CREATING A WORLD WITHOUT POVERTY: SOCIAL BUSINESS AND THE FUTURE OF CAPITALISM

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1. A New Kind of Business

Since the fall of the Soviet Union in 1991, free markets have swept the globe. Free-market economics has taken root in China, Southeast Asia, much of South America, Eastern Europe, and even the former Soviet Union. There are many things that free markets do extraordinarily well. When we look at countries with long histories under capitalist systems—in Western Europe and North America—we see evidence of great wealth. We also see remarkable technological innovation, scientific discovery, and educational and social progress. The emergence of modern capitalism three hundred years ago made possible material progress of a kind never before seen. Today, however—almost a generation after the Soviet Union fell—a sense of disillusionment is setting in.

To be sure, capitalism is thriving. Businesses continue to grow, global trade is booming, multinational corporations are spreading into markets in the developing world and the former Soviet bloc, and technological advancements continue to multiply. But not everyone is benefiting. Global income distribution tells the story: Ninety-four percent of world income goes to 40 percent of the people, while the other 60 percent must live on only 6 percent of world income. Half of the world lives on two dollars a day or less, while almost a billion people live on less than one dollar a day.

Poverty is not distributed evenly around the world; specific regions suffer its worst effects. In sub-Saharan Africa, South Asia, and Latin America, hundreds of millions of poor people struggle for survival. Periodic disasters, such as the 2004 tsunami that devastated regions on the Indian Ocean, continue to kill hundreds of thousands of poor and vulnerable people. The divide between the global North and South—between the world's richest and the rest—has widened.

Some of the countries that have enjoyed economic success over the past three decades have paid a heavy price, however. Since China introduced economic reforms in the late 1970s, it has experienced rapid economic growth, and, according to the World Bank, over 400 million Chinese have escaped poverty. (As a result, India has now become the nation with the largest population of poor people, even though China has a bigger overall population.)

But all of this progress has brought with it a worsening of social problems. In their rush to grow, Chinese officials have looked the other way when companies polluted the water and air. And despite the improved lot of many poor, the divide between the haves and have-nots is widening. As measured by technical indicators such as the Gini coefficient, income inequality is worse in China than in India.

Even in the United States, with its reputation as the richest country on earth, social progress has been disappointing. After two decades of slow progress, the number of people living in poverty has increased in recent years.[1] Some forty-seven million people, nearly a sixth of the population, have no health insurance and have trouble getting basic medical care. After the end of the Cold War, many hoped for a "peace dividend"—defense spending could decline, and social programs for education and medical care would increase. But especially since September 11, 2001, the U.S. government has focused on military action and security measures, ignoring the poor.

These global problems have not gone unnoticed. At the outset of the new millennium, the entire world mobilized to address them. In 2000, world leaders gathered at the United Nations and pledged, among other goals, to reduce poverty by half by 2015. But after half the time has elapsed, the results are disappointing, and most observers think the Millennium Goals will not be met. (My own country of Bangladesh, I'm happy to say, is an exception. It is moving steadily to meet the goals and is clearly on track to reduce poverty by half by 2015.)

What is wrong? In a world where the ideology of free enterprise has no real challenger, why have free markets failed so many people? As some nations march toward ever greater prosperity, why has so much of the world been left behind?

The reason is simple. Unfettered markets in their current form are not meant to solve social problems and instead may actually exacerbate poverty, disease, pollution, corruption, crime, and inequality.

I support the idea of globalization—that free markets should expand beyond national borders, allowing trade among nations and a continuing flow of capital, and with governments wooing international companies by offering them business facilities, operating conveniences, and tax and regulatory advantages. Globalization, as a general business principle, can bring more benefits to the poor than any alternative. But without proper oversight and guidelines, globalization has the potential to be highly destructive.

Global trade is like a hundred-lane highway criss-crossing the world. If it is a free-for-all highway, with no stoplights, speed limits, size restrictions, or even lane markers, its surface will be taken over by the giant trucks from the world's most powerful economies. Small vehicles—a farmer's pickup truck or Bangladesh's bullock carts and human-powered rickshaws—will be forced off the highway.

In order to have win-win globalization, we must have fair traffic laws, traffic signals, and traffic police. The rule of "the strongest takes all" must be replaced by rules that ensure that the poorest have a place on the highway. Otherwise the global free market falls under the control of financial imperialism.

In the same way, local, regional, and national markets need reasonable rules and controls to protect the interests of the poor. Without such controls, the rich can easily bend conditions to their own benefit. The negative impact of unlimited single-track capitalism is visible every day—in global corporations that locate factories in the world's poorest countries, where cheap labor (including children) can be freely exploited to increase profits; in companies that pollute the air, water, and soil to save money on equipment and processes that protect the environment; in deceptive marketing and advertising campaigns that promote harmful or unnecessary products.

Above all, we see it in entire sectors of the economy that ignore the poor, writing off half the world's population. Instead, businesses in these sectors focus on selling luxury items to people who don't need them, because that is where the biggest profits are.

I believe in free markets as sources of inspiration and freedom for all, not as architects of decadence for a small elite. The world's richest countries, in North America, Europe, and parts of Asia, have benefited enormously from the creative energies, efficiencies, and dynamism that free markets produce. I have devoted my life to bringing those same benefits to the worlds most neglected people—the very poor, who are not factored in when economists and business people speak about the market. My experience has shown me that the free market—powerful and useful as it is—could address problems like global poverty and environmental degradation, but not if it must cater solely and relentlessly to the financial goals of its richest shareholders.

Is Government the Answer?

Many people assume that if free markets can't solve social problems, government can. Just as private businesses are devoted to individual profit, government is supposed to represent the interests of society as a whole. Therefore, it seems logical to believe that large-scale social problems should be the province of government.

