

## **Achieving Business Success by Developing Clients and Community: Lessons from Leading Companies, Emerging Economies and a Nine Year Case Study**

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### **ABSTRACT**

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Empirical evidence and recent revisions of conventional business doctrine indicate that companies that actively promote social performance and develop their clients' markets and skills as part of business strategy have a better chance of achieving sustainable profitability and growth than those that do not. This article discusses how landmark companies, emerging economies, and in particular a Latin American company sustained success over long

periods of time by developing socially-focused strategies. By applying the *Megaplanning* methodology to the development of clients and the social environment during a three-year period, an Argentinean refinery developed its local and regional market, increased its revenues and market share and reduced turnover and costs generated by social conflict, outperforming its previous conventional, Macro-focused business strategies.

*The social dimension is a survival dimension. The enterprise exists in a society and an economy. Within an institution, one tends to assume that the institution exists in vacuum. And managers inevitably look at their business from the inside.*

—Peter Drucker (1989)  
*The New Realities*

### **Introduction**

Is running a profitable business incompatible with doing social good? Should businesspersons and managers stay exclusively focused on maximizing quarterly results in the belief that what is best for their stock is best for the long term survival and growth of their companies? Should performance and management consultants “stay out of trouble” by confining their work to improving ex-

isting process efficiency and results inside their client organizations?

Nowhere do these concepts more urgently require a revision than in addressing the challenges and unique opportunities created by the emerging economies that characterize the beginning of the 21st century.

This article will try to respond to these critical questions by analyzing current economic and social data, the experiences of groundbreaking companies such as Henry Ford's and those in today's digital India, and a nine-year case of a Latin American company.

### **Conventional Wisdom, Origins and Consequences**

Mainstream business administration theory has followed an

“inside-out” planning tradition. With few exceptions (Drucker, 1985, 1995; Hope & Hope 1995; Kaufman, 1996, 1998, 2000; Kaufman, Corrigan, & Johnson, 1969; Kaufman & English, 1976, 1979; Kaufman & Thomas, 1980), the performance improvement and management literature has focused more on discussing internal tactics and techniques for improving products, processes, quarterly profit and market share than on creating and exploring external strategies to developing markets, clients and sustainable profitability.

The traditional business literature (Friedman, 1970) considers social and environmental programs more as defensive strategies that insure companies against potential liabilities, rather than as active ingredients of the business formula to achieve sustainable growth and benefits. Viewing business profit as incompatible with doing social good springs from a tradition of demonizing for-profit enterprise that goes back to sources as diverse as the scholastic and religious thinking of the Middle Ages (Aquinas, 1273) and the economic theories of Thomas Malthus and Karl Marx in the 18th and 19th centuries (Weber, 1920, 1958).

Challenging this traditional dichotomy, comparative global statistics on more than 120 countries show that those that develop entrepreneurial economies based on for-profit enterprise clearly outperform those that do not in all indicators of social progress, well-being, stability and quality of life as measured by the United Nations (UNDP, 2003; Miles, Feulner, & O’Grady, 2005; O’Grady, 2005).

The expansion of India and China’s economies during the last decade not only proves that entrepreneurial

practices generate economic growth, but also a spectacular expansion of consumption and rising quality of life among the formerly poor. According to Goldman Sachs’s BRIC report: “The number of people with an income over \$3,000 (approximation of middle class) should double within three years in these economies and within a decade over 800 million people will have crossed this threshold” (Goldman Sachs, 2004).

Those companies still driven by the old paradigm that considers social improvement and wellness as a risk factor and a limiting condition for profit will be at a competitive disadvantage in this global expansion that will account for 10 to 17 percent of global equity markets by 2020 (Goldman Sachs, 2004). The experience in oil-rich countries in the Middle and Far East, Latin America and Africa (Miles, Feulner, & O’Grady, 2005) demonstrates that those companies that enter emerging markets driven exclusively by maximizing short-term financial and cost-efficiency goals without defining a social strategy may in fact be taking much higher risks in the form of market stagnation, legal insecurity, riots, damage to property and lives, and business disruption than those that link those bottom line results to proactive social value-added and improvement goals.

### **Revising the Old Business Paradigm**

Since its preliminary introduction in the article “Towards Educational Responsiveness to Society’s Needs: A Tentative Utility Model” (Kaufman, Corrigan, & Johnson, 1969), Roger Kaufman’s *Megaplanning* model (Kaufman, 1996, 1998, 2000; Kaufman

& English, 1976, 1979; Kaufman & Thomas, 1980) was unique in its challenge to traditional, short-term bottom line oriented management and process-focused HPT thinking and practice. Kaufman's *Megaplaning* model has been successfully applied to government and for profit organizations in different countries during two decades with interesting

results. However, it still generates resistance among those managers that follow a traditional business approach and who consider it more or less idealistic and impractical. Even some of Kaufman's colleagues in the HPT field (Schneider, 2003; Winiecki, 2004) recommend HPT practitioners to "stay out of trouble" by limiting performance improvement to more conventional internal process improvement projects. During this period, however, respected management

experts such as Peter Drucker (1985) and the British economists Tony and Jeremy Hope (1997) sided with Kaufman and his concerns about the neglect of social context and variables in business and organizational thinking.

