rent-seeking behaviour occurs. On the other hand, the argument for bottom-up strategies also finds its place in the social innovation debate with the notion that grassroots organisations, citizens, NGOs or cooperatives must seize the initiative over government or firms and take the lead in development strategy.

Mario Aquino Alves advocates that a mix of strategies can occur – and indeed be used – to develop social innovations. His argument is that if social innovation aims to improve both the individual, the community and/or the organization/firm, then it can occur from any of these, in different forms, and from different players interacting at all levels in a relational process. Social innovation is therefore both bottom-up *and* top-down in nature.

Prof. Alves, together with research colleagues Eduardo Diniz, Adrian Kemmer Cernev and Eros Nascimento, proves this through research into the grassroots organization *Instituto Palmas* in Brazil, which first grew from organizing its community and later became recognized nationwide as a model of social innovation, community empowerment and collaborative collective learning. The NGO's rise in influence effectively provides Prof. Alves with a distinct, three-phase model of development which adds a new dimension to existing research in that it is possible, through the example of Instituo Palmas, to study social innovation over a long period of time.

Bottom-up social innovation strategy

His research begins with a focus on the institution's beginnings as a grassroots organisation which in 1998 developed an innovative initiative for social inclusion known as the Community Development Bank (CDB). Created in the early 1970s from the displacement of low-income families, the town of Conjunto Palmeira in north-east Brazil finally, under much lobbying, gained access to basic public facilities in the 90s. However, this brought a problem: it generated additional living costs that many families were unable to afford, forcing many of them to sell up and move out. The local neighbourhood association realised that it was urgently time to seek an answer to help reduce the high social risks faced by the community. As a result, Banco Palmas was born, with a starting capital equivalent to 25 Brazilian minimum wages, to offer microcredit – with a difference. That difference lay in its methodology that focused not on the individual, but on generating income, wealth and social development on a territorial basis. The central idea was to create a solidarity network from the local community and its social capital that integrated a virtuous circle between local producers and consumers through a social paper currency only exchangeable in the local community. As such, the greatest possible proportion of local wealth circulated locally, remaining in the community instead of disappearing elsewhere. This bottom-up strategy, born from the grassroots, led to an increased volume of purchases by residents in the local stores, benefiting not only the local merchants but also local producers. The CDB model developed by Banco Palmas proved effective – via its microcredit operations and local social currency – in three ways: it helped construct a communal identity, developed the community from within, and educated people by making residents rethink the concept of money and currency.

From local community social banking to nationwide network

From this success, the Banco Palmas experience became to be considered as one of the most iconic in the field of solidarity economics in Brazil. As a result, the decision was made to extend the initiative to other states and a spin off, Instituto Palmas, was created with a mission to do this. Effectively, the impact of this was to modify the approach, indeed the identity of the initiative. From a former position as grassroots activist implementing a bottom-up strategy promoting the local development of the community, Banco Palmas necessarily took on the role of disseminating its model to other towns and communities, thereby assuming a top-down strategic approach in its bid to replicate the model.

Two partnerships endorsed this dimension: with the National secretary for Solidarity Economy in 2005, and with the Banco do Brasil – the largest commercial bank in the country – in 2006. As such, the scale of the project and its nationwide implementation saw a need for the information and communications technology to gain in effectiveness. And with this new technology at hand, the nature of the original offer – microcredit and social currency in paper format – changed too. Its new, institutionalised partners meant that the offer at hand was similar to that offered by a normal, high-street banking service: opening and management of accounts, collecting bill payments, and digital cash instead of paper currency.

Subsequently, the Instituo Palmas was to provide technical support in replicating the initiative.

While the project saw the successful replication of the Community Development Bank initiative in other parts of Brazil, the top-down position brought with it several issues, most notably that of conflicting agendas between the 'institutionalised' role of Instituto Palmas, working under the 'push-down' process of the federal government, and the community associations it was working with to roll out the initiative. Moreover, the technical and project management activities of workers and managers in the CDB seemed to be far removed from those of the original community bank hallmark.

