



CORPORATE SOCIAL RESPONSIBILITY AND THE COMPASSIONATE ENTREPRENEUR

by: Dr. Eduardo A. Morató, Jr.

When businesses talk about social responsibility, they frequently mean apportioning a small part of their enterprise income for worthy causes such as the education, livelihood, health and welfare of less advantaged communities, preferably those immediately surrounding their factories and shops. Social responsibility has been equated by many to mean corporate philanthropy. And yet, social responsibility is more than just a conscience balm.

Many years ago, when I was teaching development management at AIM, a major stockholder and chief executive officer of a big mining company spoke before my students on corporate social responsibility or CSR. His firm's social obligation, he said, was to leave the mining site the way his firm had found it before the mining activities started. One student was bold enough to request if he could make the mining firm the topic for his thesis on CSR. The CEO agreed. After months of study, the student completed his thesis.

On one end, he calculated the contribution of the mining firm to the GNP and to the foreign exchange coffers of the country. He calculated the taxes and the royalties paid to the government and all the salaries, wages and benefits given to the employees and their families. These were the benefits generated by the mining firm.

On the other end, he computed all the costs incurred by the firm in doing business. Then, he also counted the social costs that never found their way to the GNP nor the firm's financial statements. These included: The four-kilo drop in daily fish catch of about 1,000 fisherman due to the mine tailings that got swept by the river to the sea; the loss of rice and corn production for 3,500 hectares of land given up to mining; the extraction of two tons of water from the ground for every ton of ore mined; the deterioration of the employees' and community's health over the years due to toxic elements from the mining operation, and other such unrecorded social costs. Because the country does not do balance sheet accounting for its natural and human resources, these losses are never recognized as national wealth impairments.

He also configured the future continuing losses of low agricultural production, soil erosion and flooding, water scarcity and health problems. When he added all these social costs he realized that the government was not collecting enough royalties and taxes to compensate for the past, present and future impoverishment of the people. Clearly, the mining firm was on the negative side of the social and economic equation. The question put forward by the student in his thesis was direct and simple: What exactly is the mining firm responsible for? What do we really mean when we talk about social responsibility?

To answer the question let us imagine a world of very irresponsible people. What would that world look like? All of planet Earth's resources would become depleted. Nations will wage all-out wars to claim the biggest chunks of the world's diminishing resources. Terrorism will be a way of life and of business. Only the mighty will survive. Life will not be sacred. Life will just be a commodity to claim and usurp.

To protect ourselves from ourselves we have formed governments to enact laws, rules and regulations so that we don't waste the world's resources but take care of them. That is one way of defining social responsibility. It means being compliant with all the laws, rules and regulations of the state for our own common good. We are even obliged to share the resources.

The human race has also come up with norms of acceptable and unacceptable social behavior; first on a tribal basis, then on a nation basis and, finally on an international basis. These norms become moral or ethical obligations, which is another way of defining social responsibility. It has become our mutual understanding as a social species to help one another, to sustain ourselves and to uphold the rights of others. These moral obligations can even become institutionalized in the tenets, beliefs and doctrines of religious and political groups.

Beyond compliance and moral obligation, the general public expects the bigger, richer enterprises to do more because they have more. In fact, the government even provides tax breaks or incentives to those who help the state do its works. For example, in the Philippines, if a corporation adopts a public school by building classrooms, then it gets 150% tax deduction. Large corporations have established non-stock, non-profit, service oriented foundations to help in the provision of social services. This is a third definition of social responsibility. Many big corporations do set aside a small portion of their net income (usually 1%) for philanthropic foundation activities. However this is perceived as tokenism by the public at large because the charity contribution made is very small and quite arbitrary. A lot of times, these corporate philanthropies do not even properly measure the impact they have on the lives of the people. This has led entrepreneurs to conceive of social responsibility as an integral part of corporate strategy.

For social responsibility to have major impact, it should, on one hand, directly help the business. On the other hand, the business should actively design and develop business supply chain or market linkages to communities that would benefit from dealing with the company. The company obtains cheaper sources of supply from less advantaged communities or reaches out to the market at the bottom of the pyramid as an expression of its social responsibility. However, this can be abused by the bigger more powerful companies. Fortunately, the government and social advocates mount campaigns to avoid the use of child labor, unfair trade practices, the exploitation of poor communities and the wanton rape of endangered resources, and so on and so forth. To respond, pro-actively, the more responsible corporations have taken the high road at the outset and declared their commitment to be just, fair and honest in their dealings with such communities. This has become the fourth definition of social responsibility:

There is a fifth definition of corporate social responsibility that demands a higher level of genuine compassion and entrepreneurial innovation for the company's internal stakeholders of managers and workers, for the larger society or nation that the company thrives in, and for the global community of fellowmen who commonly rely on the finite resources of our planet Earth. Such a high level of corporate social responsibility is not possible without the very pro-active intervention of an enlightened leader we will call the Compassionate Entrepreneur.

