

Social Business Entrepreneurs Are the Solution

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Capitalism is interpreted too narrowly

Many of the problems in the world remain unresolved because we continue to interpret capitalism too narrowly. In this narrow interpretation we create a one-dimensional human being to play the role of entrepreneur. We insulate him from other dimensions of life, such as religious, emotional, political social dimensions. He is dedicated to one mission in his business life - to maximize profit. He is supported by masses of one-dimensional human beings who back him up with their investment money to achieve the same mission. The game of free market, we are told, works out beautifully with one-dimensional investors and entrepreneurs. We have remained so mesmerized by the success of the free market that we never dared to express any doubt about it. We worked extra hard to transform ourselves, as closely as possible, into the one-dimensional human beings as conceptualized in theory to allow smooth functioning of the free market mechanism.

This theory postulates that you are contributing to society and the world in the best possible manner if you just concentrate on squeezing out the maximum for yourself. When you get your maximum, everybody else will get his maximum.

No wonder sometimes doubts appear in our mind whether we are doing the right thing by imitating the entrepreneur designed by the theory. After all, things don't look so good around us. We quickly brush off our doubts by saying all these bad things happen because of "*market failures*"; well-functioning markets cannot produce unpleasant results - we reassure ourselves.

I think things are going wrong not because of "*market failure*." It is much deeper than that. Let us be brave and admit that it is because of "*conceptualization failure*." More specifically, it is the failure to capture the essence of a human being in our theory. Everyday human beings are not one-dimensional entities they are excitingly multi-dimensional and indeed very colourful. Their emotions, beliefs, priorities, behaviour patterns vary so much that they can be more aptly described by drawing an analogy with producing millions of colours and shades by mixing three basic colours in varying proportions.

I am arguing that no harm is done to the free market if all businesses are not profit maximization entities. By asserting that businesses by their very nature must be of only one kind, profit maximization kind, and by practicing it as an axiom, we have created a world where social problems remain unaddressed. Some times these

problems are partially addressed by philanthropy, or left to be addressed by governments.

Social Business Entrepreneurs Can Play a Big Role in the Market

Instead of one-dimensional people we can think of a world with two dimensional people. To see how the theory of the firm will work in such a world we can simplify it by assuming that there are two kinds of people, each kind maximizing a separate objective function. One type is the existing type, *i.e. the profit maximizing type*. The second type is a new type, those who are not interested in profit-maximization. They are totally committed to making a difference to the world. They are *social-objective driven*. They want to give a better chance in life to other people. They want to achieve their objective through creating/supporting a special kind of business enterprises. While like any other business these businesses must not incur losses, but earning dividends from these enterprises is not the motivation which drives the investors. They create a new class of businesses which we may describe as “*non-loss-non-dividend*” (or “*nonloss- token-dividend*” business.)

But the critical question is: Do the second kind of people exist in the real world? Yes, they do. Aren't we familiar with “*do-gooders?*” Do-gooders are the same people who are referred to as “*social entrepreneurs*” in formal parlance. Social entrepreneurship is an integral part of human history. Most people take pleasure in helping others. All religions encourage this quality in human beings. Governments reward them by giving tax breaks. Special legal facilities are created for them so that they can create legal entities to pursue their objectives.

To achieve their objectives, some social entrepreneurs (SE) spend money to operate their programmes. Some just give away their time, talent, skill or such other contributions which are useful to others. SEs who spend money achieve their objectives, or may not try to recover part or all of the money by charging a fee or price.

We may classify these SEs into four categories:

- No cost recovery
- Some cost recovery
- Full cost recovery
- More than full cost recovery

Once an SE operates at 100 percent or beyond the cost recovery point he has actually graduated into another world, the business world, with almost limitless expansion possibilities. This is a moment worth celebrating. He has overcome the gravitational force of financial dependence and now is ready for space flight! This is the critical moment of significant institutional transformation. He has moved from the world of philanthropy to the world of business.

