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New Models for Doing Business: An Interview with Ho Kwon Ping

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New Models FOR DOING BUSINESS



An Interview with Ho Kwon Ping

The business sector has been a tremendous source of innovation for the social space, giving the world social innovations such as microfinance and venture philanthropy. Business entrepreneur Ho Kwon Ping shares with *Social Space* his insights on how business principles can be applied to the social sector, and on the paradigm shifts needed in the commercial sector as well as in business schools.

SS: *The current economic malaise gripping Singapore has exposed the vulnerability of an economy too dependent on foreign investment and multinational corporations (MNCs). Some say this openness came at the expense of developing local entrepreneurs. Moving forward, how does one foster a spirit of entrepreneurship among youth in Singapore?*

HKP: Fostering such an entrepreneurial spirit requires an examination into Singapore's economic history. People criticise the government for being a nanny state, for creating a condition in which everything is well-taken care of and entrepreneurship cannot flourish. Yet, we cannot blame everything on the government. Singapore did not have the right conditions for entrepreneurship. Hong Kong, for instance, had a class of entrepreneurs who originated from China and a laissez-faire government which encouraged entrepreneurship.

Singapore, on the other hand, was largely an entrepôt port without any entrepreneurial class. There was also a Leftist government that came to power, which essentially did not want anything to do with the landed property classes. And Singapore was such a small place

that when it started growing outwards, it began to attract big MNCs. I think as an economist, I would not be able to find fault with that.

We need to be realistic and not over-romanticise what we can do. For Singapore, a lot of the economic drivers will remain the MNCs and government-linked companies (GLCs). Within that context, we can then talk about growing the space for entrepreneurship.

SS: *Do you believe that we should have a fundamental rethink about the role of GLCs and MNCs? Should nurturing entrepreneurs be our priority?*

HKP: We need to emphasise the need for entrepreneurs in Singapore, simply because everybody is so ingrained against it. If we say to every Singaporean that you must be entrepreneurs, maybe two percent of graduates will be entrepreneurs. But, if you do not say it at all, there will be none. At least, this is changing the perceptions of what people want to be. What you want to do in life is very much dependent on what the market needs. In the current environment, if you cannot be an investment banker or get a job in the finance sector, then be a social entrepreneur.

SS: *Through our work, we meet people who have expressed their desire to change the world and set up social enterprises. What are your thoughts on this?*

HKP: I perceive there is a big gap between idealism and reality. It is imperative for us to realise that setting up a social enterprise is as difficult as setting up a commercial enterprise. The only difference is that the former channels its profits into a social cause. In some ways, this is even harder. Not only do you have to achieve the bottom line, you also have to succeed in this social mission. There are also real gaps in terms of funding and expertise.

Of course, social enterprises could arise from established for-profit companies, but the challenge is in getting corporations to lend their institutional weight to setting up such social enterprises. These enterprises can subsequently be peopled by idealistic young graduates. Except for some good project examples by Professor Muhammad Yunus, I still find that it is still not easy to implement the idea effectively.

TSUNAMI AFTERMATH: UNEXPECTED OBSTACLES

After the tsunami, Banyan Tree tried very hard to initiate social enterprises in badly-affected communities. It was difficult to sustain the projects due to existing barriers which impeded the process. After the tsunami in Sri Lanka, for example, people started contributing money to individuals. Over time, they donated money to villages to make boats, as the livelihoods of fishermen were affected. We took it one step further, and started looking at the latter's problems in detail.

Once the fish got to shore, the fishermen had to engage the help of middlemen to sell their day's catch, as they could not make the fish last long enough to sell directly to consumers at the fish market. We then realised that the only thing they needed was ice.

Banyan Tree then decided to set up a social enterprise – a wholly for-profit agency which makes ice. However, all profits made by the enterprise were to be channelled back to the community. We were also very keen to apply our business skills to the project. At the end of the day, even though we had already sourced for cheap ice-making plants from China, we were completely stopped by the government. The making of ice turned out to be a state enterprise, a state monopoly.

SS: *What inhibits social entrepreneurs in Singapore?*

HKP: Just like any other enterprises, social enterprises in Singapore are restricted by the small market size and are not given proper operational boundaries.