Government can help create the kind of world we all want to live in. There are certain social functions that can't be organized by private individuals or private organizations—national defense, a central bank to regulate the money supply and the banking business, a public school system, and a national health service to ensure medical care for all and minimize the effects of epidemics. Equally important, government establishes and enforces the rules that control and limit capitalism—the traffic laws. In the world economy, rules and regulations concerning globalization are still being debated. An international economic regulatory regime has yet to fully emerge. But on the national and local levels, many governments do a good job of policing free markets. This is especially true in the industrialized world, where capitalism has a long history and where democratic governments have gradually implemented reasonable regulatory systems.

The traffic laws for free markets oversee inspection of food and medicine and include prohibitions against consumer fraud, against selling dangerous or defective products, against false advertising and violation of contracts, and against polluting the environment. These laws also create and regulate the information framework within which business is conducted—the operation of stock markets, disclosure of company financial information, and standardized accounting and auditing practices. These rules ensure that business is conducted on a level playing field.

The traffic laws for business are not perfect, and they are not always enforced well. Thus some companies still deceive consumers, foul the environment, or defraud investors. These problems are especially serious in the developing world, with its often weak or corrupt governments. In the developed world, governments usually perform their regulatory tasks reasonably well, although starting in the 1980s, conservative politicians have taken every opportunity to undermine government regulations.

However, even an excellent government regulatory regime for business is not enough to ensure that serious social problems will be confronted, much less solved. It can affect the way business is done, but it cannot address the areas that business neglects. Business cannot be mandated to fix problems; it needs an incentive to want to do so. Traffic rules can make a place for small cars and trucks and even rickshaws on the global economic highway. But what about the millions of people who don't own even a modest vehicle? What about the millions of women and children whose basic human needs go unmet? How can the bottom half of the world's population be brought into the mainstream world economy and given the capability to compete in the free market? Economic stop signs and traffic police can't make this happen.

Governments have long tried to address these problems. During the late Middle Ages, England had Poor Laws to help those who might otherwise starve. Modern governments have programs that address social problems and employ doctors, nurses, teachers, scientists, social workers, and researchers to try to alleviate them.

In some countries, government agencies have made headway in the battle against poverty, disease, and other social ills. Such is the case with overpopulation in Bangladesh, which is one of the world's most densely populated countries, with 145 million people in a land area the size of Wisconsin. Or, to put it another way, if the *entire population of the world* were squeezed into the area of the United States of America, the resulting population density would be *slightly less* than exists in Bangladesh today! However, Bangladesh has made genuine progress in alleviating population pressure. In the last three decades, the average number of children per mother has fallen from 6.3 in 1975 to 3.3 in 1999, and the decline continues. This remarkable improvement is largely due to government efforts, including the provision of family planning products, information, and services through clinics around the country. Development and poverty-alleviation efforts by nongovernmental organizations, or NGOs, as well as Grameen Bank have also played an important role.

Governments can do much to address social problems. They are large and powerful, with access to almost every corner of society, and through taxes they can mobilize vast resources. Even the governments of poor countries, where tax revenues are modest, can get international funds in the form of grants and low-interest loans. So it is tempting to simply dump our world's social problems into the lap of government and say, "Here, fix this."

But if this approach were effective, the problems would have been solved long ago. Their persistence makes it clear that government alone does not provide the answer. Why not?

There are a number of reasons. One is that governments can be inefficient, slow, prone to corruption, bureaucratic, and self-perpetuating. These are all side effects of the advantages governments possess: Their vast size, power, and reach almost inevitably make them unwieldy as well as attractive to those who want to use them to amass power and wealth for themselves.

Government is often good at creating things but not so good at shutting them down when they are no longer needed or become burdens. Vested interests—especially jobs—are created with any new institution. In Bangladesh, for example, workers whose sole job was to wind the clocks on the mantelpieces of government administrators retained their positions, and their salaries, for many years after wind-up clocks were superseded by electrical timepieces.

Politics also stands in the way of efficiency in government. Of course, "politics" can mean "accountability." The fact that groups of people demand that government serve their interests and put pressure on their representatives to uphold those interests is an essential feature of democracy.

But this same aspect of government sometimes means that progress is thwarted in favor of the interests of one or more powerful groups. For example, look at the illogical, jerry-rigged, and inefficient health-care system in the United States, which leaves tens of millions of people with no health insurance. Reform of this system has so far been impossible because of powerful insurance and pharmaceutical companies.

These inherent weaknesses of government help to explain why the state-controlled economies of the Soviet era ultimately collapsed. They also explain why people around the world are dissatisfied with state-sponsored solutions to social problems.

Government must do its part to help alleviate our worst problems, but government alone cannot solve them.

The Contribution of Nonprofit Organizations

Frustrated with government, many people who care about the problems of the world have started nonprofit organizations. Nonprofits may take various forms and go under many names: not-for-profits, nongovernmental organizations, charitable organizations, benevolent societies, philanthropic foundations, and so on.

Charity is rooted in basic human concern for other humans. Every major religion requires its followers to give to the needy. Especially in times of emergency, nonprofit groups help get aid to desperate people. Generous assistance from people within the country and around the world has saved tens of thousands of lives in Bangladesh after floods and tidal waves.

Yet nonprofits alone have proven to be an inadequate response to social problems. The persistence and even worsening of global poverty, endemic disease, homelessness, famine, and pollution are sufficient evidence that charity by itself cannot do the job. Charity too has a significant built-in weakness: It relies on a steady stream of donations by generous individuals, organizations, or government agencies. When these funds fall short, the good works stop. And as almost any director of a nonprofit organization will tell you, there is never enough money to take care of all the needs. Even when the economy is strong and people have full purses, there is a limit to the portion of their income they will donate to charity. And in hard times, when the needs of the unfortunate are greatest, giving slows down. Charity is a form of trickle-down economics; if the trickle stops, so does help for the needy.

Relying on donations creates other problems. In countries where the social needs are greatest—Bangladesh, elsewhere in South Asia, and in large parts of Latin America and sub-Saharan Africa—the resources available for charity are usually very small. And it is often difficult to get donors from the richest countries to take a sustained interest in giving to distant countries they may never have visited, to benefit people they will never know. This is understandable, but it leaves serious social problems in those countries unaddressed.