I postulate a new world of businesses where businesses will be of two kinds:

- a) The well-known and well-established profit maximizing kind, which are devoted to making personal gains. (Let us call them ***profit maximizing enterprises*** or PMEs.) and;

b) Social benefit maximizing kind, which are created to do good to people, not paying any attention to making personal gains. I am calling them *social business enterprises* (SBE).

Basic Features of an SBE

An SBE is designed and operated as a business enterprise to pass on all the benefits to the customers. It reverses the profit maximization principle by benefit maximization principle. In an SBE benefits of the business are passed on to the target group, rather than translating them into profit for the investors.

SBEs are non-loss-non-dividend companies. The bottom line for them is to operate without incurring losses while serving the people, and the planet, particularly disadvantaged people, in the best possible manner.

SBEs will operate in the same market place with the profit-maximizing enterprises, compete with them and try to out-manoeuvre them for their market shares. Not only will SBEs compete with PMEs, they will also compete with other SBEs to push each other to improve their efficiency to serve the people and the planet better.

With the entry of the SBEs into the business world, the market place becomes more interesting and competitive. *Interesting* because two different kinds of objectives are now at play creating two different sets of frameworks for price determination and *competitive* because there are more players now than before. These new players, the SBEs, can be equally aggressive and enterprising in achieving their goals as the other entrepreneurs.

If we recognise them and empower them, SBEs can become very powerful players in the national and international economy. Today if we add up the assets of all the SBEs of the world, it would not add up to be even an ultra-thin slice of the global economy. It is not because they basically lack growth potential, but because conceptually we neither recognize their existence, nor make any room for them in the market. They are considered freaks, and kept outside the mainstream economy. We do not pay attention to them, because our eyes are blinded by the prevailing theories.

If SBEs exist in the real world, it makes no sense why we should not make room for them in our conceptual framework. Once we recognize them with supportive institutions, policies and regulations then the norms and rules will come into being to help them become mainstream businesses.

The Market is Not Equipped to Address Social Problems

The market is generally considered to be an institution not equipped to address social problems. To the contrary, the market is recognized as an institution significantly contributing to creating social problems (environmental hazards, inequality, polarisation of political power, health hazards, unemployment, ghettos, crimes, etc.). Since it is accepted as an unalterable reality that the market has no capacity to solve social problems, this responsibility is handed over to the State. This arrangement was considered as the only solution until command economies were created where the State took over everything, abolishing the market.

But this did not last long. With command economies gone we are back to the artificial division of work between the market and the State. In this arrangement the market is turned into an exclusive playground of the PMEs, overwhelmingly ignoring the common interest of people and the planet. In recent years an initiative is gaining momentum to bring the awareness among the PMEs about their social responsibilities while keeping their profit maximizing objective intact. It is sometimes done by a set of self-imposed restrictions on its activities and/or through creation of a philanthropic window with profit money.

With the economy expanding at an unforeseen speed, personal wealth reaching unimaginable heights, technological innovations making this speed faster and faster, globalization threatening to wipe out the weak economies and the poor people from the economic map, it is time to consider the case of SBEs more seriously than we ever did before. It is not necessary to leave the market solely to the PMEs. It is time to move away from the narrow interpretation of capitalism and broaden the concept of market by giving full recognition to SBEs. Once this is done SBEs can make the market work for social goals as efficiently as PMEs do for private goals.

Profit-making by SBEs will be perfectly legitimate. The only condition is that investors will not receive any dividends or receive only token dividends, if any at all.

SBEs should generate enough surpluses to pay back the invested capital to the investors as early as possible. It is up to the investors to decide how quickly they want their money back. They may get their money back to reinvest in other SBEs, or in PMEs. They may decide to reinvest the surplus in the same SBE which generated the profit.