More recently, the business literature has started to recognize that short-term, inward-looking approaches to business performance

are major factors in creating non-sustainable business models prone to financial and social collapses; two examples are the cases of Enron in the corporate world (Toffler & Reingold, 2002) and Argentina in the public sector (Mussa, 2002). In analyzing those experiences, new developments in economic thinking and policy-making have demonstrated that strate-

gies and policies that neglect social improvement fail or underperform in achieving sustainable success and actually *increased* the intrinsic risks of emerging or rapid expansion economies (Stiglitz, 2000; Rubin, 2004).

Following this growing trend, Harvard Business School experts Michael Porter and C.K. Prahalad have independently published articles that advise rethinking the traditional dichotomy between business and social good and

embracing an aggressive and proactive use of social strategies for sustainable business success.

In their 2002 *Harvard Business Review* article "The Competitive Advantage of Corporate Philanthropy," Porter and Kramer define this new scenario:

It is true that economic and social objectives have long been seen as distinct and often compet-

***More recently, the business literature has started to recognize that short-term, inward-looking approaches to business performance are major factors in creating non-sustainable business models prone to financial and social collapses...***

ing. But this is a false dichotomy; it represents an increasingly obsolete perspective in a world of open, knowledge-based competition. Companies do not function in isolation from the society. In fact, their ability to compete depends heavily on the circumstances of the locations where they operate. In the long run, social and economic goals are not inherently conflicting but integrally connected. Boosting social and economic conditions in developing countries can create more productive locations for a company's operation as well as new markets for its products. (p. 7)

And according to Prahalad and Hammond's 2002 HBR article "Serving the World's Poor, Profitably," the growing economic phenomenon of the Chinese and Indian economies, traditionally considered bottom-of-the pyramid (BOP) markets, has made a strong case for considering human development not just as a humanitarian cause, but as an increasingly attractive and highly profitable target for world-class corporations. In Prahalad's words:

By stimulating commerce and development at the bottom of the economic pyramid, multinationals could radically improve the lives of billions of people and create a more stable, less dangerous world. Achieving this goal does not require multinational corporations to spearhead social-development initiatives for charitable purposes. They need (sic) only to act in their own self-interest. Fully 65 percent of the world's population earns less than \$2,000 per year—that's 4 billion people. While individual incomes may be low, the aggregate buying power of poor communities is actually quite large, representing a substantial market in many coun-

tries for what some might consider luxury goods like satellite television and phone services. Because these markets are in the earliest stages of economic development, revenue growth for multinationals entering them can be extremely rapid. MNCs can also lower costs, not only through low-cost labor but by transferring operating efficiencies and innovations developed to server their existing operations. (pp. 1-2)

### **Lessons from Business Practice**

An analysis of the experiences of standard-setting companies as diverse as Ford Motors, Starbucks and Microsoft, and the enduring success of some emerging economies, shows that entrepreneurs and business innovators frequently build their business strategy not only on revolutionary products or services, but following a vision of the social conditions required for their utilization. Ground-breaking companies actively intervene in introducing or favoring specific social changes to create the conditions for lasting success (Drucker, 1985; Naisbitt, 1984; Peters & Austin, 1985; Peters & Waterman, 1979; Porter & Kramer, 2002; Prahalad & Hammond, 2002; Toffler, 1990).

Outgrowing business conventional wisdom, business entrepreneurs and innovators have long succeeded in overcoming the classical Kondratieff stagnation cycles (Drucker, 1985; Alexander, 2002) and preventing the crises of globalization processes (Mussa, 2002) by actively using social improvement goals as a guiding strategic principle (Drucker, 1985). Such businesses have not only studied *but deliberately created* new markets and clients by starting

social trends and changes that in return supported the sustained success of their business models.

### **From Henry Ford to Digital India: Integration of Business and Social Progress**

A review of the history of successful entrepreneurial business practices (Volcker, Norris, & Bockelman, 2000) provides additional evidence of how business leaders proactively promote their vision of social progress as a key factor for securing their sustainable success

At the beginning of the industrial era, business pioneers such as Henry Ford successfully implemented proactive strategies to develop their businesses not just by exploiting existing market opportunities, but also by developing markets and clients for their new products and ideas.

Ford always understood that creating a *competitive product* (Ford A) through revolutionary *process improvements* (the assembly line and serial production) was not enough to guarantee sustainable business success.

Ford viewed his business in broader terms—as most business innovators do—by creating a consumer *and* a market for his product, and therefore, a viable and sound business for years to come. He established

not only a sound “business case” but also a *systemic vision* of his business *integrated* into a *vision for the larger social system*. In this case, the large social system was the United States at the beginning of the 20th century, which was transitioning from rural, isolated communities to a mobile and industrialized society (Kennedy, 1999; President’s Research Committee on Social Trends, 1933).

