



## Social Business:Turning Capitalism on its Head

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The world today is witnessing capitalism at its worst. The system, after producing a global depression in the 1930s, and recovering from it to give the world the longest and most prosperous expansion in the history of mankind, is once again flirting with catastrophe that threatens to unravel the whole system. To anyone cognizant of economic history, it is an unseemly sight to see the world's most affluent societies beset with mounting public and private debt that are shaking the foundations of hitherto prosperous economies; to see unemployment in the double digits and youth unemployment even at 50% in some pockets of Europe. Laissez faire financial capitalism that took roots in the 21st century soon unravelled in the severest financial crisis from which world markets are yet to recover. In the wake of this crisis, trillions of dollars worth of equities and housing values vanished literally into thin air making millions of citizens across Europe and North America feel poorer and radically cut consumption, the engine that drove capitalist economies for decades. As affluent societies get a taste of humble living by cutting down on their spending habits, less affluent societies and those living in poverty could feel the pinch as the demand for their products and services fall off. In consequence, the global economy slows down or falters in its forward march.

Globalisation, an offshoot of the capitalist economic system, did unleash the forces of trade, growth and poverty reduction across the globe for a long period. But now it seems the day of reckoning is upon us. Or, is it? It was Joseph Schumpeter, writing about the capitalist system, who coined the expression "creative destruction". Is the present predicament simply a reflection of the destructive process within capitalism, to be followed eventually by more innovation? It comes after what was considered by Alan Greenspan, the former Chairman of the US Federal Reserve System, as "financial innovation", which was then allowed free reign from the trappings of prudential financial regulation. As a result, corporate "greed" ran amok on Wall Street and beyond. Much of the world today is getting a taste of the consequences of the financial collapse that ensued. But what is now certain is that far too many people around the globe are afflicted with the negative consequences of the destructive process inherent in capitalism and addressing their call for resuscitation has become a global imperative.

Along comes Nobel Peace Laureate Professor Muhammad Yunus with a new initiative — Social Business — a kind of business that is created to address a social problem, like child malnutrition in Bangladesh. Indeed, a wider definition of social business would include any business which has a social rather than financial objective. But Yunus narrows his focus. He argues that the malaise that is inherent in capitalism has its origin in the assumption of

human beings as unidirectional — seekers of maximum profits to enrich themselves. That need not be so. He argues there is a selfish and a selfless side to all individuals. It would then be possible to create social businesses to solve social problems by harnessing the selfless motivations in people. These could be business enterprises driven not by the motive to maximise profits but to address a social problem that causes suffering to large sections of society. By suggesting this he is not negating the fundamental tenets of capitalism governed by free markets, competition and private ownership. Rather, by calling it a business, he is at ease with all these principles except to say that businesses need not always be driven by the motive of profit maximisation. Investors could have the option of exploiting capitalism to do “social good”. In his latest book, *Building Social Business: The New Kind of Capitalism that Serves Humanity’s Most Pressing Needs*, Yunus asserts that a Social Business is “Operated as a business enterprise, with products, services, customers, markets, expenses, and revenues — but with the profit-maximising principle replaced by the social-benefit principle”. This is clearly a deviation from traditional non-profit enterprises established to provide health care, education and a host of social benefits to the poor and needy. Those enterprises typically rely on donation from generous individuals or corporations. Without such donations or fund-raising initiatives, these enterprises lack sustainability. A social business, on the other hand, has to be set up as a commercially viable proposition, i.e. they must generate surplus to reinvest and sustain or expand the business. They cannot be running at a loss. Since maximising profits is not the objective, the social good, such as solving child malnutrition, could be provided at a price that is affordable to the poor, but below what the market could bear. I believe the strongest case he makes for such a business is by arguing that a charity dollar has only one life, a social business dollar can be recycled multiple times. The key point is to develop a viable business model that pays its way while solving a nagging social problem.

Sifting through Yunus’ book on social business, one sees the emergence of a new form of investment, where investors pursue altruistic rather than material goals. A social business then becomes a “no-loss, no dividend company designed to address a social problem”. The purpose of the investment is purely to achieve one or more social objectives through the operation of the company; no personal gain is desired by the investors. The company must cover all costs, make a profit, and at the same time achieve a social objective, such as, healthcare for the poor, housing for the poor, financial services for the poor, nutrition for malnourished children, providing safe drinking water, introducing renewable energy and so

on.

The success of the company is measured not by the amount of profit but by the impact on people or the environment from fulfilling the social objective.

Unlike a charitable donation, investors get their capital back without interest or dividends. They derive satisfaction from achieving the social goal that was intended. Can such a business compete and thrive in the marketplace? Critics may raise a host of questions as the idea evolves and takes concrete shape while coming to terms with ground realities. Who are these investors? What are the incentives for management? For starters, some leading multinational corporations have come forward to put up funds for social businesses, on a no-loss, no dividend basis, e.g. French Danone, German BASF, Japanese Uniqlo, German Adidas and many more. Yunus himself has organised several businesses in Bangladesh along these principles: e.g. a nursing school, eye care centres, home solar systems, garment factories. The principal driving force seems to be an appealing one: you see a social problem, develop a sustainable business model to address it, rather than rely on charity. To finance social businesses, he proposes the institution of a Social Business Fund that could mobilise resources from private (corporate CSR or benevolent individuals) as well as public sources. SB Fund managers would then select or develop social business projects to be funded with capital from the Fund on a no-loss, no dividend basis. For a start, it would seem that businesses and corporations that have already accumulated profits will come forward to allocate part of their investible surplus in ventures for social good on the Yunus principle of no loss, no dividend. As an operational principle, therefore, it could be argued that social business works as a complement to rather than be a substitute of profit maximising business. They could also be independent self-standing businesses with initial capital drawn from socially motivated individuals.

Taking a cue from his life's work, Yunus promotes social business rather than relying on charity as a way to address the social problems stemming from unemployment, lack of healthcare and education for the poor and even environmental degradation. Like micro-credit before it, Yunus' mission is to spread the message of social business around the globe. With his high international profile, he seems to be making some headway. Two global summits on social business, most recently in Vienna, have drawn the attention of world leaders and corporate executives, and brought delegates from some 60 countries. As an MDG advocate

along with several eminent global personalities, Yunus has moved to include social business into the MDG agenda. In his turn, the UN Secretary General has entrusted Yunus with the task of mobilising youth to engage in innovative and inclusive business models to accelerate reaching MDG goals. Some universities in USA, UK, Italy, Japan and Singapore, have taken steps to start social business courses or programmes in their curriculum. The Mayor of the German town of Wiesbaden recently declared the city a social business city. More cities in Europe are reportedly taking the cue. To be fair, there is still a long and arduous road ahead before social business becomes accepted doctrine as the humane side of capitalism that combines financial stability and job creation under the same banner.

To conclude, the world economy is still in turmoil. Taken together, it seems like Armageddon for the capitalist system as a whole, and the blame has been squarely placed on the relentless pursuit of profit turned corporate greed. Even in the most affluent societies, there is a strong cry for economic equity. Social business, by taking attention away from the pursuit of profit maximisation, has the promise to offer some relief within the capitalist system without tearing it down. Much like its sister political system, democracy, of which Winston Churchill once exclaimed, “Democracy is the worst form of government except all those other forms that have been tried from time to time”. One could argue in the same vein that capitalism is the worst economic system except all those other systems that have been tried and are now defunct. Can social business rescue capitalism from its internal destructive forces? Only time will tell if that is a tall order — or not.