



Global Voice

Purpose at the crossroads of business and society

Special anniversary issue

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The Council on Business & Society

Recognising 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 that make up the Council on Business & Society



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



With the contribution of our guest school: Warwick Business School, United Kingdom

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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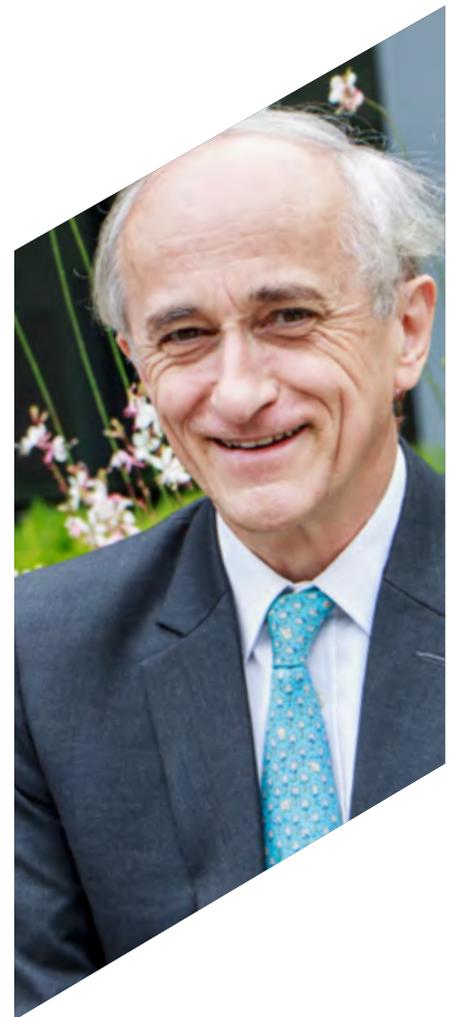
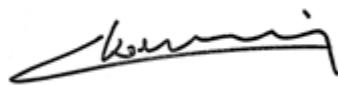
/Editorial

By Professor Christian Koenig, Executive Director,
Council on Business & Society

Welcome to this Global Voice special anniversary issue #5 proposed to the Council's community of readers and followers that includes entrepreneurs, managers, CEOs, students, academics and all those who have a passion for the positive contribution business can have for society. Over recent months, you have no doubt regularly seen in the media features on the imminent impact of artificial intelligence and the digital revolution on our professions, our way of living, and how society itself will work. These technological advances will bring change in areas such as healthcare, transportation, security, production, banking and consumer services. But we tend to hear less of change that is coming from another phenomenon – that of responsible business practices in the industries and companies in which we work. And how these practices ultimately contribute to a better life for all. Here, the advances and progress underway are also immense and, much as for AI and digital

technology, unavoidable. The Council on Business & Society, created in 2011, finds itself at the heart of this movement with an objective voice that, with other prominent organisations, educational institutions and industry leaders, continues to promote its belief in the positive impact business can have on its stakeholders – employees, suppliers, the community, society and the planet. Through Global Voice, we offer you a voice. I invite you to keep abreast of our news, research, opinion pieces and initiatives by following us on Twitter @ The_CoBS or visiting our Council Community blog via our website www.council-business-society.org and accessing our latest articles and free downloads.

Enjoy your reading!
Kind regards,



Prof. Christian Koenig

Executive Director
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/Editorial

By Tom Gamble, Editor, Global Voice

Dear Readers,

We are delighted to propose this special anniversary issue of the Council on Business & Society magazine Global Voice.

Exactly a year ago, the initiative was taken to propose a quarterly eMagazine compiling the very best research-driven articles produced by the faculty of the Council's member schools - ESSEC Business School, FGV-EAESP, School of Management Fudan University, and Keio Business School. Since that time, the magazine has developed to include guest articles from faculty from other institutions working on research projects with the Council's schools, as well as opening up a voice to our students on issues related to sustainability, responsible finance and CSR. The eMagazine now also exists in print version for distribution among its members.

In this special anniversary issue that includes both highlights from past issues and new articles, we are delighted to include two articles from our friends at Warwick Business School, UK, in what we hope is the beginning of a longer and deeper collaboration. It remains for me to wish you an enjoyable reading experience and also to invite you to share your remarks and feedback by dropping us a mail via the Council on Business & Society website at www.council-business-society.org.



Tom Gamble

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A field of umbrellas is shown, with one umbrella in the center highlighted in a bright green color. A large, semi-transparent yellow and orange overlay covers the middle of the image, containing the text 'BUSINESS & SOCIETY' in white, uppercase letters. The background is a dark blue gradient, and the umbrellas are arranged in a grid pattern, receding into the distance.

BUSINESS & SOCIETY

THE COMPANY AS COMMON: BEYOND CSR



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Cécile Renouard, Director of the 'Companies and Development' (**CODEV**) research programme at the **ESSEC IRENE** institute, talks about her newly published book and contends that a profound re-shaping of how we see the company's purpose is required for the common good to progress.

From an interview by Tom Gamble, Council on Business & Society

RESEARCHER, professor, writer, thinker and doer, Cécile Renouard has an overriding passion behind her work – that of making the world a better, more equal place for all who live and work in it. For nearly fifteen years she

has worked with researchers and major corporations around the world on the impact businesses can have on local populations and communities. This work has led her to publish several books, the latest of which, for now in French

and co-authored with Swann Bommier, is *L'Entreprise Comme Commun – au-delà de la RSE* (The Company as Common: beyond CSR).

IN THE BEGINNING WAS THE PROBLEM – AND THEN CAME THE SOLUTION

For Renouard, the book is necessarily linked to the current ecological and climate crisis which she also views as a social and societal crisis. The leitmotiv behind the work? Today's business models must be profoundly revamped if the business world is to be able to implement the objectives of the Paris Agreement and those of sustainable development. 'Companies are part of the problem,' she states – 'and the solution!'

At first glance the title – *The Company as Common* – may seem a little mystifying, but for Renouard it means speaking of the company as a common means that simultaneously covers three major dimensions: the necessity to do business together along a participative approach – proposing shared governance and taking into account the various stakeholders in the life of the company including employees, shareholders, suppliers and the local community. Secondly, it implies that the company should necessarily concern itself with the notion of global common goods, as much material as immaterial. In the jargon of the economists these amount to 'rival' and 'non-exclusive' goods to which everybody should be able to access as a condition

for decent life: for example, social ties, climate and biodiversity. The third dimension, says Renouard, includes the search for the common good – in the sense of living harmoniously with each other, or *buen vivir* as they say in Latin America – and how a company can contribute to this.

REDEFINE AND SET THE RULES

According to Cécile Renouard things are indeed beginning to move towards this philosophy, helped, no doubt, by various directives and definitions laid down by the European Commission in recent years. In 2011, for example, CSR (corporate social responsibility) was defined as the control by the company of its impact. This implies, explains Renouard, that CSR shouldn't be considered in terms of philanthropic actions, but more as a focus on the effects of company activities and core business on stakeholders and along the whole value chain. The French parliament has gone further, in 2017 voting a law making it mandatory for large companies to be vigilant regarding their impact and requiring them to prove what measures they have implemented in order to avoid any complicity in the violation of fundamental rights in their sphere of influence. Among other things, this calls for the monitoring of their sub-contracting chains.

But for Cécile Renouard this isn't enough – hence the second part to the title of her book: *Beyond CSR*. For her, it is indeed a question of considering the responsibility of the company beyond CSR as it is currently envisaged. 'In this essentially marginal perspective,' she asserts, 'it means considering the means for improved convergence between financial and extra-financial logic, and to integrate social and environmental issues in the company's strategy'. Although she recognises that the 2011 European definition of CSR is aimed at profoundly reconsidering the role of the company in society, Cécile Renouard believes it should be accompanied by other measures such as the redefinition of the French civil law, specifically articles 1832 and 1833, which define the commercial company and its function. 'The conception of the company as common,' she continues, 'implies not simply stopping at the creation of profit for shareholders, but considering the ways in which to create and share the wealth *in common* in a durable and fair way. This is without doubt only possible by encouraging the shortest production lines possible, and the closest links as possible between consumers and producers.'



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“
Doing business
– at the service
of the common
good – cannot
only be reserved
for so-called
‘companies with
a mission’.
”

HOPE AHEAD

The signs are encouraging. In France, several glowing examples of social enterprise shine above the rest. These include the Archer group based in Romans-sur-Isère that has contributed to the growth in regional centres of economic cooperation, where traditional economic players work with social enterprises, local and regional authorities and associations – in this case by notably enabling new life to be brought to the region’s cottage shoe industry. There are also companies like Serge Ferrari, based in La Tour du Pin, which contribute to the development of a circular economy. Attentive to the supply of minerals extracted in distant countries, Serge Ferrari attempts to improve transparency on these lines of production and find the means to avoid indirectly supporting human rights violations. The way ahead is not without its dangers and challenges. Indeed, for Renouard, it is important to try to transform the rules of the global game – in various economic and financial fields and with regard to social and environmental norms and standards – notably in terms of combatting tax avoidance and damage-inducing fiscal optimisation. In other words, enforcing the law and cracking down on companies who try to detour it.

For Cécile Renouard, doing business – at the service of the common good – cannot only be reserved for so-called ‘companies with a mission’. ‘Every company is concerned’ she asserts. ‘It’s an enormous challenge but also a necessity. And one that opens up an incredible potential for creativity at the service of sober, shared and fair business models. *Yes, we can!*’ she adds, displaying her inherent enthusiasm, hope and belief that positive change will come.



Cécile Renouard



A DEEPER LOOK AT SOCIAL INNOVATION



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. In the run up to a focus article on the Brazilian Instituto Palmas and its successful digital social money venture, 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.

“ Its facets are multiple, each seen in a different light depending upon school of thought, policy or even values. ”

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 likelihood 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.

“ Social innovation is both bottom-up and top-down in nature. ”

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.



Mario Aquino Alves



THE CHINESE ENTREPRENEUR: SUCCESS, POLITICS, AND CONFUCIUS



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Do successful Chinese business people choose to govern national life or preserve world peace? Professor **Xu-Hong Li** of the **School of Management Fudan University** shares her research into the motivations behind Chinese entrepreneurs.

From the research paper by Li, X.-H. & Liang, X., 2015. A Confucian Social Model of Political Appointments among Chinese Private-Firm Entrepreneurs, *Academy of Management Journal*, 58, 2: 592-617.

A PUZZLE

BUSINESS leaders, regardless of nationality and culture, often seek political connections to help their firms gain legitimacy and economic advantages. When

legal and regulatory institutions improve and market-supporting systems develop, as they have been in China in recent decades, such incentives may be weakened. Indeed, standard theories and evidence in western countries suggest that

successful business leaders should be less motivated to pursue political appointments because, once the economy and markets freed up, the economic benefits associated with these are not as important as before.

China is different. Data shown in Forbes on the 500 richest Chinese business people and the corporate leaders of listed private-owned firms in Shanghai and Shenzhen stock markets suggest the opposite trend: the number of successful private-firm entrepreneurs having PC (People's Congress) or PPCC (People's Political Consultative Conference) appointments has increased steadily in recent years. Why is that?



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Professor Xu-Hong Li of School of Management, Fudan University, one of the foremost education institutions in Asia, decided to tackle the question by using a Confucian framework of values and thinking – still a strong influence in Chinese culture – and apply it to 166 private-firm entrepreneurs and a dataset of 1,323 Chinese publicly listed private companies. The question posed: do successful entrepreneurs go into politics for self-interest or the interests of the common good? Or put in a Confucian perspective, do successful business people want to 'govern national life' or 'preserve world peace?' Read on.

WHAT MAKES US TICK? CONFUCIUS SAYS...



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Western cultures are generally characterised by an underlying sense of self-fulfilment and individual achievement as the core focus for the development of our identity throughout life. 'Success' is judged by what you do, the wealth you accumulate, the achievements you reach and who you become. Confucian doctrine has a different view of the ultimate purpose of life. It forwards the idea that humans transit through four life stages, the ultimate goal in life – after cultivating oneself (xiu-shen, 修身), taking care of the immediate family (qi-jia, 齊家) or the firm (bringing order to the state, zhi-guo, 治國) – being to benefit the wider society and preserve world peace (ping-tian-xia, 平天下). The journey to ultimate success is a gradual dynamic process from an inner-focused sage [nei-sheng, 內聖] to an outer-focused king [wai-wang, 外王], from self-orientation to social-orientation. In short, your life or career ideals are incomplete if they fail to progress from cultivating the self to serving the universal world.

WHY CHINESE BUSINESS PEOPLE GO POLITICAL – OR NOT

Chinese private-firm entrepreneurs, as founder-owners, represent both their firms and themselves. Their dual roles mean that they focus both on enhancing firm competitiveness and achieving personal goals. Professor Li set the choice facing Chinese business people as being either pro-self – enhancing their own firms and careers – or pro-social, where motivation drives an entrepreneur to give benefit to collective and wider society. Both coexist and each may drive political pursuits in order to reach their goals. But although cultivated early in life, the two motives they may have different importance for different individuals and may be activated at various life stages. The less entrepreneurs embrace the Confucian doctrine of the common good, the more likely the pro-self motive will dominate. Moreover, during an entrepreneur's pre-success stage, the pro-self motive will dominate the entrepreneur's political connection-seeking behaviour because such connections will bring information, resources, and other economic benefits for their firm's survival and success.

So what happens once personal and financial gain has been achieved? One hypothesis set by the researchers was that while business success may equip entrepreneurs with necessary means to act more freely, how they will then act depends on how deeply they embrace the Confucian doctrine of role transition throughout the different stages of their journey to becoming 'complete'. But there is a catch in this. Confucianism teaches that people can achieve 'kingliness' – the highest state of individual success – through both ideal and pragmatic actions, the seeking of political appointments being at the core of these in ancient China. This leads to a second hypothesis – that after pro-social entrepreneurs gain success, their motives towards the common good will drive them to strive for political appointments that will allow them to influence policymaking and legitimately serve the larger community or society. Successful entrepreneurs are therefore more likely to spend resources and effort in pursuing political membership and/or posts.

Prof. Li's research on 166 entrepreneurs and nearly 1,400 private companies suggests that the more successful the firm is, and the higher an entrepreneur's sense of personal and business ambition, the weaker the business leaders' desires to seek political appointments will be. Inversely, entrepreneurs with a low degree of self-oriented success and a higher degree of wanting to contribute to wider society were more likely to have political appointments when their firms were more successful. A Chinese firm's success, therefore, does not relate significantly to PC/PPCC party membership.

ONE BELT, TWO ROADS

Li's research effectively replaces an economic perspective by a social perspective in understanding and interpreting political pursuit, especially for private-firm entrepreneurs who have achieved business success. Indeed, this social lens might well encourage more successful entrepreneurs to recognize political appointments as a way to fulfill their pro-social needs. This can be positive in the sense that although private-business entrepreneurs have few

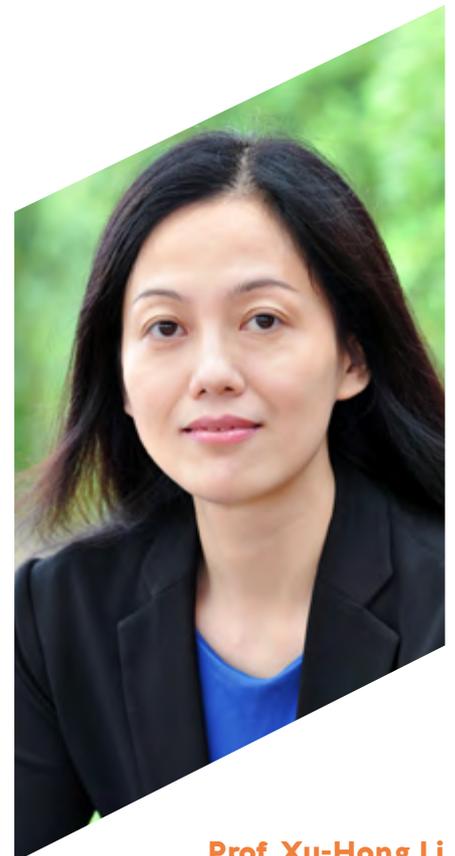


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opportunities to move from commercial to formal political hierarchical systems in current China, successful Chinese private entrepreneurs can participate in politics in a part-time capacity without giving up their business roles for social and economic improvement.

According to professor Xu-Hong Li, as private-firm entrepreneurs contribute more to the Chinese economy, it is imperative to proactively open more channels, beyond part-time PC or PPCC membership, and to encourage successful entrepreneurs to be involved in important political entities. In what they see as cynicism in current Chinese society, Li sees an opportunity for the once dominant Confucian ideology to resurge – something that would motivate business executives to engage more in both CSR-driven activities linked to their businesses, politics and social/public welfare. As China continues to grow and its economy looks farther afield along the ancient trade routes, there might indeed be room for two roads in all this – on the one hand, both personal achievement and wealth, and on the other a commitment and contribution to the wider, more common good.

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An opportunity
for the once
dominant
Confucian
ideology to resurge
”



Prof. Xu-Hong Li



Transforming challenges in the 21st century



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LESSONS IN GIVING FROM THE GLOBAL SOUTH



Arthur Gautier, Executive Director of the **ESSEC Philanthropy Chair** and senior researcher, explores beyond the American model of giving to uncover the diversity of innovative philanthropy models in Africa, and Asia.

IN THE GLOBAL conversation around philanthropy, the American model dominates, and for good reason. Until recently, there was little to rival the range and quality of knowledge stemming from American universities – or the interest shown by the public in figures such as Bill Gates, Warren Buffet

and Mark Zuckerberg. It is a testament to the country's history where elite and mass philanthropy have often foreshadowed government welfare.

In Europe, where welfare states are prevalent, philanthropic research was much scarcer. Yet the region has long

relied on private giving to fund innovative solutions to unmet social needs. Philanthropy has provided a key contribution to medical research, education, poverty relief and the arts, among others.

In other regions, we have even less knowledge of giving patterns. With this in mind, we interviewed 10 so-called 'frontier philanthropists' in Pakistan, India, Turkey, Kenya, South Africa and Hong Kong, who are part of the Empower Families for Innovative Philanthropy platform, founded by the Edmond de Rothschild Foundations. Our goal was to uncover the motivations and strategies developed by these entrepreneurs and family businesses to foster social change, as well as the specific challenges they face.