The problems become even greater in times of crisis—when a natural disaster strikes, when war causes population upheavals and suffering, when an epidemic strikes, or when environmental collapse makes whole districts unlivable. The demand for charity quickly outpaces the supply. And today, with news and information constantly coming in from around the world, the demands for our attention and concern have never been greater. Dramatic disasters reported on television absorb the lion's share of charitable giving, while less publicized calamities that may be equally destructive are ignored. And eventually, "compassion fatigue" sets in, and people simply stop giving.

As a result, there is a built-in ceiling to the reach and effectiveness of nonprofit organizations. The need to constantly raise funds from donors uses up the time and energy of nonprofit leaders, when they should be planning the growth and expansion of their programs. No wonder they don't make much progress in their battles against social problems.

For all the good work that nonprofits, NGOs, and foundations do, they cannot be expected to solve the world's social ills. The very nature of these organizations as defined by society makes that virtually impossible.

Multilateral Institutions—The Development Elite

There is another category of organizations known as *multilateral institutions*. These are sponsored and funded by governments. Their mission is to eliminate poverty by promoting economic development in countries and regions that are lagging behind the prosperous nations of the northern hemisphere. Among the multilateral institutions, the World Bank leads the way. The World Bank has a private sector window called the International Finance Corporation. There are also four regional development banks, which closely follow the lead of the World Bank.

Unfortunately, in practice, the multilaterals have not achieved much in attaining their professed social goals either. Like governments, they are bureaucratic, conservative, slow-moving, and often self-serving. Like nonprofits, they are chronically underfunded, difficult to rely upon, and often inconsistent in their policies. As a result, the hundreds of billions of dollars they have invested over the past several decades have been largely ineffective—especially when measured against the goal of alleviating problems like global poverty.

Multilateral institutions like the World Bank name elimination of poverty as their overarching goal. But they focus exclusively on pursuing this goal through large-scale economic growth. This means that, as long as gross domestic product (GDP) is increasing in a country or a region, the World Bank feels that it is achieving its mission. This growth may be excruciatingly slow; it may be occurring without any benefits to the poor; it may even be occurring at the expense of the poor—but none of this persuades the World Bank to change its policies.

Growth is extremely important in bringing down poverty—there is no doubt about it. But to think that the only way to reduce poverty is to promote growth drives the policymaker to a straight theoretical path of building infrastructure to promote industrialization and mechanization.

There is a debate about the type of growth we should pursue based on serious concerns about the hazards of the World Bank's approach. "Pro-poor growth" and "anti-poor growth" are often treated as separate policy options. But my concern is different. Even if the policymaker identifies and works only for pro-poor growth, he is still missing the real issue. The objective of the policymaker is obviously to generate a spin in the economy so that the poor people are drawn into the spin. But in this conceptualization, the poor people are looked at as objects. In this frame of mind, policymakers miss the tremendous potential of the poor, particularly poor women and the children of poor families. They cannot see the poor as independent actors. They worry about the health, the education, and the jobs of the poor. They cannot see that the poor people can be actors themselves. The poor can be self-employed entrepreneurs and create jobs for others.

Furthermore, in their pursuit of growth, policymakers are focusing on efforts to energize well-established institutions. It never occurs to them that these institutions themselves may be contributing to creating or sustaining poverty. Institutions and policies that created poverty cannot be entrusted with the task of eliminating it. Instead, new institutions designed to solve the problems of the poor need to be created.

Another problem arises from the channel that donors use for the selection and implementation of projects. Both bilateral and multilateral donors work almost exclusively through the government machine. To make a real impact, they should be open to all segments of society and be prepared to utilize the creative capacity that is lying outside the government. I am sure that once donors begin to reach beyond the government, they'll come up with many exciting innovations. They can start with small projects and then let them grow if they see positive results.

Over the years, I have been watching the difference between the business styles of the World Bank and Grameen Bank. Theoretically, we are in the same business—helping people get out of poverty. But the ways in which we pursue this goal are very different.

Grameen Bank has always believed that if a borrower gets into trouble and cannot pay back her loan, it is our responsibility to help her. If we have a problem with our borrower, we tell ourselves that she is right—that we must have made some mistake in our policies or in our implementation of those policies. So we go back and fix ourselves. We make our rules very flexible so that they can be adjusted to the requirements of the borrower.

We also encourage our borrowers to make their own decisions about how to use the loans. If a borrower asks a Grameen staff member, "Please tell me what would be a good business idea for me," the staff member is trained to respond this way: "I am sorry, but I am not smart enough to give you a good business idea. Grameen has lots of money, but no business ideas. That's why Grameen has come to you. You have the idea, we have the money. If Grameen had good business ideas, instead of giving the money to you, it would use the money itself and make more money."

We want our borrowers to feel important. When a borrower tries to shy away from a loan offer, saying that she has no business experience and does not want to take money, we work to convince her that she can come up with an idea for a business of her own. Will this be her very first experience of business? That is not a problem. Everything has to have a beginning somewhere, we tell her.

It is quite different with the World Bank. If you are lucky enough to be funded by them, they give you money. But they also give you ideas, expertise, training, plans, principles, and procedures. Your job is to follow the yellow lines, the green lines, and the red lines—to read the instructions at each step and obey them precisely. Yet, despite all this supervision, the projects don't always work out as planned. And when this happens, it is the recipient country that usually seems to bear the blame and to suffer the consequences.

There are also big differences in the incentive systems in the two organizations. In Grameen Bank, we have a five-star evaluation and incentive system for our staff and our branches. If a staff member maintains a 100 percent repayment record for all his borrowers (usually 600), he gets a green star. If he generates profit through his work, he gets another star—a blue star. If he mobilizes more in deposits than the amount of his outstanding loans, he gets a third star—a violet star. If he makes sure all the children of all his borrowers are in school, he gets a brown star. Finally, if all his borrowers move out of poverty, he gets a red star. The staff member can display the stars on his chest. He takes tremendous pride in this accomplishment.

By contrast, in the World Bank, a staff member's success is linked to the amount of the loans he has successfully negotiated, not the impact his work has made. We don't even consider the amount of loans made by a staff member in our reward system.

