BEYOND PROFIT AND GROWTH AS ENDS

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Abstract

Strategy is what the company wants to do in order to occupy a distinct position in the market. The corporation's strategy inevitably impacts on society in multiple ways. When the corporation formulates and executes strategy, being cognizant of its impacts on society, then the corporation's actions are reckoned to be responsible.

It is argued that the corporation's responsible actions take four different forms or levels, based on the degree of the corporation's engagement with society. At the basic level, Responsible Corporate Citizenship (RCC) is about championing a social cause. This is the act of "social giving". At the next level, through Cause-Related Marketing (CRM), the corporation gives to society, and in the process, builds its reputation. At the third level, strategic Corporate Social Responsibility (CSR) attempts to go beyond raising the profile of the corporation, and improves the competitive context in which it operates. At the highest level of the corporation's engagement with society, the corporation creates market space in which the socio economically disadvantaged people, in particular are located. Here, the corporation is engaged in Socially Responsible Business (SRB) and, in a sense, makes CSR the very purpose and its raison d'etre.

1. Introduction

The subject of Strategy and Society is placed within the context of business and its management. Strategies are pursued by business organizations with the central intent of taking a particular stance or position in the market. This position of the organization must be not merely better, but rather, *different* to those positions taken by competing organizations. A strategic position represents the unique value proposition made by the organization to its target market(s), which in turn results in the organization acquiring a set of value-associations, that is both unique and distinct. In sum, the organization needs to stand for "something" that sets it apart from others in the industry. Clearly, the strategic pursuits should lead to acceptable rates of return on investment, and levels of profitability. From a purely *shareholder perspective,* this is the end, and the strategy that is pursued is the means by which the end of ROI and profitability is accomplished.

From a broader, *Stake holder perspective,* the organization's rates of return on investments and levels of profitability must go beyond the benefits that accrue to shareholders. They must shape the larger society, comprising multiple communities, and the environment – the *people* and the *planet*. Hence, from a stakeholder perspective, the success of a business strategy is measured from the vantage positions of multiple stakeholders. Here, strategy and society cannot be viewed as a dichotomy, but rather as one, that reflects the other, forging an inseparable nexus between the two.

In this paper, Strategy is defined as the chosen direction of the company, which enables it to take a unique and distinct position in the market. Society is that which lies outside the company, but is directly or otherwise impacted by what it does. This paper exclusively focuses on societal impacts of corporate strategy in terms of Corporate Social Responsibility (CSR) and Corporate Governance (CG). The former is defined as, "achieving commercial success in ways that honour ethical values and respect for people, communities and the natural environment (Business of Social Responsibility). Corporate Governance is defined as the system which promotes corporate fairness, transparency and accountability. Although the principal beneficiary of CG would be the investor, corporate transparency and accountability will promote the ethical conduct of the organization, which in turn benefits society. This paper focuses on the societal benefits of CG, rather than those that accrue to investors.

2. Treatment of CSR and CG

It has been argued that the dominant perception of both CSR and CG, especially in the developing countries is one which treats them as "nice to do" endeavours, whose costs do not, typically outweigh their benefits to the organization (Tsoutsoura, 2004). Consequently, many corporations have either failed to pursue both CSR and CG with the purpose and rigour they deserve, or approach them in a way that is markedly disconnected with business and strategy, i.e., as a purely philanthropic endeavour.