By analyzing the social context of

his time, Ford envisioned a strategy that tied his workers’ wages to his product’s pricing, defining a revolutionary bottom line equation: in order to secure Ford Motors long term viability and success as a business, Ford cars must be affordable for its workers.

Intuitively, Ford viewed his company from an “outside-in” perspective, and tried to actively manage and balance both

*supply* and *demand* sides (Keynes, 1938). In order to create a mass market for cars, Ford not only improved *supply* by drastically reducing production costs through revolutionary process improvements, but also *created demand* by elevating his workers’ income, making Ford Motors’ business model viable and sustainable. He improved his business’ *supply* performance by establishing close partnerships with critical suppliers such as Harvey Firestone

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and the steel barons and secured future *demand* by collaborating with local and federal governments, which were promoting employment through the construction of roads and highways.

Following this systemic thinking process, Ford not only created cars and made record profits for his time but also created a business system, an entire “industry of industries” that established the foundation for what we know today as the middle class and the modern consumer market (Volcker, Norris, & Bockelman, 2000). Ford and many others after him succeeded by not only creating a product by way of a revolutionary process, but most fundamentally, by envisioning business as *open systems that aligned business performance and process improvement to a broader social vision*.

Ford Motors achieved success by transforming blue-collar workers into middle-class consumers of mass-produced, affordable cars.

More recently, Starbucks has created a new market by introducing European-style cafes to American consumers. Starbucks cafés not only sell coffee but also sell the coffee experience, providing an environment where customers can gather, study or read in a personalized, communal context. In keeping with its systemic approach, Starbucks secured sustainable suppliers of its high-quality, organically grown coffee by improving the social and environmental conditions and business skills of these small rural coffee producers in Latin America, Africa and Asia (Schultz & Yang, 1997).

Following the same line of “outside-in” thinking, Apple and Microsoft developed user-friendly, domes-

tic computers and communication devices by envisioning and empowering individuals and non-specialized users as the center of a knowledge-based, digitally connected and more decentralized society; this society was very different from the one traditional competitors served by providing punched cards and mainframes for centralized information centers (Moore, 1991; Gates, 1995; Hope & Hope, 1997; Volcker, Norris & Bockelman, 2000; Guth, 2005).

### **Emerging Markets: To Sustainable Profit Through Social and Economic Development**

By taking advantage of the opportunities presented by the emerging economies in the beginning of the 21st century, local and multinational companies are thriving by challenging conventional business wisdom. By offering affordable cell phones to rural areas in India, micro credit lines to slum dwellers in Rio de Janeiro or broadband infrastructure to college-educated professionals in Mumbai, these companies are empowering local workforces and entrepreneurs to transform shantytowns in Dharavi, Sao Paulo and Mexico City into quickly-prospering manufacturing and knowledge-based services enclaves (Pralhad & Hammond, 2002). Such proactive, socially focused strategies leverage growth by transforming conventional BOP customers into self-sufficient entrepreneurs with higher purchasing power, as shown by the ongoing success of India and China’s economies in achieving both economic and social expansion (Miles, Feulner, & O’Grady, 2005).

The demographics of the United States and other fast-growing

economies show that an increasing proportion of consumers are also entrepreneurs developing their own businesses and clients. As the differentiation between “B2C” and “B2B” approaches becomes less precise, pioneer companies such as eBay and Amazon thrive and create billion-dollar markets by enabling small businesses and entrepreneurs to market their own products and services.

When applied as part of a systemic, socially-focused strategy in emerging or high-potential markets, business tactics such as franchising, outsourcing and farming out to entrepreneurial clients can not only reduce costs and improve internal performance, but may also create new ongoing demand. This demand may be supported by new and indirect customers that have been created and sustained by these communities’ development.

Socially-focused business strategies not only apply to large companies or at the larger macroeconomic level, but also to smaller businesses facing the challenge of succeeding in new, underdeveloped markets and communities. In these cases, socially-focused strategies are indispensable for sustaining bottom line results because they effectively anticipate the more complex and recurring business challenges to continued business success such as securing social stability and creating a hospitable business environment.

### **A Nine-year Comparative Study: The Refinor Business Case**

As a corollary to these historical trends and precedents, we will analyze more closely the process and tactics for developing a social strategy for business success. We will discuss the business case of a Latin American

company that covers a nine year period (1994-2002). During this period the company experienced the use of both traditional (1994-1996; 2000-2002) and *megaplanning* (1997-1999) approaches, so we will also compare the performance results of both strategies in terms of conventional bottom line and social outcomes.

Refinor is a gas production and distribution company located in the northwest of Argentina, in a developing region that borders with Bolivia, Paraguay and Brazil, at the heart of MERCOSUR. The company was created in 1994 as a result of the privatization of segments of YPF, a large state-owned Argentine oil conglomerate.