PHILANTHROPY AND DILEMMAS

Two key takeaways emerged from our study in the form of dilemmas faced by these families: whether to collaborate with governments or not; and whether to run their own programmes or to fund existing organisations. Their responses yield lessons for us all. In several countries where these frontier philanthropists are active, government interventions are often associated with bureaucracy, governance concerns, weak institutions and a lack of legitimacy. At the same time, wealthy philanthropists are sometimes considered as unwelcome funders of initiatives that could undermine state action. We expected global south philanthropists to stay away from the state as much as possible, so

it was surprising to find eight out of 10 families we interviewed actively collaborated with governments.

There are three reasons for this. First, governments can remove hurdles faced by programmes on the ground, notably in terms of security or access to infrastructure like roads and airports. Second, governments can provide additional funding. Third, government support is necessary to expand and roll out programmes that were successful on a small scale, in order to serve more people. Indeed, given the scope and urgency of social ills such as limited access to clean water, lack of primary education for girls and unaffordable eye care in many developing countries, philanthropists need the government if they want to scale and deliver a long-lasting social impact.

The families we interviewed used their business background to leverage existing ties with key government officials, but this time for philanthropic purposes. Effective collaboration is even more crucial in emergencies, such as the devastating earthquakes that afflicted South Asia in the 2000s. This is what Ali Siddiqui, CEO of the Mahvash and Jahangir Siddiqui Foundation, realised in 2005 after the Kashmir earthquake. His foundation's camps for internally displaced persons secured police guards thanks to effective, in-person negotiations with the local police.

“ Mutual trust and a deep understanding of the cultural and political context give global south philanthropists an edge over foreign donors and international development agencies. ”

In fact, more than the state apparatus per se, private foundations need champions among elected and senior officials who share the same willingness to achieve positive change. Mutual trust and a deep understanding of the cultural and political context give global south philanthropists an edge over foreign donors and international development agencies.



"It is important to see officials as good people working in a sometimes dysfunctional system," noted Nicola Galombik, executive director of Yellowwoods, a family-run holding company in South Africa.

The second key takeaway is how frontier philanthropists operate. While some 75 to 90 per cent of foundations in the Western world are grant making (and only a minority are operating), this ratio appears inverted in emerging nations. We were struck by the strong involvement of philanthropists on the ground, in addition to financial support. Many run their own programmes and some even build and operate top-tier facilities such as universities, hospitals and museums, because public infrastructures in healthcare and education, for example, are usually insufficient and too expensive to cater to whole populations' needs. This is the rationale behind AmanAmbulance, the Aman Foundation's own network of 80 ambulances with doctors providing 24/7 emergency medical interventions in Karachi, Pakistan.

IN THE ABSENCE OF NGOS

Sometimes no NGO at all is doing the type of work philanthropists want to support in a given area. While the NGO sector is thriving in countries such as the Philippines, India or Jordan, there is a dearth of trusted NGOs with professional staff in some other parts of the global south. Private foundations are forced to carry the operations themselves if they want to achieve their philanthropic goals.

Rather than a handicap, this can be an advantage. Family philanthropists are often entrepreneurs and business leaders, and can capitalise on their skillset to achieve tangible results and even mobilise staff and board members from their own enterprise. They can train and transfer knowledge to NGOs to build management and leadership capacities in the long run. Getting involved on the ground beyond traditional chequebook philanthropy is also a way to set an example, and inspire other public and private funders in their home

countries, ultimately leading to more impact for every grant awarded.

Are there any downsides to this hands-on approach? Some fear that philanthropists exert too much power if they are both funders and operators. There are also concerns that overconfident entrepreneurs-turned-philanthropists may think they can solve problems in a snap, overlooking the complexity and subtlety of social ills. But initiating a new programme to address unmet needs is different from clinging to it forever. Global south philanthropists are often eager to gradually transition responsibility for the programme to the government.

Rich, diverse and innovative philanthropy is going on under the radar all over the world, quietly improving the lives of millions. We should acknowledge the contributions of high-profile billionaires from the US, but we also need to shed more light on the giving traditions from all continents. Tomorrow, it could well be that Asian, African and Middle Eastern philanthropy will raise the bar for the rest of the world.

This article was first published in Philanthropy Age



Arthur Gautier





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The pioneering spirit

WILL TOTAL QUALITY MEAN THE END OF IMPERFECT PEOPLE?



Hirokazu Kono, Professor of Industrial Engineering and Production Management and Dean of **Keio Business School**, Japan, explores the human-or-machine question and contends that, paradoxically, imperfection has a reassuring future.

DOES ARTIFICIAL INTELLIGENCE TAKE PEOPLE'S JOBS?

AUTOMATED production systems have been a long-appreciated feature of prosperous industries. The list of examples starts from Venetian ship pro-

duction in the 12th century, followed by French gunsmith Honoré LeBlanc in the 18th century, British naval engineer Samuel Bentham, and the American Eli Whitney, all of who were forefathers of the idea of interchangeable parts and automated production processes. It was Japan in the 1950s and 60s, however,

that was to become the world leader in automation and the quality process, especially in the automobile industry. Nissan, Toyota, and Honda were the pioneers in mass-producing high quality, reliable and modern cars that featured standard parts which most competitors at that time considered options.

Nowadays, in Japan as elsewhere around the world, the assembly lines are becoming increasingly automated with fewer and fewer people involved in the process. Nevertheless, robotics and artificial intelligence (AI) do not necessarily mean elimination of people from workplaces. In Japan, companies are likely to shift people otherwise employed on the production line to sales or after-sales sections, thus reducing the direct loss of jobs caused by accelerating technological innovation.

It seems, then, that the benefits of AI outweigh the urge to sound the alarm that people are being supplanted by machines. Indeed, in Japan, AI is beginning to fill the gaps between employment supply and demand, especially in the service and convenience store sectors that require interaction with customers at night or on weekends. For example, the economy hotels industry, providing low-cost accommodation for people on business trips, is rapidly introducing establishments operated by a single person, and where guests are communicated by automated machines after initial check in. This instance at least implies that people are ready to exchange human contact for convenience and low-price.

However, there remains a sensitive subject. AI has entered many other business domains in Japan, including healthcare and transport. While railway stations are equipped with automated voice communication systems providing information to travellers, hospitals have begun to use robot seals – called PARO – to accompany Alzheimer sufferers (PARO is also being tested by the British NHS). All in all, it seems that repetitive tasks are being overtaken by willing robots. But such automation also creates problems. Take the introduction of telephone applications in healthcare services for example. A visible benefit for doctors is that they can now oversee multiple patients via the smartphone and computer interface, thereby optimising time and productivity. The drawback, on the other hand, is the toll the doctor pays in terms of stress and workload. In the past there was one patient to deal with at a time – now there are many and they come

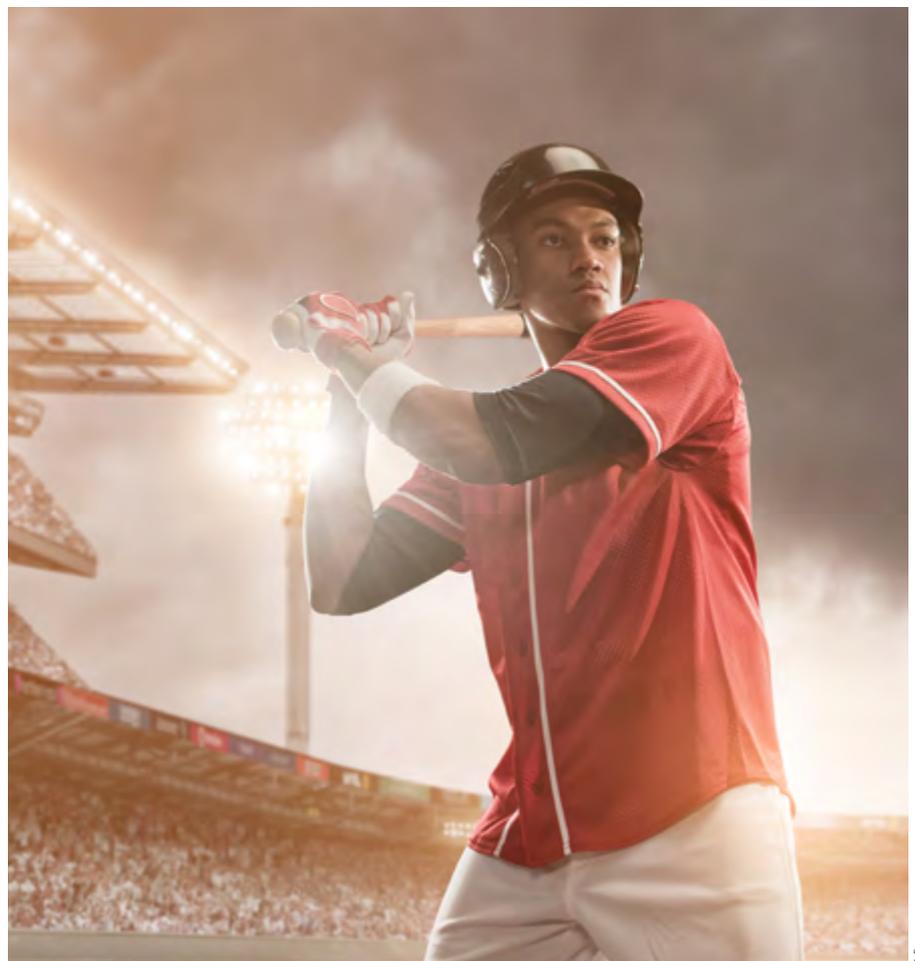
almost instantaneously. In a sense, the same problem applies to production management and the automated assembly line. A quality manager is able to address a multitude of issues by using digital solutions – at any time – resulting in the barrier between working time and private life becoming more and more blurred.

PERFECTION OR IMPERFECTION? THAT IS THE QUESTION

There is a general tendency to view machines as purveyors of total quality. However, many reports show that AI can be just as imperfect as the average human. Many companies still suffer from over-production, product defects and quality lower than clients' requirements, despite the introduction of robots and AI-controlled processes. Customer complaints and the burden of stock costs are still rampant, and these cannot be solved by AI alone. Indeed, it looks likely that such problem-solving

will require a human form, that is, senior-level and experienced employees using the information and data generated by AI to supply the machines with the troubleshooting answers. Interestingly, the people-versus-machine debate often arises among young people with surprising results. Keio Business School, one of the internationally recognised leaders in higher education among the business community, sees many young professionals, domestic and international, joining its selective MBA and EMBA programs. They are generally well-versed in IT and the use of AI, but the vast majority still prefer to visit the production lines for on-site experience and, more specifically, for contact with the people actually working on them.

Moreover, while machines actually produce the product, in many cases humans carry out the final touches. Cars rolling off the production line, for example, are better finished by humans who do a much better polishing job than machines. Another example of fi-

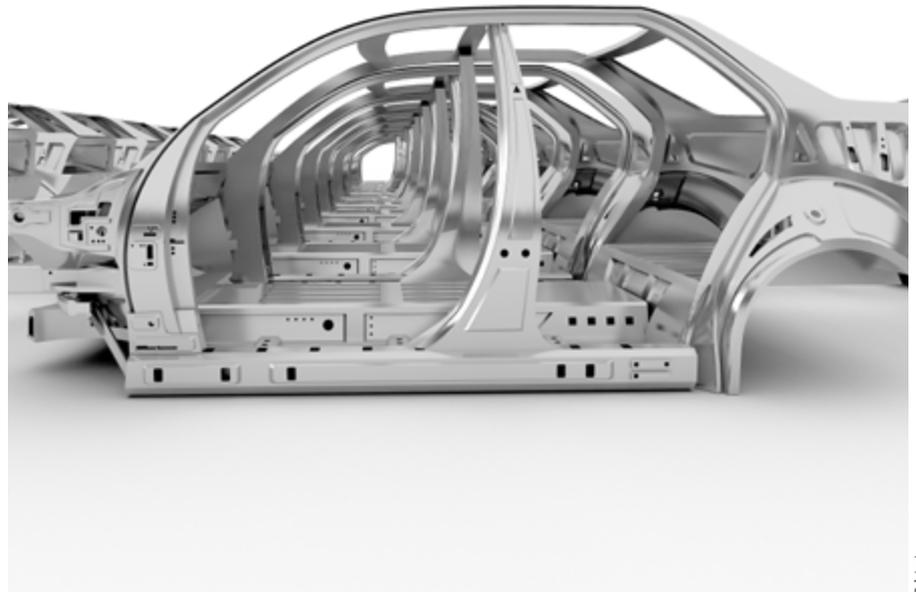


nishing touches – we dare to say the final step for perfection – is that of a small company in Tokyo that produces parts for rockets. While the rocket bodies are machine-produced, it was found that humans did better in finalising the nose-cone, the specific round-shape of which cannot (yet) be perfectly crafted by robots.

TOWARDS A PEOPLE-LESS COMPANY AND A PLAYER-LESS GAME?

These examples indeed point towards a negative reply to the question. Then the issue of profit kicks in. Part of the automation argument in the past has laid in the search for profit optimization by tackling the high labour costs in Japan. The most popular solution was outsourcing production to neighbouring China and other south-east Asia countries in the 1990s and early 2000s. The trend, however, is now directing the other way. Rising living standards in Asian countries have pushed up the labour costs and charges. This, in addition to a favourable dollar exchange rate, means that many Japanese companies are now bringing production back to Japan, an obvious boon to employment expectations despite the surge of AI and automated production. Hirokazu Kono points out the leaning towards short-term profit in industrialised countries, questioning the justification of it and pointing out the basic need for humans to live and enjoy working. In this he sees a price to pay – even though it could mean high labour charges and taxes – and ensures that this “win-win” argument is instilled in Keio’s values and work ethics.

This being said, the temptation to employ more numbers of robots is irresistible, not least due to the dramatically decreasing cost of them. ROI is no longer a worry. Indeed, warehouse stock management is a sector that is experiencing subsequent growth in the use of automated solutions. Here, incoming parts are stocked, picked and then shipped out in massive numbers. In this case, a zero-employee warehouse would pose no problem. However, states Hirokazu Kono, if there is a single worker in



such a vast space like a warehouse then this does cause an issue. Imagine. Alone in several thousands of square feet for seven to eight hours a day with no one to talk to. Over time, there would indeed be a very negative impact on the worker’s state of health. For Kono, such issues have to be addressed by management leaders in a near future – in light of both benefits and drawbacks.

An analogy that comes to mind when tackling the question of Artificial Intelligence and human interaction is that of sports. Recently, new prototype software was designed for the smartphone that can trace the movements, not of the player, but of the ball itself, in a football game. Information gathered simultaneously from eleven cameras placed inside the stadium gives the spectator a history of the ball’s trajectory – making judgement and criticism of a player’s performance reliant on the machine. The same goes for baseball, a sport that has millions of devoted fans in Japan. Prototypes are being finalized that send instantaneous game data to a spectator’s smartphone.

This provides the strange scenario of tens of thousands of people being present at the stadium but watching the game glued to the screens of their mobiles in order to decide whether to boo or applaud. Professor Kono stresses the importance of people’s direct observation in such interactive games: it is the face, the emotions that provide the passionately interesting aspects of baseball, and the raw, natural data that trigger spectators’ emotions and reactions. The same applies to the workplace.

TRUST AND LEARN

Can we trust imperfect people to be in charge of perfect machines? It might be worth looking at the example of the 2020 Olympic Games to be held in Tokyo. The Japanese government has launched a project to introduce automated driving for the event that will transport passengers arriving at the airport terminals to downtown fast and without the stress of having to take the wheel on the city’s busy highways. This may mean a great opportunity for growth for software and automobile manufacturers, but the stress, of a different kind, may still be present for the users. This is because one of the

basics of product manufacturing seems to have been overlooked: Machines aren't perfect. Every part or product ages. It deteriorates and may go wrong, sometimes even producing disaster. And there may also be design defects that cause teething problems, and even worse, accidents – witness the recent crashes that hit the headlines involving Google and Tesla self-driving cars in the US. While improving technology may reduce the risk of failure to a minimum, it is beyond reasonable logic to claim that zero risk will be obtained. Trust in imperfection, however, and perhaps your stress-level will naturally decrease.

“

Things which are beyond a machine's imperfect capacity have to be taken care of – by us, the imperfect workers.

”

Despite the speed at which technology is changing our working lives, Prof. Kono asserts the need for a balanced approach in educating students for their future careers. Management science in general inevitably requires increased IT skills and logic to cater for the technical environments and tools used in the company. But production and operations management, even if caught up in the drive for automation and AI, still has to tackle problems – and this is what counts: getting down to the nitty-gritty on the shopfloor. When searching for bigger production capacity and greater quality, it is often a question not of which technological solution to use, but of the strategy, methods and impact. If the sales team fails to pay attention to the increase in capacity, then the technological solution becomes meaningless.

The same goes for the procurement department when it finds itself having to purchase more parts to cater for higher production, and the finance department when it has to find and obtain the funds to bear the extra costs for parts. A small idea in production can therefore change the whole company structure.

When asked what he would expect of future generations, Dean Hirokazu Kono doesn't hesitate to state: The human touch is indispensable, even in the era of sophisticated automation. Students need to experience the whole structure of a company – from production to sales and marketing – in order to become effective leaders. They also, while being at ease with technology, have to look outside and across borders, and not forget those in less developed areas of the world. It is empathy, understanding and awareness that make the human experience unique. Also expected is an awareness of the fact that imperfect humans create sophisticated machines which are imperfect themselves, and that things which are beyond a machine's imperfect capacity have to be taken care of – by us, the imperfect workers.



Hirokazu Kono





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MANAGEMENT & LEADERSHIP

WHY AND WHEN DO PEOPLE HIDE KNOWLEDGE?



He Peng, Professor of Business Administration at **School of Management, Fudan University** in Shanghai, looks into the question that makes the Fortune 500 companies lose an estimated \$31.5bn a year by failing to share knowledge.

IMAGINE that you work for a fast-paced company, a leader in its field and up against stiff competition from a number of other renowned firms. Thanks to a chance meeting at your daughter's school open day at the weekend, you've learnt that there are three golden leads open to your company, each

with a potential contract in hand. Do you tell it to the sales guys across the corridor? Working on a commission basis they might be only too happy to take the information – and the glory – from you. Or do you keep it for yourself and the meeting you have in mind to request with your CEO? You look through

the door of your office that gives out to the sales department and meet the eye of one of the Key Account Managers. Little do you know that she too was at your daughter's school open day and by chance happened to chat with the same contact as you. At this very moment, your gazes briefly meeting

across the office floor, she is thinking, her mind grappling with the very same decision to make as yours.