There have been campaigns to close down the World Bank and the International Monetary Fund. I have always opposed such campaigns. These are important global institutions created for very good causes. Rather than close them down, we should overhaul them completely. The world has changed so much since the time they were created, it is time to revisit them. It is obvious that the present architecture and work procedures are not adequate to do the job. If I were asked about my ideas, I'd emphasize the following:

- A new World Bank should be open to both government and private investors, with private investment following the social business model I will describe.
- It should work through governments, NGOs, and the new type of organization I am proposing in this book—social businesses.
- Instead of the International Finance Corporation, the World Bank should have another window—a social business window.
- The president of the World Bank should be selected by a search committee that will consider qualified candidates from anywhere in the world.
- The World Bank should work through semi-autonomous national branches, each with its own board of advisors, rather than powerless country offices.

- Evaluation of the staff should be related to the quality of their work and the impact it has made, not the volume of loans negotiated. If a project fails or performs poorly, the staff member involved in designing and promoting it should be held responsible.
- The World Bank should grade all projects each year on the basis of their impact on poverty reduction, and each country office should be graded on the same basis.

Corporate Social Responsibility

Still another response to the persistence of global poverty and other social ills has been a call for social responsibility on the part of business. NGOs, social activists, and politicians have put pressure on corporations to modify their policies in regard to labor, the environment, product quality, pricing, and fair trade.

To their credit, many businesses have responded. Not so long ago, many executives managed corporations with a "public be damned" attitude. They exploited their workers, polluted the environment, adulterated their products, and committed fraud—all in the name of profit. In most of the developed world, those days are long gone. Government regulation is one reason for this, and another is the movement for corporate social responsibility (CSR).

Millions of people are now better informed than ever about both the good and the bad things that corporations can do. Newspapers, magazines, television, radio, and the Internet investigate and publicize episodes of business wrongdoing. Many customers will avoid patronizing companies that harm society. As a result, most corporations are eager to create a positive image. And this has given a strong push to CSR.

CSR takes two basic forms. One, which might be called "weak CSR," has the credo: *Do no harm to people or the planet (unless that means sacrificing profit)*. Companies that practice weak CSR are supposed to avoid selling defective goods, dumping factory wastes into rivers or landfills, or bribing government officials.

The second form, "strong CSR," says: *Do good for people and the planet (as long as you can do so without sacrificing profit)*. Companies that practice strong CSR actively seek out opportunities to benefit others as they do business. For example, they may work to develop green products and practices, provide educational opportunities and health plans for their employees, and support initiatives to bring transparency and fairness to government regulation of business.

Is CSR a force that is leading to positive change among business leaders? Could it be that CSR is the mechanism we have been searching for, the tool with which at least some of the problems of society can be fixed?

Unfortunately, the answer is no. There are several reasons why.

The concept of socially responsible business is built on good intentions. But some corporate leaders misuse the concept to produce selfish benefits for their companies. Their philosophy seems to be: Make as much money as you can, even if you exploit the poor to do so—but then donate a tiny portion of the profits for social causes or create a foundation to do things that will promote your business interest. And then be sure to publicize how generous you are!

For companies like these, CSR will always be mere window dressing. In some cases, the same company that devotes a penny to CSR spends 99 cents on moneymaking projects that make social problems *worse*. This is not a formula for improving society!

There are a few companies whose leaders are sincerely interested in social change. Their numbers are growing, as a younger generation of managers rises to the top. Today's young executives, raised on television and the Internet, are more aware of social problems and more attuned to global concerns than any previous generation. They care about issues like climate change, child labor, the spread of AIDS, the rights of women, and world poverty. As these young people become corporate vice presidents, presidents, and CEOs, they bring these concerns into the boardroom. These new leaders are trying to make CSR into a core part of their business philosophy.

This is a well-intended effort. But it runs up against a basic problem. Corporate managers are responsible to those who own the businesses they run—either private owners or shareholders who invest through the stock market. In either case, those owners have only one objective: *To see the monetary value of their investment grow*. Thus, the managers who report to them must strive for one result: *To increase the value of the company*. And the only way to achieve this is by increasing the company's profits. In feet, maximizing profit is their legal obligation to their shareholders unless the shareholders mandate otherwise.

Companies that profess a belief in CSR always do so with this proviso, spoken or unspoken. In effect, they are saying, "We will do the socially responsible thing—so long as it doesn't prevent us from making the largest possible profit." Some proponents of CSR say that pursuit of profit and social responsibility need not be in conflict. Sometimes this is true. Occasionally, through a happy accident, the needs of society and opportunities for high profits happen to coincide.

But what happens when profit and CSR do *not* go together? What about when the demands of the marketplace and the long-term interests of society conflict? What will companies do? Experience shows that profit always wins out. Since the managers of a business are responsible to the owners or shareholders, they *must* give profit the highest priority. If they were to accept reduced profits to promote social welfare, the owners would have reason to feel cheated and consider corporate social responsibility as corporate financial *irresponsibility*.

Thus, although advocates of CSR like to talk about the "triple bottom line" of financial, social, and environmental benefits by which companies should be measured, ultimately only one bottom line calls the shots: financial profit.

Throughout the 1990s and into the new century, American auto companies have produced gas-guzzling, super-sized SUVs, which demand enormous resources to manufacture, use huge amounts of fuel, and create terrible pollution. But they are very popular—and very profitable—and car makers continue to build and sell them by the millions. SUVs are bad for society, for the environment, and for the world, but the big auto companies' primary goal is to make profits, so they keep on doing something very socially irresponsible.

This example illustrates the most fundamental problem with CSR. By their nature, corporations are not equipped to deal with social problems. It's not because business executives are selfish, greedy, or bad. The problem lies with the very nature of business. Even more profoundly, it lies with the concept of business that is at the center of capitalism.

Capitalism Is a Half-Developed Structure

Capitalism takes a narrow view of human nature, assuming that people are one-dimensional beings concerned only with the pursuit of maximum profit. The concept of the free market, as generally understood, is based on this one-dimensional human being.