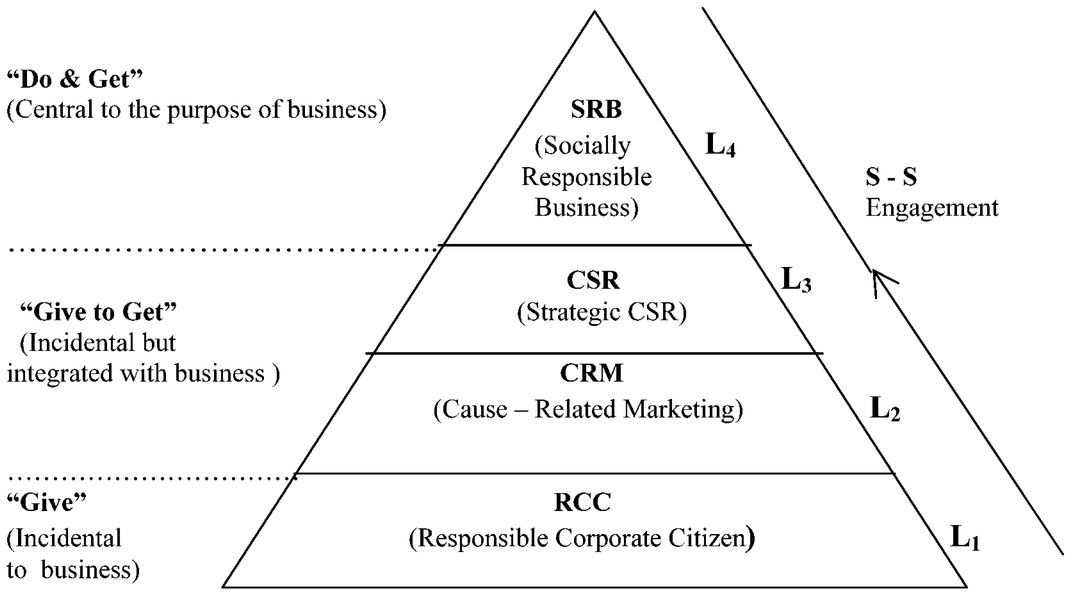
If CSR, and CG, as they impact on society, are seen as activities that incur costs that outweigh benefits to the corporation, then such activity will be carried out either because they are mandatory, as enforced by a regulatory authority, or out of a sense of sympathy with a social cause, leading to charitable action and philanthropy. It is argued that such "must do" actions, compelled by regulation or "feel good" initiatives, propelled by a sense of compassion, in the name of CSR will, at best remain in the fringes of corporate endeavour. Moreover, such attempts at CSR are extremely unlikely to stand the test of time. CSR activity of corporations that does not take the center stage, and remains incidental and unconnected to its core business, is likely to die slowly, but surely.

3. CSR versus Business

According to Friedman (1970), in a free society, "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits, so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." He prefers that the state addresses social problems, arguing that an executive, by taking money and resources that would otherwise go to owners, employees, and customers, and allocating them according to the will of the minority, fails to serve the interests of her or his principal. In this way, the executive imposes a tax and spends the proceeds on "social" purposes, which is intolerable, since he or she has neither the skills nor the jurisdiction to do so.

It is argued that CSR (including the social benefits of CG), and its relationship with business – the Strategy/Society duality of this paper-takes four distinct forms or levels.

Figure 1: "Strategy vs Society" Pyramid



RCC:

At Level 1, the corporation takes two positions. First, it does not want to, and takes deliberate action towards *"Not taking anything away from society"* (including the environment–the people and the planet). Such action is exemplified in the non-recruitment of child labour and the installation of water systems, management of waste disposal and environmental degradation. Here, corporations adopt damage control measures to minimize or mitigate harmful effects on people and planet.

Second, the Responsible Corporate Citizen may attempt to "*Give something back to society*", in the belief that it takes a great deal from society in the form of resources and markets. The company believes that it is only right that some of the bounty is given back, for good measure. Such an intent leads to charity and philanthropy. Importantly, the Responsible Corporate Citizen is "giving" without the manifest intent of being compensated for such giving. It is an attempt at "do good" and being responsible.

Table 1: Responsible Corporate Citizenship

Social Impacts	Value Chain Impacts
Responsible Citizenship and Philanthropy	Mitigate Harm from Value chain Activities

In essence, RCC behaviour in mitigating harmful social and environmental effects is about *best practices*. However RCC remains *incidental* to the corporation's *raison* d'*etre*, its core business. It is about the corporation "giving" as in charity/ philanthropy, and "not taking away", in the case of removing or mitigating harmful effects on people and the planet.

CRM:

At *Level 2,* the corporation does "give" something of value to society. It is about "doing good" but with a sharp eye on "getting back" value for the corporation. *Cause-related Marketing* (CRM) emerged as a veritable tool of Marketing Communication in the early 1980's. CRM activity brings forth a shift in the corporation's focus, from consumer *needs* to consumer *interests*. Traditional marketing has it that the central endeavour of marketing is to identify, anticipate and satisfy customer needs (requirements) profitably. CRM, placed within the larger context of societal marketing, attempts to embrace the consumer's interests and well-being, rather than mere customer needs and desires.