HIDE AND SEEK

Professor He Peng of School of Management, Fudan University has carried out research into knowledge hiding – the conundrum that may face us all at one point in our working lives. It is also an issue that faces our companies and organisations, knowledge hiding accounting for an estimated \$31.5bn a year in lost revenues among those listed on the Fortune 500.



Professor Peng's angle is that while a lot of attention has been paid to knowledge sharing and how to encourage this – indeed, the competitive advantages of more and more organizations depend on effective knowledge management – little research has been made into what makes people hide it.

Knowledge hiding is all about withholding or concealing task information, ideas, and know-how and its effects can be many and varied. It implies, for example, that an employee will give less than the maximum in contributing to the firm's knowledge. It also puts up barriers to collaborations within a company, new ideas, or the implementation of policies or procedures. And in the end run, it will negatively impact the team and organisational performance. It may be argued that hiding knowledge is sometimes for a good cause – like protecting

a colleague's feelings by not mentioning that his boss thinks his work is of no use. But the usual meaning hiding knowledge carries is negative and bears on an individual's contribution in most work settings. Knowledge sharing, on the other hand, is wholly positive.

Carrying out research using a web-based survey questionnaire, Prof. Peng tested out several hypotheses, collecting and crunching the data of 161 male and 69 female employees working in a Shanghai IT industry company. The results supported his theory that hiding knowledge comes about through two factors, with a third coming into play that could reduce the impact the former: the notions of an employee's psychological ownership of knowledge, territoriality, and his/her degree of psychological ownership for the organisation. What are these? And how do they impact knowledge hiding?

A FINE LINE BETWEEN 'ME' AND 'MINE'

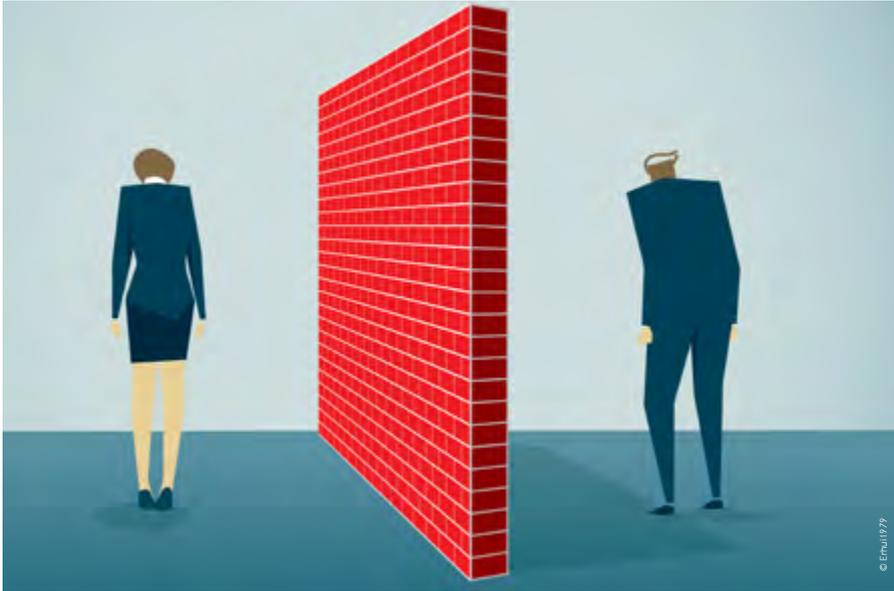
We've all met the John and Mary's of this working world who have sat behind the department's newly acquired technological gizmo on which to develop their website or turn stats into amazing radar charts. They work long hours on it, invest much effort, begin to control it and become so familiar with it that they begin to see it as theirs – almost a natural extension of the self. And when one day you happen to need the machine for a one-off assignment, you can almost hear the words coming loud and clear from John or Mary's minds as you approach their desk: *"It's mine!"* You've just been a witness to what is termed psychological ownership.

According to Prof. Peng, individuals can easily form an ownership feeling over a target if they have constant control over it, invest much time or energy on it, or are familiar with it. Ownership will tend to generate an unwillingness to share with others. To do so would amount to an experience of loss of control and give rise to negative emotions that would typically follow such a loss, including frustration, stress and dysfunctional behaviours. Moreover, seeing that the owner has become, in sort, a specialist with insi-

der knowledge and skills, this knowledge becomes a source of bargaining power, elevating their own power and status in the organisation. In this sense, psychological ownership for knowledge will be positively related to knowledge hiding. After all, why share something with your co-workers if it can bring you praise and a pay rise?

THIS LAND IS MY LAND

Psychological ownership of an object or knowledge will lead to a strengthening of the probability to hide knowledge. This is because the stronger an individual's psychological ownership of an object, the greater the likelihood he or she will treat that object as his or her territory. Such a phenomenon is also present in animals. Nudge into a clearing where a tiger is chomping into a freshly hunted prey and you'll most probably come up against an acute sense of territorial ownership. Studies first carried out in the animal kingdom by Edney in 1974, were then transferred to the human work environment, in the mid-1980s scholars seeing human territoriality over physical space and objects as a means to organise people so that violence, aggression, and overt domination would become unnecessary. New studies point to territoriality existing over all aspects of the workplace with specific behaviour sets being played out by employees: marking their territory and defending it. This means that employees take on perceptions of not only who should enter the territory, but what should go on there, who should take care of it and what types of activity that are allowed to take place in it. Marking will occur – names on doors, posters, photos of themselves on the wall holding sporting club trophies and even – we may have well seen this – skull and crossbones stickers warning potential invaders of the risks of entering. Defending territory means that the individual will take a variety of ways to prevent or respond to infringements into his/her territory that include holding knowledge privately, complaining to superiors, or yelling at invaders. Those with a high level of territoriality are therefore more likely to withhold knowledge than those with a low level of territoriality.



“ Thinking of the company as part of yourself – and vice-versa – makes you more willing to share ideas, knowledge and objects with your colleagues. ”

AND THIS COMPANY IS MINE, BUT ALSO YOURS...

There is something else that employees may become attached to and see as their own. This is the company or organisation they work for. And the effect of this isn't at all bad. Prof. He Peng argues that an individuals' psychological ownership for the organisation will weaken the effects of territoriality. This is because if an employee has his company at heart and in mind, he'll come to believe that he is significant, worthy, and valuable to the organization, and will subsequently form a strong organisation-based self-esteem – something that academics call OBSE. A marked feature of high OBSE employees is that they'll put their efforts into adopting behaviours that will benefit the organisation in order to maintain or even enhance their self-image. Since territoriality may do harm to organisations, employees with a high ownership feeling for the organisation will in turn inhibit the negative effects of territoriality. In this light, it can be argued that the relationship between territoriality and knowledge hiding will be weakened by organisation-based psychological ownership. In a nutshell, thinking of the company as part of yourself – and vice-versa – makes you more willing to share ideas, knowledge and objects with your colleagues.

This indeed has practical implications for companies. One way they can reduce knowledge hiding is to focus on management practices that decrease an individual's self-perception of possession – for example, by adopting knowledge management tools, promoting teamwork, stressing the collective ownership of knowledge, and advancing individuals' organisational commitment. Adopting open space working areas also might be a cure for territoriality. And finally, knowledge hiding can be reduced or made to disappear by strengthening employees' sense of psychological ownership of their company or organisation. Give your employees the possibility to participate in your organisation's activities and decisions and even give them stock ownership – and the levels of entrepreneurship and innovation inside your firm just might rise dramatically.



He Peng



IS JOB SATISFACTION ENOUGH TO GUARANTEE PERFORMANCE?



Prof. and Vice-Dean **Tales Andreassi** of **FGV-EAESP** shares his research into the effectiveness of building good working climates to boost performance.

Based on on a research paper by Hashimoto, Marcos & Andreassi, Tales & Nakata, Lina & Artes, Rinaldo. (2016). *Is Job Satisfaction Enough? Entrepreneurial Orientation vs Internal Climate Effects on Performance*. Academy of Management Proceedings. 2016. 10971. 10.5465/AMBPP.2016.

DESPITE continuous efforts among companies to improve the internal working climate, many organisations still struggle to tangibly link employee job satisfaction with overall firm performance. This is particularly the case when there is a clear strategy to seek

competitiveness through internal innovation: highly motivated teams, happy with their working conditions and with a high level of job satisfaction, do not necessarily generate innovative ideas. Using the data collected from surveys carried out among 69,000 employees

in 213 companies in Brazil, prof. Tales Andreassi decided to investigate the enigma and compare firms that implement HR practices to create positive working climates with firms that implement, instead, an entrepreneurial spirit.

THE SATISFACTION OF THE HAPPY FEW

Despite external challenges and unfavourable circumstances, some companies still manage to obtain extraordinary achievements. Previous research has indicated that these happy few are characterized by employees that learn how to solve problems and conflicts through the development of a culture that emphasises mutual trust, cooperation and open exchange of information. Needless to say, efforts to attract and retain talent through a good working climate is a key HR strategy. However, for many firms trying to improve the internal climate in return for expected performance the results actually show no improvement at all. This has led to the conclusion that HRM practices are not enough to engage employees in the competitive skills and competences required to improve firm performance – and consequently this has triggered a search for other factors that could explain the success of the happy few.

One factor under the research lens is what is termed Entrepreneurial Orientation (EO) – a behavioural phenomenon related to entrepreneurial and intrapreneurial attitude, culture, climate and mindset. Prof. Tales Andreassi forwards the argument that while good working conditions and job satisfaction might attract highly-qualified personnel, it is the level of entrepreneurial orientation within a company that results in making things happen and innovation among employees to really take off. The assumption behind this is that the proper conditions to generate and implement innovations are as crucial as attracting and retaining talent.

THE IMPORTANCE OF INNOVATION

There is no doubt about the importance of innovation in the search for competitiveness. Innovation – the identification of opportunities, structuring of ideas and the ability to achieve relevant results – relies on the support and motivation of top management who set up reward mechanisms, provide innovation-centric activities and encourage the creation

of value. Some successful companies even inscribe innovation in their corporate values as a trigger for continuous change and transformation. But there's a drawback. For most companies, improving the working environment remains the basis for achieving innovation – and this doesn't work. Moreover, in most organisations, the pursuit of innovation is nothing more than rhetoric. Size, complexity, slow decision-making processes and lack of vision for change are typical of such firms. And typically too, opportunities are missed as they arise. Looking deeper into the issue, the innovation that is expected to happen internally is often hampered by conflict.

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In most organisations, the pursuit of innovation is nothing more than rhetoric.

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CALLING ALL AGENTS

Prof. Andreassi points to what is termed 'agency conflict', agency being the ability of an individual to influence a process or an existing status. It refers to the way individuals interact with the environment to turn it in accordance to their own cognitive perspectives, influenced by their motivation, desire, purpose, intention, choice, initiative, freedom and creativity. Imagine any workplace – if everybody has a different view of how things should be done it is hardly surprising that conflict arises. Moreover, imagine a workplace in which top management encourages innovation – something that naturally implies change and disruption. And naturally, some people feel more comfortable when they can eliminate or minimize uncertainty and gain more stable processes. But what is good for some may be frustrating for others – especially those seeking opportunities to innovate via their own ideas, ambitions and creativity. This creates conflict. And conflict – not to mention internal politics and manoeuvring – is bad for innovation. It is here that entrepreneurial orientation can provide a beneficial environment for everyone to thrive.





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THE POSITIVE INFLUENCE OF ENTRE/INTRAPRENERUSHIP

Entrepreneurship is beneficial: it opens people up to risk – and tolerance of it – proactivity, perseverance, adaptability, cross-functional co-constructing and an acceptance of failure as part of the path to success. Entrepreneurial oriented organizations act to minimize the barriers imposed by structures, rules and agents in order to stimulate employees to generate ideas without compromising process flows, internal controls and current daily operations. For this, an organizational environment has to be flexible in its administrative relations, informality and information processing capacities. Compensation and incentive initiatives are also triggers for an intrapreneurial mindset, although

Tales Andreassi's research also points to managers easily achieving these mechanisms when a good internal climate is already in place in the organizational culture. Indeed, classic HRM practices that include selection and recruitment, performance assessment, training and development, compensation systems, career development and employee relations can be seen as enablers of entrepreneurial orientation.

Prof. Andreassi's research indicates that entrepreneurial orientation exerts more positive effects on firm performance than good internal climate and job satisfaction. However, he argues, a good working environment is a key pre-requisite for entrepreneurial orientation but will only be effective when intrapreneurs are allowed to proactively make impactful changes.



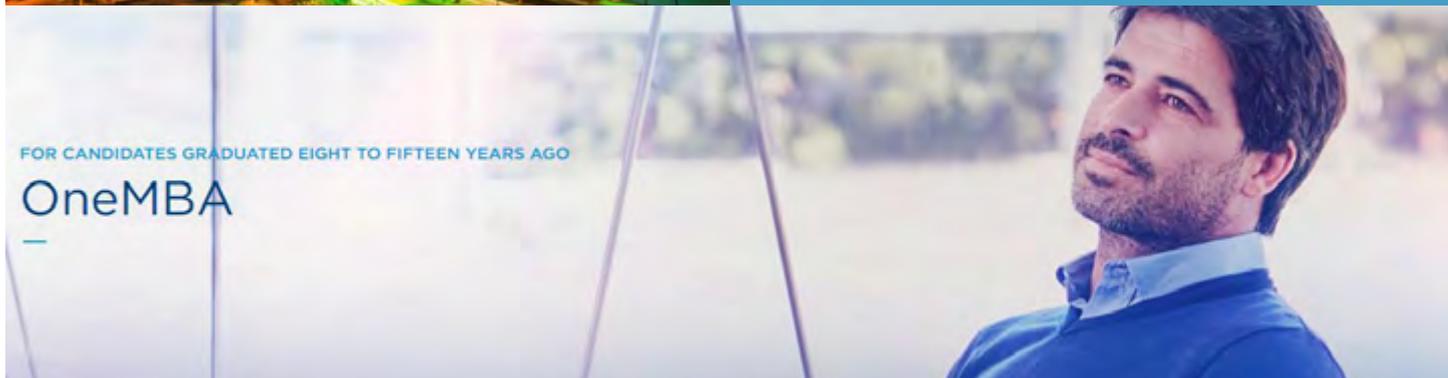
Tales Andreassi





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MANAGEMENT: ARTIFICIAL VERSUS NATURAL INTELLIGENCE



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First published in RH Info under the title
Management et Intelligence Naturelle
By Prof. Maurice Thévenet, ESSEC Business School

Maurice Thévenet, Professor of Management at **ESSEC Business School**, consultant and Delegate General of the French Foundation for Management Education (FNEGE), looks into the dimensions of Artificial Intelligence versus Natural Intelligence.

MANAGEMENT requires intelligence, a capacity to understand, link things up and act. At least the study of finance, strategy, marketing or logistics provides the feeling of controlling reality but this is less the case for human resources or management. These fields touch on the mystery of human behaviours and if it is difficult to maintain good relations in

the context of family and friends, it's certainly no easier in the professional world where it's a matter of producing results.

On the subject of management, tomorrow's experts are many. Art is more difficult to tame and it's for this reason that since the dawn of humanity we

have never ceased to question ourselves and write on human behaviour in the field of war, religion, love, and – more recently – working together. We are thus always on the lookout for more intelligence and, as natural intelligence seems not to satisfy this thirst, we now turn with hope towards the artificial.

In a recent article, Davenport [1] observes current projects underway in artificial intelligence on a sample of companies. He identifies three categories of projects. The first, in the majority, consists in accelerating and automating the gathering and linking up of data in various IT systems. The diversity of information systems treating the issue of personnel obviously renders this perspective very interesting – likewise for the need to finally exploit the results of annual performance appraisals

A second reference to artificial intelligence relates to deep learning or machine learning when we trawl enormous quantities of data for links, regularities and structures of proximity that enable us, for example, to receive targeted ads according to our previous browsing or purchases on the internet. Such possibilities are obviously useful for selection and recruitment, but also in assessing management via the tracing of actions, decisions or managerial behaviours.

The third category of AI projects concerns ‘conversation’ enabling a client or employee to interact with a machine that interprets requests and formulates appropriate replies. Without yet being in the year 2050 where we can imagine machines that can feel [2], these systems used, moreover in the majority, as Davenport says, with employees, provide the answer to all the questions that may concern them.

BETTER TO TACKLE PERMANENT PROBLEMS

The article does not let itself go to the extremes of possibilities. Rather, it seeks to identify what is already at work in AI projects. But the perspectives it thus opens cannot leave management indifferent – a management still limited by the frontiers of natural intelligence. In effect, the processing of human issues in organisations is structurally confronted with three major problems. Problems that are permanent and for which we are still vainly looking for a definitive solution.

The first problem is that of measuring. Because managerial decisions exist, we

need instruments to describe and compare the options before choosing the best solution. Finance or marketing possess these units of measurement. Moreover, we can always question ourselves, in terms of finance, for example, on the quality of these measurements: do they correctly represent reality? But the great advantage that financial people have is not the intrinsic quality of these measurements but the fact that every stakeholder agrees on the manner in which to measure and describe reality. This is not the case for things human: not only is reality difficult to describe but, even more, nobody agrees on the units of measurement. There is a world of difference in the way in which a line director and an HR director may assess an applicant! We can legitimately expect from AI that it enables other measurements to be applied on decisions, actions and results, for example.

The second permanent problem is that of theory. To tackle the mystery of things human, it is essential to multiply perspectives, change angle, question the limits of our perceptions to which we are far too often tempted to reduce reality with. Through its capacity to aggregate enormous amounts of past data by deep learning structures, regularities and recurrences, AI opens up new perspectives – not the unveiling of mystery but other ways in which to describe the real: it is the case, for example, of managerial behaviour analysis... or traces left on the social networks by job applicants.

There is a third issue, a little less ‘managerially correct’, to which HR specialists are confronted – that of human risk. In every management discipline, from information systems to finance to logistics, the question of managing is as much about money as controlling risk. It is likewise for human issues. Moreover, since a century or so, the preoccupation with reducing human risk has indeed been a constant issue in the development of organisations. Production lines rooted in Taylorism boil down to being independent of operators’ skills; processes and information systems mean supervising human initiative; artificial intelligence and robots is the means to ‘increase’ man, but also that of not taking a risk regarding the limits of his capacities.