Mainstream free-market theory postulates that you are contributing to the society and the world in the best possible manner if you just concentrate on getting the most for yourself. When believers in this theory see gloomy news on television, they should begin to wonder whether the pursuit of profit is a cure-all, but they usually dismiss their doubts, blaming all the bad things in the world on "market failures." They have trained their minds to believe that well-functioning markets simply cannot produce unpleasant results.

I think things are going wrong not because of "market failures." The problem is much deeper than that. Mainstream free-market theory suffers from a "conceptualization failure," a failure to capture the essence of what it is to be human.

In the conventional theory of business, we've created a one-dimensional human being to play the role of business leader, the so-called entrepreneur. We've insulated him from the rest of life, the religious, emotional, political, and social. He is dedicated to one mission only—maximize profit. He is supported by other one-dimensional human beings who give him their investment money to achieve that mission. To quote Oscar Wilde, they know the price of everything and the value of nothing.

Our economic theory has created a one-dimensional world peopled by those who devote themselves to the game of free-market competition, in which victory is measured purely by profit. And since we are persuaded by the theory that the pursuit of profit is the best way to bring happiness to humankind, we enthusiastically imitate the theory, striving to transform ourselves into one-dimensional human beings. Instead of theory imitating reality, we force reality to imitate theory.

And today's world is so mesmerized by the success of capitalism it does not dare doubt that system's underlying economic theory.

Yet the reality is very different from the theory. People are not one-dimensional entities; they are excitingly multi-dimensional. Their emotions, beliefs, priorities, and behavior patterns can best be compared to the millions of shades we can produce from the three primary colors. Even the most famous capitalists share a wide range of interests and drives, which is why tycoons from Andrew Carnegie and the Rockefellers to Bill Gates have ultimately turned away from the game of profit to focus on higher objectives.

The presence of our multi-dimensional personalities means that not every business should be bound to serve the single objective of profit maximization.

And this is where the new concept of social business comes in.

2. Social Business: What It Is and What It Is Not

To make the structure of capitalism complete, we need to introduce another kind of business—one that recognizes the multidimensional nature of human beings. If we describe our existing companies as profit-maximizing businesses (PMBs), the new kind of business might be called social business. Entrepreneurs will set up social businesses not to achieve limited personal gain but to pursue specific social goals.

To free-market fundamentalists, this might seem blasphemous. The idea of a business with objectives other than profit has no place in their existing theology of capitalism. Yet surely no harm will be done to the free market if not all businesses are PMBs. Surely capitalism is amenable to improvements. And surely the stakes are too high to go on the way we have been going. By insisting that all businesses, by definition, must necessarily be PMBs and by treating this as some kind of axiomatic truth, we have created a world that ignores the multidimensional nature of human beings. As a result, businesses remain incapable of addressing many of our most pressing social problems.

We need to recognize the real human being and his or her multi-faceted desires. In order to do that, we need a new type of business that pursues goals other than making personal profit—a business that is totally dedicated to solving social and environmental problems.

In its organizational structure, this new business is basically the same as the existing PMB. But it differs in its objectives. Like other businesses, it employs workers, creates goods or services, and provides these to customers for a price consistent with its objective. But its underlying objective—and the criterion by which it should be evaluated—is to create social benefits for those whose lives it touches. The company itself may earn a profit, but the investors who support it do not take any profits out of the company except recouping an amount equivalent to their original investment over a period of time. A social business is a company that is cause-driven rather than profit-driven, with the potential to act as a change agent for the world.

A social business is not a charity. It is a business in every sense. It has to recover its full costs while achieving its social objective. When you are running a business, you think differently and work differently than when you are running a charity. And this makes all the difference in defining social business and its impact on society.

There are many organizations in the world today that concentrate on creating social benefit. Most do *not* recover their total costs. Nonprofit organizations and nongovernmental organizations rely on charitable donations, foundation grants, or government support to implement their programs. Most of their leaders are dedicated people doing commendable work. But since they do not recover their costs from their operations, they are forced to devote part of their time and energy, sometimes a significant part, to raising money.

A social business is different. Operated in accordance with management principles just like a traditional PMB, a social business aims for full cost recovery, or more, even as it concentrates on creating products or services that provide a social benefit. It pursues this goal by charging a price or fee for the products or services it creates.

How can the products or services sold by a social business provide a social benefit? There are countless ways. For a few examples, imagine:

- A social business that manufactures and sells high-quality, nutritious food products at very low prices to a targeted market of poor and underfed children. These products can be cheaper because they do not compete in the luxury market and therefore don't require costly packaging or advertising, and because the company that sells them is not compelled to maximize its profit.
- A social business that designs and markets health insurance policies that provide affordable medical care to the poor.
- A social business that develops renewable-energy systems and sells them at reasonable prices to rural communities that otherwise can't afford access to energy.
- A social business that recycles garbage, sewage, and other waste products that would otherwise generate pollution in poor or politically powerless neighborhoods.

In each of these cases, and in the many other kinds of social businesses that could be imagined, the company is providing a product or service that generates sales revenue even as it benefits the poor or society at large.

A social-objective-driven project that charges a price or fee for its products or services but cannot cover its costs fully does not qualify as a social business. As long as it has to rely on subsidies and donations to cover its losses, such an organization remains in the category of a charity. But once such a project achieves full cost recovery, on a sustained basis, it graduates into another world—the world of business. Only then can it be called a social business.

The achievement of full cost recovery is a moment worth celebrating. Once a social-objective-driven project overcomes the gravitational force of financial dependence, it is ready for space flight. Such a project is self-sustaining and enjoys the potential for almost unlimited growth and expansion. And as the social business grows, so do the benefits it provides to society.

Thus, a social business is designed and operated as a business enterprise, with products, services, customers, markets, expenses, and revenues—but with the profit-maximization principle replaced by the social-benefit principle. Rather than seeking to amass the highest possible level of financial profit to be enjoyed by the investors, the social business seeks to achieve a social objective.