During the first period after privatization (1994-1996), Refinor’s new management was the private Argentinean holding company Perez Compac. Our consulting team focused on streamlining internal efficiency by reengineering processes, investing in new technology and implementing a management development and cultural change plan to develop entrepreneurial skills and attitudes among Refinor’s management and employees.

Although the company’s traditional bottom line improved significantly during 1994-1996 as a result of its internal performance improvement programs, it was increasingly evident that the company’s conventional growth had plateaued at a level that still could not guarantee sustainable profitability. Improving internal performance was not enough to ensure Refinor’s future because the company was growing in a market that was not growing.

After the long period (1945-1992) of subsidized public employment

and the subsequent privatization processes (Mussa, 2002), former state employees in Refinor's region who received severance packages paid in 1992-1994 as part of the privatization plans represented a significant part of the region's energy market. Although short term energy demand was boosted by the increased purchasing power generated by this approximately \$40 million in paid severance, long term perspectives for the market remained uncertain. In spite of receiving this large individual subsidy, living in one of the richest agricultural regions of South America and owning potentially productive parcels of land, most former public employees were unable to generate new income because their skill set and work culture were limited to their former administrative or oil-related jobs. The agricultural skills and entrepreneurial mindset that were common among the prewar generation had not been transmitted to these public employees who had abandoned their parents' self-sustainable small farms for the safety of public sector jobs.

In spite of significant achievements in improving its internal performance, Refinor's turnover rates started to climb, menacing the continuity of those achievements with the loss of young and talented workers and professionals unwilling to commit to raise their families in an environment increasingly affected by social problems.

During 1994 to 1996, as former state employees' savings started to disappear into unsuccessful business investments, social problems such as social protests that resulted in property or productivity loss, alcoholism, juvenile delinquency, substance abuse and preventable diseases grew rap-

idly, creating a hostile environment for Refinor families. Refinor's workers described their situation as living in an increasingly isolated "island" of prosperity surrounded by a sea of social unrest and an uncertain future.

## The Challenge

Our consulting team had first hand knowledge of the social and environmental challenges; during the implementation of Refinor's initial internal performance improvement program (1994-1996), team members lived with the people they were coaching and training in four small communities at the heart of the MERCOSUR region, 1,200 miles away from Argentina's main cities.

In 1997, after a series of follow-up meetings that revealed the relevance of the social challenges for the company, Refinor's CEO asked our consulting team to propose a non-conventional social strategy for the local communities and the region that would secure the company's long term sustainability.

We selected Roger Kaufman's *megaplanning* model (Kaufman, 1996; Kaufman et al., 2003) as our strategic planning approach because it provided a systemic and comprehensive framework for aligning social and business goals and processes as well as for linking all the key internal and external organizational elements. We selected General Electric's *workouts* (Ulrich, Kerr, & Askenas, 2002) and University of Michigan's *boundaryless organization* model (Ulrich, Kerr, & Ashkenas, 1995) as our tactical approach to involve and commit employees and community leaders in the company and community-wide assessment, problem-solving and decision-making

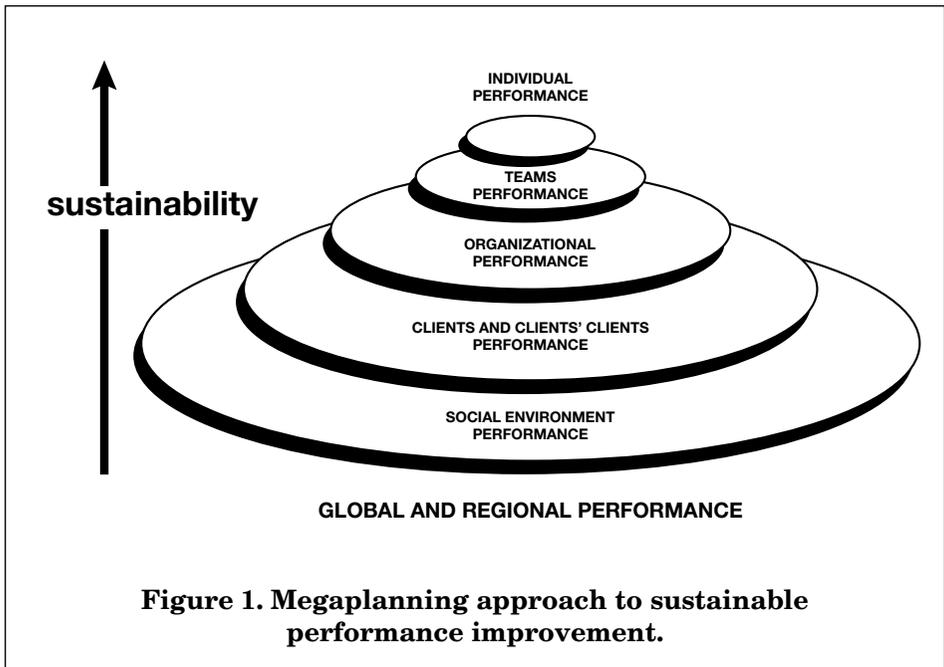
processes required for implementing Kaufman's methodology.