Confronted with these structural problems posed by the management of humans in our organisations, it is clear that artificial intelligence cannot suffice.



We can therefore understand the current appetite for artificial intelligence because, confronted with these structural problems posed by the management of humans in our organisations, it is clear that artificial intelligence cannot suffice. However, it cannot be forgotten that artificial intelligence has other properties, in particular that of nourishing or strengthening illusions to which man is very sensitive – those of control, virtue, and the philosopher’s stone.

RED FLAGS, BLACK SWANS – OR HUMAN NATURE

Man dreams of controlling everything – we’ve known that since the appearance of the oldest texts – and he gives regular proof of it. The dominant management culture is that of control and the organisational systems or processes, in which organisations have invested so much money over the last few years, that also, but not only, contribute to the thirst for control. AI, with its learning capacities, controlling and exploiting piles of data inaccessible to humans answers the seduction of control.

There is one thing in particular which man dreams of controlling – and something that seems to him the most uncertain: not so much the mystery of his contemporaries but of the future. AI meets this need because it enables the capacities to analyse the past to multiply in order to extract the scenarios of the future – as if past behaviours predicted the future and as if the past frequency

of behaviours strengthens the probability of what is to occur. This is indeed a reality, except when, as Taleb tells us, the 'black swans' – an event that comes as a surprise, has a major effect, and is often inappropriately rationalized after the fact with the benefit of hindsight – appear [3].

Fears and expectations with regard to AI convey a limiting image of the future: as if it were the past with, in addition, the new tool and its possibilities that have transformed a frozen present. When micro computing developed, everybody betted on the disappearance of paper and it is the contrary that the vendors of ink and printers have benefited from. When the French declare their yearly incomes on the internet, the fiscal administration hopes to save time, but this virtual and interactive mode of tax form transforms tax payers' attitudes and they begin to change their declarations, asking questions to which the administration spends vast amounts of time in answering. We always have trouble imagining what an innovation will transform – not in the usage aimed for in the beginning, but in all those around it. It is for this fact that the figures portraying job losses caused by AI must be taken with much care.

The second illusion is that of virtue. Some say that the development of artificial intelligence will enable human resources managers freed of tedious tasks to devote themselves to the noble tasks of their function such as relations, listening to employee concerns and looking after co-workers. This might remind us of the time when people hoped that reducing the number of working hours would free time for relations, family and commitments to clubs and societies: in all evidence it rather seems that it is television and the 'screen geeks' that have benefitted the most. The Rousseauism remains in which the fundamentally good individual is prevented from being so by the villainous society or organisation; once boredom rid of, he will obligatorily turn towards what has more human value. This remains to be seen: for managers and HR managers to turn towards a more relational and human approach in their job, they must, above all else... want to do so.

The third illusion concerns performance. I speak of illusion because, curiously, performance constitutes the unmentionable word of people management. According to the situation, we can implicitly favour such or such a cause of this performance. If you consider that the quality of organisations, structures and processes are enough to generate performance, then AI will obviously be of great help in increasing it; it enables people and the use of their freedom to be replaced, increased or adjusted. The problem is that business performance can have other causes such as, for example, the involvement of people in what they do, the quality of a relation or the attention they give. There are tasks where this personal investment makes performance happen and intelligence (at least until the year 2050 according to the specialists) will not be enough.

The question of the stakes and possible consequences of the development of AI is not a simple one and, as Davenport demonstrates, there is at times a gap between reality and the hyperbole of all these new experts. To help with discerning things, we can evoke three red flags. The first consists in constantly questioning our attitude towards innovation: is it fear, naive submission to novelty? Or is innovation seen as a means to help my business or as an imperative? In these situations, one should not forget that in the gold rush the real winners were those who sold the shovels.

The second red flag to watch out for is to remain attentive to the new needs in skills required for students, but also current employees; these new skills are not only necessary for specialists who 'do' AI, but also for professionals in each sector and trade who see their role and practices changing.

The third red flag is that in periods of history where everything seems to change, it is always useful to come back to what anthropology reveals as relatively unchanging in human nature: the opening out to history, philosophy and even good sense that make it happen. Until now, man has always succeeded in foiling plans aimed at dominating them. What does that tell us about the future – human nature or black swan?

[1] Davenport, Harvard Business Review

[2] Alexandre, L. La guerre des intelligences.

[3] **The black swan theory or theory of black swan events**, developed by Nassim Nicholas Taleb, is a metaphor that describes an event that comes as a surprise, has a major effect, and is often inappropriately rationalized after the fact with the benefit of hindsight. The term is based on an ancient saying that presumed black swans did not exist – a saying that became reinterpreted to teach a different lesson after black swans were discovered in the wild. https://en.wikipedia.org/wiki/Black_swan_theory



Maurice Thévenet

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OF WASHING MACHINES, TRADE WARS AND ETHICAL PERCEPTIONS



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Could a China-US trade war be avoided by being aware of your ethical perceptions? Prof. **Qinqin Zheng** of **School of Management Fudan University**, together with fellow researchers Paul Gift, Graziadio School of Business, Pepperdine University, and Michael J. Gift, Faculty of Business Administration, Macau University, carried out research into cross-cultural perceptions of business ethics that may answer the question.

THE WASHING MACHINE AS A WEAPON

YET ANOTHER headline hit the international news at the beginning of

the year, stoking up tension and fears of a China-US trade war – this time backing it up with acts. In late January, President Trump announced he would levy tariffs on imports of Chinese so-

lar panels and washing machines which he accused had ‘stolen’ American jobs. The response, less imaginative in its wording, from the Chinese Ministry of Commerce (MOFCOM) nevertheless



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implied possible anti-dumping and anti-subsidy investigations into sorghum imported from the US. China buys huge quantities of it – 79% of the harvest in 2017) – and is indeed a big buyer of US agricultural produce that accounts for some \$21bn of trade. And, in what appears to be an up-the-ante, the US President let it be known that China might be in line for a potentially very large intellectual properties fine from the US.

As the world looks on and ordinary folk wonder just where events will lead to, it is interesting to draw on research undertaken by Professor Qinqin Zheng and her peers Michael J. Gift and Paul Gift.

US AND CHINESE PERCEPTIONS OF BUSINESS ETHICS – TAKEN TO THE CLEANERS

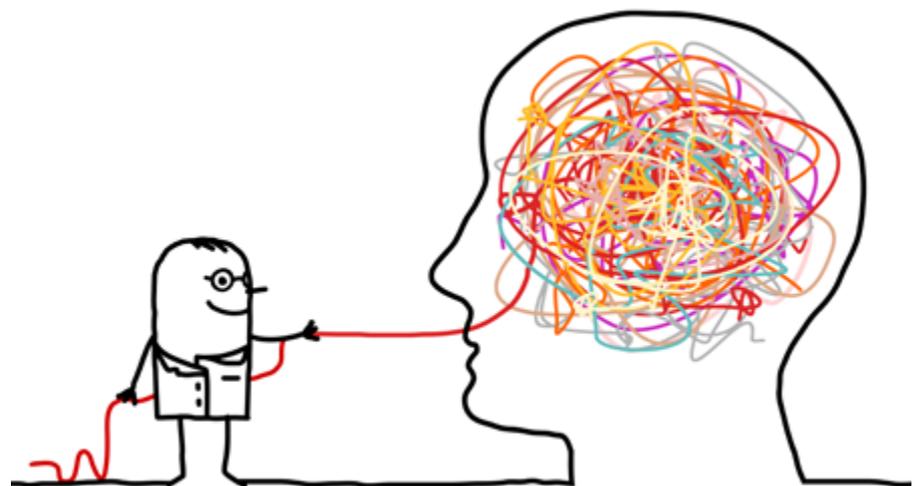
Professors Zheng, Gift and Gift set their research to task on two questions: do business ethics differ across US and Chinese cultures? And are perceptions of each other's ethical profiles true to their actual profiles? The questions may be important and useful in understanding today's stained – and strained – relations *between* the two countries. This is because ethical profiles affect perceptions and behaviour not only within a given individual, but also between individuals and, at a wider level, business dealings between trading nations.

Students entering the job market with an MBA, for example, may choose to target or avoid a potential employer on the grounds of their own ethics, but also their perception of the employer's ethics and behaviours. It is likely that a student would have thought twice about sending off a CV to Enron, Bernie Madoff or, more recently Volkswagen, the car-maker tarnished by dubious software and the use of monkeys to study the effects of diesel exhaust fumes. Likewise, businesses might avoid suppliers involved in unethical practices or investors shy away from companies whose practices cause harm to the environment or employees. Ethical differences are important to unders-

tand but, this said, it is not necessary for parties to have identical ethical profiles in order to do business together, say Zheng et al. Rather, it is the perception that counts: one party's perception of another may affect the possibility of engaging in a business deal. And this is magnified when inaccurate perceptions are involved in international business dealings. For the picture can become exacerbated by three factors influencing the relationship: cultural differences, language constraints, and media reports that may sensationalise certain stories.

This begs the question: do business people have sound perceptions of the ethical profiles of their counterparts in other countries? If unsound, then transactions that are otherwise profitable and beneficial to society may lose out.

In order to test their questions, Prof. Zheng and her colleagues used a population of 265 MBA and business master's students from two universities in the United States and two in China, collecting data from survey questions and personal demographic and background data for each participant. The information was then crossed, crunched and rinsed along two dimensions: comparing ethical profiles between the two countries, and comparing each country's perception of the other's ethical profiles.



IT'S NOT WHAT YOU ARE, BUT THE WAY THAT YOU SEE OTHERS

What came out of the wash was clear. The first finding is that there does not appear to be a consistent difference between the ethical profiles of the United States and Chinese business students. Respondents' answers on ethical issues posed by the survey questions tended to reflect a great amount of similarity despite their cultural differences: both business student populations largely believe that companies should be responsible, and that business strategy and practices must include ethics.

But when each country looked at the other, their perceptions of each other's ethical profile were consistent and considerable. Moreover, both the US and Chinese see the ethics of the other both differently than they view their own, and differently than the true profile of the other. In a nutshell "we have ethics and values – and they are

better and more altruistic than yours" or "and yours are shadier than and less altruistic than ours". Why is this? Are the inaccuracies due to human nature, lack of information, bad information, bias or stereotypes? Or is it simply the uncertainty factor when dealing with differences in culture and nationality ("can we trust them!"). Or even the negative stories in the media and lack of attention paid to positive stories – after all, would the fact that mixed marriages between the two cultures produce pretty babies meet the headlines more than military face-offs in the Pacific?

Perhaps not. Professors Zheng, Gift and Gift propose new research in order to answer these questions, but they are sure of one thing: that the fact that we see others in a worse light than reality means it is essential to truly learn about your trading partners, the environments in which they operate, and the cultural and social factors that shape their ethical profiles. Perhaps that could be wise advice for our global leaders too.



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Qinqin Zheng



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The Fudan International MBA Program was launched in 1996 through collaboration between Fudan University School of Management (FDSM) and MIT Sloan School of Management. This program, taught entirely in English, aims to cultivate professionals with an international perspective and entrepreneurial spirit, well-adjusted to the demands of economic globalization in China and the rest of the world. FDSM ranked 9th in Asia, No.1 in Mainland China in the UTD Top business schools research rankings 2012-2016; Fudan MBA Program ranked 47th in the Global Programs by *Financial Times* in 2016.



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FAILURE INC.



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Gabriella Cacciotti, Assistant Professor, and **James Hayton** Professor in Entrepreneurship at **Warwick Business School**, open the doors to their research on fear and the entrepreneur.

Failure stalks the world of the entrepreneur. For them failure and fear of failure are facts of life – whether it be losing a client, not being paid, inability to deliver on schedule, out of control cash flow, or not spending enough time with their family. For them courage is not the absence of fear, but the ability to take action to achieve a worthy goal in spite of the presence of fear.

THE COMPLICATED RELATIONSHIP WITH FAILURE

WE ASKED Hamdi Ulukaya, the Turkish-born founder and CEO of the yo-

ghurt company Chobani, whether he was ever afraid while building his multibillion dollar business. “Every day,” he replied. “The worry got bigger and bigger as people get more to rely on the company making their future decisions.

Because if I had failed a lot of lives were going to be affected by it.”

Entrepreneurs plunge into uncertainty. The American Bureau of Labor Statistics charted the failure rates of businesses

which began life between 1995 and 2015. After the first year, 21.2 percent had failed; after two years, 32.1 percent; after five years, 51.2 percent; and after ten years, 79.6 percent. Research by Shikhar Ghosh of Harvard Business School found that 75 percent of venture-based start-ups fail.

"As an entrepreneur you have to feel like you can jump out of an aeroplane because you're confident that you'll catch a bird flying by. It's an act of stupidity, and most entrepreneurs go splat because the bird doesn't come by, but a few times it does," Reed Hastings, chairman and CEO of Netflix has reflected. Hastings' first entrepreneurial venture was Pure Software. At one point he actually asked the board of the company to replace him as CEO. They refused. He went on to co-found Netflix, a business which he began with no idea whether customers would buy what it was offering or not.

Entrepreneurs have a paradoxical and complicated relationship with failure. On one hand, they are frequently advised that failure is a good thing. Business legend is replete with stories of entrepreneurs whose ideas failed and then failed again until one day they became a success. Fail fast and often is the constant refrain of the lean start-up movement and many others.

And yet, fear of failure is natural. No-one really wants to fail. Failure has many ramifications which it would be foolish to overlook or downplay – potential bankruptcy, re-possession of your home, social stigma, the loss of people's livelihoods and more. This is a constant in the life of any business. Fear of failure is usually identified as an inhibitor to people starting a business.

The inhibiting force of fear of failure been a dominant focus in research. Of course, fear does inhibit startup activity, but that does not mean that only the fearless actually become entrepreneurs.

THERE IS NO ESCAPE: FEAR CAN INHIBIT AND MOTIVATE

Our research shows that fear of failure remains omnipresent as a new business develops. There is no escape. This is the paradox of fear of failure: it can inhibit and motivate. Rather than simply stopping people from being entrepreneurial, fear of failure can also motivate greater striving for success; you are always nearer by not keeping still.

To better understand the relationship of entrepreneurs with failure, we interviewed 65 entrepreneurs in the UK

and Canada. Some had established businesses, others were in the early stages of developing their business.

We define fear of failure as a temporary cognitive and emotional reaction to environmental stimuli seen as threats to potential achievement. Fear of failure is a state rather than a trait. Rather than a characteristic that some people have, and others do not, fear of failure is an experience that is widely shared but dealt with in different ways.

Entrepreneurs are not distinguished from non-entrepreneurs by an absence of fear. What we found was that the relationship which entrepreneurs have with failure is much more complex than that portrayed by success stories. Failure and the fear of failure is nuanced and multi-faceted.

THE SEVEN SOURCES OF FEAR

The research identified seven sources of fear. These were repeatedly raised by the 65 entrepreneurs and have been validated by further research:

- ◇ Financial security
- ◇ Ability to fund the venture
- ◇ Personal ability/self esteem
- ◇ Potential of the idea
- ◇ Threats to social esteem
- ◇ The venture's ability to execute
- ◇ Opportunity costs.



Not all fears are created equal. The source of the fear is important. Our research found a positive association between the worries concerning opportunity costs and an entrepreneur's persistence in pursuing their goals. In other words, when entrepreneurs contemplated the choice they had made in pursuing their venture and how this necessitated missing out on other opportunities, whether in their

professional or personal lives, they were more motivated to carry on with the venture.

In contrast, when entrepreneurs worried about either the potential of their idea, or their personal ability to develop a successful venture, then they tended to be affected more negatively. They became less proactive.

The fear of failure leads to fight, flight or freeze behaviors. "It just makes me more aggressive to get this thing going as fast as I can," one interviewee commented. Such defiance conforms to the entrepreneur as hero stereotype. It is the definition of courage: taking action in the face of fear.

wrong decision becomes the primary driver. In other ventures, a fixation on specific threats becomes the sole focus, creating target-fixation where that one thing matters and only one thing.

The experience of fear of failure can change the nature of goals that entrepreneurs set for themselves. Where fear of failure is greater, they may select either easier more readily achievable objectives, or wildly impossible goals. Ironically, selecting impossible goals allows us to more easily rationalize our failure to achieve them. Either way, fear has the effect of undermining effective personal goal setting, one of the most valuable self-management tools that entrepreneurs have available to them.



For others, fear of failure has an impact on how people engage with tasks and how they make decisions. "Instead of being on the phone trying to get a customer you are sitting there talking about why we need to call more customers or why we don't call customers any more, why we should start emailing them. So, you are talking about it and not doing it," one entrepreneur confessed.

Procrastination can become commonplace. Numbers are crunched remorselessly resulting in paralysis through analysis. Decision making is slowed down as all possible data is sought and the avoidance of making a

A further outcome we heard from entrepreneurs was the tendency to escalate commitment to specific goals, at the expense of other activities and sometimes in the face of evidence that a path should be abandoned. Once a path had been chosen, negative feedback could actually lead to increasing investments in what otherwise might be considered losing strategies.

So, how can and should entrepreneurs respond to the fear of failure? Our research revealed four key strategies which enable entrepreneurs to ensure that fear of failure works positively.

EMOTIONAL SELF-MONITORING AND CONTROL.

The author JK Rowling was rejected multiple times before the Harry Potter series was signed up by Bloomsbury. She has described this as a process of "stripping away of the inessential". It enabled her to focus on what mattered. "I was set free, because my greatest fear had been realized."

Emotional intelligence involves not only having the awareness of one's emotional states, but also being able to control the influence of those states upon thought and behaviour. Some of our entrepreneurs were highly emotionally self-aware: "If I'm in a lower mood one week and I look at my projects I see only negative things and reasons why it can't happen. I started to learn that that's actually not associated with the projects but it's associated with my emotions"; "I've actually recently been learning to separate that anxiety out because I've learned that it's just transient"; "trying not to let it kind of guide my decision making which may or may not be in my own best interest".

Entrepreneurs may wish to adopt tools from sports psychology. In terms of gold medal winning performance, British Cycling has become the most successful sporting program in British Olympic history. One of their keys to success has been a program of work, led by psychiatrist Dr. Steve Peters, to help athletes to manage their emotions during competition.