Cause-Related Marketing (CRM) is defined as "the public association of a for-profit company with a non-profit organization, intended to promote the company's product or service and to raise money for the non-profit". CRM is generally considered to be distinct from corporate philanthropy because the corporate dollars involved in CRM are not outright gifts to a non-profit organization, and hence not tax-deductible.

The term "Cause-Related Marketing" was first used by American Express in 1983 to describe its campaign to raise money for the restoration of the Statue of Liberty. American Express made a one--cent donation to the Statue of Liberty every time someone used its charge card; the number of new card holders soon grew by 45%, and card usage increased by 28%.

In their efforts to diversify and enhance their funding base, non-profits have embraced CRM. The practice has evolved to include a wide range of activities from simple agreements to donate a percentage of the purchase price for a particular item or items to a charity for a specific project, to longer, more complex arrangements. Corporations too have been drawn to CRM due to the competition of the expanding global marketplace and the need to develop brand loyalty.

A number of recent studies have documented that consumers carefully consider a company's reputation when making purchasing decisions and that a company's community involvement boosts employee morale and loyalty.

Strategic CSR:

At *Level 3*, *Strategic CSR* activity is integrated with the corporation's business strategy, which goes beyond its Public Relations and Marketing Communication activity.

Strategic CSR moves beyond good corporate citizenship or (RCC) behaviour, as it has an eye on "getting something back from what it gives", in a way that reinforces the strategic position of the corporation in a competitive context. For example, *Toyota's Prius*, the hybrid electric/ gasoline vehicle, was the first in a series of innovative car models that have produced a competitive advantage and environmental benefits. Hybrid engines emit as little as 10% of the harmful pollutants convectional vehicles produce while consuming only half as much gas.

Microsoft's working connections partnerships with the American Association of Community Colleges (AACC) is another case in point. The shortage of IT workers is a significant constraint on Microsoft's growth. Microsoft launches initiatives to address three key constraints that limited the supply of trained IT graduates into the market. Microsoft helped collages to standardize IT curricula, upgraded technology used in classrooms and provided systematic professional development programs to keep faculty up-to-date.

Marriott invests in improving its competitive context. It provides classroom and on-the-job training for chronically unemployed job candidates. The net result is both a major benefit to communities and a reduction in Marriott's cost of recruiting entry-level employees. Ninety percent of those in the training program take jobs with Marriott. One year later, more than 65% are still in their jobs, a substantially higher retention rate than the norm. This is, again an example of the corporate "giving to get", and sticking a "win – win" formula, for both the society and itself.

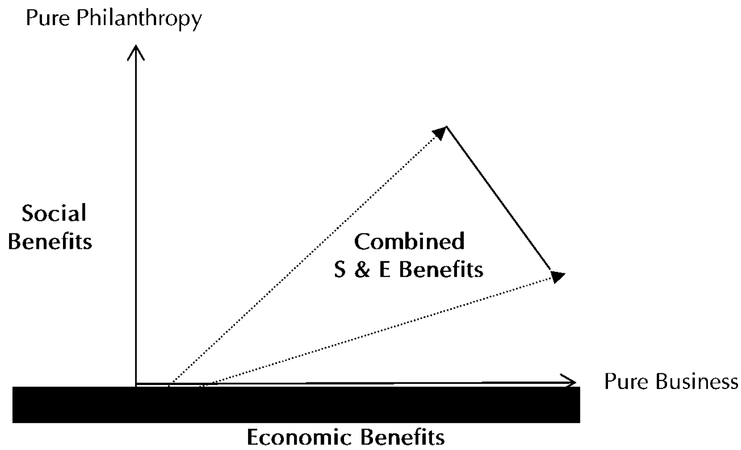
In 1962, *Nestle* came to India, not to engage in CSR, but to build a business. Nestle's value chain depended on establishing local sources of milk from a large, diversified base of small farmers in India. Establishing that value chain in Moga required *Nestle* to transform the competitive context in ways that created tremendous shared value, for both the company and the region.

Nestle built refrigerated dairies as collection-points for milk in each town, and sent its trucks out to the dairies to collect the milk. With the trucks went veterinarians, nutritionists, agronomists, and quality assurance experts. Medicines and nutritional supplements were provided for sick animals, and monthly training sessions were held for local farmers. Farmers learned that the milk quality depended on the cows' diet, which in turn depended on adequate feed crop irrigation. With financing and technical assistance from *Nestle*, farmers began to dig previously unaffordable deepbore wells. Improved irrigation not only fed cows but increased crop yields, producing surplus wheat and rice and raising the standard of living.

