

Effects of Corporate Social Responsibility and Traditions in Innovations on the Activity of an International Company – the Case of “Schneider Electric”

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Abstract

An important issue for CSR is whether it is instrumental for the legitimacy of organizations or does it mean philosophy and identity validation practices? This study focuses on CSR effects in the culture and practices of Schneider Electric as a direct consequence of its long history, business flair and a strong tradition of innovation. Specific CSR generators are tracked in the culture and way of doing business by the organization in the conditions of market competition. The study shows CSR not as a concrete and autonomous image-assertion strategy, but as a direct function of Schneider Electric ‘personality’ and ‘character’, which manifests itself in its day-to-day implementation at market conditions and according to the current economic environment: corporate citizenship.

Keywords: CSR, corporate culture, innovation, lifelong learning, Industrie 4.0

JEL Classification: M1, M14, O1, O14, O15

Introduction

Corporate Social Responsibility (CSR) is an increasingly popular topic both because of the many attempts to define it and because of the increased impact of corporations on society as a result of globalization. On the one hand, there is a variety of definitions, the differences among which are mainly in the nuances, but they are essentially based on common components (Caroll, A. and Brown, J., 2018). On the other hand, the question is whether CSR at all is a stand-alone category both in science and practice or is an instrument for corporate hypocrisy – simply a technique for building and maintaining a positive corporate image in the course of performing the corporation’s activity, whose sole purpose is profit maximization. Here is also the problem of personification of legal entities in view of the impact they have during their life cycle and in this relation the possible imposition of rights and obligations not only of legal nature, but of moral nature as well or the so-called “corporate citizenship”. The mentioned diversity of aspects of CSR interpretation determines the approach taken by the authors in this study to review the

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emergence and development of corporate social responsibility in the course of the activity of an international company with more than a hundred years of history and strong traditions of innovation – “Schneider et Cie”, predecessor of the modern-day multinational company “Schneider Electric”. The aim is to clarify what is the relationship between the performance of the business activity in view of profits and the impact on society as a result of the company’s business. The variety of definitions which should be covered to define CSR as well as the main research assumption that both (CSR and company activity) are mutually generated and linked in a straightforward relationship have led to the decision to view CSR effects without placing restriction in terms of a precisely given definition of CSR. Methodologically, the survey is based on a business-historical approach to the structural and comparative data analysis.

“Schneider et Cie” in a historical perspective

The French company “Schneider et Cie” was founded as far back as 1836 in Bourgogne (Burgundy) by the Schneider¹ brothers. A careful reading of the available archival records and research show that the success of the company is based on the constant pursuit of its founders of technical and at the same time social innovation during the First Industrial Revolution in France. As early as 1838, the Schneiders had attained one of their greatest technical successes, namely the construction of the first French steam locomotive (*la “Gironde”*) in Creusot, which marked the end of the British monopoly

¹ In 1836, the brothers Eugène and Adolf Schneider bought the former royal military plants in Creusot, Bourgogne, and adapted them for peacetime metallurgical production. Hence the popularity of the Schneider-Creusot in historiography. After the death of Adolf Schneider in 1845, the firm was run by Eugene Schneider until 1875.

in this sector. Another remarkable technical achievement during this period was the invention in 1842 of the large mechanical steam hammer, weighing 3 tons, by the French engineer François Bourdon in Creusot (Beaud, C., 1977). Along with technical and technological innovations, the company’s main element in its overall strategy was its social activity. From the very beginning, the Schneiders realized that man is as important as a machine in the production process, and in many cases even more important than the machine. At the time this was indeed a social innovation, the meaning of which was manifested in the more rational and, at the same time, more humane management of people in the process of production, called nowadays “human resources management”. “This is not about philanthropy, but more about the so-called paternalism, whose emphasis is on the solidarity of the interests within the enterprise. Ever since the beginning of their activity, the Schneider brothers had taken social measures in the interest of both the workers and the management of the company. This approach of social governance in Creusot filled a gap in society at that time, namely the lack of social policy on the part of the liberal state after the bourgeois revolution of 1789 in France.