Going digital – the venture phase

The introduction of digital cash to the social innovation initiative further changed the nature of Banco Palmas. It increased the distance between the organisation's original grassroots identity and the key feature of social currency. In effect, the second pillar of the social innovation became digitalized. And the projects greater in scale.

In 2014, the Instituto Palmas was contracted to create a CDB in the city of Maricà, 63 kilometres from the capital Rio de Janeiro. While located in an oil-rich state, Maricà possesses 4 districts with high rates of poverty. Aware of the success of the Banco Palmas model in creating local wealth, the mayor of Maricà was also wary of the so-called 'paradox of plenty' which claims that regions blessed with abundant natural resources – especially petroleum – usually tend to maintain themselves in conditions of poverty. The Instituto Palmas mission was therefore to set up a two-pronged strategy with this in mind: encourage a demand-side policy of income cash distribution to low-income earners via a municipal debit card, and introduce a supply-side policy aimed to encourage and develop local entrepreneurs and shop owners through microcredit.

Although cash transfer using digital cards is common in many countries (the Bolsa Familia in Brazil benefits 12 million families, for example), the Instituto Palmas initiative was the first time this type of benefit occurred in combination with a local social currency. Once again, the new project made an impact on the identity and approach used by the Banco Palmas. The digital debit card, whereby the population receives a monthly grant worth $32 which can only be spent at registered local stores, was something inexistent in the original model of the community bank. Moreover, the scope in the latest project is municipal, changing the concept of the community as territorial to a broader sense of 'municipal community'. And finally, the relevant social groups involved include a debit card infrastructure manager and the decisive participation of the city government, responsible for the cash input of the whole system.

The initiative met with satisfaction from the three main project stakeholders: the city authorities and the Instituo Palmas because it ties in with their solidarity economy philosophy; the community banking staff because it is a way to attract clients and offer more profitable services; and finally the local store owners who saw the occasion to increase profit through the poor having more cash in their hands. However, the experience also generated drawbacks. The sense of community that was a successful feature of the former grassroots projects seemed to be lacking – beneficiaries seeing the community bank more as a simple outlet from which to pick up the debit card and discuss any possible difficulties. A further reason for lack of community spirit also comes from the fact that the area covered by the latest initiative was 362 km^2, a far cry from the handful of kilometres covered by the original projects in 1990s Conjunto Palmeira. In addition, since commercial and operational issues with the digital system were activities catered for by the company hired by the City Hall, store owners had no strong relations with the community bank which was seen as merely an agent to deal with beneficiaries' concerns.

Prof. Mario Aquino Alves concludes that it is important for such social innovation initiatives to find the right balance between top-down and bottom-up strategies and decisions. When sharing knowledge and success, it seems that top-down strategies are required. Indeed, such strategies help enable social innovation to produce social changes on a larger scale. However, it must be taken into account that a sense of community bond and social capital is strong when initiatives come from the grassroots. This bond and use of social capital in the community stabilizes when social innovations become institutionalised or seek to replicate. And it becomes weak when such social initiatives become, in sort, tech ventures. How to retain that precious wealth of local identity and togetherness, as well as involving the commitment and passion of the local people and stakeholders who learn from the experience, remains a challenge to be taken up for future social innovation projects. As Prof. Alves says, in the light of the Instituo Palmas case, yet to be learnt is how to group together different concepts of community, and to foster social capital by issuing social currency instead of a social capital coming before the issuing of social currency.

Prof. Mario Aquino Alves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10,000 WOMEN GOLDMAN SACHS PROJECT AT FGV-EAESP

By Marie José Tonelli and Tales Andreassi

Maria José Tonelli, Professor of Management and Human Resources, and Tales Andreassi, Professor of Entrepreneurship and Vice-Dean of FGV-EAESP in São Paulo, share their experience of an innovative project sponsored by Goldman Sachs.

Brazilian society has undergone a huge transformation in the last decades, including the greater participation of women in the workforce and an increase in the level of education. However, while women have higher average levels of schooling compared to men, there is still a significant difference in salaries received between men and women with the same levels of schooling: women earn less than men, even while working the same number of hours. There is also a noticeable increase in the number of households headed by women: 30.6% of Brazilian families are now headed by women. Those conditions have led to greater workforce participation by women, both in the formal sector, as well as through the formation of small and micro-enterprises.