The application of the megaplanning model and tools helped Refinor's management and leadership realize that *sustainable* growth and long-term performance improvement would require the company to move beyond internal, individual or organizational improvement toward improving Refinor's clients' performance and the conditions and performance of their communities and social context.

According to Kaufman's strategic model, sustainable business success depends on improving not just *internal performance*, such as individual, team or organizational competence and efficiency, but more critically, on improving the company's *external performance*, linking clients and clients' clients' success to social, regional and global performance. It was

clear that improving Refinor's clients and clients' clients' performance required improving the social performance of the communities and region where both Refinor's employees and clients lived. Moreover, it was critical to envision the company's clients and the community and region's progress and goals as mutually dependent and aligned instead of mutually exclusive; this would also transform traditionally adversarial relationships that had led to conflicts such as fuel pilferage or riots, into strategic alliances between business and society that could further support sustainable success (see Figure 1).

Following Kaufman's model, quantifying the cost of ignoring the social environment in terms of fuel losses, social conflicts and potential disruptions of productive processes helped establish the benefits of the new business model in bottom-line terms.



Our first decision was to identify four local communities (Tartagal, Aguaray, Pocitos and Mosconi) in the northwest region of Argentina as the starting point and primary market for our performance improvement experiment. Refinor's strategic plan would reach outside the company's boundaries for developing the company's primary clients—former public employees transitioning to farming and new agricultural small businesses—and their clients and communities. Refinor's strategy would not only be to provide fuel and energy, but also to train and coach the communities' entrepreneurs in the business and technical skills required to generate sustainable income and profits. Finally, Refinor and non governmental organization (NGO) teams would also help com-

munities organize and train self-directed social work teams in order to improve their environment and that of their clients.

Using Kaufman's minimal ideal vision (MIV) model as a framework in a series of internal and social workouts, the company's management, staff and community leaders identified gaps between the MIV and the company and communities' realities, thus generating consensus for action plans.

Table 1 shows the gaps between MIV and reality detected by more than 350 workout participants in five different communities.

As a consequence of this first step, Refinor's leadership developed a new vision and mission for the company that was discussed with and approved by the CEO (see Table 2).

**Table 1**  
**Social Workouts Findings**

Minimal Ideal Vision element (Kaufman, R., 1995, 2000)	Gaps detected by Refinor's workouts
A. All children will have access to and will attend school regularly, will be physically and mentally healthy and will learn and develop those skills that will enable them to have access to jobs above the poverty line.	<ul style="list-style-type: none"> <li>• School's curricula not responding to social demands</li> <li>• Child prostitution</li> <li>• Dependency on government subsidies</li> </ul>
B. All those receiving training must obtain the knowledge, skills and attitudes required to be self-reliant and have a high degree of self-confidence as citizens and as workers. (All schools must be in a position to provide first-class education to the poor.)	<ul style="list-style-type: none"> <li>• Lack of basic skills for self sustaining forms of life (70% of the working population was living from voluntary retirement funds after privatization of the state-owned oil company)</li> <li>• Isolated improvement efforts</li> </ul>
C. Reduce the levels of alcohol and drug dependencies to zero in a one-and-a-half-year term.	<ul style="list-style-type: none"> <li>• Drug trafficking (border zone)</li> <li>• High alcoholism rate</li> </ul>
D. All unemployed will have an opportunity to get the skills that will enable them to get a productive job and keep it.	<ul style="list-style-type: none"> <li>• Indigenous population segregation</li> <li>• Poor education level</li> <li>• Isolated improvement efforts</li> </ul>

## Table 2 Refinor's New Vision and Mission

*We conceive REFINOR's mission as the achievement of the region's development (MERCOSUR), regarding the improvement of the standard of living of its inhabitants, through providing our skills, people, services and products to help create genuine jobs and opportunities for professional and business development for our employees, clients, and suppliers.*

Eighty percent of Refinor's natural market, the region across the borders of Argentina, Brazil, Bolivia and Paraguay known as MERCOSUR, consisted of small businesses in a mostly agricultural region that required agricultural fuel for vehicles and power plants. The key to Refinor's new business strategy was training and coaching of local entrepreneurs to develop self-sufficient small businesses, which in turn would expand the demand for fuel and develop a self-sustainable market. Our complementary business hypothesis was that by adopting such a social strategy for the region, Refinor would increase its market share, not only as a consequence of general economic growth, but also of business differentiation and the consumers' identification with a well regarded regional brand.

Refinor's macro-level business goals were linked to societal goals and actions. As a first step in the learning strategy, the consulting team made business groups align goals from their more familiar Macro indicators to Mega (Table 3) and to later reverse the analysis from Mega to Macro (Table 4) developing a strategic, outside-in goal sequence.

