Part Three

Text II

Pre-reading Questions

1 How is charity related to multinational companies?

2 What is Corporate Social Responsibility? What benefit will it bring to the company and the society at large?

Key Words and Expressions

sham /ʃæm/ *n.*
hype /haɪp/ *n.*
patchy /'pætʃɪ/ *a.*
philanthropy /fɪ'lænθrəpɪ/ *n.*
alms /ɑːmz/ *n.*
saturated /'sætʃəreɪtɪd/ *a.*
rejuvenate /rɪ'dʒuːvɪneɪt/ *v.*
nimbly /'nɪmblɪ/ *ad.*
sidestep /'saɪdstep/ *v.*
strip out
scrap /skræp/ *n.*
contrariwise /'kɒntrərɪwaɪz/ *ad.*
categorical /ˌkætɪ'gɒrɪkəl/ *a.*
be entitled to

Turn a Social Problem into Wealth*

Simon Caulkin

Misinterpreted and misunderstood, corporate social responsibility is in danger of becoming an empty sham. Ironically, not a little of the discrediting comes from the concept's most breathless supporters. As recent reports from think tanks Demos① and the IPPR② have made clear, much of the hype about corporate citizenship comes from organizations with axes to grind, while actual implementation is at best fragmented and patchy, at worst dishonest.

According to Demos, "Too often, the impact on the company and its reputation is viewed as more important than the impact on the supply chain or the local community," and in some cases "responsibility" has become a simple PR exercise. Interviewing 500 directors, the IPPR found support for environmental issues "tokenistic", while many companies that demanded environmental and employment correctness from suppliers had no mechanisms in place to monitor their own performance. For all the hype, the UK's top 400 companies spend just 0.4% of pre-tax profits on charitable and community projects.

As long ago as 1984, Peter Drucker argued that in times of real social need corporations had a distinctive part to play. But their resources were best mobilized not by traditional philanthropy — business as rich men giving alms to the poor — but by "doing well by doing good", innovating to convert social needs into business opportunities. The proper social responsibility of business, he wrote, "is to tame the dragon, that is, to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth." Compared with philanthropy, this massively amplifies its potential.

For instance, in a powerful and timely recent paper, CK Prahalad and Allen Hammond suggest that multinational companies could start to win back some lost trust by carefully stimulating economic development in the world's poorest countries. At the same time they

could radically improve the lives of billions of people and help bring about a more stable, less dangerous world — not through charity but through self-interest. This would mean standing current strategy on its head. Current strategy ignores developing markets or at best treats them as dumping grounds for old and inefficient technology, focusing instead on ever fiercer competition for saturated rich markets by offering increasingly trivial features and product extensions to oversupplied westerners. Instead, say Prahalad and Allen, they should use developing markets as challenging forcing beds for innovations that really matter — robust, low-cost, environmentally sound goods and services, delivery systems and, why not, management techniques — that could then be imported to rejuvenate the so-called advanced economies.

Such "corporate social innovation" (to use Demos's term for a related proposal) nimbly sidesteps the Friedman-type objections, which in any case are based on a typical economist's abstraction of the way the organizational economy actually works. The world of economic theory is one of trade-offs: you can have either high quality or low cost, environmental soundness or competitiveness, good work or profitable work, social responsibility or profit. In this view, social and environmental responsibility necessarily adds cost, which is bad for companies, competitiveness and for the economy as a whole. In the real organizational world, this is so wrong-headed it's almost comical. As lean manufacturers and service providers have been proving since the 1980s, far from being incompatible, the apparent opposites belong inseparably together. Thus, the only way of achieving sustainable high quality is to build it in from the start. Getting it right first time automatically strips out so much waste (scrap, rework, inventory) that costs go out of the window too.