SBEs should generate surpluses for expansion, improvement of quality, increasing efficiency, introducing new technology, innovative marketing to reach the deeper layers of low-income people, particularly women, children, and disadvantaged communities, undertake research and experimentation, to improve and diversify products and services.

Investors will invest in an SBE for a return much broader than his immediate gain in money. They invest in an SBE because they feel an urge to make a difference, and share their lives with other people. They invest because they feel that they can contribute their creativity, innovativeness and entrepreneurial abilities to solve intricate social and economic problems around them and by doing that they improve the living conditions of all living beings, including their own. They do not see SBEs as a vehicle to make private gains.

SBEs may have a dividend policy something like the following:

- a)** An SBE may pay back the investors capital out of the profit within a time period agreed upon by the investors; and
- b)** Even after the capital amount is paid back, an SBE may give a nominal annual fixed dividend (say, 1% to 5%) to their investors as a token recognition of their ownership and for keeping it as an active item in their books. Decision on the maximum rate of return on investment to be paid by the company should be agreed upon by the investors at the time of creation of the company. (In a recently launched SBE called Grameen Danone Foods the investors want to keep it limited to maximum of 1 per cent after the invested capital has been returned.)

The bottom line for an SBE will always be to deliver benefits to people and the planet, rather than to earn money for the investors.

If an investor wants to withdraw his investment from an SBE at any point of time, he may do so, provided he sells his shares to the existing shareholders, or to a new shareholder who accepts the philosophy, practice and conventions of an SBE.

The Social Stock-Market

Trading of SBE shares in the existing stock-exchange is possible. However the best way to organize it would be to create a separate stock-exchange, a social stock-exchange, where only the SBE shares will be traded. Investors will come here to find the best SBE of their choice. They will select the SBE which is championing their favourite cause, in the most efficient business way. Through this stock exchange, they may shift their investment from one SBE to another, add new investments, or withdraw investments.

Until social stock exchanges are created, existing stock exchanges may open a window to facilitate the trading of SBE stocks. All companies which qualify to be categorised as SBEs may be listed under a separate category of companies. For easy recognition of the SBEs, each company may identify itself by adding suffix "SBE" in its name, such as, Grameen Danone Foods SBE. Of course, buyers of SBE stocks will always be warned in their transaction documents that investing in an SBE is investing in a cause. Buyers must not expect any financial return, except the token amount, if any, agreed by the company from this stock ownership.

My feeling is that there are many people around the world who are ready to make investments in the SBEs, if only they can reach out to the social business entrepreneurs. Foundations and philanthropists may find it very attractive to invest part of their charity money into SBEs. What is needed now is a market place, standardization of terminology, definitions, and reporting format, rating agencies, business journals, newspapers, magazines on SBEs, and a group of social business entrepreneurs who will build this new business world.

Economists will have to reformulate their micro-economic theory to incorporate SBEs, along with PMEs. Business schools may start giving courses, and business management degrees, on SBEs to train young people how to manage social business enterprises in the most efficient manner, and, most of all, to inspire them to become social business entrepreneurs themselves to leave their signatures on this planet.

The time is right to pay serious attention to the SBEs. People are getting more and more worried about the appropriateness of the present conceptual framework and practice of capitalism in addressing the problems of an ever-growing economic polarization within societies and between societies. This worry is further reinforced by the tide of globalisation which threatens the lives of the poor and the future of the poor economies. SBEs can bring a big change in the market place and create hope for the future of human society.

How to Make a Start

One good way to get started would be to launch a design competition for social business enterprises. There can be local, regional and global competitions. Prizes for the successful designs will come in the shape of equity financing for the enterprises, or as partnership for implementing the projects.

All submitted social business proposals can be published on a website so that these can become the starting points for the designers in the next cycles, or can provide ideas for someone who wants to start a social business enterprise.

The Social Stock-Market itself can be started by an SBE as a social business enterprise. One business school, or several business schools can join hands to launch this as a project and start serious business transactions.

