

The Chairs' Update

Department of Economics

September 2010 N°2



Conference on the book: "Corporate Social Responsibility: From Compliance to Opportunity?"

(Ecole Polytechnique Editions, June 2010)

On June 1st, 2010, the Research Institute of the Caisse des Dépôts and Consignations (CDC) and the Ecole Polytechnique Department of Economics jointly organized a conference for the launching of the book edited by Patricia Crifo and Jean-Pierre Ponsard. This book summarizes the research done over the last three years with the sponsorship of the Chair for Business Economics and the Chair for Sustainable Finance and Responsible Investment. This book includes sixteen contributions written for a non technical audience (see page 4 for the detailed content).

The conference was opened by Blaise Desbordes (CDC) and a complete video of the conference is available on the website of the Department of Economics (www.economie.polytechnique.edu).

The first part of the conference, chaired by Isabelle Laudier (CDC), was devoted to three contributions of the book. Dominique Plihon's presentation of "Financial Regulation: Lessons from the Crisis" was commented by Anton Brender (Dexia Asset management). Patricia Crifo underlined the "Rise of SRI in France" followed by comments of Jean-Marie Péan (Macif Gestion). François Perrot presented "Firm and Poverty: Inputs and Limits of the BOP Approaches". Based on EDF's BOP examples in Africa, Christine Heuraux (EDF) provided insightful empirical evidence on this issue.



Dominique Plihon, Anton Brender, Isabelle Laudier, Patricia Crifo, Jean-Marie Péan, François Perrot, Christine Heuraux

The second part of the conference involved representatives from large firms considered as CSR leaders, Lafarge (Bertrand Collomb) and GDF-SUEZ (Jean-Pierre Hansen), a long term investor, Caisse des Dépôts (Didier Janci) and Jean-Pierre Ponsard, for the academics. This round table was chaired by Anne-Catherine Husson-Traoré (Novethic). The round table concentrated on two issues. First, it reviewed the role of non financial indicators both for managing CSR internally in firms and for investing from the perspective of an asset management company. Second, a discussion engaged on the possible large scale initiatives that multinational companies could take as regards climate change. The relative failure of Copenhagen indeed calls for a revival of transnational and sectoral approaches.

Jean-Pierre Ponsard
Conference Organizer



Dominique Plihon

Corporate Social Responsibility

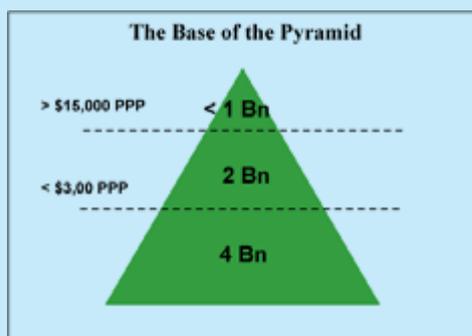
This issue of the Chairs Update focuses on a series of recent event and contributions of the "Corporate Social Responsibility" research program conducted at the Ecole Polytechnique. Initiated in 2007 by the Department of Economics, this program is supported by two Chairs: the Chair for Business Economics and the Chair for Sustainable Finance and Responsible Investment. This joint support provides an exceptional opportunity to bring together the business and financial communities on issues of increasing importance to the society at large.

Patricia Crifo
Project Coordinator



Toward a New Generation of "Base of the Pyramid" (BOP) Strategies

Referring to the four billion people living with a few dollars a day in emerging countries, the concept of "bottom (or base) of the pyramid" (BOP) has gained significant interest both in the academic and practitioner's worlds. Coined by CK. Prahalad and Stuart Hart (2002), the BOP concept introduced the idea that multinational companies (MNC) can develop profitable business by targeting low-income market segments while helping them leave poverty. Since the first articles, a new "industry" has emerged around the concept of BOP, with specialized consulting firms: Think Tanks or MBA tracks. However, only a few initiatives have been successful in reaching the BOP, with wide differences between sectors.



Three categories can be identified (Perrot's chapter referred on page 4). A first category is composed of a limited number of companies that managed to turn the BOP into a mainstream and profitable business. Those companies that serve millions of BOP customers every day operate mainly in the telecommunications and food sectors for which the demand is easily accessible in particular through the sales of low cost and single served products, mostly using networks of door to door saleswomen. The second category refers to markets for which a solvable demand exists but that require huge investments in order for the company to propose a sustainable offer to the BOP customers. This is the case of projects in the housing sector that serve thousands of customers per day but that fail to become mainstream activities. The third category refers to markets for which companies have to create the conditions for a new demand to exist. The case analysis shows that in order to succeed firms have to implement more long term and innovation oriented strategies that address all the barriers in the emergence of a market, namely the product's affordability, its social and physical accessibility and the customer's awareness.