A striking example of the conscious social care and responsibility was the creation of the Schneider Schools as early as 1837. The vocation of these schools was in three directions. The first is aimed at providing general and vocational training to the children of the staff in the factories with a view of preparing the skilled workforce needed for the growing high-tech production. It was from Creusot’s youth that many accountants, engineers and other specialists emerged later in the new technological processes who worked in the Schneiders’ factories and were their highly competitive advantage. The

second vocation of the schools was to make a fair selection of the most gifted and deserving students among the workers' and employees' children and to direct them to the new *Arts et Métiers* specialty schools in the big cities. The third direction aimed to create a staff that shared Schneider's values of responsibility to future generations and respect for the founders of the company. The fruits of these schools had their socially useful projection ahead of the time. They were, in fact, an early manifestation of the company's behaviour as a corporate citizen as a result of its sustainable decision to invest in education, work and qualifications. A direct effect of Schneider's social strategy was the sustained number of workers in Creusot even during an economic crisis such as that of 1848-1850. In order to overcome it, Schneider temporarily restricted investment in production but did not reduce wages (Beaud, C., 1995). It can therefore be argued that the desire for profit was not at all costs, but that there was a certain balance between financial performance and social responsibility.

Tradition and Innovation during the Second Industrial Revolution

The end of the 19th century marked a new stage in the company's development and orientation to military production. France's defeat in the Franco-Prussian war of 1870 and the related need to increase the military power of the state was largely the reason behind this. Schneider expanded even more the scope of its activity. Based initially in Creusot, they were gradually becoming a powerful military-industrial complex, encompassing numerous factories in the ferrous metallurgy, machine building and the military industry in Lorraine, Normandie, Gironde, also in the vicinity of Paris. A number of companies abroad, including the Russian Putilov military plants, industrial enterprises

in Poland, Yugoslavia, Romania and others were also under their control. At the end of the century, the company already had a broad network of representatives in more than 30 countries worldwide (Beaud, C., 1985).

At this stage of its development, when the Second Industrial Revolution was under way, Schneider also successfully implemented the strategy of applying the latest technical and technological inventions in the production process. In 1874 they managed to produce a special kind of steel with superior technical qualities, designed mainly for the production of heavy artillery and various types of armoured plates. In 1876, the first French two-cylinder locomotive (*la "Bayonne"*) was constructed by engineer A. Mallet in Creusot. A little bit later, Henri Schneider², convinced of the future of electricity, began electrifying the factories in Creusot. He created studios whose initial purpose was to meet the needs of electricity of mechanical constructions enterprises. A little later, in 1897, his son Eugène II opened the first independent studio for production of electrical materials. In 1900, the gas lighting in the plants was replaced by electric lights. For the development of the new electro technical industry, Schneider focused on purchasing licenses mainly from Westinghouse, which were a credible force on the international market at the time. As a result of the convergence and subsequent association of Schneider et Cie with the American company, in 1901 they acquired the electrical plant for production of alternators, transformers and engines in Champagne-sur-Seine, which was located relatively close to the centre of technical novelties – Paris (D'Angio, A., 1995).

In 1929, the joint venture "*Matériel électrique – Schneider-Westinghouse*" was

² Henri Schneider (1840-1898), son of Eugène Schneider, inherited his father's entrepreneurial spirit and courage for innovation.

founded, giving its fruitful results in the following years. The company underwent a major restructuring after World War II under the leadership of Charles Schneider. Later in 1975, the Schneider group acquired the ownership of *Merlin Gerin*, one of the leaders in electrical distribution equipment at that time. Subsequently (1981-1997), the company abandoned steel production and shipbuilding and focused mainly on electricity through a series of strategic acquisitions. The historical review shows that there is continuity in Schneider et Cie's innovative management strategy, which is the basis for the upward and sustainable development of the company during the First and Second Industrial Revolutions.