SS: *Is Singapore so well-supported by the government in all its different sectors that there is not much space for social enterprises to find a niche?*

HKP: There are many voluntary welfare organisations (VWOs) in Singapore, but most of them are either not sufficiently funded or are bona fide social enterprises. You have to identify specific areas where social enterprises can exist and do well. The Singapore Corporation of Rehabilitative Enterprises (SCORE), for instance, is one organisation that was set up to assist convicts in their transition back to the society. As a result of their continuous efforts, they now have a restaurant called Eighteen

Generally, when corporations enter the social space, it may only be because they have discovered a sector they previously thought was unprofitable to serve, after a social enterprise has proven otherwise. This sector could then become purely for-profit with no guarantee that the profits will flow back to the community.

Chefs that is run by chefs who are ex-convicts. To me, SCORE is therefore a good example of a real social enterprise as they have proven that they can tackle a tangible problem and address it effectively. On the contrary, VWOs simply provide direct assistance to beneficiaries and cannot supplant the role of social enterprises.

SS: *What do you think of initiatives such as Citibank's microfinance initiative? Is it a good thing for established corporations to leverage on their expertise and enter the social space?*

HKP: I am uncertain whether Professor Yunus himself is sure about the benefits and implications of big banks entering the microfinance sector. Generally, when corporations enter the social space, it may only be because they have discovered a sector they previously thought was unprofitable to serve, after a social enterprise has proven otherwise.

This sector could then become purely for-profit with no guarantee that the profits will flow back to the community. They could also muscle out the existing social enterprises already working in that particular space. Overall, it is still not clear to me whether this is beneficial to the community.

SS: *How do you assess if a corporation's activities constitute a social enterprise?*

HKP: We can determine whether a corporation's activities are truly in the realm of social enterprise by tracking the profit movement of the activity and assessing if they get channelled to either the community or shareholders. For example, most oil companies nowadays have gone green by jumping on the bandwagon of environmental sustainability.

Let's say you wish to set up a wind farm which is both sustainable and profitable. If you set up a foundation where all the profits from the wind farm goes back to the community or towards supporting more wind farms, I would say that your outfit really characterises a true social

enterprise. If on the other hand, you set up wind farms – mainly because you know it will make money, and then proceed to donate two percent of the profits to communities – then I would say you are not a social enterprise but a company that has found a profitable sector to go into.

SS: *Is the social enterprise model one which traditional businesses should work towards?*

HKP: You raise an issue that is actually close to my heart, but I think it is relevant to a more pertinent issue. I think this requires a fundamental re-examination of the roles of business and business leaders in the society. Unfortunately, our schools – including SMU and most business schools – are founded very much on the Anglo-Saxon view of capitalism, which has pervaded the world of business.

All business schools advocate that the fundamental mission of a business is to make profits for shareholders. Everything else is subsidiary. There is no school of thought in business schools that goes against the dominant view of business today.

If you are schooled in that belief, you will obviously perceive the main aim of a Chief Executive Officer (CEO) as one who makes profits for shareholders. So his KPI (Key Performance Indicator) is essentially to make money. Now, if you do not change that worldview, I do not think you can change anything else in the business paradigm.

My biggest disappointment is that although business schools encourage their students to think about the state of the world and ways in which they can improve it, the reality is that most hide behind their mandate of maximising shareholder value. Interestingly, they do not get involved with politics, except when politicians can help their businesses.

In my view, business leaders in today's world have abdicated their responsibilities despite

their potential to radically improve the world. The recent global credit crunch sparked by unreliable investment bankers showed a great example of how schizoid people can be. They make tremendous amounts of money in ways that damage economies and societies, then give a small amount to charities and feel that they have absolved their consciences.

Consider George Soros. He has a lot of socio-political views, and yet it is alright for him to raid the bank of England and become a billionaire. Until we have a fundamental re-examination of the role of business, I personally feel that companies should not take the lead in social innovation or social responsibility for now.

Based on my recent readings, I am glad to say that there is beginning to be a clash of ideas in the business world with regards to the fundamental role of business and how business and capitalism require a moral element. The Europeans have always quietly talked about that. In the past, they never openly expressed a view because American capitalism was so powerful.

At the same time, there is a need to move away from the idea of creative destruction, market-clearing mechanisms and the belief that the failure of a company is healthy for society, even if it means 10,000 people lose their jobs. I have mentioned this in a recent article which appeared in *The Straits Times*¹, where I wrote about how Japan survived their last 10 years of recession gracefully, with low unemployment levels and a narrow income gap.