The third type of strategies, referred to as "BOP2.0" strategies, is analyzed in the article inserted in the Ecole Polytechnique Corporate Social Responsibility collective book (see previous article). They can be illustrated with the case of EDF program in the provision of electricity in some African rural areas (Heuraux's chapter referred on page 4). Christine Heuraux, in charge of the Access to Energy Program at EDF, discussed this conclusion by highlighting the challenges facing EDF in implementing this type of "BOP2.0 strategies". In particular, she stressed the need for a new combination of public and private interventions on development. In her view, public investments should be focused on setting up the infrastructures on which the private sector can build upon in order to develop sustainable business models that serve the poor.

François Perrot

When Socially Responsible Investment Becomes Mainstream: Future Challenges for the French Asset Management Sector

In the 1920s, Socially Responsible Investment (SRI) appeared further to the ethical desire of the American Quaker and Methodist movements to exclude from their portfolios companies belonging to the 'sin stocks'. In the 2000s, SRI appeared in France; it involved integrating non-financial criteria into investment processes to achieve better financial performance.

Today, SRI funds represent between 3% of the French assets under management. However, this small proportion hides a much larger trend: the progressive and massive integration of SRI criteria into the mainstream. At the end of 2009, this new phenomenon, known as SRI Mainstreaming, concerned 90% of conventional funds in terms of assets, compared to 61% at the end of 2008 and 3% at the end of 2007 (Novethic, 2010). The term 'mainstream' refers only to conventional funds focused on financial performance. In contrast, SRI funds usually aim to achieve good performances in both financial and SRI terms. Over the past three years, the acceleration of the SRI Mainstreaming phenomenon has been considerable; which has blurred the differences between SRI and the mainstream. Today, the tenants of SRI face a new challenge: to demonstrate the differences between SRI and conventional funds, while maintaining

good financial performance. This task is all the more difficult since SRI performance has not yet been defined. However, SRI Mainstreaming is also a challenge for conventional actors: as SRI Mainstreaming develops, institutional investors are asking for a greater integration of SRI criteria into conventional funds; asset management is urged to become more socially responsible. Evidently, the recent financial crisis has participated in accelerating this change. For instance, in 2008, the Fonds de Réserve des Retraites (FRR) decided to gradually extend its responsible investment approach from several mandates dedicated to SRI funds to all asset classes. To differentiate themselves from conventional funds, and thereby maintaining momentum, the French asset management sector will have to be able to agree on a common measure of SRI performance and SRI label; two objectives which appear at present to be difficult challenges to meet. Whatever the future of the movement, the mainstreaming of SRI and its associated shift from SRI to finance raises important questions about what the goal of SRI should be. At a time when SRI aims at beginning mainstream in other countries, such as Scandinavia, this French experience may teach other SRI movements about the benefits and dangers of mainstreaming.

Diane-Laure Arjaliès

Arjaliès D-L (2010), Ph-D Dissertation "Institutional Change in the Making-The Case of Socially Responsible Investment", University of Paris West.

A Focus on the Green Economy and CSR as an Engine of Green Growth

The green economy receives a considerable attention nowadays despite a rather blurred outline. The reality itself is twofold: regulation, imposing environmental constraints on growth; and new markets, with the creation of new opportunities of profits and investment. But how do both dimensions interact over time? The term 'green growth' suggests a clear answer: the constraint transforms itself into an opportunity.

In the long run, the objective of a sustainable economy is desirable to preserve the environment and justified economically with a higher growth compared to a laissez-faire scenario. In the short and medium run, green growth will be fueled by the transition towards this sustainable economy. The industry will undeniably have a key role to play by responding to the sustained needs

Selected Related Publications

Arjaliès, D-L., 2009. A Social Movement Perspective on Finance: How Socially Responsible Investment Mattered, to appear in *The Journal of Business Ethics*.

Challe, E., and Cahuc, P., 2009. Produce or Speculate? Asset Bubbles, Occupational Choice and Efficiency. Working Paper.

Crifo P., and Godard, O., 2010. Des politiques publiques au service de l'économie verte. *Cahiers Français* n°355.

Crifo, P., and Ponsard J-P., 2009. La Responsabilité Sociale et Environnementale des entreprises est-elle soluble dans la maximisation du profit. *Sociétal*, n° 66, 4th trimestre.

Crifo P., 2009. Green Growth Report, with **M. Debonneuil** and **A. Grandjean**. *Economic council for sustainable development (CEDD)*.

Fleckinger P., and Glachant M., 2009. The organization of Extended Product Responsibility in Waste Policy with Product Differentiation. To appear in *the Journal of Environmental Economics and Management*.

Giraud-Héraud, E., Grazia, C., and Hammoudi, H., 2010. Agrifood Safety Standards, Market Power and Consumer Misperceptions. *Journal of Food Products Marketing*, vol. 16, pp 92-128.

Giraud-Héraud, E., Combris, P., Bazoche, P., and Issanchou, S., 2009. Food Choices: What Do We Learn from Combining Sensory and Economics Experiments? *Food Quality and Preference*. 20 (8), pp 550-557.