We use the terms compassionate and entrepreneurship in their deepest sense. The compassionate person is one who "passions with" the dreams, desires and deprivations of others. They completely understand and act upon the situation of people who aspire to develop and grow. They have true empathy. This impassions them to become servant leaders. The entrepreneur is one who creates value, one who raises productivity to peak levels, one who dramatically changes the way things are done to achieve better outcomes. Entrepreneurship is not merely about putting up a business, buying and selling goods and making huge profits out of them. That is just businessing.

Taking the two terms together, the Compassionate Entrepreneur is the innovative designer and prime mover of meaningful and positive changes in the lives of their people, in the fate of their nations and in the sustainable stewardship of the global community and the finite resources of planet Earth. They have assumed total responsibility and accountability for their actions while acknowledging and respecting the rights of others. This rather abstract and ideal concept can, perhaps, be better understood by providing illustrative cases.

Some of you may be familiar with the case on Semco Brazil. It is about a wise young man, named Ricardo Semler, who took over the losing marine and food machinery manufacturing business of his father in 1980. This enlightened man had a basic philosophy about managing people. He treats his employees like responsible adults who can take care of themselves and not as children who have to be governed by countless policies, procedures, rules and regulations. Semler claims that "most of them, including factory workers, set their own working hours. All have access to the company's books. The vast majority vote on many important corporate decisions. Everyone gets paid by the month, regardless of job description and more than 150 of our management people set their own salaries and bonuses."

The company had several unconventional practices. They have discovered that the most effective production unit consists of about 150 people who handle their own inventories and support services like personnel management, MIS and internal controls. They have scrapped their mainframes in favor of independent PC-based systems. They don't believe in large bureaucratic Shared Services. The focus is on each and every unit's accountability and responsibility for everything happening in the unit. Semco's workforce are not supposed to have permanent workspaces. They move about, making it difficult to monitor them. People doing similar tasks can set their preferred schedules among themselves. Therefore, the rest of the workforce do not know who will be on duty. For critical functions in the factory, like the forklift operations, everybody tries to

learn it in case the assigned operator absents himself. Each unit sets its own production target and incentives program.

As a consequence of all these unusual practices, Semco has become one of the largest, most profitable and most respected companies in Brazil, with sales reaching the global markets. So, why this does enlightened approach work. First, Semco is run democratically in small, self-contained manageable units of approximately 150 personnel each. Everyone has a voice. Second, Ricardo Semler, at the outset offered 23% of the profit after tax to the employees to be distributed as they see fit. But the profit-sharing is not just a largesse. The people are in control of how those profits are made. Managers are not hired or promoted without the approval of their future subordinates. Plans and work programs are made by them. There is little need for supervision because, together, the workers are the ones who socially pressure one another to produce. A lazy uncooperative worker will be censured by his co-workers for not contributing to the sales and profits and for wasting the unit's resources. Thus, everyone has a stake. Third, information is easily accessed by all employees so they can analyze their situation, decide on what has to be done and evaluate their progress and performance. All employees are required to attend classes to learn how to understand, arrange, analyze and share the numbers. Semco has shunned the hierarchical pyramid structure in favor of the flatter, concentric-circle organizational set-up. There is transparency in salaries, expense accounts, outputs and outcomes. In other words, everyone is in the know.

Ricardo Semler is illustrative of the Compassionate Entrepreneur because he has masterfully designed and executed a very positive and meaningful change in the lives of his own people. Because he has treated them as adults who can be made fully accountable for their own actions and socially responsible to their co-workers, he offers us a winning paradigm for bringing out the best in people so that they can serve themselves and their stakeholders without conflicting interests.

At a higher level than compassion for one's own workforce is compassion for one's own countrymen. These entrepreneurs have a deep sense of nation which propel them to co-invest in strategic programs along with other entrepreneurs and their governments. These national strategic programs have been crafted to create and add more value to the economy and to generate a high multiplier effect by affecting and involving related and ancillary industries. Such a collaboration among large, and even competing, entrepreneurs and their governments was the formula behind the post-war East Asia miracle of Japan, Korea, Taiwan, Hongkong, Singapore and, more recently China. In the 1970's, the World Bank attributed their success to two major country initiatives: excellent education programs, particularly in science and technology, and the promotion of entrepreneurship from the largest to the smallest firms. But the World Bank missed a third component. This was the nationalistic fervor inculcated in their citizenry and the collaborative rather than competitive perspective which their enlightened entrepreneurs shared with their governments as they pursued the task of nation building.

Leading the charge in Japan are companies with compassionate entrepreneurs like Matsushita and today's number one world automobile manufacturer, Toyota, which has bested American car makers even in their own backyards. In Korea, Samsung has been carrying the national flag as it zoomed past many of its rivals and is now contending for the world's number one spot in electronic equipment.