Among the social problems erupting in the region as a belated consequence of unemployment and

dependency on subsidies were child prostitution, alcoholism and social conflicts ending in property or productivity losses.

### Implementation

During the 1997-1999 period, joint community-company project teams of Refinor's managers, employees, families, school, hospital, and union leaders, and local elected authorities tackled the different critical areas defined in the workouts.

1. *Developing self-sustainable businesses:* Local communities' teams, promoted by Refinor, helped former unemployed families to start small businesses based on local agricultural resources. Refinor's cultural change plan, implemented internally during 1994-1996, was the basis for launching a community-bound program to develop entrepreneurial skills among the company's local clients and small businesses in the region. Refinor's supervisors and managers worked as instructors and facilitators for the social training programs.

2. *Workforce reconversion:* Three agro-technical schools sponsored by Refinor started programs to develop the new skills, knowledge and attitudes required by the former state employees to develop self-sustainable businesses. Many of the instructors,

**Table 3**  
**Aligning Business with Social Goals (from Macro to Mega)**

To achieve these business goals	Our community and market should achieve these goals
<input type="checkbox"/> Sales and market share sustainable growth	<ul style="list-style-type: none"> <li>• New successful small businesses</li> <li>• Regional awareness and identification with program and company</li> <li>• Reeducated and reconverted workforce</li> </ul>
<input type="checkbox"/> Reduce or eliminate turnover	<ul style="list-style-type: none"> <li>• Crime and substance abuse reduction</li> <li>• Opportunities for community involvement</li> <li>• Community and employees sharing positive, realistic future goals (consumer and employee's sentiment)</li> </ul>
<input type="checkbox"/> Reduce fuel and product loss produced by pilferage	<ul style="list-style-type: none"> <li>• Special supply for entrepreneurs</li> <li>• Environmentally conscious population</li> <li>• Educated workforce</li> </ul>

**Table 4**  
**Aligning Business with Social Goals (from Mega to Macro)**

If our community and market achieve these goals	Our company will achieve these business goals
<ul style="list-style-type: none"> <li><input type="checkbox"/> New successful small businesses</li> <li><input type="checkbox"/> Regional awareness and identification with program and company</li> <li><input type="checkbox"/> Reeducated and reconverted workforce</li> </ul>	<ul style="list-style-type: none"> <li>• Sales and market share sustainable growth</li> </ul>
<ul style="list-style-type: none"> <li><input type="checkbox"/> Crime and substance abuse reduction</li> <li><input type="checkbox"/> Opportunities for community involvement</li> <li><input type="checkbox"/> Community and employees sharing positive, realistic future goals (consumer and employee's sentiment)</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce or eliminate turnover</li> </ul>
<ul style="list-style-type: none"> <li><input type="checkbox"/> Special supply for entrepreneurs</li> <li><input type="checkbox"/> Environmentally conscious population</li> <li><input type="checkbox"/> Educated workforce</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce fuel and product loss produced by pilferage</li> </ul>

former graduates from the schools, were training their own parents to manage their new businesses on their own land. Refinor drew from additional consulting resources and expertise from agricultural companies also belonging to the Perez

Company conglomerate. During the period 1997-1999, former state employees started 160 new small and medium agricultural businesses in the region.

3. *Healthcare and wellness*: joint teams involving company volunteers,

families and Department of Health staff from hospitals and other medical agencies launched two major campaigns to prevent juvenile substance abuse and promote healthier lifestyles based on self-sufficiency skills and job, sports and educational opportunities.

4. *Youth programs*: Two day-long soccer sports programs organized by Refinor employees, community leaders and instructors from the Department of Education provided two daily meals, and in some cases, a place to sleep, for 6,000 adolescents, keeping them off the streets and away from high-risk situations.

One key factor for tactical success during the needs assessment, planning and implementation phases involved Refinor's families and local institutions.

Our consulting team partnered with *Asociacion Conciencia*, a women's volunteer NGO dedicated, since Argentina's return to democracy in 1984, to the promotion of the participation of women in community and social development. This was a decisive step for involving Refinor employees' spouses and families, and through them, reaching educational, health and political institutions.

Conciencia and other women became decisive change agents and foot soldiers for the project, opening doors for families, children, doctors, teachers, union leaders and representatives under a non-partisan framework based on the Minimal Ideal Vision.

As a direct consequence of the women's involvement, social workouts included not only adult members of families, but also K-12 age children and adolescents, which constituted one of the main risk groups. The children and adolescents surprised

parents and business leaders with their sharp insights on communities' problems and future prospects; this became an emotional turning point in obtaining the commitment and support of traditionally splintered and antagonistic community sectors such as labor unions and government representatives. With the momentum of social workouts, Kaufman's ideal vision (Kaufman et al., 2003) worked as a common denominator and cohesive factor.