As with product, so with environmental quality. Pollution is waste (adding no value, only cost), and removing or neutralizing it "end of pipe" is always more inefficient than preventing it in the first place. Contrariwise, re-engineering it out of the process improves overall efficiency and competitiveness in the long term, and often in the short as well. The trade-off myth also applies to people. The evidence is categorical: so far from being able to buy long-term

performance by treating people badly, companies can only sustain it by engaging their people fully in improving the business.

There is a simple conclusion from all this. Not only is socially responsible behaviour (minimizing environmental damage, improving the ratio of outputs to inputs, providing "good" work) not a cost: every company in the world could and should improve its competitive performance by adopting it — thereby doing its bit for the planet at the same time. No trade-off, no problem. In a capitalist world, it's futile to think that the high expectations currently being piled on corporate social responsibility can be achieved unless it is translated into corporate self-interest. (One such exercise in futility is the government's appointment of a minister for CSR when it should be concentrating on devising a management framework for its own public-sector employees that incorporates the frugal self-reinforcing principles outlined above.) On the other hand, since it is in companies' interest, it is legitimate to demand that they devote far more time and effort to it than they do at present. Enron is one dreadful warning of what happens when companies pursue the ends that economists think they should, to the exclusion of the wider context. But so also are UK farmers and fishermen, to name but two, who are learning in the most brutally direct fashion that the economy is "a wholly-owned subsidiary of the environment", as it has been well put. As employees and shareholders, through our pensions, as well as citizens, we are entitled to demand that corporations take a systems view of their contribution to the world. Indeed, that is a good definition of what corporate social responsibility means.

Companies, as the wise Sir Adrian Cadbury puts it in his book, Corporate Governance and Chairmanship, "are part of society and their ability to achieve their business aims depends on the health of the society in which they operate." So what do companies do that other economic actors can't? They mobilize capital and human ingenuity to innovate — their distinctive role — turning human needs into new products and services. In return, they have the right to earn profit on that innovation until it is competed away by rivals. That doesn't change. What does change is that we need them to do it 10, no, 100 times better than in the past. Welcome to the real world of corporate social responsibility.

(Total words: 1063)

* This text is taken from *The Guardian*, Nov. 25, 2002 with abridgement.

Notes to Text II

1 **Demos:** a think tank based in the United Kingdom. Demos was conceived as a network of networks which could draw together different sources of ideas and expertise to improve public policy. Demos has an open access policy which means that all publications are available to freely download under a Creative Commons license.

2 **IPPR:** Founded in 1988, the Institute for Public Policy Research (IPPR) is a left-wing UK think tank with strong ties to the Labour party that claims to produce progressive ideas committed to upholding values of social justice, democratic reform and environmental sustainability.

Comprehension Check

1 Read the text through quickly and answer the following questions.

1 What is the author's opinion on the company's strategy towards poor countries?

2 What is the appropriate way for the companies to take social responsibility while improving their competitive performance?

2 Answer the following questions according to the text.

1 Why did the author say "support for environmental issues was 'tokenistic'"?

2 What was characteristic of the "traditional philanthropy"?

3 Why did the author say "The world of economic theory is one of trade-offs"?

3 Explain the following sentences based on your own understanding.

1 The proper social responsibility of business, he wrote, "is to tame the dragon, that is, to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth."

2 Current strategy ignores developing markets or at best treats them as dumping grounds for old and inefficient technology, focusing instead on ever fiercer competition for saturated rich markets by offering increasingly trivial features and product extensions to oversupplied westerners.

3 Pollution is waste (adding no value, only cost), and removing or neutralising it "end of pipe" is always more inefficient than preventing it in the first place.

4 Match the following words with their definitions.

sham	to be given the right to do
alms	an exchange that occurs as a compromise
philanthropy	the power of creative imagination
ingenuity	not modified or restricted by reservations
stand sth on one's head	something that is a counterfeit
categorical	to make an idea the opposite of what it was before
trade-off	voluntary promotion of human welfare
be entitled to	money or goods contributed to the poor