The illustrative case example I will share with you also comes from Korea. After decades of growth, the Asian economic crisis of 1997 dragged Korea down from its eleventh place ranking among the 46 advanced and emerging market economies to last place, forcing the country into structural reformation by the International Monetary Fund. Before this, in 1994, a government study recommended to the Korean president that media production become a national strategic industry. At that time, everybody was decrying the death of the Korean film industry, a familiar lamentation in the Philippines. Subsequently, the Motion Picture Promotion Law was passed in 1995. Korean chaebols or large family conglomerates responded to their national "duty and responsibility" to export Korean films overseas, similar to the industrialization drives from the 1960s to the 1980s. Samsung, Hyundai and Daewoo were among the many who invested in the local media sector in contrast to their previous export-oriented forays.

The chaebols introduced sophisticated management approaches like audience and market research, state-of-the-art technology applications, better investment screening methods, and systematic production processes. (Morato, 2006) Script writing and countless revisions, along with very rigorous filmmaking and editing became the norm. MBAs and topnotch university graduates were attracted to the decent pay and lifetime employment offered by non-traditional and creative Korean industries. Many stayed on after the chaebols had left when venture capital firms entered the scene. (Shim, 2001)

The Korean "entertainment tsunami" began in 1997, partly motivated by the Koreans' determination to free itself from the IMF yoke. A Korean drama series, "What is love all about?" swept China. In 1999, another Korean TV series, "Stars in my heart" rampaged across Asia, reaching Hongkong, Vietnam, Singapore, Indonesia and the Philippines. In the same year, an action film, "Shiri" registered sales of 5.8 million tickets, surpassing the Titanic. In 2001, another film, "Friend", sold 8.2 million tickets. Today, Korean telenovelas, boy and girl bands, films and other creative industries' products are shaping the image of Korean men and women. Tourist flock in huge droves to Korea to see their idols.

So what is the major lesson from Korea and the rest of East Asia? Entrepreneurs must think, feel and act beyond themselves and their companies. Together with other entrepreneurs and their governments, they should collectively and collaboratively invest in the future of their countries. They should be impassioned with the difficult and, definitely entrepreneurial, task of nation building.

Finally, the compassionate entrepreneur, who has tremendous resources to share, may reach out to the global community as a true "citizen of the world". The objective of such world citizens is to transcend corporate and national borders in order to serve

humanity's least capable. As a prime example, the world's richest man, Bill Gates, and his friends and fellow billionaires, Warren Buffet and Michael Bloomberg have joined forces to eradicate disease, hunger, vice and poverty in the most challenged parts of the world, particularly Africa.

The Bill & Melinda Gates Foundation was formed to fund cutting edge research and development in the world's most high-tech laboratories to discover innovative approaches to delivering basic public goods and services to the world's most challenged families and communities. Key program interventions include vaccine formulation and immunization campaigns, health services such as maternal and infant care, agricultural productivity and appropriate farming technologies, family planning, financial services, water, sanitation and hygiene. The Foundation partners with governments and local and international voluntary agencies to deliver these public goods and services down to the village and household levels. From 1999 to 2014, the Foundation has already invested US\$ 24 billion, with a large portion devoted to health care programs, and the next sizeable portion devoted to agricultural development.

In 2006, Warren Buffett pledged most of his fortune to the Bill & Melinda Gates Foundation worth US\$ 31 billion (to be paid in annual installments) and to four charitable trusts created by his family. Only a small fraction of his fortune, totaling US\$40 billion, went to his children, believing that that they should build their own wealth and not be privileged by luck due to some "ovarian lottery". Buffett entrusted his money to the Gates because they had the absorptive capacity to make sound social investments.

Billionaire Michael Bloomberg, former mayor of New York City, launched a multi-million dollar fund to help smaller countries fight legal battles with tobacco companies, among them the small Latin American country of Uruguay. This was done in cooperation with the Bill & Melinda Gates Foundation. He observed that while per capita cigarette smoking was in decline in the United States, it was increasing in poorer countries. His goal is to save lives by preventing the spread of cigarette-smoking particularly among the youth. (He estimated that a billion people will die in this century due to smoking.) He seems to be succeeding in his advocacy in Uruguay where tobacco consumption is now on a decline.

Poor, underdeveloped countries have limited resources to provide critical public goods and services to their people. Fortunately, the richest entrepreneurs of the United States have taken the lead in trekking the compassionate route and inspiring others to emulate their unselfish acts of world citizenship.

The illustrative cases that I have shared with you may be bigger than life and much too much to aspire for. However, my fervent desire is to plant a little seed of compassionate entrepreneurship in your hearts and hope, just hope, that they will grow quite tall and strong over the years. Thank you.