Importantly, *Green Marketing* addresses environment or green issues, along with "global warming", which are of interest to the marketing/management academics and practitioners. Products and services that are environment – friendly have the potential to differentiate themselves from their competitors, and charge a premium for their green products/services.

Strategic CSR, unlike Cause-Related Marketing (CRM), "gives" to society and also "gets" from it, and importantly improves the corporation's competitive context. Clearly, strategic CSR is not the business of the corporation. It is *incidental* to its business, but the CSR activity is neatly integrated with the business.

Figure 2 : A Convergence of Interests



(Source: Porter and Kramer, 2002)

The convergence of interests, between those of society and the corporation, as discussed, occurs at the intersection between the company's value chain and society (as in *Nestle's* case), and in developing the competitive context (as in Toyota, Marriott and Microsoft cases).

Table 2 : Corporate Involvement in Society

Value Chain Social Impacts	Social Dimensions of Competitive Context
Transform Value-chain activity to benefit society, while reinforcing strategy	Strategic CSR that leverages capabilities to improve salient areas of the competitive context

(Source: Porter and Kramer, 2002)

SRB

If the CSR activity of a business is the very purpose of its business, indeed, the reason for the existence of the business not just being incidental, but central to it, then, it is argued that such a corporation is engaged in Socially Responsible Business (SRB).

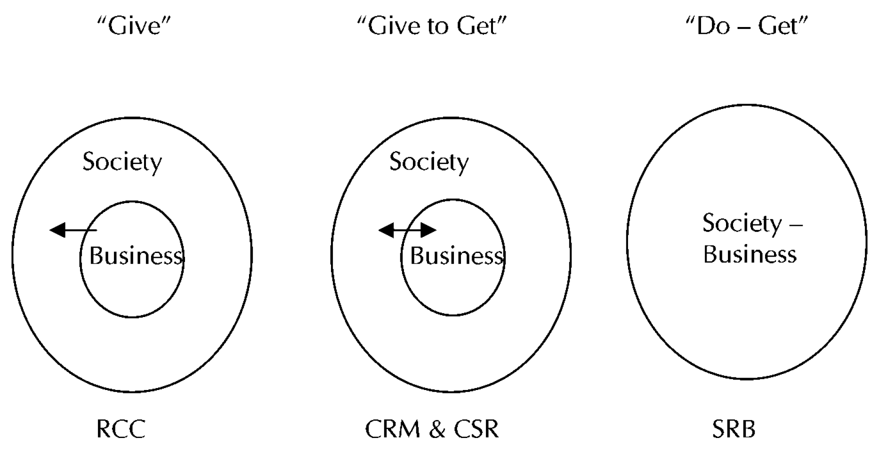
Here, the paradigm of "giving to get", as in the case of Cause–Related Marketing and Strategic CSR, is transcended by the paradigm of "doing and getting"- doing business that is socially beneficial, which is not merely "incidental and integrated", but the very centre, the core of it. Indeed, SRB is largely about creating market space itself. The fact that such business activity helps the organization to "get" in terms of return on capital employed is not certainly missed. It is very much a part of the business model. Such a business model includes both value chain activity and markets.

A formal definition of SRB that will help better appreciate the difference between strategic CSR and SRB is as follows:

> The aim of SRB is to profitably serve the socio-economically disadvantaged people, in particular in an environmentally friendly manner, through innovative products and services, that are financed, sourced, processed, delivered, communicated and priced, keeping in mind the constraints and limitations of the end-beneficiaries.

SAB can be contrasted with good Corporate Citizenship (CC) and Cause - Related Marketing/ Strategic CSR.

Figure 3 : Contrasting Paradigms



Serving the world's poor, constitutes a vivid example of SRB.

To experienced marketing managers in the world's largest multinational companies, it is perfectly obvious who their target market audiences are: the developed world and upper and middle class residents of the developing world. The rationale is simple: these are the customers who demand and can afford costly products and services, who appreciate advances in technology and who provide intellectual excitement to managers trying to capture their business. The world's poor? They are better served by governments and non-profit organizations. Selling to them just isn't worth the effort.