Social Business Profits Stay within the Business

A social business differs from a charity or an NGO or a nonprofit group in another important way. Unlike those organizations, but like a traditional PMB, a social business has owners who are entitled to recoup their investments. It may be owned by one or more individuals, either as a sole proprietorship or a partnership, or by one or more investors, who pool their money to fund the social business and hire professional managers to run it. It may be also owned by government or a charity, or any combination of different kinds of owners.

Like any business, a social business cannot incur losses indefinitely. But any profit it earns does not go to those who invest in it. Thus, a social business might be defined as a *non-loss, non-dividend business.* Rather than being passed on to investors, the surplus generated by the social business is reinvested in the business. Ultimately, it is passed on to the target group of beneficiaries in such forms as lower prices, better service, and greater accessibility.

Profitability is important to a social business. Wherever possible, without compromising the social objective, social businesses should make profit for two reasons: First, to pay back its investors; and second, to support the pursuit of long-term social goals.

Like a traditional PMB, a social business needs to have a long-term road map. Generating a surplus enables the social business to expand its horizons in many ways—by moving into new geographic areas, improving the range or quality of goods or services offered, mounting research and development efforts, increasing process efficiencies, introducing new technologies, or making innovations in marketing or service delivery so as to reach deeper layers of low-income people.

However, the bottom line for the social business is to operate without incurring losses while serving the people and the planet—and in particular those among us who are most disadvantaged—in the best possible manner.

How long will it take for investors to get back their investment in a social business? That is up to the management of the social business and the investors themselves. The proposed payback period would be specified in the investment prospectus: It might be five years, ten, or twenty. Investors could choose the appropriate social business in which to invest partly on the basis of this time frame and on their own anticipated needs, as well as their preference for a particular social objective.

Once the initial investment funds are recouped, investors can decide what to do with those funds. They might reinvest in the same social business, invest in another social business or a PMB, or use the money for personal purposes. In any case, they remain as much owners of the social business as before, and have as much control over the company as before.

Why would investors put their money into a social business? Generally speaking, people will invest in a social business for the same kind of personal satisfaction that they can get from philanthropy. The satisfaction may be even greater, since the company they have created will continue to work for the intended social benefit for more and more people without ever stopping. The many billions of dollars that people around the world donate to charitable causes every year demonstrate that they have a hunger to give money in a way that will benefit other human beings. But investing in a social business has several enormous differences from philanthropy.

First, the business one creates with social business is self-sustaining. There is no need to pump in money every year. It is self-propelling, self-perpetuating, and self-expanding. Once it is set up, it continues to grow on its own. You get more social benefits for your money.

Second, investors in a social business get their money back. They can reinvest in the same or a different social business. This way, the same money can bring more social benefits.

Since it is a business, businesspeople will find this as an exciting opportunity not only to bring money to social business but to leverage their own business skills and creativity to solve social problems. Not only does the investor get his money back, he still remains an owner of the company and decides its future course of action. That's a very exciting prospect on its own.

Broadening the Landscape of Business

With the entry of social businesses, the marketplace suddenly finds itself with some new and exciting options, and becomes a more interesting, engaging, and competitive place. Social concerns enter the marketplace on an equal footing, not through the public relations window.

Social businesses will operate in the same marketplace with PMBs. They will compete with them, try to outmaneuver them, and seek to capture market share from them, just as other businesses do. If a social business is offering a particular product or service that is also available from a PMB, consumers will decide where to buy, just as they now choose among competing PMBs. They will consider price, quality, convenience, availability, brand image, and all the other traditional factors that influence consumer choices today.

Perhaps for some consumers, the social benefits created by the social business will be an additional reason to buy from it—just as some consumers today prefer to patronize companies with a reputation for being worker-friendly, environmentally conscious, or socially responsible. But for the most part, social businesses will compete with PMBs on the same terms as we see in traditional capitalist competition—and may the best company win.

Social businesses will also compete with one another. If two or more social businesses are operating in the same market, consumers will have to decide which one to patronize. Again, product and service quality will probably be the main determining factor for most customers.

Social businesses will also compete for potential investors, just as PMBs do. Of course, this will be a different kind of competition than we see among PMBs.

Consider two profit-maximizing businesses that are competing for investment dollars—two auto makers, for example. The competition here will turn on which PMB is perceived as having a greater future profit potential. If most investors believe that company A is likely to be more profitable than company B, they will rush to buy shares of company A stock, because they expect to earn higher dividends in the future, and they also expect to benefit from continuing growth in the overall value (or *equity*) of the company. This launches a positive cycle in which company A stock rises in price, making investors happy.

By contrast, when two social businesses compete for investors, the competition is based not on future profit maximization but on social benefits achieved. Each social business will claim that it is better positioned to serve the people and the planet than its rival, and it will develop and publicize a business plan to support that claim. Would-be social investors will scrutinize those claims carefully. After all, they are planning to invest their money with the goal of benefiting society, and they will want to be sure that their investment does the greatest possible good. Just as a profit-minded investor seeks to maximize expectations of future dividends and equity growth, a social investor wants to find out how close the company is getting in solving the social problem it is addressing.

Thus, competing social businesses will push each other to improve their efficiency and to serve the people and the planet better. This is one of the great powers of the social-business concept: It brings the advantages of free-market competition into the world of social improvement.

Competition in the marketplace of ideas almost always has a powerful positive impact. When a large number of people are vying to do the best possible job of developing and refining an idea—and when the flow of money toward them and their company depends on the outcome of the competition—the overall level of everyone's performance rises dramatically. We see this beneficial effect of competition in many arenas. Intense competition among makers of personal computers, for example, has caused the price of PCs to fall dramatically even as their speed, power, and other features have improved. The rise of Japanese manufacturers of cars and electronic products forced U.S. and European companies to improve the quality of their goods so as to compete for both customers and investors.

By creating a competitive marketplace for social-benefit investing, the concept of social business brings the same kind of positive pressure to bear among those who seek to serve the disadvantaged people of the world.