The non-partisan nature of NGO and company facilitators was another major asset in a region where political credibility was plummeting to historically low levels. The social protest movement known as *piqueteros* (picketeer) originated in Refinor's region. During the 1997-1999 period, picketers attended and participated peacefully and productively in social workouts and project teams.

After the initial social workouts sessions, which were celebrated as town hall meetings, multi-sector project teams made up of Refinor employees, families, community leaders, teachers, doctors, union and political representatives met in homes, schools, hospitals and public offices during the next two years under the coaching of Conciencia and Refinor facilitators.

## Results

During the period when it carried out its socially-focused, Megaplaning strategy (1997-1999), Refinor obtained positive results in all three Megaplaning levels (Kaufman et al., 2003) as shown in Table 5.

### Strategic Performance Indicators

Refinor started utilizing a new set of strategic performance indicators

**Table 5**  
**Results 1997-1999 at Mega, Macro and Micro Levels**

Mega Outcomes	Macro Outputs	Micro Products
<ul style="list-style-type: none"> <li>• Reduction in welfare roll</li> <li>• Reduction in pollution rates</li> <li>• New sustainable small business</li> <li>• Reduction in infant mortality, preventable diseases</li> <li>• Reduction in crime statistics</li> <li>• Settlement of employees in community</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in market share over period 1998-2000</li> <li>• 160 new small and medium agro-businesses started profitable, self-sustainable operation</li> <li>• Market leadership (brand of choice)</li> <li>• +50 percent turnover rate reduction</li> <li>• ISO 14000 environmental certification</li> <li>• 4 self-sustainable rural schools</li> </ul>	<ul style="list-style-type: none"> <li>• Improved company infrastructure (pipeline)</li> <li>• Improved communities' infrastructure (education, health, environment)</li> <li>• "Papaya Refinor"</li> <li>• Self-directed company-community improvement teams</li> <li>• New self-sustained agro technical internships</li> <li>• 1600 youth participating in sports</li> </ul>

such as (1) hours of social work; (2) market share; (3) local unemployment rate; (4) riots and incidents; and (5) property loss, that tied the company's business model to the evolution of the region and allowed the sharing of strategic goals and criteria for measuring success with clients, community leaders and institutions. SPI are described in Table 6.

### **Follow-up Study 2000-2002**

In 2000, Perez Companc Holding sold Refinor to Brazil's state-owned Petrobrás and the new management returned to the traditional business model, limiting social investment to traditional subsidies and assistance.

During the 2001-2002 period, Argentina experienced a large economic crisis. This was a consequence of, among other things, privatization and globalization policies (Mussa, 2002; Stiglitz, 2002, 2003) that followed the traditional business model of micro-focused business strategies.

In 2004, the author returned to the region and completed a follow-up report to be presented at the ISPI Conference (Kaufman & Bernárdez, 2004) and also to Petrobrás management.

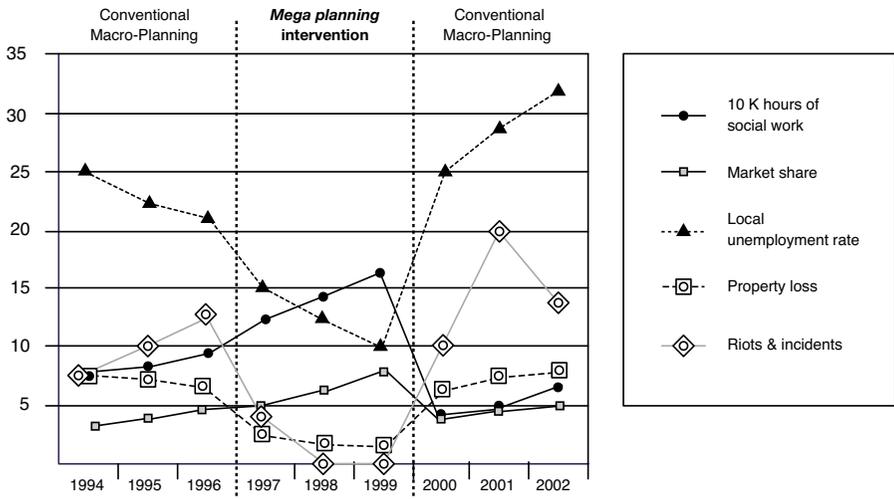
Thanks to the statistical data documented by local authorities (Provincia de Salta, 2002) and Refinor's HRD during the period 1994-2002, it was possible to build an historic series of five strategic indicators related to the project for the period before the new experience (1994-1996), the experience duration (1997-1999) and the three years after the experience (2000-2002; see Table 7).

The strategic social indicators monitored were: (1) hours of social work; (2) market share; (3) local unemployment rate; (4) riots and incidents and (5) property loss.

