

# **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 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 works out beautifully with one-dimensional investors and entrepreneurs. We have remained so mesmerised 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 conceptualised in theory to allow smooth functioning of free market mechanism.

Economic theory postulates that you are contributing to the 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 their maximum.

As we devotedly follow this policy sometimes doubts appear in our mind whether we are doing the right thing. Things don't look too good around us. We quickly brush off our doubts by saying all these bad things happen because of "market failures"; well-functioning market cannot produce unpleasant results.

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 "conceptualisation 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 can be more aptly described by drawing analogy with the basic colours and millions of colours and shades they produce.

## **Social Business Entrepreneurs Can Play a Big Role in the Market**

Suppose we postulate a world with two kinds of people, both one-dimensional, but having different objectives. One type is the existing type, i.e. profit maximizing type. Second type is a new type, who are not interested in profit-maximization. They are totally committed to make a difference to the world. They are social-objective driven. They want to give better chance in life to other people. They want to achieve their objective through creating/supporting sustainable business enterprises. Their businesses may or may not earn profit, but like any other businesses they must not incur losses. They create a new class of business which we may describe as "non-loss" business.

Can we find second type of people in the real world ? Yes, we can. 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.

Some social entrepreneurs (SE) use money to achieve their objectives, some just give away their time, labour, talent, skill or such other contributions which are useful to others. Those who use money may or may not try to recover part or all of the money they put into their work by charging fee or price.

We may classify the SEs, who use money, into four types :

- i) No cost recovery
- ii) Some cost recovery
- iii) Full cost recovery
- iv) More than full cost-recovery

Once a SE operate at 100% or beyond the cost recovery point he has entered the business world with limitless 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. To distinguish him from the first two types of SEs listed above, we'll call him "social business entrepreneur" (SBE).

With the introduction of SBEs, 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. Competitive because there are more players now than before. These new players can be equally aggressive and enterprising in achieving their goals as the other entrepreneurs.

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 even an ultra-thin slice of the global economy. It is not because they basically lack growth potential, but because conceptually we neither recognised their existence, nor made any room for them in the market. They are considered freaks, and kept outside the mainstream economy. We do not pay any attention to them, because our eyes are blinded by the theories taught in our schools.

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 recognise them supportive institutions, policies, regulations, norms, and rules will come into being to help them become mainstream.

Market is always considered to be an utterly incapable institution to address social problems. To the contrary, market is recognised as an institution significantly contributing to creating social problems (environmental hazards, inequality, health, unemployment, ghettos, crimes, etc.). Since market has no capacity to solve social problem, this responsibility is handed over to the State. This arrangement was considered as the only solution until command economies were created where State took over everything, abolishing 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 market is turned into an exclusive playground of the personal gain seekers, overwhelmingly ignoring the common interest of communities and the world as a whole.

With the economy expanding at an unforeseen speed, personal wealth reaching unimaginable heights, technological innovations making this speed faster and faster, globalisation 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 did ever before. Not only is it not necessary to leave the market solely to the personal-gain seekers, it is extremely harmful to mankind as a whole to do that. 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 flood the market and make the market work for social goals as efficiently as it does for personal goals.

## **Social Stock Market**

How do we encourage creation of SBEs ? 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 recognise the SBEs in our theory. 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 a choice to make --- which kind of entrepreneur they would like to be ? If we broaden the interpretation of capitalism even more, they'll have wider choice of mixing these two basic types 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 lingo of trading. SBEs must develop their own norms, standards, measurements, evaluation criteria, and terminology. This can be achieved only if we create a separate stockmarket for social business enterprises and investors. We can call it Social Stock Market. 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. There may be some companies listed in this social stock market who are excellent in achieving their mission at the same time making very attractive profit on the side. Obviously these companies will attract both kinds of investors, social-goal oriented as well as personal-gain oriented.

Making profit will not disqualify an enterprise to be a social business enterprise. Basic deciding factor for this will be whether the social goal remains to be enterprise's over-arching goal, and it is clearly reflected in its decision-making. There will be well-defined stringent entry and exit criteria for a company to qualify to be listed in the social stock market and to lose that status. Soon companies will emerge which will succeed in mixing both social goal and personal goal. There will be decision-rules to decide upto what point they still qualify to enter the social stock market, and at what point they must leave it. Investors must remain convinced that companies listed in the social stock market are truly social business enterprises.

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 terrible, news 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 financing for SBEs. New bank branches specialising in financing social business ventures will have to come up. New "angels" will have to show up on the scene. Social Venture Capitalists will have to join hands with the SBEs.

### **How to Make a Start**

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

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

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

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. Grameen Bank is a good example in this regard. In creating 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 amount of money to a few poor people without any collateral. Then I realised how good the people felt about it. I needed more money to expand the programme. To access bank money, I offered myself as a guarantor. To get support from another bank, I converted my project as the bank's project. Later, I turned it into 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 borrowed and received grants from international donors. At one stage we decided to be self-reliant. This led us to focus on generating money internally by collecting deposits. Now Grameen Bank has more money in deposits than it lends out to borrowers. It lends out half a billion dollars a year, in loans averaging under \$ 200, to 4.5 million borrowers, without collateral, and maintains 99 per cent repayment record.

We introduced many programmes in 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 salesman. One came after another.

If we create the right environment, SBEs can take up significant market share and make the market an exciting place for fighting social battles in ever innovative and effective ways.

Lets get serious about social business entrepreneurs. They can brighten up this gloomy world.