1. The Challenges of Industrie 4.0: qualified workforce and digital innovations in the product portfolio

The tradition continued with their successor in the electrical industry “Schneider Electric”, which revived the glory of its predecessors and became a world leader in the course of the Third Industrial Revolution in the twentieth century. The company is currently facing the new technical and social challenges of Industrie 4.0. in an increasingly changing world, and it responds accordingly. While “Industrie 4.0” was publicly discussed in 2011³ for the first time (Hermann et al., 2015) Schneider Electric further strengthened its position in software applications, critical power and smart grids immediately after 2010. And if the first three industrial revolutions occurred as a result of mechanization, electrification and information technology, Industrie 4.0 originates

from connected devices, the consolidation of previously unseen data sets, and the ability to analyse data in real-time, automated solutions respectively, based on information processed in real-time (Industrie 4.0 Working Group, 2013). It is not yet possible to address fully all the consequences these new opportunities have on the business and society. The speed at which the changes occur is exponential (Schwab, K., 2016), and the question of adaptation to the new situation is fundamental in relation to the competitiveness of both legal entities and individuals. At the same time, new opportunities are emerging and the old ones are fading – within a professional life cycle a profession can be transformed to an extent that the person exercising it can retrain repeatedly in order to maintain their competitiveness on the labour market. This dynamic environment leads to deepening of social contrasts, puts to a serious test of the ability of people to adapt to new conditions and to constantly study, as well as to the shifting of market positions (of goods and services, labour, etc.). All citizens – including “corporate” ones – have to learn quickly and adapt to the new environment (Industrie 4.0 Working Group, 2013). More than ever, the qualification of the workforce is on the agenda as an absolute prerequisite for the implementation of competitive strategies based on innovations. Traditional education systems do not have the ability to respond to the changes at the speed at which they are happening. In this context, large corporations that have strong traditions in the accumulation and transfer of knowledge to their workforce, but are innovative and, at the same time, flexible because of their activity in conditions of continued competition, are addressing this issue to a high degree.

Schneider Electric's CSR practices are rooted in the very beginning of its history in terms of education, increase of employees' qualification and community competencies

³ An initiative dedicated to increasing the competitiveness of the German manufacturing industry represented by united representatives of the business, scientific and political circles in Germany. Subsequently, supported by the German federal government and regarded as the main structural part of High-Tech Strategy 2020 for Germany.

in the areas in which the company operates. This is another illustrative example of mutual interest between the business and society. The company's interest in having a plenty of qualified human resources for the purposes of its business and its expansion is clearly expressed, and at the same time there is the public benefit of the company's actions through the creation of the Schneider Schools as early as 1837. Schneider Electric is currently developing intensively its staff, investing in modern digital platforms for continuous professional training and encouraging its employees to benefit from these resources constantly. This is another significant example of the CSR effects of the group's operations that are synergistic in terms of the company's public interest and social interest at the same time.

At present, Schneider Electric is one of the world's leaders in the energy industry and is undergoing an unprecedented in its history digital transformation both in terms of its internal standard business processes (the qualification of the human resources is an essential prerequisite) and in relation to its innovation strategy in its product portfolio (in order to make it "smart"). The new conditions resulting from IoT, IIoT and Big Data are fomenting a market revolution in the direction of integrated sensors, the ability to analyse data in real-time, automated behaviour of multiple linked systems based on analysis, and so on. The group is addressing this challenge by actively acquiring a number of key software application development companies for the purpose of developing integrated "smart solutions" that are the base "EcoStruxure" platform is built on – an innovation in the energy industry. This platform enables data collection, analysis, and automated solutions in real time by bringing together the operation of different configurations of devices Schneider Electric offers on the market. The

main effects of implementing this solution are: increased efficiency in the operation of systems and equipment, cost minimization, increased energy efficiency, lowered carbon emissions, etc. or in other words: it makes a significant contribution to protecting the environment and reducing carbon emissions. The company is both acting as the user of these solutions (implementation with the aim of optimizing production, etc. at Schneider Electric factory plants) and as an innovator who develops and challenges others on the market with its innovative portfolio. Both aspects are absolutely and simultaneously necessary to maintain its competitiveness. The traditional image of a responsible and innovative organization is combined with all the concomitant advantages of the current sustainability topic at a time when more and more consumers and shareholders prefer to support companies with such values – "The Ratings Game" (Porter, M. and Kramer, M., 2006), while at the same time there are benefits for society. In the group's annual shareholders' reports, this fact is even explicitly highlighted as a competitive advantage: *"We believe that sustainability is a business – a pillar for every successful company. This is so because, by working for a more sustainable world, we not only provide healthy life to our planet for future generations, but also encourage innovation and prosperity here and now."* (Tricoire, J.P., Chairman & CEO, Schneider Electric). In this sense, the public interest and the commercial interests of the company are in line.