The 1994-1996 and 2000-2002 periods reflect the results of a traditional business strategy, with a considerably lower level of investment in hours of social work and virtually

**Table 6**  
**Strategic Performance Indicators (SPI)**

Indicator (SPI)	Definition
Hours of Social Work	Hour of social work included the time invested in community projects by the company and volunteers
Market share	Refinor's share of the regional fuel market
Local unemployment rate	As defined by Statistics from INDEC and government of Salta for Aguaray, Pocitos, Tartagal and Mosconi, the main communities surrounding Refinor's refinery and main infrastructure.
Riots and incidents	As reported by local police
Property loss	As reported by local authorities



**Figure 2. SPI evolution chart.**

unchanging levels of market share (4.43% for 1994-1996 and 4.36% for 2001-2003).

The 1997-1999 period reflects the new strategy, with higher levels of social investment (14,000 hours per year versus 8,400 for 1994-1996 and 4,800 for 2000-2002) and a 6.33 average market share, with

steady increases each year of the period. The higher level of social work hours in the 1997-1999 period does not reflect higher costs, because a significant proportion is volunteer work of Refinor staff, families and community members and reassignment of internal training hours to social training.

**Table 7**  
**Strategic Performance Indicators (SPI) evolution 1994-2002**

Year	K hours of social work*	Market share	Local unemployment rate	Property loss	Riots & incidents
1994	8	4	25	8	20
1995	8.5	4.5	23	7.5	40
1996	9	4.8	21	7.3	50
1997	12	5	15	4	35
1998	14	6	12	2	15
1999	16	8	10	1	20
2000	4	4	25	6	50
2001	4.5	4.5	28	8	145
2002	6	4.6	32	7.8	60
n	82	45.4	191	51.6	435
Mean	9.1	5	21	6	48
Median	8.5	5	23	7	40

\*Each unit represents 1,000 hours of social work

### **Comparing the Strategies' Results at Mega, Macro and Micro Levels**

At the Mega level, Refinor's market welfare roll, pollution rates, infant mortality and crime statistics were significantly reduced compared to the previous (1994-1996) and following (2000-2002) periods of traditional Macro and Micro-focused planning. As a consequence of the improved social conditions, at the Macro level the company reduced turnover by more than 50 percent, and the community developed more than 160 new small and medium-size agrobusinesses, reducing the unemployment rate (12.33% against 20% with Macro-focused management). This Macro effect in turn generated an increase in fuel consumption in the area, expanding the overall market and generating a premium growth in

Refinor's market share (from a previous average of 4.43% to an average of 6.33%—an almost 50% increase) as the region's brand of choice.

At the Micro level, the company improved its core infrastructure—a 1200 km-long poliduct—while reducing the investment in maintenance because of a significant reduction in damage produced by fuel pilferage. Self-directed community teams improved the communities' health and education infrastructure by generating self-sustainable agro-technical business.

### **Results Comparison**

Comparing the Megaplanning period (1997-1999) with two traditional, Macro and Micro-focused management terms (1994-1996 and 2000-2002), the evolution of the Strategic Performance Indicators (SPI) supports the following conclusions:

1. The investment in social work produced a statistically significant improvement in all other SPI, showing a strong positive correlation with the increase in the company's market share and a strong negative correlation with the levels of unemployment, riots and incidents and property loss.

2. The Megapanning strategy outperformed the conventional, Macro and Micro-focused strategies in terms of market share (6.33% versus 4.43% for 1994-1996 and 4.36% for 2000-2002), local unemployment (12.33% versus 23% before and 28% after), riots and property loss (36% reduction on average compared to the conventional strategy).

During the 1997-1999 period, other major regional companies, attracted by Refinor's success in expanding the local market, joined as co-sponsors of social projects such as workforce and small business development, thus multiplying the programs' effect.

The significant worsening in social indicators observed during the 2000-2002 period, however, may not only be attributed to the abandoning of the social strategy, but also to a generalized worsening of Argentina's economy. In 2001 Argentina's national government collapsed and President De la Rúa resigned amidst generalized social violence and looting across the country.

Even though the existence of non-controlled associated variables such as general unemployment and social turmoil during the 2000-2002 Argentinean crisis might have contributed significantly to the extent of the failure of the conventional business strategies, results during the nine-year period clearly demon-

strated the superior effectiveness of a Megapanning approach over conventional Macro-focused strategies in improving both business results and social indicators and generating renewed interest in the strategy by new management.

## Epilogue

For those involved in the experience, the Refinor project represented a significant milestone in our consulting experience and a significant yet involuntary quasi-experiment that held our professional and personal interest for nine years.

We still have to learn and explore how to overcome the most critical challenge to long term, sustainable performance. We have learned that this challenge comes not from external conditions, but from the prevalence of business planning and management models focused on process improvement and conventional, short-term bottom line indicators.

At the beginning of the 21st century, operating in an increasingly globalized market economy, most companies face the challenges of sustaining business growth in emerging markets and societies.

Our hope here is to have demonstrated that developing social performance around our companies is not only a humanitarian goal, but a basic principle of sensible business practice supported by historical and empirical evidence.

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