



Ingredients for a Socially Responsible Business School Graduate

■ By CEIBS Professor of Accounting Charles Chen

What is entrepreneurship? Many people may have heard of the Austria-born economist Joseph Alois Schumpeter who became famous for his 1912 paper “Theories of Economic Development”, and was a professor at Harvard from 1932 until the end of his career. In my opinion, Schumpeter’s definition of entrepreneurship touches on several important points. First, he breaks

down the economy into two distinct parts: static and dynamic. Second, he is more concerned about economic development than a mere increase in figures. He believes that economic figures increase naturally, without innovation. For example, population growth naturally leads to economic growth, without the need to improve production rates. However, two requirements must be met for an economy to develop: a breakthrough

in social and psychological barriers, and a pioneer forging ahead against all odds.

Does the desire for a better life necessarily bring about economic development (not merely an increase)? The answer is no, according to Schumpeter. Economic development requires entrepreneurship, while the wish to make life better is just a goal. When people reach their goal, they stop

feeling the urge to struggle, because their marginal input is equal to their marginal output. Entrepreneurs are different in that they don't stop at marginal balance. No matter how much wealth they have accumulated, they try their best to work and take responsibility. Only people with such a spirit can bring about economic development.

Entrepreneurs are passionate and have a propensity for change. They seek to break the balance and shake things up. They create something new to replace the old. They are challengers instead of defenders. They sail upstream instead of downstream. They don't have as much mental resistance to change as others do. The most important thing is that they choose their paths through intuition, not reason. They are motivated by the pursuit of power, or the joy of creation, not by an urge to accumulate wealth. They are eager to take risks, which they see as a source of excitement.

There are innovators everywhere, but the innovation Schumpeter refers to has to do with the innovative combination of resources. For example: using new materials or semi-finished products in production, developing new products, using or creating new production methods, tapping into new markets, or establishing new procedures at work. By these examples Schumpeter accounts for the entire production process and stresses the combination of existing resources, without the need

to create new techniques or laws where there are none.

Entrepreneurs try to produce creative destruction. Take smart phones as an example: they have almost replaced compasses, cameras, recorders and calendars, and will soon replace laptop computers. Within several decades, smart phones will probably take over certain functions of the human brain! Innovative combinations must be in sync with the times because they must be marketable. If they are ahead of the times, they may be unmarketable and meet an early demise.

Entrepreneurship exists not only in business circles, but also in politics, the military and other spheres. Therefore, it goes beyond creating and running enterprises to promoting social advancement and development.

CSR's role in corporate strategic development

A search on Google might reveal that all the major business schools take social responsibility as a guideline in providing education. Why are business schools so focused on social responsibility? I believe it is because business school graduates have a huge impact on the society. Business school alumni, especially at the MBA and EMBA levels, tend to become corporate executives and have extensive influence on a lot of people. If one becomes the president of a large company, he has a wide scope of influence – from employees and their families to

suppliers and clients – and this may extend to even more people through word of mouth about the company.

In what ways can a business school graduate be socially responsible? I believe that as a business leader and corporate citizen he must, first of all, do no evil. It sounds simple enough, but it isn't really simple for a company to refrain from doing evil. There are too many temptations in business. A business leader must make sure that his company actually makes a profit. In order to maximise its profit, the company is tempted to do evil. There are companies that constantly talk about their vision; however, in my opinion, a vision is hollow, one-sided and in most cases toxic if it cannot be realised in the form of profit. Have a clear vision of how you will do no evil as you earn a profit: these are the basic social responsibilities of a company if it is to be loved by its employees and respected by its suppliers and clients. Instead of being seen as a burden, these elements should be taken as the foundation of corporate strategic development.

Today, consumers' preferences have changed. They want more than a low price. In addition to high quality for a reasonable price, they want the assurance that the company has satisfactorily performed its social responsibility. If a company is on the blacklist because it has harmed the environment, mistreated animals or exploited underage workers, consumers will stop patronising



it and will probably post negative information about it on WeChat or Twitter. Western companies usually do a good job of fulfilling their social responsibility, not only because they have a strong sense of responsibility but also because of the huge revenue from market shares which would otherwise be lost should they fail to do so.

Baihua Honey is a company founded by CEIBS alumni. It collects honey twice a year. In the first collection, when supplies are abundant, the company prioritises cost control

over quality assurance. In the second collection (after the Chinese New Year), when supplies are scarce, the company prioritises quality assurance over cost control. Company founders have made it clear to the purchasing department that beekeepers should not be pushed into adding sugar or water to the honey, as this may compromise quality. In this way, the company is consciously managing its industry chain. I believe that when a company takes the leading position in an industry chain, it is endowed with an important social responsibility – to build and maintain that industry chain.

In that case, its action determines the action of its upstream and downstream partners. If the industry chain is in a mess, the company goes down with it, but if the industry chain is efficient and guarantees reasonable profits for all players, I believe the company will benefit.

As seen in the CSR pyramid on the next page, only on the basis of doing no evil can a company go on to play an active role in charities, promote social advancement and, through its business activities, improve this world of ours – which is far from perfect.

CSR Pyramid



Abundance = Clean water, affordable housing, personalised education, top-class healthcare and infinite pollution-free energy for the 9 billion people of the earth

Of the nine billion people in the world, one billion still do not have access to electrical power, and one billion each have to live on no more than US\$2 a day. Fortunately, thanks to technological breakthroughs, in poverty-stricken areas solar power generators and micro water purifiers are available for home use at low prices. As companies try to sell these products to make a profit, they are actually helping to reduce – or even remove – the scourge of poverty. In China, according to a report in *People's Daily*, 12 million people

were lifted out of poverty from 2013 – 2016, pushing the total to 55.64 million. In fact, it is widely recognised around the world that China is the country that has made the greatest contribution to reducing poverty. I think this is a good time for Chinese enterprises: they can help to promote social advancement by performing their social responsibility. And I believe, with the aid of business activities and technology, humanity will eventually get rid of absolute poverty before reaching a state of abundance.

A must read, says Professor Chen



“The author of *Abundance* is an entrepreneur who used to work in Silicon Valley, in the technological business. He believes that technology offers the most effective way to solve humanity’s problems, including poverty. *Abundance* explains how people get rid of poverty by technological means in business activities. Business starts with technological advance, because the need to trade arises from the division and collaboration of labour as a result of technological advance. In an economic demonstration of the Nash equilibrium, both buyer and seller benefit from their transaction without putting the other party’s interest in jeopardy. That is a basic principle of how social interests are maximised through business. Because of the Nash equilibrium, different needs are satisfied in the market. I believe that constitutes the basic framework of business.”

This article is based on Professor Charles Chen’s speech during CEIBS Entrepreneurship and Social Responsibility forum on November 11, 2017.