2. "Sustainability is business"

The incorporation of CSR into the company's strategy has taken place in the course of its overall development, but at the end of the 1990s of the 20th century it also expanded considerably its scope in view of the formulation and creation of purposeful structures. Schneider Electric Foundation

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dates back to 1998 and was set up to implement sustainable practices on the part of the organization and was followed in 2002 by the establishment of a unit in the organization dedicated also to sustainable development. In 2005, the company implemented the first Planet & Society barometer, a tool to measure the results of its activity in this area, and the introduction of the CSR criteria in the executives' compensation (Schneider Electric SE, 2015) dates since then approximately. In 2016 the group published its first integrated report, detailing the strategy of “introducing significant innovations in response to several megatrends” among which: the forecasted highest population growth in big cities; reaching over 50 million connected machines and devices; the possibility for consumers to produce energy (Schneider Electric SE, 2016).

In many studies and reports funded or prepared entirely by the company, as well as in its annual reports it is stated very specifically and purposefully that its strategy is completely based on the concept of sustainable development because it is seen as a synergy focal point of social interests and business interests. This is of course communicated actively and is a positive image strategy, but it is definitely not an end in itself, because in reality the industry itself, in which the group operates, in combination with the main challenge of our time – reducing the footprint of human activity on the planet and limiting climate change – has a high synergy power. The targets⁴ set for reducing carbon emissions are a strong incentive in terms of the financial performance of the business by encouraging increased operational efficiency, reducing raw material input in production, and reducing energy consumption in manufacturing activities. This has a significant role in the performance of more and more

companies due to their desire to eliminate the interdependence between economic growth and rising emissions. The commitment to SBT⁵ (Schneider Electric SE, 2018) not only assists in securing future revenue but also represents a long-term competitive advantage for companies that are dedicated to what the Schneider Electric group is. There are analyses proving that companies demonstrating leadership in the fight against climate change are more profitable – accounting for an 18% higher ROI⁶ than others which are not committed to solving this problem (Schneider Electric SE, 2017). The arguments related to the business benefits that a corporate strategy based on sustainable goals and practices brings to its company are much more and can be studied more thoroughly and they refer to the preparedness of such company in the context of the forthcoming regulatory changes, the transparency as an advantage when presenting the company to potential investors, a better reputation with the introduction of pricing mechanisms based on carbon emissions as well as the ability to influence and take the lead in policy making in this area, etc.

The company set targets for sustainability for 2018-2020 (Schneider Electric SE, 2018), which clearly reflect the main trends in this direction. The group points out that its activity affects simultaneously the planet, the profits of the company and the activity of its customers. Through its sustainability strategy, the company formulates its responsible role, and in practice introduces a standard for measurement and self-encouragement of its behaviour (the Schneider Electric Declaration of Sustainability for the period 2018 – 2020 is

⁵ Science-Based Targets under the Science-Based Targets Initiative (SBTi): a collaboration between CDP, the United Nations Global Compact (UNGC), World Resources Institute (WRI), and the World-Wide Fund for Nature (WWF) and one of the We Mean Business Coalition commitments

⁶ Return of Investment

⁴ Paris Agreement, United Nations, 2015

subject to an independent audit whose results are updated four times per year). In this way, Schneider Electric adopts one of the best practices of a corporate citizen – it not only declares commitment to sustainability but also materializes it in concrete actions with measured results.

Conclusion

The interweaving of the public interests and the interests of business is not absolute. However, it is too significant to be reduced to mercantile hypocrisy when it comes to implementing sustainable practices on the part of the business. Such traditional behaviour of a company undoubtedly adds positive aspects to its image as well as financial results. Competitiveness strategy, based on innovations, undoubtedly require qualified staff to carry it out. The historical development of the international company Schneider et Cie is an example of successful diversification of activities in line with the new achievements in technology and the market requirements, which is made possible to a large extent thanks to their qualified human resources. Schneider Electric continues the strategy of high-tech and at the same time social innovations, which in turn determine their corporate civic position, and vice versa.

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