Competition among social businesses will be different in quality than competition among PMBs. PMB competition is about making more money. If you lose, you get financially hurt. Social business competition will be about pride, about establishing which team is best able to achieve the social objective. Competitors will remain friends. They will learn from each other. They can merge with each other at any time to become a stronger social force. And they will feel happy to see another social business entering the same area of business, rather than getting worried.

To attract investors, I propose the creation of a separate stock market, which could be called the social stock market. Only social businesses will be listed there. (See chapter 8 for a detailed description of this concept.) The existence of a public marketplace for trading shares in social businesses will have many benefits. It will create liquidity, making it easy for shareholders to move in and out of social investments, just as they currently do with investments in PMBs. It will generate public scrutiny and evaluation of social businesses, providing a layer of "natural regulation" to supplement any government regulation that will need to be created to avoid the usual problems of the marketplace: deception, false reporting, inflated claims, disguised businesses, and so on. And it will raise the public profile of the social-business concept, attracting even more money and energy from investors and entrepreneurs alike.

Two Kinds of Social Businesses

At this stage in the development of the concept of social business, we can only glimpse its general outlines. In the years to come, as social businesses begin to spring up around the world, new features and forms of social business will undoubtedly be developed. But from today's vantage point, I propose two possible kinds of social businesses.

The first I have already described: Companies that focus on providing a social benefit rather than on maximizing profit for the owners, and that are owned by investors who seek social benefits such as poverty reduction, health care for the poor, social justice, global sustainability, and so on, seeking psychological, emotional, and spiritual satisfactions rather than financial reward.

The second operates in a rather different fashion: Profit-maximizing businesses that are owned by the poor or disadvantaged. In this case, the social benefit is derived from the fact that the dividends and equity growth produced by the PMB will go to benefit the poor, thereby helping them to reduce their poverty or even escape it altogether.

Notice the differences between these two kinds of social businesses. In the first case, it is the nature of the products, services, or operating systems of the business that creates the social benefit. This kind of social business might provide food, housing, health care, education, or other worthwhile goods to help the poor; it might clean up the environment, reduce social inequities, or work to alleviate ills such as drug and alcohol abuse, domestic violence, unemployment, or crime. Any business that can achieve objectives like these while covering its costs through the sales of goods or services and that pays no financial dividend to its investors can be classified as a social business.

With the second type of social business, goods or services produced might or might not create a social benefit. The social benefit created by this kind of company comes from its ownership. Because the ownership of shares of the business belongs to the poor or disadvantaged (as defined by specific, transparent criteria developed and enforced by the company directors), any financial benefit generated by the company's operations will go to help those in need.

Imagine that a poor rural region of a country is separated from the main commercial centers by a river too deep, wide, and wild to be forded by pedestrians or ordinary vehicles. The only way to cross this river is by ferry, which provides expensive, slow, and intermittent service. As a result, the area's poor and low-income residents face economic and social handicaps that depress their incomes, reduce availability of affordable goods, and lower their access to education, health care, and other vital services. In our example, we assume that the national and local governments are unable to address the problem because of lack of funds, political indifference, or other shortcomings. (Although this is a hypothetical example, it accurately describes conditions in much of the developing world.)

Now suppose a private company is formed to build a new highway and a safe, modern bridge to connect the rural area with the commercial center of the country. This company could be structured as a social business in two ways.

First, it could provide access to poor and low-income residents at a discounted toll, while charging a commercial toll to middle- and upper-class residents and to large commercial organizations. (Obviously some kind of means-testing procedure would be needed to verify the eligibility of poor people for the discounted toll; perhaps the same kind of ID card that is used to indicate eligibility for government welfare could be accepted by the toll-takers.) The toll revenues would cover the costs of building, operating, and maintaining the bridge and highway, and, over time, they could be used to repay the funds initially provided by investors. However, those investors would receive no further profits. If profits beyond this are generated by the tolls, they could be used to build additional infrastructure to benefit the rural community—more roads and bridges, for example, or perhaps some social businesses to stimulate the local economy and create jobs.

Second, ownership of the bridge-and-highway company could actually be put in the hands of the poor and lower-income residents of the rural area. This could be done through the sale of low-priced shares, purchased by them with loans provided by microcredit organizations or through credit that is later recouped from the profit of the company. Further profits generated by tolls could *either* be invested in new infrastructure projects or paid in the form of dividends to the poor and lower-income residents who own the company, thereby benefiting them in direct financial fashion.

Grameen Bank makes small loans available without collateral and at a reasonable cost to the poor, thereby enabling them to start or expand tiny businesses and ultimately lift themselves out of poverty. Grameen Bank would be a regular PMB if it were owned by well-off investors. But it is not. Grameen Bank is owned by the poor: Ninety-four percent of the ownership shares of the institution are held by the borrowers themselves.

Thus, Grameen Bank is a social business by virtue of its ownership structure. If a big bank like Grameen can be owned by poor women in Bangladesh, any big company can be owned by poor people, if we seriously come up with practical ownership-management models.

And yes, a social business could also combine *both* forms of benefit to the poor: It could follow a business plan designed to produce social benefits through the nature of the goods and services it creates and sells *and also* be owned by the poor or disadvantaged.

The Difference between Social Business and Social Entrepreneurship

Some people are puzzled when they hear about social business for the first time. Most often, social business is equated with *social entrepreneurship*. My friend Bill Drayton has built a global movement around the concept of social entrepreneurship through his Ashoka Foundation.

Decades ago, Bill became convinced that creative, innovative thinking could be applied to solve seemingly intractable social problems. He was excited to see that many people around the world are doing just that, some of them without even realizing that they fall into a very special group of people. One of the first initiatives Bill undertook was to find these people and to give them recognition by calling them Ashoka Fellows. Then he upgraded his initiatives by organizing conferences, meetings, and workshops to bring social entrepreneurs together, helping them learn from each other, supporting them with small grants, introducing them to donors, documenting their activities, and producing videos that portrayed their work and philosophies.