Learning in Steps, by Doing

Let us not expect that a social business enterprise will come up, from its very birth, with all the answers to a social problem. Most likely, it will proceed in steps. Each step may lead to the next level of achievement. The Grameen Bank is a good example in this regard. In creating the Grameen Bank I never had a blue-print to follow. I moved one step at a time, always thinking this step will be my last step. But it was not. That one step led me to another step, a step which looked so interesting that it was difficult to walk away from. I faced this situation at every turn.

I started my work by giving small amounts of money to a few poor people without any collateral. Then I realized how good the people felt about it. I needed more money to expand the program. To access bank money, I offered myself as a guarantor. To get support from another bank, I converted my project into the bank's project. Later, I turned it into a central bank project. Over time I saw that the best strategy would be to create an independent bank to do the work that we do. So we did. We converted the project into a formal bank, borrowing money from the central bank to lend money to the borrowers. Since donors became interested in our work, and wanted to support us. We received loans and grants from international donors. At one stage we decided to stop taking money from donors. This led us to focus on generating money internally by mobilizing deposits. Soon we came to a stage when the Grameen Bank had more money in deposits than it lent out to the borrowers. Today it lends out half a billion dollars of depositors' money, each year, in loans averaging \$130 dollars to 6 million borrowers, without collateral, and maintains a 99 per cent repayment record.

Over the years we introduced many different programs into the bank - housing loans, student loans, pension funds, loans to purchase mobile phones to become the village telephone ladies, loans to beggars to become door-to-door sales person. One came after another.

Besides the Grameen Bank we have created many other companies: a renewable energy company (Grameen Shakti), Grameen Healthcare Services, Grameen Phone, Grameen Telecom, Grameen Agriculture, Grameen Fisheries & Livestock, Grameen Communications, etc. The latest company that we launched is particularly interesting for this paper. This is 50:50 joint venture between Grameen and Danone, called "Grameen Danone Foods, - a Social Business Enterprise". (I am including some relevant sections of the joint venture agreement signed between Grameen and Danone in the appendix.)

I invite all companies to think of creating SBEs as part of their business. They'll find it to be an exhilarating experience. How to facilitate SBEs entry into the market? What are the steps that we need to take to facilitate the SBEs to take up bigger and bigger chunks of market share?

First, we must recognize the SBEs in our conceptual framework. Students must learn that businesses are of two kinds: **a) business to make money, and b) business to do good to others**. Young people must learn that they have choices to make. They can create a wider spectrum of choices by mixing the above two basic choices in proportions just right for their own taste.

Second, we must make the SBEs and social business investors visible in the market place. As long as SBEs operate within the cultural environment of present stock markets they'll remain restricted by the existing norms and language constraints of trading terminology. SBEs must develop their own norms, standards, measurements, evaluation criteria, and terminology. This can be achieved only if we create a separate stock market for social business enterprises and investors. Investors will come here to invest their money for the cause they believe in, and in the company they think is doing the best in achieving a particular mission.

Along with the creation of the Social Stock Market we'll need to create rating agencies, appropriate impact assessment tools, indices to understand which social business enterprise is doing more and/or better than others - so that social investors are correctly guided. This industry will need its Social Wall Street Journal and Social Financial Times to bring out all the exciting, as well as the negative stories, and analyses to keep the social entrepreneurs and investors properly informed and forewarned.

Within business schools we can start producing Social MBAs to meet the demand of the SBEs as well as preparing young people to become SBEs themselves. I think young people will respond very enthusiastically to the challenge of making serious contributions to the world by becoming SBEs.

We'll need to arrange equity financing for SBEs. New "SBE angels" will have to show up on the scene. Social Venture Capitalists will have to extend their helping hands to support the SBEs.

Will the Number of SBEs Grow?

There are many reasons why the number of SBEs will take an exponential growth path, once it is well understood.