Emotional self-awareness is a skill that can be learned, and involves becoming aware of the signs of emotions intruding upon consciousness through feelings and moods, anticipating their impact on thoughts, and using this conscious awareness to limit their effects upon decision and action in competition.

The potential risk here is that through engaging in constant self-reflection, the entrepreneur develops neuroses which impede their own ability to act. In athletes, the effective self-monitoring tactics are developed and rehearsed off-line, rather than



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'on the job'. Once in action, the enhanced awareness becomes more automatic and natural, allowing an action orientation which doesn't slow down real-time decision speeds. Working to increase self-awareness is very powerful for entrepreneurs. Self-awareness can help curb the potent influences of negative emotions on goal setting and decision making.

PROBLEM SOLVING

"Anxiety helped in the sense that I would try and figure out every single flaw there was in my business – because all of them have flaws – so I was trying to figure out where is the hole?" one entrepreneur told us. Actively seeking out flaws and weaknesses and doing something about them is a powerful means of reducing the fear of failure.

Intuition is a potent source of information, and research has demonstrated that among experts, tacit knowledge, and gut instinct lead to rapid and effective decision making. Such instincts are often associated with feelings rather than specific thoughts. Feelings of fear driven by concerns over the idea, for example, can offer important signals that work is needed. When treated as such a signal and acted upon, rather than repressed or ignored, these emo-

tional flags can actually help entrepreneurs eliminate weaknesses and flaws in their venture idea.

A proactive, problem solving response to feelings of fear arising from the idea itself can help reduce fear. Paradoxically, our research also shows that such initiative taking does tend to be inhibited when the idea itself is the cause of fear of failure. This suggests that taking a deliberately action-oriented approach, overcoming the desire to repress or ignore the problem, will be especially important. Of course, all weaknesses can never be eliminated. For any entrepreneur, perfectionism is potentially dangerous.

Learning. "Fear pushes me to work harder and to take more care of what I am doing, and to educate myself to be the best I can as I am developing these businesses," said one entrepreneur. Entrepreneurs told us one of the ways in which they overcome the feelings of fear was through learning and information seeking. This might be for core knowledge, such as computer coding skills on the part of the software entrepreneur seeking financing, or to learning to cope with the high pace of activities that most entrepreneurs experience.

Entrepreneurs relied upon a wide variety of sources of knowledge and information, in their search for learning. This included formal education and training, although more often involved learning focused upon extensive information seeking, reflection, and importantly, social learning through networks and mentors (see next point).

Education, training, and information seeking are a powerful antidote to fear of failure. Learning can help mitigate fears resulting from doubts over personal abilities directly by increasing key capabilities. Through enhanced capacity, learning can also indirectly assuage fears concerning the ability to obtain finance, and the venture's capacity to execute, as well as fears associated with letting others down.



Education, training, and information seeking are a powerful antidote to fear of failure.



But uncertainty is real and constant. Uncertainty and ambiguity are defining features of the challenge of entrepreneurship. There are always unknown unknowns out there, and so a willingness to continue to learn, gather information and insight from diverse sources can help to mitigate fear of failure.

SUPPORT SEEKING



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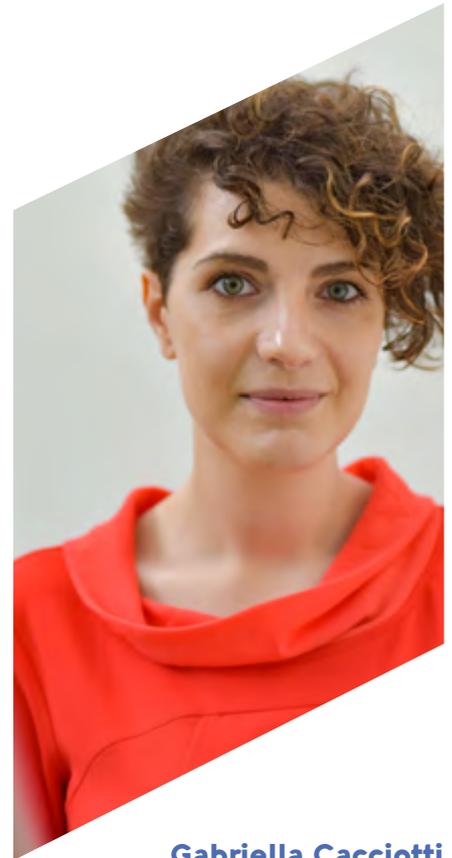
“A mentor is someone who allows you to see the hope inside yourself,” says Oprah Winfrey. For entrepreneurs in a constant battle with fear of failure, identifying mentors and utilizing networks can be a vital source of reassurance.

Mentors and social supports are beneficial because they support the three prior activities of learning, problem solving and even self-awareness. Mentors are an important source of learning. “Reaching out to mentors that are directly related to the business you are

starting is really key and really helpful,” said one of our entrepreneurs.

Speaking of the impact of fear of failure on her problem solving, one entrepreneur said “[fear of failure] just fueled me to learn more; talk to more people and figure out why I was wrong in the first place.” Another said “fear of failure forces you to come up with... better ideas and look for people that are going to give you constructive criticism along the process.” Social forms of learning, from those who have been-there-done-that seems to be a particularly powerful antidote to the experience of negative thoughts and feelings among entrepreneurs. Early stage entrepreneurs frequently benefit from local communities and networks, providing formal or informal access to mentoring from those with more experience. Through this process they learn that feelings of uncertainty and worry are commonplace, as well as what issues are deserving of attention and which problems will fix themselves over time.

Wellbeing is an outcome. Our research suggests that fear of failure is widespread and has both negative and positive effects on motivation, decision making, and behavior. One important outcome that should not be overlooked: motivation from fear can bring higher levels of stress, with potentially negative health consequences as well as undermining life satisfaction of entrepreneurs. While all may experience it, the ability to anticipate and manage fear is likely to have positive benefits for an entrepreneur’s quality of life and well-being.



Gabriella Cacciotti



James Hayton



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INNOVATION IN EDUCATION

THREE ASIAN DRAGONS INNOVATE IN BUSINESS EDUCATION



Hirokazu Kono, Professor and Dean of Japan's leading business education institution **Keio Business School**, shares the story of the flagship China-Korea-Japan (CKJ) initiative that brings students and professors from three countries into contact with the Asian way of business and management.

DOES ONE-SIZE FIT ALL?

BUSINESS and management education, not to mention practice, has long since been shaped by Anglo-Saxon models and thought-leaders. This 'western approach' assumes that the same strategies and processes can be applied

wherever business is conducted and whoever the stakeholders are. But to what extent is the 'one size fits all' approach a truism? While acknowledging the contribution of western schools of thought and practice, Hirokazu Kono, Professor and Dean of Keio Business School, Japan, also highlights the unique

and oftentimes very different ways that managers and executives in Asia conduct their business and run their companies. As Dean of KBS, professor Kono oversees a singular initiative that each year brings together three schools, three Asian cultures, their students and faculty on a journey to learn

the specificities of business and management in China, Korea and Japan – the CKJ initiative.

Temporality is just one dimension of the cultural difference in western and Asian approaches, perhaps epitomized in the history of the CKJ initiative itself. The long-term is given priority, and the passing of time tends to be seen as beneficial in both creating the necessary trust for greater things to occur, and also for ideas to be tested, assessed and tweaked as required. 'The China-Korea-Japan initiative,' states Hirokazu Kono, 'was the brainchild of two former deans of Keio Business School and Tsinghua School of Management, China, who then brought a third reputed school into the initiative – KAIST College of Business in Korea. The initiative has been in operation since 1998, although for the first five years of its existence it consisted in yearly faculty workshops between the three schools.' The faculty workshops brought together leading academics to foster joint research projects among the three countries and several papers were published as well as a number of case study materials specifically dealing with the Asian approach to management and business operations. This first step enabled sufficient trust and working methods to be understood and five years ago the decision to widen the initiative to the students of the three schools was taken.

'If we say that management is management and business is business,' asserts Dean Kono, 'then there is no need to distinguish an Asian way. But if we go into the in-depth analysis of Japanese, Korean or Chinese companies, there are several differences from the so-called western way of management. For example, there are many small-to-mid-sized companies in Japan, mainly owned and run by families. In many instances, management practices will be strongly influenced by these family ties and hierarchies and indeed, many members of the family will also be running other companies at the same time. The aim of these firms is slightly different from being only for-profit, but will instead focus on more long-term perspectives, consistency, survival, and legacy for the next generation. Moreover, on a micro-level, decision-making and delegating processes are different given the family nature of these firms.'

THE CKJ INITIATIVE

In its present set up, the China-Korea-Japan initiative is built on three pillars – a faculty workshop focusing on issues relating to Asia and its policies, concerns and management practices, as well as relationships with Europe or the USA; a second pillar being sessions dedicated to the presentation and discussion of individual or joint research in areas such as finance, accounting, marketing and HR operations. The third pillar consists of student awareness of the Asian approach to business and management, crowned by a field study trip in one of the three countries.

This brings together thirty-six MBA students – twelve from each school – in an intensive week of study and discovery in a host country. A key aspect is that the student field trip takes place on a rotation basis between China, Korea and Japan, with the 2018 event being organised by Keio Business School. A different theme is selected after discussions between the participating schools, the theme for 2018 being hospitality and the service industry – an astute choice given Japan's selection to be the host of the 2020 Olympic Games. 'It was one of the reasons why we chose this theme,' recognises Dean Kono. 'The Games will obviously be a high-profile event for Japan, and an opportunity for our students to study the existing and future infrastructure in terms of restaurants, hotels and Japanese Inns and the services they provide. With the planned development of a large complex on the outskirts of Tokyo, built on the site of its famous hot water springs, the CKJ initiative will provide input and feedback to the developers from a Japanese and Asian perspective on welcoming Chinese, Korean, Japanese and international visitors to the Games.' Moreover, while attending lectures at the KBS campuses, the thirty-six students will stay on-site at the Japanese inn to complete their study.

THREE ASIAN DRAGONS SHARE SIMILARITIES AND DIFFERENCES

The CKJ initiative is open to MBA students studying at the three schools regardless of nationality – meaning that western students admitted to the schools' MBA programmes can also participate. The week's blend of study and discovery includes visits to six companies, lectures, discussions with CEOs and a business and management analysis project. The lingua franca used is English, though similarities between the three languages – Chinese, Japanese and Korean – mean that students often hold discussions in these languages when spending time together in their project teams. For Dean Kono the experience is as much about students becoming aware of their differences and similarities as studying Asian management practices. 'At the beginning of the expe-



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rience,' states Kono, 'students from Tsinghua and KAIST view Japan as a different country with different business models and a different culture. But when we go to visit companies and begin an in-depth analysis of them, then students move on to an awareness that there are both things that are different and things that are common between our three countries. This aspect – going into companies and observing everything from the shopfloor to senior management – is essential,' says Dean Kono. 'Lectures alone – even from famous faculty – are not enough. Students have to visit actual sites and look at things with their own eyes – and then their eyes can be open to see similarities and differences. That leads to the next step of mutual understanding. In the end run, their mindset, passion and understanding are the essential goals of the CKJ initiative.'



Students have to visit actual sites and look at things with their own eyes – and then their eyes can be open to see similarities and differences.



Given the hotly disputed places available on the CKJ, the idea that students are selected through top performance and results immediately comes to mind. But it may just be a cultural lens that provides this preconception, for surprisingly Dean Hirokazu Kono states passion as being the most important factor. 'Of course,' he asserts, 'the wider objective is to nurture business leaders from this region and initial selection to the MBA is very tough. But enthusiasm – passion – is very important when applying to have a place on the CKJ initiative. If you have passion, you have interest – and when you have these you are capable of going very deeply into a topic and resurfacing with an understanding of things that bring cultures and approaches together and things that may make us different, but which can be both a source of new ideas and acceptance. If we return to language, for example, Chinese and Japanese have many similarities in terms of words and pronunciation, but at the same time there are many areas where we have relatively large differences in way of thinking. Even coexisting in one geographical region, China, Korea and Japan have big differences but at the same time a similar global approach. Step back and view the bigger picture – the globe – and there are also natural differences but also similarities. This is the perspective required of today's global business leaders.'

A SHARED FUTURE

Forming mixed teams and graded on their business analysis presentations at the end of the week before a figure from the corporate world, Dean Kono acknowledges that there is a noticeable change in students' mindset at the end of the CKJ field study trip. Future developments in the CKJ initiative may incorporate CKJ executive education or even a double or triple-degree consortium between Keio Business School, Tsinghua School of Management and KAIST College of Business. This means going through the Japanese, Chinese and Korean governments for presentation of the project and authorisation. 'There are some hurdles,' comments Dean Kono, philosophically, 'but the steady, step-by-step approach is important.' In this, there is an echo of the Asian vein of patience over

time in order to reach a goal. 'Mindset or passion towards the future of business is very important,' he continues, 'in addition to knowledge and skills. And the CKJ way of collaboration can enrich these. Many of the students will eventually end up working in China for Japanese companies in the import-export and trading field or banks. They even start up their own companies to create bridges and business between Japan, China and Korea. Even coexisting in one geographical region, the three countries have big differences but at the same time a similar global approach. Step back and view the bigger picture – the globe – and there are also natural differences but also similarities. This is the perspective required of today's global business leaders.'



Hirokazu Kono



Keio Business School
Graduate School of Business Administration, Keio University

The KBS MBA International Program

$KBS\ MBA = (Quality\ of\ Education)^2 \times (Volume\ of\ Education)^2$

The MBA

3 key learning areas:

- Core management skills
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- Leadership development



The International Program

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The KBS MBA International Program has the objective to develop excellent and innovative leaders who have a combination of individual self-reliance, respect for the dignity of others, a clear-cut sense of mission, an outstanding knowledge base, and a strong will to take action.

Education is the way to liberate every human being.
Hirokazu Kono, Dean and professor, Keio Business School

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UNDERSTAND AND CHANGE THE WORLD:

ENGAGING ESSEC BUSINESS SCHOOL STUDENTS TOWARDS RESPONSIBLE BUSINESS



Aurélien Colson PhD, Professor of Political Science, and **Patricia Langohr PhD**, Professor of Economics at **ESSEC Business School**, reply to an interview on innovation in education.

COMPLEXITY AND RESPONSIBILITY

THERE ARE many challenges facing business and society today: the environment and climate change, the loss of social bonds and massive inequalities; not to mention a sense of despair or lack of meaning from a growing part of the population that translates into

social and political instability, and populism. And it is within this context that today's students of management and business – the managers and leaders of tomorrow – must learn how to deal with the environmental emergency and the turnaround of their businesses in an authentically sustainable way. Among other things, this means catering for their employees' need for meaning-

ful work that stimulates creativity and belonging, contribute to the response to worldwide challenges such as global warming, while being profitable. It is not a meagre task.

For two professors at ESSEC Business School, Aurélien Colson and Patricia Langohr, education innovation is not just the best way to reply to these



challenges, it is the only way. And for them, throwing money at the challenge is not going to advance the issue, notably because the excess focus on economic and financial return is the root cause of the challenges. It is high time, they argue, that the common good, respect for people and for the environment, drove business – if not, the outcome is simple: there would soon be no more business to do anymore, in a world devastated by massive conflicts and environmental damages.

Business school is the place where both current and future managers learn how business is done, state Langohr and Colson, and at the same time where the instrumental business mindset is maintained and reproduced. As such, it is also the privileged place and lever for a transformation towards authentic, responsible and sustainable business practices and a different mindset. For this, it is necessary for future managers to become aware of their impact, and to endorse their responsibility and freedom to act with respect to the above-named challenges. This requires an interdisciplinary approach to issues and an ethical awareness.

UNDERSTAND AND CHANGE THE WORLD

The creation of the *Understand and Change the World* initiative at ESSEC Business School finds its root in the co-constructed reform of the School's first-year in 2015, and what professors Colson and Langohr have observed over several years of teaching at the institution as well as gleaning from discussions

with colleagues in many other business schools. When students join ESSEC – at the age of twenty usually – a growing proportion of them feel an acute sense of lack of meaning and purpose. This is compounded by the context of the French, pre-higher education “*classes préparées*” system which sees young hopefuls studying an intense forty to sixty hours per week over two years in order to pass the competitive entrance examination to a *Grande École*. For Patricia Langohr the stake is thus to revive students' intrinsic motivation or inspiration in a context where technical training can easily take the lead and crowd out meaning and purpose. The *Understand and Change the World* programme provides the first brick towards building this aim.

First presented in September 2015, and now in its fourth year, every autumn term sees 400 incoming students participate in the two-week initiative. In that time, 13 groups of 30 students each address a different business and society-related issue, guided by a faculty



member and/or professional. The students are allocated to a group and issue according to their preferences and a specific matching algorithm. Each group has to study its issue carefully from a theoretical and empirical standpoint and then provide policy or business recommendations to progress on the problem.

The topics lie at the crossroads of international relations, economics, management and environmental issues. Student groups work intensely and exclusively on their specific issue during the entire two weeks, alternating different formats. These include cohort lectures, four keynote lectures that provide global and background context, and teamwork in smaller groups mentored by a professor. Keynote speakers have included Carlos Ghosn (CEO of Renault-Nissan), Ambassador Jean-Marc de la Sablière (former Permanent representative of France to the United Nations Security Council), or Laurent Berger (leader of the CFDT, France's most important trade union). Lectures focus on a variety of business and society topics including, in past events, the United Nations and its handling of crises, economics for a limited planet, the digital revolution and geopolitics. Assigned a specific classroom as an HQ, students deliver a range of work output – reading summaries, case studies, and especially data collection from interviews carried out externally with more than a hundred NGOs, business executives and elected officials every year.

Throughout the two-week initiative, a culture of 'daring change' is encouraged and maintained and the challenge helps in maintaining intensive pace of the academic analysis and group work, as well as facilitating a creative tension that showcases the variety of student skills. A final deliverable exists in the form of a 20-page group report presenting students' analyses and recommendations. On the last day of the workshop, all the 400 students assemble together with their professors in ESSEC main lecture hall. Each group is allocated 15 minutes to introduce, in a stimulating way, their key findings and recommendations to the whole cohort. 'Students have always demonstrated great engagement and

presentation skills!' assert Profs. Colson and Langohr, enthusiastically. Finally, a vote is held to award the group 'most likely to change the world'.

