7 Porter's New View on Competitive Advantage: Green and Competitive

Reasons "for" and "against" organisational involvement in social activities

The previous decades have induced a growing awareness of the problems of our social environment caused by irresponsible behaviour of different companies (Harris, 2009). The fundamental theories of social responsibilities were established by Carnegie in *The Gospel of Wealth* which contains the classic statement of corporate social responsibility.[1] His notion is based on two principles: (1) The principle of doing good charity; and (2) the principle of taking over responsibility custody. The principle of doing good charity requires that fortunate members of society to help those less fortunate, unemployed, ill, handicapped, older and similar. The aid can be direct or indirect through different institutions such as churches, movements or societies. The principle of taking over responsibility custody originates from the Bible. It states that more affluent individuals should bear the role of the helper, to take care of things which can contribute to the development of society as a whole.

During the 1960s and 1970s, both of Carnegie's principles were widely accepted. The idea that power creates responsibility (Inić, 2003) was being recognised. The common aspect of both principles was the view on company shareholders as parents in relation to (childish) employees and consumers which was also one of the main critics of *The Gospel of Wealth*, although there are many examples of using this principle today (Kurtić, 2011).

The last several years, perhaps a decade or more, have slowly but consistently changed the definition of business success from how much money a company makes to the way in which the company makes money. That is the reason why numerous companies are taking part in social activities as displayed in Table 7.1.

Company mission were exclusively economical in the early 1990s. However, the paradigm of a company has changed. Accordingly, a company as an economic entity (known as the Friedman approach) has evolved into the social-economic entity (known as the Freeman approach). It shifted the paradigm from dominantly internal orientation (internal groups of interest) and achieved economic benefits to dominantly external

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Table 7.1 Reasons for organisational involvement in social activities

Reasons for company involvement in social activities
Public needs have changed, which has led to shifted expectations. It is argued that the society is the factor granting the foundation and business operations of a company; hence, the needs of the society must be met. Creating a better social environment is beneficial to both society and company. Society receives better local communities (living areas) and increased employment opportunities, whereas company benefit from better communities since they are the source of their workforce and the consumer of their products and services. Social involvement of company reduces incentives for additional government regulation and intervention. As a result, company have more freedom and flexibility in decision-making. A company has high power, which, it is believed, should be accompanied by equal responsibility. Contemporary society is a system of inter-relations and internal company activities affect the external environment. Social engagement can be in the interest of shareholders. Problems can be converted into profits. Items viewed as waste in the past (e.g. empty soda cans) can be reused with a profit. Social engagement creates an appealing public image. Company can utilise it to attract customers, employees and investors. Company should try to solve problems other companies could not solve. Finally, the history of companies is a history of finding new ideas. Companies have resources. They should utilise their talented managers and experts as well as their capital resource to solve some of the problems of society. It is better to be safe by preventing social problems through company engagement than to feel sorry afterwards. It can be easier to help those who have been unemployed for long, rather than to cope with social uprisings.
Reasons against company engagement in society
The first task of any company is to maximise profit which shifts its focus to exclusively economic activities. Social engagement could reduce economic efficiency. In the end, society will pay for the social engagement of organisation through higher prices. Social engagement would excessively increase company expenses; they cannot use their resources for social involvement. Social engagement can deteriorate the financial balance. It is argued that the expenses of social programmes increase the product price. Hence, American companies operating on international market would find themselves in an unfortunate position competing against companies form other countries which do not need to bear the same social expenses. Companies have enough power and the increased social engagement would increase their power and influence even further. Businessmen lack social skills for solving social problems. Their education and experience are focused on economics; hence, their skills are not necessarily fine-tuned to deal with social problems. Companies are not obliged to answer to society (unlike other elective government bodies). If such responsibility is not established, companies do not have to take part in social engagement. There is a lack of full support for socially engaging companiess. Accordingly, disagreements among groups with different viewpoints can lead to conflicts.

Source: Adapted from Weihrich and Koontz (1995).

orientation (external groups of interest) and achieved social benefits. The shift is displayed in Figure 7.1.

Nowadays, companies are more widely included into society partly due to inter-relations among different groups in our society. There is certainly the question of what social responsibility of a company actually represents. Moreover, the issue of social responsibility which referred to companies at

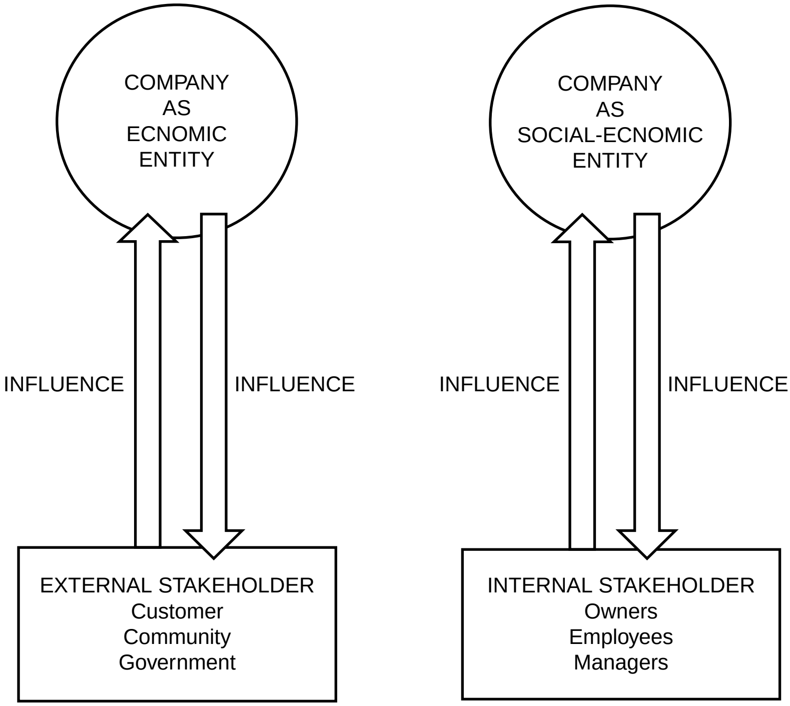

Figure 7.1 Company as an economic and social-economic entity.

the outset, is being presented to different levels of governments, universities, non-profit foundations, charity organisations and similar other organisations. Society, now awaken and loud considering the urgency of social problems, asks managers, top managers in particular, about the actions they are performing to fulfil their social responsibilities and the reasons they are not doing more. Surely, such an approach requires political innovations, a new term advocated by Michael Porter (2020), with the key to unlock politics innovation. Using this competition lens, Gehl and Porter (2020) identify a strategy comprised of a clear set of choices in two key areas: How elections work and how to make laws. Their bracing assessment and practical recommendations cut through the endless debate about various proposed fixes, such as term limits and campaign finance reform. This results true political innovation. Furthermore, they believe that there needs to be a differentiation between two elements of political innovation, as displayed in Figure 7.2.

Hence, powerful innovations address the root causes of dysfunction (not just the symptoms) and are designed to help the political system deliver results in the public interest. Achievable innovations are uncompromisingly non-partisan (no Trojan horses for partisan gain), and success is theoretically possible in years, not decades (constitutional amendments, for example,