Trommetter M., 2009. Flexibility in the Implementation of Intellectual Property Rights in Agricultural Biotechnology. To appear in *the European Journal of Law and Economics*.

for equipments, infrastructures and energy required for an efficient and ecological production of final goods and services, both in Europe and the rest of the World.

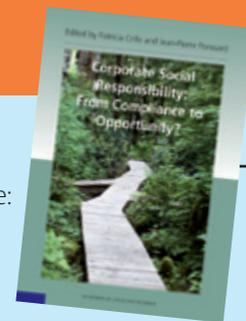
Most countries have accelerated their support to green growth to exit the financial and economic crisis and create new opportunities, but a context of high uncertainty undermines the promises of green growth. The net cost or benefit of such a transition will then be intimately linked to the context in which investment decisions, tangible or intangible, are made. To maximize the socio-economic gains of the green transition, robust public policies are needed, reducing the uncertainty of regulation and systemic risks, stabilizing the perspectives of profitability of a green investments reorientation and allowing for margins to undertake the transition.

Patricia Crifo

Crifo P. Green Economy: A Solution to the Crisis? La documentation Française, juin 2010.

www.ladocumentationfrancaise.fr/dossiers/economie-verte/crifo.shtml





“Corporate Social Responsibility: From Compliance to Opportunity?”

P. Crifo and J-P. Ponsard eds,

(Ecole Polytechnique Editions, June 2010)

Chapter 1:

Governance and Financial Regulation:
The Lessons from the Crisis

- Global Regulation in the Aftermath of the Subprime Crisis, Dominique Plihon
- Corporate Governance and Financial Crisis: The Enduring Quest for Managerial Accountability, Antoine Rebérioux
- Leverage, Excessive Risk-Taking, and Financial Instability, Édouard Challe

Chapter 2:

Corporate Social Responsibility and Financial Performance:
Where Do We Stand?

- A Survey of the Literature on CSR and Financial Performance, Vanina D. Forget
- Complementarity between CSR Practices and Corporate Performance: An Empirical Study, Sandra Cavaco and Patricia Crifo
- CSR and Greenwashing, Rémi Bazillier and Julien Vauday
- SRI Analysis and Asset Management: Independent or Convergent? A Field Study on the French Market,

Patricia Crifo and Nicolas Mottis
- CSR and Stock Market Performance:
A Case Study, Najib Sassenou

Chapter 3:

Firms and Sectoral Risks: Climate Change,
Health and Nutrition

- A Managerial Perspective on the Porter Hypothesis: The Case of CO₂ Emissions Diane-Laure Arjaliès and Jean-Pierre Ponsard
- Corporate Social Responsibility as a Strategy for Safe and Healthy Food, Éric Giraud-Héraud and Ruben Hoffmann
- Mainstreaming Fair Trade: A Discussion through the Lipton Tea Case, Sylvaine Poret
- Voluntary Approaches in the Policy Cycle, Pierre Fleckinger, Matthieu Glachant and Gabrielle Moineville

Chapter 4:

Firms and the Communities- The Limits of Financial Performance

- Multinationals in Remote Communities Rio Tinto Alcan's Experience in Nurturing Local Business, Justine Quenneville-Éthier and Bernard Sinclair-Desgagné
- Corporate Strategies and the Construction of Markets at the Base of the Pyramid, François Perrot
- Access to Energy in Developing Countries: EDF's Experience with Rural Electrification Using an Innovative Business Model, Christine Heuraux
- Market Disrupting Product Innovations and Corporate Social Responsibility, Vivekananda Mukherjee and Shyama V. Ramani

Available on www.editions.polytechnique.fr or www.amazon.fr

UpNext

Forthcoming events

September 30, 2010: Workshop “Hydropower as a Solution to Africa's Energy Problem in the Context of Climate Change”. Organized by the Chair for Sustainable Development-EDF-Ecole Polytechnique.

Location: Amphitheater Cauchy, Ecole Polytechnique, Palaiseau (all day conference).

To register: <http://chaire-edf-ddx.Polytechnique.fr/accueil/la-chaire/hydropower-conference-september-2010-50185.kjsp>

October 21, 2010: Workshop “Smart Grids”. Co-organized by the Chair for Business Economics and the Chair for Sustainable Development-EDF-Ecole Polytechnique. The workshop will bring together the economists' view and the industry perspective on the following topics: (i) Technological impact and advance to sustain smart grids projects, (ii) Integration of renewable power, (iii) Demand Changes.

November 2, 2010: Internal Workshop to the Chair for Sustainable Finance and Responsible Investment (by invitation).

November 12, 2010: Workshop on CSR co-organized with CIRANO to take place in Montreal (Canada) with the support of the Chair for Business Economics and the Chair for Sustainable Finance and Responsible Investment.

November 17, 2010: 2nd workshop Ecole Polytechnique-INRA on Genetically Modified Organisms (GMOs): “The freedom of choice principle for consumers and farmers and its implications on the value chain” with the support of the Chair for Business Economics.
Location: INRA, 47 rue de l'Université, 75007 Paris