THE TAKEAWAYS

All in all, the *Understand and Change the World* initiative provides students with a vision of current structural and global challenges related to contemporary ways of business, and in particular short-term financial return optimisation, as well as alternative approaches and promising innovative models that build sustainable businesses. The initiative also gives students the tools for the discernment and practical wisdom they require in order to make a responsible commitment through



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their words and deeds, and in their daily life – at home, work, in business and in society. Moreover, the programme prepares students for their personal responsibility – it positions them as change catalysts who will be part of a collective transformation within the company and society to address the challenges of sustainability.

In the future, the initiative will also include a survey for students to complete two years farther down the line in order to identify if students have built on their ideas and knowledge acquired during the seminar. Ideally, state Langohr and Colson, the *Understand and Change the World* initiative should be an impetus for change and help instill a new mindset where students become aware of their personal responsibility and contribute to changing the business model toward sustainability.

“ Paradoxically, the solutions to today’s challenges are interdisciplinary in nature though business schools and business research are organised as separated disciplines. ”

In a perfect world, to be effective, the change in mindset for this responsibility should also become a priority and affect the faculty and institution's management and alumni. What challenges need to be overcome to reach this aim? For Profs. Colson and Langohr, the main challenge is to truly bring these issues to the forefront in business schools – even if they aren't currently rewarded in the business school rankings, remain moderately popular with firms and recruiters, and are not necessarily integrated in mainstream academic research. Based on the highly positive evaluation of the workshop by 3 successive cohorts of 400 students, Profs. Langohr and Colson remain confident: the emerging generation of business school students is truly eager to learn about our world's contemporary challenges, and to contribute to more responsible and sustainable business which entails caring for common goods such as the climate or the oceans.



Aurélien Colson



Patricia Langohr



IN ALL GOOD PURPOSE: THE FGV-EAESP *INTENT* INITIATIVE



Prof. Francisco Aranha, Director of the **FGV-EAESP** Center for the Advancement of Teaching and Learning, highlights the innovative *INTENT* initiative that prepares students to be creative, high-impact managers and drivers of change in organisations and society

FGV-EAESP, part of the FGV think tank group of schools and research centres in Brazil, is South America's leading educational institution and very much involved in helping shape government policy within the country and training leaders with a global and social mindset. Prof. Francisco Aranha, Director of FGV-EAESP Center for the Advancement of

Teaching and Learning, is in charge of the *INTENT* initiative*. An educational initiative firmly anchored in innovation.

MOVING AWAY FROM THE TRADITIONAL LEARNING EXPERIENCE

The initiative was created to offer FGV-EAESP students an educational alternative that is truly student centred: integrating knowledge, emotions, actions and content, the initiative is oriented towards collaboration and team work around real projects. For Prof. Aranha, it replies to the challenge of moving away from a more traditional, fragmented,

lecture-based, faculty-centred education.

The objective of the INTENT programme is clear and with a purpose – to prepare creative leaders with a well-developed sense of direction, interpersonal skills and the capacity to generate impact and change in organizations and society. Developed by the FGV-EAESP Center for the Advancement of Teaching and Learning as a result of a two-year period of research and prototyping, it was inspired and supported by the Danish Kaospilot School of Business Design, Leadership and Entrepreneurship. The programme takes in 25 students per semester and is now in its third cohort, known as Team 3.



A TRANSFORMATIONAL EXPERIENCE

Both the Team Leaders (faculty) and Team Members (students) who participate in the programme have reported going through a deep personal transformation, states Aranha. And it effectively impacts them in a number of ways: building their ability to establish perceptive, respectful and productive relationships; collaborating with others; participating in or leading teams; mobilizing knowledge; identifying gaps and organizing their educational continued development; and finally, causing impact in groups, organizations and society. Participants in the initiative also describe a resignification of their academic life, feeling empowered and in control, for the students are confronted with the challenge of examining their personal objectives and designing a way to move towards them. For Prof. Francisco Aranha, the INTENT initiative fulfils one of his hopes and ambitions for business education in the wider sense: that students become protagonists – whether as business leaders, advocates for a cause, or visionaries for movement and positive change.

* Visit Intenters.com.br, a site, in Portuguese, developed and managed by the students.



In its architecture, INTENT is a one-semester, full-time course for students going on to the third year of the School's four-year Bachelor in Business Administration programme, with students meeting from 9 A.M. to 4 P.M., four days a week over three cycles of five weeks. In terms of instructional design, the first cycle is formative and comprises 20 experiential workshops, with the second cycle being a process consulting assignment with real clients. The third and final cycle is dedicated to student personal projects.

“ Students must become protagonists – whether as business leaders, advocates for a cause, or visionaries for movement and positive change. ”



Francisco Aranha



AN OUTSTANDING CASE

A SCHOOL OF MANAGEMENT AS THE LOCOMOTIVE FOR
OUTSTANDING CORPORATE SOCIAL RESPONSIBILITY
PRACTICES IN CHINA.



Prof. **Qingyun Jiang, School of Management Fudan University**, reveals how an educational institution can help drive corporate social responsibility in China with a unique and innovative award delivered to best performers in the corporate world.

CORPORATE Social Responsibility, or CSR, is often a topic of lively debate in the western world – and indeed, many of us tend to perceive CSR as an inherently western concept. However, let's get things straight – not only is CSR very much alive in China, despite its huge, traditionally-based economic growth in

the last fifteen years or so, the country is among the world leaders in the sustainability side to CSR, especially in terms of wind and solar energy and electric transportation.

In the forefront of advances in this area is one of Asia's leading educational institutions, School of Management Fudan, the business and management school faculty which is part of the wider Fudan University in Shanghai.



SOCIAL VALUE CO-CREATION

At the cutting edge of this drive towards CSR, and co-hosted by School of Management at Fudan University and China-Chile Guan Aitong, a top Chinese HR consulting firm, is the “*ai Social Value Co-creation*” *Outstanding Corporate Social Responsibility Practices in China* initiative. Essentially, the school of management and its corporate partner have taken the initiative to develop and implement a CSR practice evaluation system from the perspective of “social value co-creation”. This is proposed to the corporate world both for collecting firms’ CSR practices which are presented in case study format, and serving as a framework for selection and subsequent award. The framework uses long-term tracking of progress in CSR practices in China and focuses on improvement of CSR evaluation mechanism and standards.

AN OUTSTANDING CASE

The initiative is the first case study evaluation system designed by a management school on CSR performance and sustainability strategy in the country, and the *Outstanding Corporate Social Responsibility Practices in China* event has successfully been held twice to advocate the idea of social value co-creation. ‘Without the support of School of Management at Fudan University, this academy award would not exist,’ states Qingyun Jiang, professor of Marketing at Fudan and visiting scholar to prestigious establishments outside China such as Bocconi in Italy and MIT in the US. ‘As the organiser of the event, our school’s role is to provide the case evaluation theory and methodology, organise the academic committee across schools, and publish and present ex-

cellent cases. We also help enterprises to improve CSR strategy and process management, as well as publishing and communicating a performance audit.’

The School took the lead in inviting 15 prestigious professors from over 10 top universities in China to serve as the evaluation experts, redefining CSR and reshaping the global perspectives of Chinese enterprises. ‘On the basis of the “*ai CSR event*”, we developed an MBA elective course on ‘Social Enterprise’, adds Prof. Jiang.

Cultivation of social responsibility has always been one of the priorities of School of Management at Fudan University. According to Prof. Qingyun Jiang, it has integrated many concepts and practices of social responsibility within the school’s curriculum. ‘There are not only courses centered on sustainable development, but cases on social responsibility are also introduced in other courses such as finance, accounting, marketing and supply chain, to mention but a few. For Prof. Jiang, the event has enriched both the content of the school’s research and its teaching activities.

WALKING THE TALK WITH ITS STUDENTS

But that is not all. Not content to bring academia and the professional world together for the benefit of CSR, School of Management Fudan walks the talk by actively proposing extra-curricular projects to its students for the benefit of the common good. These include poverty relief initiatives, voluntary teaching in remote mountainous areas and caring for the aged. ‘This,’ states Prof. Jiang, ‘encourages undergraduates and postgraduates to step out of campus and shoulder social responsibilities. There are also many student organisations and associations focusing on social responsibility in Fudan University, the school’s parent institution.’

School of Management Fudan’s students will become China’s future professional managers, senior executives and entrepreneurs after graduation. For Prof. Qingyun Jiang, without awareness of social responsibility during their stu-

dies, students wouldn’t recognise and undertake CSR practices in their future careers – all the more a reason why the school’s philosophy and practice maintains its link to social responsibility and counts on keeping the “*ai Social Value Co-creation*” *Outstanding Corporate Social Responsibility Practices in China* event resolutely on the yearly agenda.



Qingyun Jiang

SUSTAINABILITY



COSTA RICA – THE GREEN DIAMOND



Mr **Hakim Fekih**, Master's student at **ESSEC Business School**, journalist and member of the student association **NOISE**, contends that Costa Rica can show the world the way in responsible energy policy.

CO² EMISSIONS, natural catastrophes, the exhausting of resources, river and sea pollution, the melting ice cap, Donald Trump... For some years now, we've heard only of the problems linked to environmental stakes. And for just reason: global warming has indeed begun, whether the conspiracy theorists like it or not. Confronted with this challenge to civilisation, seve-

ral NGOs have for years sounded the alarm: if we do not act, we risk the worst. Politicians – that is, the majority of them – seem to have become aware of the gravity of the situation. Several initiatives and policies in favour of the climate have been launched such as, among others, the historical agreement of the COP21.

Despite this, we may be right to doubt the effectiveness of the political debate. The situation is serious and we get the impression that the answers provided are much too meek. However, there are countries which have decided to seriously take action. This article proposes the discovery of one of them in particular – Costa Rica.

SMALL COUNTRY, GREAT NATION

Literally, Costa Rica means 'Rich Coast' – and we can say that it bears its name well. This small country in Central America has historically shown its penchant for avant-gardism. In 1948, it became the first country in the world to constitutionally do away with its army, wanting to play the role of 'neutral country' campaigning for peace. The government decided to concentrate the major part of national expenditure in the sectors of health and education – something that enabled the country to obtain the 7th best Human Development Index (HDI) score in Latin America. Better still, in 2009 it rose to first place in world rankings in happiness (the Happy Planet Index) and fifth place in the environmental development index. This tiny country inhabited by five million people can also boast of being one of the most egalitarian countries in Latin America and, what's more, one of the nicest places in which to live. But all these figures are only a simple illustration of the results of the audacious and visionary policies undertaken by successive governments – as its energy policy has long-since demonstrated.



Limiting the causes of this feat to a simple hazard of nature would be unjust towards the voluntarist policies carried out by the state



A REVOLUTIONARY ENERGY POLICY

In November 2017, the Costa Rican government announced that it had beaten its record of the previous year: for three hundred days, the electricity produced in the country had been generated by renewable energies: hydroelectric (78.26%), wind (10.29%), geothermal (10.23%) with a few other meagre joules attributed to biomass, solar energy and fossil fuels. The country, living essentially off tourism and agriculture, is fast-becoming a reference in

terms of ecology and for good reason: it chooses long-term policies rather than opting for easy and polluting solutions. In 1949, José Figueres Ferrer, then President of Costa Rica, decided to nationalise the entire electricity sector including production and distribution.

During the 1990s, the government opened up the sector to private investors, but only to a ceiling of 30%, thereby keeping a near-total state monopoly over this strategic sector. The result: almost all the population has access to electricity.

It is true that the geographical conditions of the country encourage such results. Nevertheless, limiting the causes of this feat to a simple hazard of nature would be unjust towards the voluntarist policies carried out by the state. Several investments have been made in order to build wind farms, geothermal electric factories and, recently, in 2016, the largest hydro-electric factory in Latin America. Another example illustrating this voluntarism: in 2011, the government decreed a three-year moratorium on the exploration of oil reserves despite the fact that Latin America is a region overflowing with such resources.



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A MODEL TO FOLLOW

For all those defending the environment, Costa Rica is a model to follow. Admittedly, these achievements in energy only concern electricity, and the country is still largely dependent on hydrocarbons for transport and industry which currently represent the biggest energy eaters. Nevertheless, Costa Rica has the merit of giving it a go. It has a vision set towards the long term and clear objectives. Moreover, the country's President announced at the COP21 that Costa Rica aimed to become the world's leading carbon-neutral country by 2021. The environment has for decades been integrated in the government's priorities - for example, after having lost 50% of its forest cover between 1950 and 1980, the government launched a programme for the refo-

restation and protection of its natural heritage. It is a country that has understood the stakes of the 21st century and which has begun to show the path to follow.

In an era where the main preoccupation of the great powers concerning the melting ice cap is to know who the petrol beneath it belongs to, Costa Rica, this small country on the path to development, has a lot to teach the world's 'developed countries'.



“ Costa Rica, this small country on the path to development, has a lot to teach the world's 'developed countries'.

”



Hakim Fekih



ANTOINE LEMARCHAND, CEO: WHEN NATURE DISCOVERS CSR



Antoine Lemarchand, ESSEC alumnus, owner and CEO of the much-loved French chain store **Nature & Découvertes**, shares the journey that took him and his firm resolutely into the triple bottom line of people, planet and profit.

THE CEO'S JOURNEY TO A VISION

IT IS SOMETIMES in adversity that true talent really reveals itself. Such was the case with Antoine Lemarchand, former ESSEC BBA student and now owner and CEO of one of France's most loved and successful brands – Nature & Découvertes (in English, literally *nature*

and discoveries). The chain store, offering a unique range of products catering not only for the explorer in us, but also the educator, the epicurean and the environmentally conscious, also stands out as having one of the most dedicated CSR and sustainable development policies among French companies today.

It was the economic crisis of the mid-2000s that provided the test for Antoine Lemarchand – how to turnaround a small, fledgling, family-run business via a change of brand name, strategy, workforce, mindset, target and higher purpose. Today, seven years after taking over the brand, Nature & Découvertes boasts seventy-seven stores in France and a further twelve throughout Eu-

rope, a customer base of 5.7 million and 1,200 employees.

Sustainability is an inherent part of the DNA of the chain, and if today the company's purpose fully reflects the wish to make Nature & Découvertes a meaningful contributor to the common good, its seed was surely planted in the historical roots of the firm back in 1994. It was in this year that Antoine Lemarchand's parents – François and Françoise Lemarchand – and their children discovered The Nature Company in the United States, a store created at Berkeley by Tom Wrubel, a professor of ecology. The message learnt was that it was possible to do business while respecting both nature and people, and the decision was made to create their own brand based in France and following the Lemarchand's core values of commitment and education.

Paradoxically, it was the combination of economic crisis and the recent rise of digital that has spurred Antoine Lemarchand to deepen the firm's commitment to people and planet. These take the form of several strategies, initiatives and a clear vision, the first of them being customer-oriented in nature.

IN A DIGITAL WORLD, PEOPLE NEED THE HUMAN TOUCH

The advent of online shopping, smartphone applications and big data for sales and marketing have represented both a threat and an opportunity for the firm in recent years. With currently 10% of turnover stemming from online sales, Antoine Lemarchand is nonetheless adamant on two areas of focus: to go for digital while keeping the firm's obsession for its products and client experience as an overriding priority, and to use digital technology to help the company but not be driven by it. This being said, from the outset the firm fostered its belief in the human touch, emotions and the quality time spent in its stores – something that indeed makes it more difficult to digitalise. Almost unique in this dimension a few years ago, today the competition for people's emotions is fierce and we can

now see cinemas offering not only the latest Hollywood production but also restaurants, music, bars, ice-cream parlours, concerts, readings and even exhibitions in an attempt to entice clients to spend a good time around the core product. According to Lemarchand, the difficulty is that the very nature of the customer has changed in recent years.

For him, there are no longer clear categories of customer. People in developed economies are confronted with complexity, information overload, political and religious incertitude and even family disruption that have led them to perceive that the best way to get along is to master things themselves. The result, to coin Maslow's hierarchy of needs, is a client base interested in self-actualisation. *They want to be autonomous, to learn cooking and DIY, states Lemarchand. They want to travel further and have control over their health and well-being; and finally, not fully content with what is taught to their kids, or how it is taught at school, they seek supplementary and alternative ways in which to educate their kids.*



For Antoine Lemarchand, being tuned in to trends and how your customers change, is essential. Moreover, he states one of key roles as understanding the sociology of the environment, people and the economy in which the firm operates. And far from outsourcing this aspect of the business, he does it himself – going to exhibitions, the theatre, shops and restaurants to see how they are changing with the times. For the budding entrepreneur, his message is clear – *don't distance yourself from your products: stay in touch with what*

gives you your identity and what will make the company survive and prosper. Above all, in a digital world, people need the human touch.



Above all, in a digital world, people need the human touch.



TOWARDS A WIDER PURPOSE

It was in this way that Lemarchand met and surveyed parents who were concerned by their kids' schools and curricula and he decided to adopt a Montessori approach that strengthened Nature & Découverte's founding commitment to education. The brand implemented an approach of producing its own unique products – from book publishing to eco-friendly amateur archaeology kits and learning bricks. Surprisingly, in an age where most of us under thirty automatically browse for knowledge on our smartphones, 20% of the firm's turnover is today generated from children's books and products for fun and active learning. Moreover, asserts Lemarchand, with the rise of digital, the role of the distributor of products is over but the role of the seller isn't. Large stores rely on selling products designed by others but naturally come under direct attack by slashed prices from the big online sell-all competitors. With Nature & Découvertes, this is somewhat kept at bay by the fact that it masters not only its own sales of unique products (70% of turnover), but also the marketing of its USPs and purpose.