During CSR forums, I find it quite disturbing that companies are still questioning the need to practise CSR if it does not enhance profitability. It is depressing to me because these are people who hold the view that the ultimate responsibility of a company is to make money for its shareholders. Once you hold that view, then nothing else matters.

SS: *What can we do? How can we engineer that fundamental rethinking in business leaders?*

HKP: A huge economic recession like what we are seeing today.

SS: *What about through SMU, since you are the Chairman?*

HKP: I have gone on record to say that I do not think business schools train leaders that well. We train people to be managers, but we do not always train leaders. Apart from trying to mitigate the greed imperative, I think SMU has definitely made a contribution by reinforcing the importance of community service. Look at how we have been able to get students and fresh graduates to contribute to our endowment fund. And this was something we shared with our students from the outset – that fundraising is not just about raising money from the likes of Li Ka Shing.

Fundraising is a very effective tool to generate loyalty and commitment. That is why every graduating class donates some money. We want students to get good jobs and become successful investment bankers so that they will be able to contribute to the community. I think we have developed a critical ethos commonly known as the DNA of the company. I would prefer to call it the ethos because it is more of a living culture. Institutions have cultures, they have values and ethos. Both SMU and Banyan Tree have developed their own ethos, culture and value systems and I believe these have to be nurtured in other organisations as well. I presume that if you do this well, then the rest follows. It is easier to promote social innovation if the culture is supportive of it.

SS: *Let's talk about CSR practices in Asia. Having worked in many Asian countries, do you think it is practised differently in the region? Are there any cultural or contextual factors that distinguish it from its Western counterparts?*

HKP: When I attended the Asian CSR Forum, there were a number of presenters who argued that

In my view, business leaders especially in today's world have abdicated their responsibilities despite their potential to radically improve the world.

Social innovation thus represents something quite different from the conventional thought about business, and this is a very important subject within a business school.

CSR was supposed to have been a Western concept and not generally practised by Asian companies. On the contrary, in many cases, CSR is well-integrated into the fundamental ethos of many Asian companies. In these Asian companies, CSR exists in terms of its net impact, but is embedded in more paternalistic terms. As such, companies are family-controlled as CSR has existed within those companies for generations.

Most Western companies are large public-listed companies, thus explaining why their CSR is more heavily institutionalised. Western CSR academics look at CSR in the context of big companies like IBM or Hewlett Packard who have no dominant shareholders. When they come to Asia and do not find the same parallels, they end up saying CSR does not exist in Asia. Perhaps, one could argue that CSR in Asia is embedded in a business view that is much closer to the ideal compared to the Anglo-Saxon view.

At the mechanical level, there is already a lot of discussion going on about how we can better regulate financial systems and ensure that this scenario will not be repeated. This is a relatively more technical debate that will continue among financial experts in the financial foray.

SMU is already a recognised thought leader outside of its usual areas of expertise such as finance. When we produce bankers, the banks all acknowledge that our recruits are the best leaders, and that our finance faculty speaks out on a lot of things. A lot of people recognise that. Social innovation thus represents something quite different from the conventional thought about business, and this is a very important subject in a business school. ❖

¹ *The Straits Times*, "Learning from the Japanese experience", February 11, 2009

Ho Kwon Ping is the executive chairman of Banyan Tree Holdings, as well as Chairman of the Board of Trustees of Singapore Management University and Chairman of MediaCorp Pte Ltd. He has been honoured with Business Week magazine's 25 Stars of Asia (2005) and Lifestyle, Hospitality & Retail Entrepreneur of the Year from Ernst & Young Entrepreneur of the Year Award (2006); CEO of the Year at the Singapore Corporate Awards 2008, Hotelier of the Year at the Stylemaker Awards (2008) and joint recipient of the Hospitality Lifetime Achievement Award at the prestigious China Hotel Investment Summit (2009).

SS: *What do you foresee needs to be done in the CSR space?*

HKP: The Lien Centre has a bigger role to play in today's society. For the last five years, one would have been talking to a world that would not have given much attention to alternative financial models. Now, when people see previous financial models which are clearly not working, they turn to look for alternative models and new ways of thinking. This is where I think the Lien Centre has a very important role to play in stimulating thought processes and re-examining social and financial models.

This very fundamental debate is now beginning to take place. And of course, the cynical side of me could say: "*Wall Street is far too powerful for that. When all this is over, they'll go back to their old ways.*" But the extent of this crisis is bigger than any other before, so a more fundamental re-examination is required to understand its root cause.