Brazil has registered a high rate of entrepreneurship in relation to the size of its population, as can be verified with data from the Global Entrepreneurship Monitor (GEM BRASIL 2012). Among the 67 countries participating in the GEM sample, Brazil is in 10th place, with 30% of its active workforce, between the ages of 18 and 64, involved in entrepreneurial activities. This growth is impressive given the known difficulties of doing business in Brazil, as set out in a comparison among 185 countries by the World Bank (2013). Brazil was ranked 130th based on considerations such as the strength of institutions and the costs of regulation for entrepreneurial businesses. Unsurprisingly, SEBRAE data shows that 25% of all newly established firms closed before completing reaching the two years of existence mark (SEBRAE, 2013).

Among the factors limiting entrepreneurship in Brazil, participants in the GEM study (2012) pointed to Brazilian government policies including complex tax legislation and high tax rates affecting firms, lack of capital market support – difficulty in obtaining credit and high interest rates, as well as limited education and skills of the entrepreneur. In fact, a formal public policy to support entrepreneurship does not exist, though there are some initiatives to support micro and small enterprises, such as provisions aimed at encouraging specific economic sectors, though not resulting in much impact on the entrepreneur (SARFATI, 2013).

Among the population of Brazilian entrepreneurs, the proportion of Brazilian women entrepreneurs is in line with their workforce participation. Among incipient entrepreneurs, that is, entrepreneurs heading firms with less than 42 months of existence, 49.6% are women. Among more established entrepreneurs, the proportion of female entrepreneurs falls to 44% (GEM BRASIL 2012).

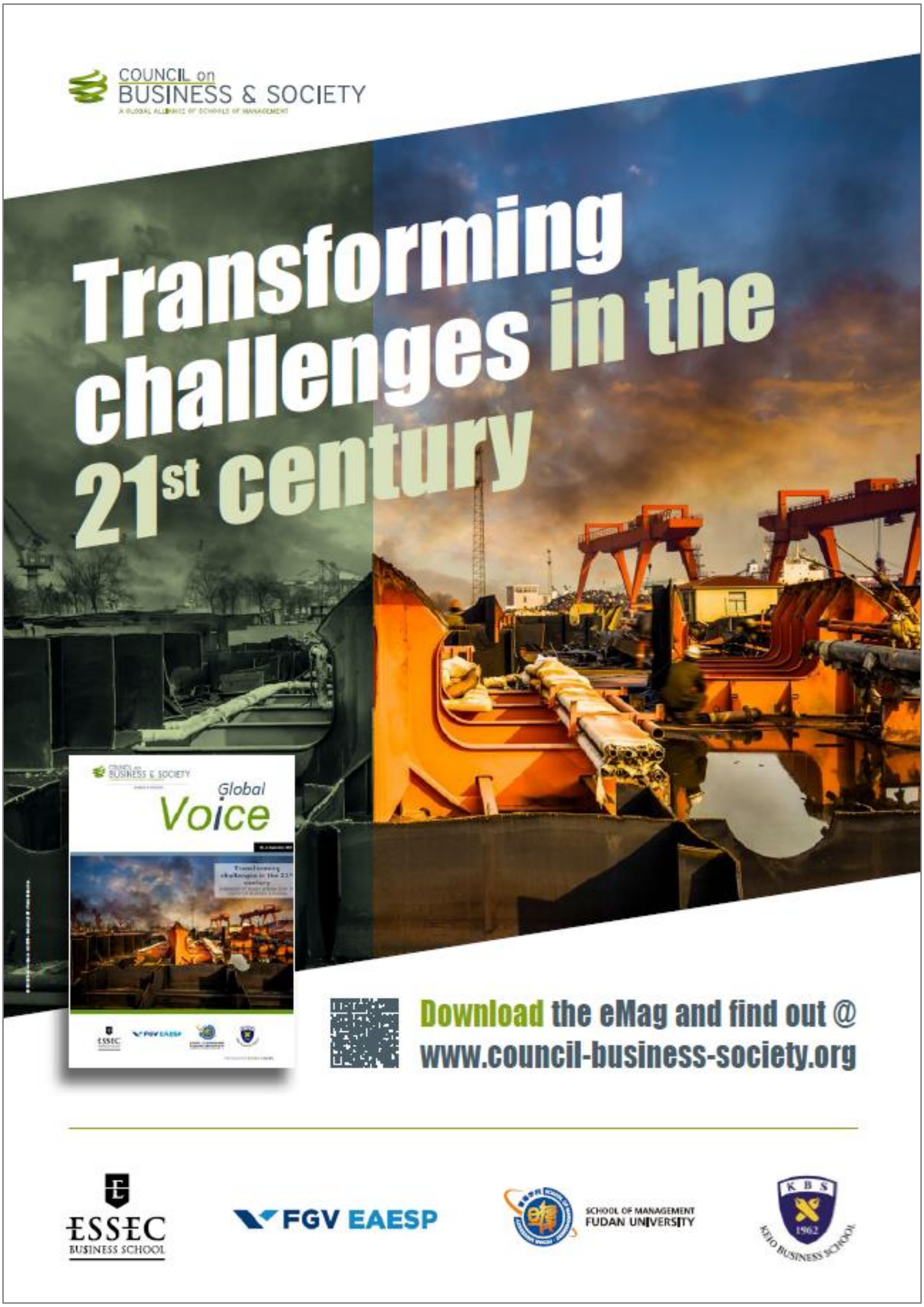
Considering this scenario, the investment of the 10.000 Women Project of Goldman Sachs in Brazil has been extremely fruitful. Since 2008, FGV-EAESP has been running this project for underserved women entrepreneurs with great success. More than 350 women have passed by the program, benefiting from lectures, consultancy, mentoring, networking events, fairs and chats. Their businesses were monitored and they could improve their revenue and hired new workers with clear evidence of beneficial consequences for their families and communities. Moreover, the impact of the project also reached the personal life of the participants since most of them improve their self-esteem and they still organize meetings and networking events even after the end of the course.