A second vision of the business venture was for the firm to contribute to biodiversity. Aware that by making goods the firm would take from nature, Nature & Découvertes very early on adopted a policy of informing its customers about its suppliers and their products



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- where they come from, what materials are included, and their story. *For us*, states Lemarchand, *it is a key factor for the client to know why we made the choice to make something and who made it.* The effort is also increasing to look for suppliers locally. Today, in the Nature & Découvertes market place of 10,000 products, 1,000 are wholly organic and 70% are manufactured in Europe. Moreover, one of the firm's first initiatives was to create a Foundation which the company donates 10% of its turnover to as well as an additional €1 every time a customer joins the Nature & Découvertes loyalty club. Since 1994, the Foundation has established links with biodiversity stakeholders in France and beyond and employees in the field - head office, warehouses and in-store advisors - are all committed to the cause and actively involved in various initiatives. *Our belief is that the more we give to society, the more we receive*, asserts Antoine Lemarchand. 13% of Nature & Découvertes capital goes to employees, 10% to the Foundation and 1% to the planet - a high level of commitment given the standard rate of 0.9% of big companies. *People may be cynical about this but if you look at the figures for disappearing species, it's alarming*, he continues. *We're beginning to speak about the "6th extinction".*

Facing the environmental and social challenge means doing so through words but also action, with the company encouraging its employees to find projects in the regions they live and act hand-in-hand with local charities and NGOs. Employees typically present an identified project before the Nature & Découvertes scientific committee to be

granted a package of €3-5K to sponsor the initiative. Another action is "Enterprise and progress" which sees the firm welcome politicians and parliamentary deputies for a week to work in the company - for in France, a hefty 80% of politicians have never worked in one, the occasion providing awareness and an eye-opener to the future and sustainable business practices. Indeed, trust indexes point to an increase in trust levels for companies while others - politics, family and religion - are dropping. For Antoine Lemarchand, the company is therefore making a comeback as a vector for not only *value* but also of *values*. It also ties in with France's President Macron's attempt - following the European directive - to redefine the company and make it mandatory for firms to include a wider, societal purpose in their statutes.

GETTING INVOLVED AND WALKING THE TALK

Finally, Nature & Découvertes walks the talk through its ISO 14001 certification - managing sustainable performance - and its membership of BCorp and the certification it awards to companies committed to serving society, nature and people. According to the certification process, its member firms have to satisfy and demonstrate their initiatives to five key stakeholders: governance, investors, clients, society, and its employees. Regarding the latter, Nature & Découvertes has tackled the issue of making its employees "employable" both within the company and, if required to downsize, outside on the job market. A full 85% of the firm's employees have an open-ended employment contract - something of a rarity in France - with a low turnover rate of 15%, an average employee age of 35, and an internal promotion rate of 58%. Figures that would turn some companies in the sector green - with envy. Antoine Lemarchand believes in employee empowerment and self-fulfilment. He is also conscious of the fact that not only do employees like to be able to think "*me and my company*", but a priority question today for people and employees is "what is your role"? By combining nature, customer insight and delight and a vision for the common good, he seems to have discovered the right answer.



Antoine Lemarchand

TAKE A WALK ON THE WILD SIDE



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RESPONSIBLE FINANCE

THE FOURTH FINANCIAL STATEMENT: WHEN FINANCE TURNS INNOVATIVELY GREEN



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 accep-

ted. Indeed, when CSR is mentioned, reactions may still vacillate between the wary, the ironic, the convinced and the unaware of just what CSR means.



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

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.

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.



Adrian Zicari

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BRAZIL: A WHOLE NEW BALL GAME IN ETHICAL INVESTMENT



Paulo D. Branco, Vice Coordinator of Center for Sustainability Studies at **FGV EAESP** (FGVces) and **Aron Belinky**, Coordinator of the **FGVces** Sustainable and Consumption Program and Executive Coordinator of **ISE**, explain the high-scoring reputation of Brazil in ethical investment.

PIONEERING THE SUSTAINABILITY INDEX IN SOUTH AMERICA

BRAZIL has long-been a pioneer in sustainability indexing in South America and among developing countries with the first ISE portfolio, the Corporate Sustainability Index of the Brazilian stock

exchange, launched on December 1st, 2005. Since then, it has been renewed annually, the current portfolio of companies being its 13th in a row. However, the roots of the process go back further to June 2003, when the first talks at Bovespa – the name of the Sao Paulo Stock Exchange at that time, now part of a bigger company called B3 – took

place. Originally an initiative sparked by ABN Amro Real, a bank that in the early 2000s pioneered the creation of ethical funds in Brazil, at that time seeking a CSR-related fund to benchmark its performance, this launched a series of discussions which resulted in the creation of ISE. *

We make the case that the pioneering role of ISE was actually a result of a larger movement that was happening in Brazil when a number of social-environmental initiatives from the private sector were championed by a generation of business leaders, mostly concentrated in organizations such as Instituto Ethos, Fundação Abrinq, GIFE (*Group of Companies, Institutes and Foundations*), IBGC – the Brazilian Institute for Corporate Governance – and CEBDS (the Brazilian chapter of WBCSD). Among many other events and processes, the reasons explaining why these groups and leaders first appear can be tracked back to the re-democratization of Brazil in the late 1980's, the subsequent Rio Conference in 1992, the creation of the Millennium Development Goals in year 2000 and the Rio+20 in 2012. Moreover, the modernization of Brazil's capital market and banking system also played a key role in the context.

As such, the ISE has deep roots in participatory, democratic and sustainability values which still today make its methodology and agenda truly unique in global terms. Despite recent backlashes opposing such values in some countries, including Brazil, we still have a very significant set of business-sector players – articulated with civil society, academia and governmental sectors – that strive to keep the agenda and move it forward. For all we can see, ISE will still be a pioneer and an innovator when it comes to championing and disseminating sustainability in the private sector – this with a modern and motivating vision of the future combined with an effective focus on business strategies and practices.

BRAZIL VERSUS REST-OF-WORLD

Thanks to broad global consensus on the corporate sustainability agenda, most stock exchange sustainability indexes focus on essentially the same aspects, in line with what has been explicitly or tacitly agreed in instruments such as Agenda 2030 and its SDGs (Sustainable Development Goals), ISO 26000, the Paris Agreement, and GRI (Global Reporting Initiative) standards

to name but a few. On the other hand, there are several differences regarding methodologies and ways of working between what ISE does and the rest of the world. Without entering into details about other specific indexes, it is possible to highlight several main characteristics of the ISE, and point out how they differ from those of other indexes.

We must first clarify that ISE is not a measure of a single company's sustainability performance: it is the indicator of the evolution of the value of a portfolio composed by shares of companies selected on the basis of how well they incorporate sustainability in their strategies, policies and practices. This assessment is founded on a broad, self-declaratory voluntary questionnaire, and analyzed in both absolute and relative terms. Only companies willing to engage in the selection process answer the questionnaire and are assessed. A very important feature of the ISE's questionnaire is that it is continuously improved and updated through public debate with the wide participation of companies, their stakeholders, and other parties interested in the issues of corporate sustainability. This not only

ensures that the agenda remains valid, but also the expectations about what companies should do.

Unlike the ISE, many other indexes start by screening listed companies based on their own frameworks and attributing a score to each company together with its supporting evidence. Companies are then invited to complement this initial assessment which leads to a final score and then to the decision to include or not the company's papers in the index portfolio. Both ISE's and other approaches have their merits, and we believe that for smaller markets like the Brazilian stock market an approach such as the ISE is more feasible and more likely to engage companies.

Likewise, in ISE's selection process, a qualitative documental check is performed on a random sample of each company's answers so as to provide an indicator of how credible their general answers are likely to be. Companies with bad performance in this verification process are less likely to be selected to the portfolio. The individual answers of each company are published, enabling public scrutiny of what





The ISE has deep roots in participatory, democratic and sustainability values which still today make its methodology and agenda truly unique in global terms.



they declare to occur. Questioning by stakeholders about the veracity of such answers may also play against the permanence of a company in ISE's portfolio. This aspect of transparency is also key to ISE's success and differentiation.

And finally, another important aspect is that ISE's selection methodology is not a purely mathematical algorithm: the whole process keeps track of each company's performance in seven different sustainability dimensions, thereby allowing a multi-perspective view. As such, bad performance in one dimension won't be compensated by good scores in other. Finally, all this information is finally submitted to thorough debate on the ISE's Deliberative Board whose members are made up of representatives of 11 institutions and organizations firmly rooted in different sectors related to ISE's agenda, such as associations of stock market and investment players, CSR organizations, governments and financial institutions.

OF SKEPTICISM, TRUST, AND GOOD INTENT

In many aspects, setting up ISE and keeping it running for almost 15 years has been a challenge. Although there were interesting technical obstacles to overcome regarding the scoring methodology, creating the algorithm for the selecting process and the IT system to support the whole thing, the most challenging aspects for us were the negotiation of the questionnaire structure and content, and the commitment

of companies and other stakeholders – all of these being processes that actually happened in close relation with each other. The main obstacles were the skepticism of many actors, and for different reasons. For some, especially NGOs and labor organizations, the risk of greenwashing was far too big, and trust in the selection process wasn't something that could be taken for granted. For others, such as less engaged or excessively pragmatic market and corporate players, the whole thing seemed to be a time-consuming and focus-dispersing adventure, that could even trigger unnecessary friction with stakeholders that would otherwise remain traditionally immobile. To solve such deadlock, the credibility that FGV and the team was able to gather and harness was essential. In addition, while credibility was indeed very important, the really crucial aspect for success was the transparency and adherence to a clear, open and well-intended process. It was only by this that it was possible to create the essential trust and dialogue required to build a common agenda and the collective deep-rooted process that supports ISE.

PLAYING IN THE BIG LEAGUE

Regarding the impact of ISE, there is unfortunately no formal assessment to show but there is much evidence that it has relevant impact both to companies at individual level and to broader society and the market. This includes for instance, the fluctuations in companies' share values that coincides with their presence or absence in the ISE portfolio, or the actions and words of high level executives and their staff regarding such situations as well as specific aspects of company performance. It is also telling evidence that ISE is frequently mentioned – by companies, practitioners, academia, media and governmental bodies – as a reference for the business sustainability agenda.

To date, more than 170 companies have participated in the selection process of the ISE, and only about 70 of those have been in its portfolio for at least a year. Moreover, besides the possibility



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to be part of the ISE's portfolio, participating in the selection process is in itself an extraordinary opportunity for self-assessment, diagnosis and planning for the overwhelming majority of these companies. Based on the structure of the ISE questionnaire that attempts to evaluate the existence of policies, processes, practices and metrics, participating companies can identify strengths and weakness that help them to design and implement a sustainability strategy and an action plan.

AIMING FOR THE BRIGHTER FUTURE

Although "ethical investment" may be a term used by many, we believe it is not the best term to describe what ISE and other similar indexes are about. "Ethical" conveys the idea of a moral judgement of certain sectors and types of business, and while this can be the case of investors such pension funds of religions institutions - indeed, there is nothing wrong with that - the term cannot apply to many others and, as we see, might constitute a lower potential for mainstreaming and scaling up.

This being said, it would be good news if people were able to bring an ethical dimension into their decision-making processes and daily lives. However, there are stronger and less controversial arguments to voice if we look to the terms "sustainable investment" or "responsible", or "green", or even "social investment". The argument here is essentially based on the idea that we are in the throes of a rapid transition to an entirely diffe-

rent business environment triggered by a combination of technological, environmental, cultural and demographic transformations. Companies that have succeeded in the not-so-distant past may not survive in the coming - and somehow already present - environment. This is the emerging profile of sustainable investment: not just looking at companies that do good, but rather trying to sort out those who are catching up with the transition - and thus contributing to a fairer and more sustainable world - and those who are lagging behind, unable or unwilling to update their businesses; or those who are too attached to their past and current assets and advantages, regardless how incompatible with the new environment they might be. Divestment from carbon-intensive portfolios, getting read of stranded assets and searching for innovative positive-impacting emerging businesses are clear signs of how investors are reacting to this situation. That's why, far from a passing fashion, we trust we are talking about a near and brighter future.

* Details of the story of ISE can be found in a bilingual book celebrating ISE's 5th anniversary, *ISE - sustentabilidade: no Mercado de capitais*



Paulo D. Branco



Aron Belinky

MPGI

Mestrado Profissional em Gestão Internacional *Master in International Management*

Master in International Management

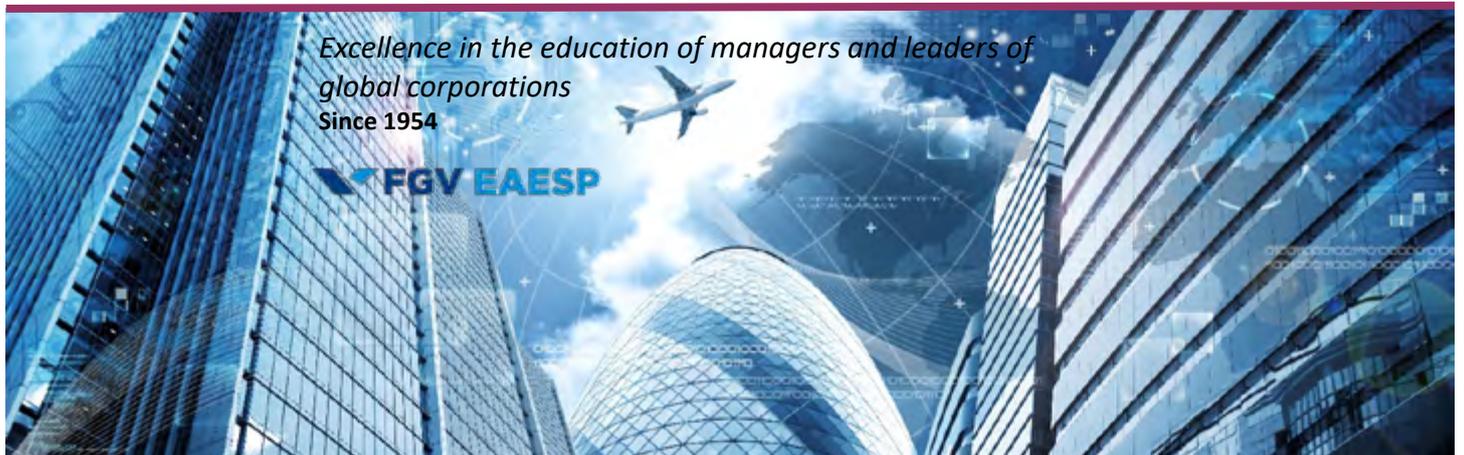
The Master in International Management (MPGI) is a graduate degree program offered by FGV-EAESP in partnership with renowned international institutions, created to provide professionals with the competences they need to take up leadership positions in a global business environment.

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Objective

To offer pre-experience graduates in business and similar areas the skills they need to succeed in companies with global scope, both in Brazil and abroad, through cooperation agreements and double degrees between FGV-EAESP and partner schools.

For further information about the program, next selection process and required documents, please visit www.fgv.br/mpgi, or send an e-mail to mpgi@fgv.br



SIX WAYS OPEN BANKING WILL REVOLUTIONISE FINANCIAL SERVICES



Markos Zachariadis, Associate Professor of Information Systems & Management at **Warwick Business School** & FinTech Research Fellow at the Cambridge Centre for Digital Innovation (CDI), and **Pinar Ozcan**, Professor of Strategic Management at **Warwick Business School**, explore how open banking will bring positive and negative disruption to businesses and their customers

YOU TAKE out your smartphone and log onto Amazon to make a credit card payment, transfer some money into your ISA savings account and, as a small business owner, check your current cash-

flow. While you are there, you are offered better terms on your business loan, kept up to date on your current remortgaging application, and reminded about a new IPO investment opportunity.

It may not be reality just yet, but a revolution is underway in Europe's retail banking sector. The innocuously named second Payment Services Directive (PSD2), that came into effect in the

EU earlier this year and in the UK at the same time under the name "open banking", laid the foundations for a dramatic reshaping of retail banking.

While the phenomenon of open banking is likely to spread to the US and elsewhere, for the moment the UK, with its unique co-location of financial services centre and fintech hub in London, is probably the best example of the motivation for and mechanisms of open banking. The domination of UK retail banking by a small number of banks, limits competition and leads to restricted choice of products and services for consumers. In addition, the heavily regulated nature of banking makes it difficult for new firms to enter the market.

The introduction of open banking is intended to create a more competitive environment, forcing banks to share privately held customer information with third party providers (TPPs), under certain conditions. Easy open access to customer data should create a level playing field for the incumbent banks and any other licensed firms that wish to provide financial products and services.

With customers' consent, licensed TPPs will be able to access customer data held by banks, using standard, public and open (as opposed to proprietary, internal and private) Application Programming Interfaces (APIs) - the technology that allows one piece of software to communicate with another. TPPs can also access other data about bank services, prices and service quality. Access to all this information improves a TPP's ability to offer services to existing bank customers and other consumers.

Open banking is still in its infancy, its eventual effects uncertain, and there will inevitably be reservations, around data privacy and security, for example, given the current climate, but we are sure that the retail banking experience is about to undergo a radical reinvention. And that this revolution will eventually extend to financial services more generally. After spending well over a year interviewing the various players involved, and researching the mechanisms and market, we are able to outline some of the more important effects of this ini-

tiative, ways in which open banking will impact retail banking, financial services and the business world beyond.

CONSUMER CONVENIENCE



At the moment individuals and small business often have more than one bank account. They may use one account for day-to-day transactions, have an ISA with another bank, and a credit card with a third. Viewing financial details becomes cumbersome involving a variety of different applications, websites, and passwords. Similarly, applying for a financial services product such as a loan, often means completing multiple forms with different banks.

Open banking changes this, allowing TPPs to provide a far more efficient, integrated, convenient and transparent service for clients than the traditional banks can at present. A TPP can aggregate and integrate customer data from multiple banks, present that information in an easy to understand way, and use that to provide single point access to a range of suggested products, services, and expert advice, based on analysis of that aggregated information. The convenience of one stop visibility on their finances will help to improve the performance of SMEs' finance function - by enabling better liquidity management, for example.



Traditional banks must rethink their business models to survive.



As open banking develops, TPPs will integrate other applications into their platforms. Just as a property search application might seamlessly include Google maps to enhance the app's utility without leaving that application, so new financial platforms will integrate a range of additional services that may not directly relate to financial services but that create additional value.

CONSUMER CHOICE

As well as convenience consumers will benefit from better product and service choice and pricing. Previously, traditional banks captured customers, cloistering customer data, and offering the customer proprietary services. With exclusive access to its customers' data, the revenue and expenditure details, spending habits, and repayment track record, the bank was at a significant competitive advantage when making decisions about the products and services to offer its customers.

Now the banks, along with other TPPs, will be part of a new financial services ecosystem, using open data to provide value to consumers with much less friction. Fintechs are unlikely to provide the products and services that they offer directly, instead acting as layer on top of the actual provider (which may be a traditional bank). But by aggregating and analysing customer data, the services traditionally available from the banks, such as accounts, lending, borrowing, and investments, as well as more innovative offerings, are likely to be available via fintech TPPs with better choice, better pricing and very likely a better consumer experience.