C. K. Prahalad, (2005), professor of corporate strategy at the University of Michigan Business School, has an entirely different perspective. Prahalad argues that multinational companies not only can make money selling to the world's poorest, but also that they *must* undertake such efforts as a way to close the growing gap between rich and poor countries. At the core of Prahalad's argument for targeting the world's poorest as a potential market is the sheer size of that market - an estimated 4 billion people constituting two-thirds of the world's population. More importantly, the market will grow to an estimated 6 billion people within 40 years, because the bulk of the world's population growth is occurring among the poor.

Despite the fact that these people subsist on annual per capita incomes of less than $1,500, this "bottom of the pyramid" represents a multi-trillion-dollar market. Taken together, nine developing nations - China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South Africa and Thailand - have a combined GDP that is larger, in purchasing power parity, than the combined GDPs of Japan, Germany, France, the UK and Italy. The bottom of the pyramid, Prahalad says, is "the biggest potential market opportunity in the history of commerce."

A central point is that the effort to help the poorest people can be successful across different countries and different industries ranging from health care and finance to fast-moving consumer goods and energy. The exceptions, Prahalad notes, are countries that are essentially lawless, like Somalia and the Congo, and industries that are among the most basic, particularly some of the purely extractive industries that employ many people but have little incentive or ability to empower them. Otherwise, Prahalad says, his approach "can work 90% of the time."

Profits are not the only reason Prahalad urges for multinational companies to devise strategies, products and services for the bottom of the pyramid. Strategies aimed at the bottom of the pyramid will, of necessity, create jobs and improve incomes among those people, helping slow and possibly even reverse the widening income gap. Certainly such strategies can help avert social decay, political chaos, terrorism and environmental degradation.

One of the biggest reasons that multinationals have avoided the bottom of the pyramid (BOP) is that marketing to the poorest isn't easy. They usually lack regular cash flow, have little access to credit and live in rural villages or urban slums that make traditional methods of advertising and distribution difficult, if not impossible. Most of the people at the bottom of the pyramid are part of an informal economy in which they do not hold legal title or deed to their assets. Thus, effective strategies for reaching these people will require remarkably different approaches.

Given below is an example of such approaches from Pralahad (2005), leading to SRB.

Aravind Eye Hospital

A similar situation exists at the *Aravind Eye Hospital*. It uses the most modern equipment available in any facility in the world. Its costs are dramatically brought down by its ability to use the equipment effectively, as it specializes only in eye care and every doctor and nurse team performs an average of 50 surgeries per day. Only 40 percent of its patients pay. A cataract surgery costs $50 compared to $3,000 to $3,500 in the United States. In spite of these differences, Aravind's ROCE is in the 120 to 130 percent range. Aravind is totally free of debt. The revenues for the year 2001-2002 were Rs. 388.0 million ($86 million) with a surplus (before depreciation) of Rs. 210.5 million ($46.5 million). This would be the envy of every hospital in the United States. The productivity and the volumes at Aravind are the basis for this level of profitability. Every doctor accounts for 2,000 operations per year, compared to a national average of 300 in India. The four locations in the Aravind system process more than 1.4 million patients (including 1,500 eye camps) and perform 200,000 surgeries. They operate with about 80 doctors and a total staff, including paramedics, counselors, and others, of 1,275. Source: *(Prahalad C. K., 2005)*

4. Conclusion

A corporation's strategy and its adoption inevitably impacts on its multiple environments – the society. Formulating strategy and implementing it with an eye on possible social impacts constitute responsible behaviour on the part of the corporation. The paper discussed four distinct levels of social responsibility. Importantly, strategic CSR attempts to strike a collaborative "win – win" arrangement with the environments in which the corporation operates. The conceptualization of Socially Responsible Business (SRB) is, it argued, a logical extension of the discussion on the corporation's need to be responsible in its behaviour.

SRB is unique, because the very purpose of doing business is inextricably linked to social responsibility, to the extent that attempts at CSR become entirely superfluous. Not all businesses and organizations will find SRB attractive and indeed, relevant. But those who do find SRB, as its central, not incidental (though integral) activity, will have the unique satisfaction of "doing well" economically and of "doing good", being the very pith and substance of its business; indeed, its very purpose.

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