Existing companies of all shapes and sizes may launch their own SBEs to test out the water. A part of their annual profit may be devoted to the creation of SBEs as a part of their Social Responsibility Initiative (SRI). They may create SBEs by themselves, or they may partner with known or potential social business entrepreneurs. Specialised companies may be come up to provide the introductory services between PMEs and SBEs for possible partnership.

Many companies who already have their charitable foundation windows may create "SBE Investment Funds", in addition to their philanthropy window. The advantage with an SBE Fund is that money in this fund will keep on growing giving them more financial power to create more SBEs.

Individual entrepreneurs who have achieved success (or suffered failures) in the conventional business, may feel an urge to try their creativity, talent and management skill in establishing and running their own SBEs. If they succeed in their first SBE, they'll get so inspired it may even become almost a habit. They'll find out what an exciting business social business can be.

Charitable and philanthropic foundations may create SBE windows.

International and bi-lateral donors may start creating "SBE Funds" in overseas development assistance recipient country to support SBE initiatives.

Children of successful business families may decide to devote themselves to SBEs because SMEs are already there and there is no challenge left for them in those enterprises. They may be attracted to the challenges and the rewards of SBEs.

Young entrepreneurs without inherited businesses may decide to start out their careers with SBEs, rather than SMEs, because they look so cool.

SBE is the Solution

We started out by assuming a world with two kinds of people, one kind wants to make money, the other kind wants to do good. But in the real world there are not two types of people, but only one type of person with two types of interests, in varying proportions. The important thing is that we must recognise these two types of interests in our business world, because it is important for humankind and the planet. This recognition will lead to the building of appropriate conceptual and institutional frameworks. Introducing SBE into the market place will be the most important part of this recognition process. Let us make a beginning.

Appendix

Quotes from the Grameen Danone Foods - A Social Business Enterprise, Joint Venture Agreement

Purpose:

The mission of Grameen Danone Foods is to reduce poverty through a unique proximity business model which brings daily healthy nutrition to the poor. The joint venture (company) will be designed and operated as a social business enterprise and will aim at sharing the benefits with its community of stakeholders.

Specific objectives: Daily healthy nutrition to the poor allows low income consumers of Bangladesh, to have access (in terms of affordability and availability) to a range of tasty and nutritious foods and beverages on a daily basis, in order to improve their nutritional status. More specifically, it helps the children of Bangladesh grow strong, thanks to tasty, nutritious food and beverage products they can consume everyday, so that they can have a better future.

A unique proximity business model: Design a manufacturing and distribution model that involves local communities.

Reduce poverty: Improve the economic conditions of the local low income population by:

- Up-streaming their involvement as local suppliers (farmers) and helping them to improve their practices;
- By involving the local population via a low cost labour intensive manufacturing model; and
- Downstream their contribution through the creation of jobs using the distribution model.

Operating profit/Distributions

In terms of profit and loss, the joint venture (company) should be a no-loss operation company. This means that no shareholder should lose money in their participation in the business model; the business model should be profitable for each Party and any profits (beyond cost of capital) generated by the company will be reinvested in the development of its business in a manner to be mutually agreed upon by the Parties.

The company will be designed and operated as a social business enterprise and will aim at sharing benefits with the community of its stakeholders.

The bottom line for the company will be to operate without incurring losses while serving the people, particularly disadvantaged people, in the best possible manner.

The company will generate enough surpluses to pay back the invested capital to the parties as early as possible. It is up to the parties to decide how quickly they want their money back. Parties may decide to reinvest the surplus in the company for expansion, improvement of quality, increasing efficiency, introducing new technology, innovative marketing to reach the deeper layers of low-income people, particularly women, children, and disadvantaged communities, undertake research and experimentation, to improve and diversify products and services.

The company will try to pay back the Parties capital out of the profit within a time period agreed upon by the Parties.

Even after the capital amount is paid back, the company will pay a 1 percent dividend annually to the shareholders.