For example, a TPP might provide a lending platform that, using sophisticated technology to analyse customer data and make customer behaviour predictions, can offer more competitive terms, while achieving lower default rates. Or with investments a customer could give permission to access their data to a TPP which could then make investment suggestions based on the risk profile that the customer indicates. Pensions and mortgages are other obvious services that will be affected.

Furthermore, SMEs may be able to obtain business and finance advisory services via TPPs, which would not otherwise be available due to cost. And, while individuals have long enjoyed free banking services, unlike SMEs, there are signs that open banking may create a level of free banking for SMEs too.

THE DEMOCRATISATION OF BANKING SERVICES

Open banking enables many people to have bank account who would normally be unable to access bank services via a traditional bank. For numerous reasons - no permanent address, poor credit rating scores, international students who come to the UK for a limited period - there are many people in the UK unable to access banking services.

With open banking, TPPs can take advantage of new banking regulations where, under a certain amount of money, they can give people access to a bank account number and a prepaid card. In order to do this the TPPs need to obtain a specific type of licence and they can then piggyback on the infrastructure of traditional banks, and using prepaid accounts, allow previously excluded people to set up a bank account.

Democratising access to financial services in this way has huge implications for the wider economy. It economically empowers segments of society who were limited in the extent to which they could actively participate in the economy. It also allows these individuals to obtain better advice relating to financial matters, possibly helping to avoid mortgage arrears or credit card under-



payment, for example. And it creates business opportunities for TPPs and other firms that can identify and service the needs of this customer segment.

DATA CONTROL

Many stories in the news recently have highlighted issues around data privacy and security. Trading personal data for commercial gain, without the knowledge of the individuals concerned. Poor implementation of technology allowing consumers to access the private data of other consumers. Hackers downloading massive databases of personal data.

All these situations involve an individual or organisation's loss of control over its own information. Open banking proceeds from the principle that the individual customer should have power over and control of their personal data, including that currently held by the banks they deal with. Customers can, therefore, provide or withdraw consent for access to personal data whenever they wish.

This may appear a trivial detail but its impact is huge. Data is the oil that lubricates the financial services market. Without customer data TPPs cannot provide competitive services. Customer permission becomes currency. Now TPPs are competing for customer permission and must factor into their business model a way of incentivising consumers to provide permission. This is how a modern digital economy should work.

In addition, having control over their data helps to provide consumers with peace

of mind regarding data security. They know that whenever they no longer want a TPP to have access to their data, they are able to retract permission in an automated and transparent way.

RETHINKING BUSINESS MODELS

Perhaps the biggest impact that open banking will have on the business world is the way that the provision of banking and financial services will be affected overall. There is every chance that the retail banking landscape, for individuals and small business at least, will be almost unrecognisable from a consumer's perspective within five to ten years.

Traditional banks must rethink their business models to survive. They can move to position themselves as TPPs, as most are, but face several challenges in doing so. Customers may instinctively be reluctant for their personal data and financial arrangements to be shared among the traditional banks, rather than via new fintech TPPs. The banks are grappling with legacy IT systems and a fixation on compliance. Perhaps more problematic, however, is that the traditional banks may simply not be sufficiently agile, innovative, or technologically adept to compete with new entrants.

It is not clear that the traditional banks understand the scale of the threat or pace of change that is likely. If they wish to respond adequately it will require a huge shift in the traditional bank's understanding of how it offers value and makes revenue. The banks should no lon-

ger be thinking about selling everything to the customer themselves but instead about sharing with others. They should be thinking of competing through platforms, creating an ecosystem of reliable strategic partners - and sharing revenues on the products and services that those partners push to the customer. This is a move from traditional vertically integrated banking to a far more modular and networked architecture.

It is not only the traditional banks that will be threatened, either. Traditional service providers such as accountants, business consultants, pensions advisors, and many others, that obtain business through recommendation or tie-ups with banks, must find their place in the reoriented value ecosystem, alongside new service providers. Indeed, a wide range of companies supplying products and services may face increased competition, because of the greater transparency and choice available from TPPs offering a platform approach.

THE MARCH OF THE TECH GIANTS

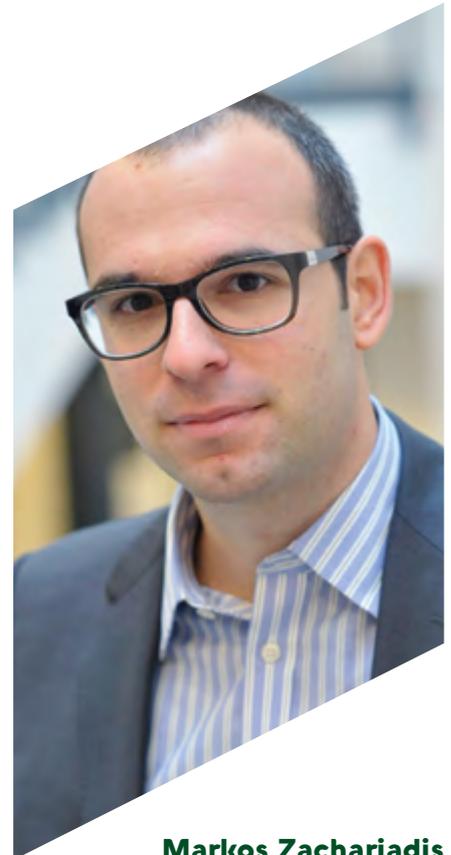
It is not just the fintechs and consumers that stand to benefit from open banking, either. Any organisation that can meet the necessary conditions to obtain a licence can trade as a TPP. That includes giant technology companies such as Facebook, Amazon, and Google. Combine the huge amount of personal data that these digital behemoths possess, with their data analysis capabilities, and the personal customer data that the banks hold, and the tech giants are well positioned to dominate financial services. They already have a customer base of hundreds of millions of users. Even if they do not move directly to play a role as TPPs, they can easily tie up partnerships with fintech TPPs or acquire them.

These firms have already shown that they can leverage data to disintermediate other industries. Financial services is unlikely to be an exception. For the tech giants it is just one more service that they can offer on top of everything else. Amazon, for example, is already making loans to selected online sellers through its Amazon Lending arm.

Open banking will take time to gain traction. Initially, there is likely to be a degree of destabilising, turmoil and confusion, as the market retools, reshapes, and reconfigures. In a sense it is a race, to become a platform and offer modern customer friendly services. The starting gun sounded at the start of 2018, but it is not clear if all of the banks have left the blocks yet. Banks will have to learn new ways of collaborating and balance that with security and compliance, and that will not be easy. The fintechs, for the time being are likely to remain a shiny products and services veneer, resting on top of the balance sheets and infrastructure of the traditional banks and other established financial service providers.

If open banking is to deliver the benefits it promises, there are still challenges to be met. Without enough fintechs entering the market as TPPs we may not get the competitive market envisaged. There are risks that the tech giants may exert a monopolist like influence on the market. People need to trust TPPs enough to provide data access permission, and make digital payments and transactions to create the data that TPPs rely on. Traditional banks and partnering fintechs will need to resolve branding issues.

But change is inevitable. Business transformation, facilitated by digital technology, has led to the collapse of entire markets. Banks may not disappear in the near future, especially given the heavily regulated environment. But while the future configuration of the open banking universe, who will lose and who will gain, may be uncertain, one thing is for sure, retail banking and the financial services industry is on the cusp of momentous upheaval. And consumers willing to share their personal data are likely to benefit with interest.



Markos Zachariadis



Pinar Ozcan



THE MISSING MIDDLE IN MICROFINANCE



Savita Shankar, Associate Professor at **Keio Business School**, Japan, shares her research on how to address the needs of millions of micro entrepreneurs who form the ‘missing middle’ as their financing needs are met by neither microfinance institutions nor commercial banks.

THE MISSING MIDDLE

ANIKA, Babar, and Saba met during a festival organised by their village community hall and hit it off straight away. All three had a dream to start their own business selling local snacks and specialties to the business people and merchants of the area. They had no ca-

pital, only their passion and expertise in cooking, and the motivation to offer their snacks to people in the village and beyond. Luckily, they had heard of a micro-finance bank in the nearest big town some seventy miles away and, after convincing the lender that their business idea was worth it, they became the happy beneficiaries of an

initial Rs25,000 (\$384) loan – enough to set them up in a stall near the market place and pay for the ingredients for their first snacks. Business boomed and Anika, Babar and Saba, naturally encouraged by the signs, wanted to grow and add an area in front of their stall where customers could sit and eat their snacks and engage in conversation.

So they returned to the micro-financier and obtained another loan – this time for Rs50,000 (\$768). The stall grew, and the quality of their snacks and passion for service spread by word-of-mouth further and further afield until they realised that the opportunity for yet another venture was there to be explored – a food truck. So once again they returned to the micro-finance banker who, very pleased with the regular repayments and slight margin he gained from the youngsters' business success, announced that he was ready to accord them a grand Rs100,000 loan, equivalent to \$1,536. Now this might have been enough to purchase a very old van, but certainly not a reliable and newer van as well as all the outlay required for ingredients, petrol and wages for the two people they wished to hire as driver-sellers of their famous snacks. But when they mentioned this, the lender sadly shook his head – he could no longer help them because his type of bank could not lend over the limit of Rs100,000. It was the law. Thanking the lender for the help already given, undeterred and believing in their dream, Anika, Babar, and Saba decided to go and see a commercial bank in the city for a bigger loan. The commercial banker listened with interest to their story and congratulated them on their success and entrepreneurial spirit. But then, when they had finished explaining their case and fell silent for the banker to make them an offer, all she did was sadly shake her head – she could not, unfortunately, grant them a loan. No – the smallest amount she was allowed to grant was Rs1 million – and that was for targeting small-to-medium enterprises, not informal start-ups. Anika, Babar, and Saba looked at each other in disbelief. Little did they know, but they had just become victims of what might be called the *microfinance graduate syndrome* or *missing middle*.

THE CONTEXT AND ISSUES

Savita Shankar, professor at Keio Business School, Japan, decided to research the phenomenon of the missing middle in three key countries for micro-finance – India, Bangladesh, and Pakistan. The term missing middle

is generally used to describe the disproportionately small number of SMEs in relation to the number of micro or large enterprises in developing countries. In her research, Prof. Shankar uses the term more specifically to refer to the lack of financing options for enterprises whose needs fall in between the typical loan sizes offered by micro-finance institutions and commercial banks – exactly the case of our young heroes Anika, Babar, and Saba. They were successful 'graduates' in their entrepreneurial venture but capped on the amount of micro-financing required to grow further, and too small to benefit from the size of loans offered to SMEs by the commercial banks: almost like striding across a series of stepping stones only to find, mid-river, several of them missing and the other side of the river heart-achingly out of reach. This problem creates something of a conundrum for millions of fledgling entrepreneurs in developing countries. But there is hope.

FINANCIAL EXCLUSION AND THE GROWTH OF MICRO-FINANCE

'In recent times, financial inclusion has been on the policy agenda of many developing countries, states Prof. Savita Shankar. This implies availability of a continuum of financial services for all income groups, the idea of an inclusive financial system being to 'provide credit to all bankable individuals and firms, insurance to all insurable individuals and

firms, and savings and payment services for everyone,' she continues, quoting the United Nations definition of financial inclusion.

The figures speak for themselves. In India, Bangladesh and Pakistan – the three countries analysed in Prof. Shankar's research – financial exclusion is widespread. According to the World Bank's Global Findex database (2014), only 56.3%, 35% and 13% respectively of individuals in those countries above the age of 25 years possessed a bank account while only 8.8%, 13% and 2% respectively had a formal borrowing account.

However, spurred by the UN, the willingness to promote financial inclusion helped pioneers such as the Grameen Bank in Bangladesh and hundreds of others who followed to grow. The result today, is that the microfinance sector, having reached maturity, sees the need for successful micro-financed entrepreneurs to aim for higher loans that don't actually exist. Hence, the 'missing middle' – those whose needs are neither met by microfinance institutions nor commercial banks. Indeed, India, Bangladesh and Pakistan have sizable missing middle segments with considerable employment potential. 'And as employment generation is an important goal for all three countries,' she asserts, 'catering to the missing middle is a priority. This means that it is firmly on the policy agenda.'



MICROFINANCE AND THE CHALLENGES

Prof. Shankar based her research on interviews with key personnel from the microfinance and banking sectors in each of the three countries. Thirty-two interviews were conducted in all, with at least ten interviews conducted in each country, mostly with chief executive officers of microfinance institutions and banks including stars such as BRAC, Grameen Bank and the Basix Group.

She found that the biggest challenge faced in lending to the 'missing middle' firms in the three countries is the high degree of informality of their operations. In India, a large urban-based NBFC-MFI, Janalakshmi Financial Services, surveyed 13,177 potential missing middle customers with surprising results: 90% of them had never filed an income tax return, 67% had not maintained a book of accounts, and 65% had no enterprise registration of any form. 'This informality,

and mortgage it.' As a result, lending to them has to be based on an assessment of their cash flows. But this isn't easy. Try gaining a clear picture of a small company's accounts and transactions when most of their business is cash-based. It makes it tough for financial institutions to obtain a clear picture of their volumes.

HIGH-TOUCH AND HAND-HOLDING: WHERE THE SOLUTIONS LIE

So how can these challenges be overcome? The top ingredients for success are highlighted in Prof. Shankar's research results, successful models in all three countries having two features in common. First, credit appraisal of potential borrowers must involve a specially designated lending officer who spends considerable time observing the business, interviewing the owners, cross-checking the records, analyzing the business model and assessing sup-



Try gaining a clear picture of a small company's accounts and transactions when most of their business is cash-based.



as original land documents or identity cards. Pragmatically, microfinance banks can also develop in-house model cash flow statements for specific sectors that are commonly financed. And on another level – that of eliminating bias – banks can offer a more objective treatment of potential missing middle companies by separating the credit function from the sales function within their organisation.

'The problem is that these strategies call for upfront investment in employee time before obtaining any financial returns from the enterprise,' states Prof. Shankar. 'But if microfinance institutions manage to build a robust lending model, in the long term the benefits of this strategy can pay off by way of potential repeat business as well as savings in recovery and loan write-off costs.'

STEPPING UP A LEVEL

On a more macro level, Prof. Shankar's interviews and analysis pinpointed other measures that could help increase the availability of funds to missing middle enterprises. For example, in India, Bangladesh and Pakistan it has now become easier for microenterprises to open and operate bank accounts due to the availability of mobile-based digital finance and debit cards. 'So it should be possible for them', argues Prof. Shankar, 'to switch to account-based transactions.' However, this will take time – their entire ecosystem, including suppliers and customers, needs to change. And this is where Intervention from NGOs and government may be required to nudge things forward through policy, technical help, funding and training initiatives.



states Savita Shankar, 'is a primary reason for their financial exclusion, as banks typically ask for various documents and records before lending.'

These entrepreneurs also miss out on finance for another reason: they are unable to offer collateral – security pledged for the payment of a loan – to lending institutions. 'And even if they do have property,' explains Prof. Shankar, 'often the accompanying papers and documents may not be complete, making it hard for lenders to create a title

pliers and customers. Altogether, it is a very high-touch and hand-holding experience and it is often the case that these officers themselves draw up cash flow statements for the potential borrowers. The second essential feature often involves training the potential borrowers in financial accounting practices – either formally or informally.

In addition, other in-the-field factors have an important impact. The issue of collateral can be circumnavigated by banks accepting notional security such

Other recommendations include developing new, customized financial products to address entrepreneurs' specific needs and constraints – one criticism being that microfinance banks tend to offer a one-size-fits-all model. Another way is what is termed value chain financing: microfinance providers can analyse the value chains of small enterprises and finance the various participants with a view to improving the overall efficiency of the chain. 'This would involve assessing the enterprise's suppliers and customers,' explains Savita Shankar, 'and financing all of them as a cluster so as to reduce overall risk for the lender.'

And finally, other areas for hope include the role of credit bureaus. In India and Pakistan at least, most large microfinance providers now report to them. This means that if individuals have borrowed from these institutions in the past, their credit histories will now be available – a way to both check a small enterprise's legitimacy for a bigger loan and also reduce risk for the bank. Moreover, the payment history for utility and telephone bills of potential borrowers can also be scrutinized to check creditworthiness. Not to mention the fact that specialized credit rating agencies focusing on small firms may soon develop.

STEPS AT THE MICRO LEVEL

'In India, the infrastructure to cater to this segment is being put in place,' says Prof. Shankar, something that can be seen in the launch of a public sector financial institution, the Micro Units Development and Refinance Agency, known as MUDRA. Its job is to assist micro-finance banks – which report to credit bureaus – with a hefty Rs200 billion available for onlending and Rs30 billion for provision of credit guarantees.

'Bangladesh, the earliest microfinance market, has also been the first to observe and address the needs of microfinance graduates,' states Shankar. Larger MFIs dominate the segment as smaller ones are constrained by availability of funds. 'However,' she continues, 'the lack of a

credit bureau increases risk levels considerably and is a significant drawback in the Bangladesh microfinance sector.' This high risk reduces the incentive for lenders to provide larger-value loans and Prof. Shankar stresses the importance for regulatory action to address this lacuna. The prevailing uncertain political climate in Bangladesh also increases the riskiness of microenterprise loans, as small businesses are often adversely affected by shutdowns and at times even sustain damage during political disturbances.

In Pakistan, microfinance banks providing microenterprise loans have met with success and two banks are in the process of scaling up the product to cater for the missing middle. 'As the loan sizes and number of loans increases,' asserts Prof. Shankar, 'the availability of a credit bureau in the country should help lenders. An area for concern,' she adds, 'is that the overall penetration of the microfinance sector in the country is low, though the recent efforts being made to increase funding for MFIs may be helpful in this regard.' Prof. Shankar points to the fact, however, that the political disturbances in the country and prevailing shortage of electricity are risk factors that could affect the performance of microenterprise loans.

'In all three countries, governments need to support lenders with funding options, make reporting to credit bureaus compulsory, fund financial literacy campaigns targeted at microenterprises, introduce measures to reduce use of cash-based transactions, and make registration of enterprises easy and universal,' concludes Prof. Savita Shankar. 'Catering to the financing needs of missing middle firms has great potential to invigorate South Asian economies – making them more inclusive and dynamic.'



Savita Shankar





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