The benefits have not only been for the women but also for FGV and Goldman Sachs. In being creative and innovative when developing this program, the results have been extremely valuable for the school. All the professors that participated in this project had to change their vision from big to small companies and concentrate their teaching efforts on a group with specific demands. As the women supported by this project have accomplished their objectives, Goldman Sachs Charity Funding also receives the visibility that comes with a successful project. The Project has been featured in various media including newspapers, magazines, television reports, websites and blogs.

Professors Tonelli and Tales have been conducting this project during the last 5 years and the experience has improved research projects at the Research Center on Entrepreneurship and at the Research Group on Organizations and People of FGV-EAESP.

Prof. Maria José Tonelli

Prof. Tales Andreassi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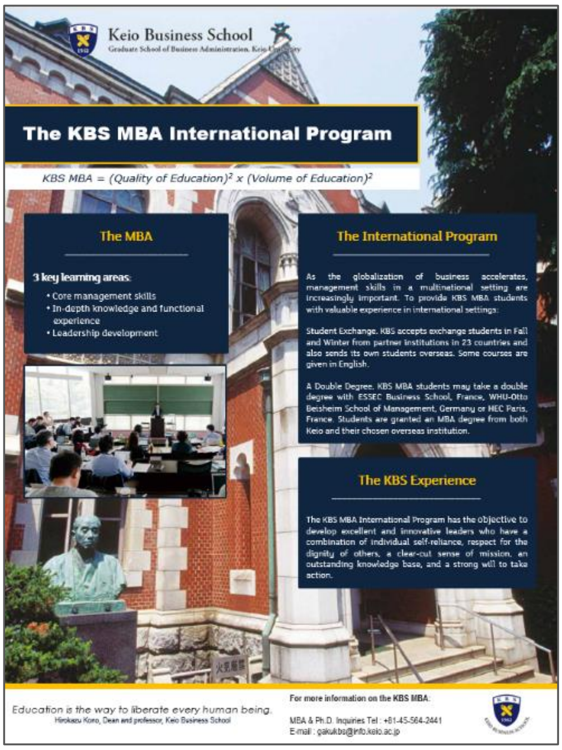


The Council on Business & Society:

What we offer

Global forum

on critical issues at the crossroads of business and society involving academics, students, policy-makers, NGOs and professionals.

White papers and

position papers on issues key to business and society.

A bank of shared ***educational materials*** between member schools with an international dimension, available for use in classes, courses and programmes.

Council ***Faculty research projects***

Joint courses

and ***course modules*** bringing together the CSR expertise of the member schools' Faculty.

A **Young Leaders Impact Index** which analyses over time how our students and alumni view the world as they graduate, enter and progress through their professional careers.

A quarterly *eMagazine* featuring **impact** articles on CSR issues.

Inter-school *Student projects*

Exchange of Faculty

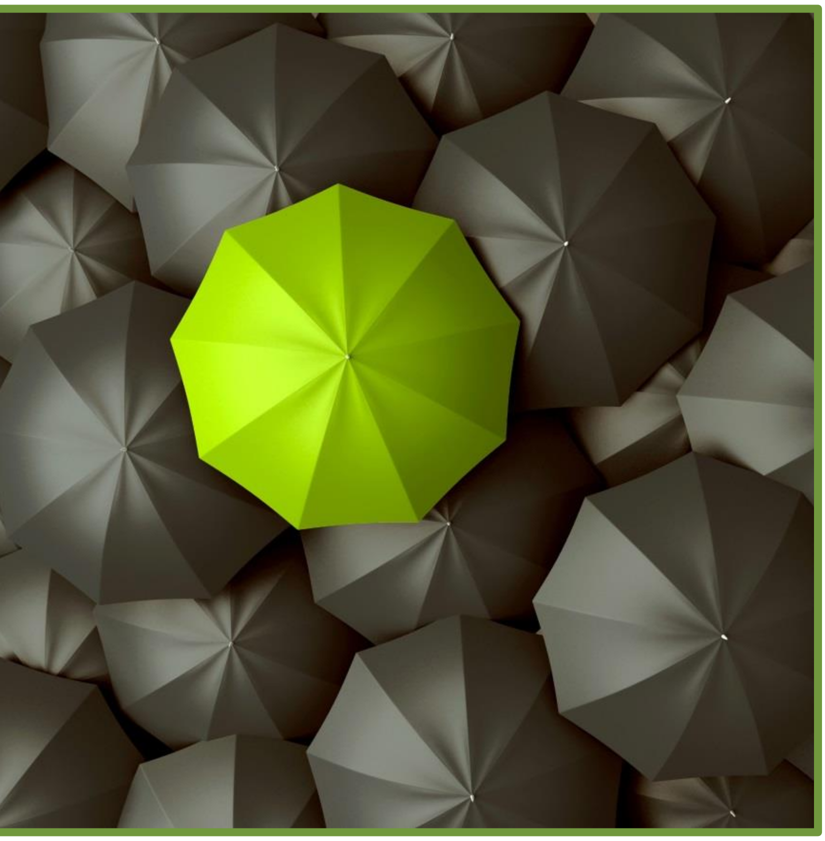
to teach business and society modules within existing programmes.

Communication and visibility via the **Council Community website** and **blog** featuring regular articles, research and opinion pieces on issues relating to leadership and governance, diversity, sustainability, business ethics, energy, employee health and entrepreneurship.

Student Surveys summarising how our students view key issues facing business and society.

COUNCIL on BUSINESS & SOCIETY
A GLOBAL ALLIANCE OF SCHOOLS OF MANAGEMENT

Getting involved



A singular presence with a global mission

REACH US

The Council on Business & Society website:
www.council-business-society.org

The Council Community:
www.councilcommunity.com

Our LinkedIn Group:
the-council-on-business-&-society

The latest Council news on Twitter:
#The_CoBS

Reduce, Re-use, Recycle