Today, social entrepreneurship has become a recognized movement. Besides Ashoka, there are several other foundations dedicated to promoting social entrepreneurship, including the Skoll Foundation, founded by Jeff Skoll (the first employee and CEO of eBay), and the Schwab Foundation for Social Entrepreneurship, founded by Klaus Schwab (the founder of the World Economic Forum). They have made it their mission to find, support, and encourage social entrepreneurs around the world.

Social entrepreneurship has become a popular concept among both business people and the general public. The American business magazine *Fast Company* publishes a list of the twenty-five best social entrepreneurs every year, bringing attention and funding to some of today's most effective social service organizations. Social entrepreneurship has even become an academic discipline, having found its way into the curricula of some thirty U.S. business schools since the first course in the subject was offered at Harvard in 1995 by Dr. J. Gregory Dees, now at Duke University's Fuqua School of Business.

The concept of social entrepreneurship is very important. It brings out the power of yearning in people to do something about problems that are not currently being addressed with the efficiency and urgency they deserve. Because of the movement built around this concept today, we can see an enormous range of people around the world doing exciting things to help others. Grameen Bank and the Grameen sister organizations are often cited as being significant symbols of this movement.

But social business and social entrepreneurship are not the same thing. Social entrepreneurship is a very broad idea. As it is generally defined, any innovative initiative to help people may be described as social entrepreneurship.

The initiative may be economic or non-economic, for-profit or not-for-profit. Distributing free medicine to the sick can be an example of social entrepreneurship. So can setting up a for-profit health-care center in a village where no health facility exists. And so can launching a social business.

In other words, social business is a subset of social entrepreneurship. All those who design and run social businesses are social entrepreneurs. But not all social entrepreneurs are engaged in social businesses.

Until very recently, the movement around social entrepreneurship has not showcased the issue of social business because that concept did not exist. Now that the concept has been introduced and is being translated into reality, I am sure that many in the social-entrepreneurship movement will be attracted to it.

The social-entrepreneurship movement can start giving special attention to the creation and promotion of social businesses by devising and sharpening appropriate tools and institutional facilities needed to support this new type of enterprise. Some social entrepreneurs may be encouraged to move in the direction of social business because they can achieve much more in terms of social benefits than is possible through traditional structures.

What about a "Hybrid"?

Some of those who learn about social business wonder whether a hybrid version—combining characteristics of a PMB with those of a social business—is possible.

PMBs are driven by the profit motive—that is, the desire for personal gain. Social business is driven by the desire to do good for people and the planet—that is, selfless concern for others. Can there be a business that mixes both, including some elements of self-interest and some elements of selflessness?

Of course, this can happen—it can happen in limitless ways. One can imagine a business driven by, say, 60 percent social-benefit objectives and 40 percent personal-benefit objectives, or the other way around. There can be innumerable such combinations.

But in the real world, it will be very difficult to operate businesses with the two conflicting goals of profit maximization and social benefits. The executives of these hybrid businesses will gradually inch toward the profit-maximization goal, no matter how the company's mission is designed. For example, suppose we instruct the CEO of a food company to "maximize profit *and* make sure that poor children benefit nutritionally by providing them with high-quality meals at the lowest possible price." The CEO will be confused as to which part of the instruction is the real instruction. How will his success be judged—on the basis of the money he earns for the investors or on the basis of the social goals he achieves?

Making matters worse, the existing business environment is exclusively focused on profit maximization. All current tools of business are related to judging whether or not a business is maximizing profit. Accounting practices and standards are clearly established for that purpose; profit can be measured in precise financial terms. But measuring the achievement of social objectives has conceptual complications. If the goal is to improve the nutrition of poor children, who exactly is "poor"? What biological standards will be used to measure their nutritional status before and after? How reliable will the information be? These are difficult questions to answer precisely. Furthermore, since social problems are inherently complex, information related to social goals would generally suffer from a greater time kg than profitability data.

For all these reasons, our CEO will find it much easier to run the company basically as a PMB and be judged in the company of other PMBs. And so, it is more realistic to think in terms of two pure models: the profit-maximizing model and the social-business model.

One big advantage of pure models is that it is difficult to add gimmicks to them to create a false impression in people's minds. If you are a social business, you are a social business, and investors will not expect any return from your revenues. But if you are a profit-maximizing company, you are in the business of making money, and no one will be deceived into thinking that you are in business for social reasons.

Past Attempts to Combine Social Goals with Traditional Business

Social business is not just a theoretical concept. There are social businesses around the world, including the Grameen Bank and such Grameen-affiliated companies as Grameen Danone. Other fledgling social businesses are beginning to pop up, embodying the potential for social good and economic development latent in this new form of business.

Social businesses can become powerful players in the national and international economy, but we have a long way to go to achieve that goal. Today the assets of all the social businesses of the world wouldn't add up to even an ultra-thin slice of the global economy. It is not because they lack growth potential, but because conceptually people neither recognize their existence nor make any room for them in the market. They are considered freaks and are kept outside the mainstream economy. People do not pay attention to them—in fact, they literally *cannot see them*—because their eyes are blinded by the theories taught in our schools. Once we recognize social business as a valid economic structure, supportive institutions, policies, regulations, norms, and rules will come into being to help it become mainstream.

Over the past three centuries, since modern capitalism began its ascent to world dominance, many people around the world have recognized the shortcomings of the current, incomplete form of capitalism. They have experimented with various ways of remedying the problem. However, the full structure of social business as I envision it has not emerged, even as a concept, until our time. As a result, none of the existing modes by which people have tried to adapt businesses to serve social goals has been very effective. Only social business offers the full solution for which thousands of people have been searching.

One attempt to bring humane, enlightened thinking into business organizations is the cooperative movement, in which workers and consumers join forces in owning businesses and managing those businesses for the benefit of all.

Robert Owen (1771-1858), a Welshman who owned and operated cotton mills in England and Scotland, is often considered the pioneer of this movement. Owen was appalled by the exploitation of workers in the earliest decades of the industrial revolution. In particular, he deplored the widespread English practice of paying mill workers not in common currency but in scrip that could be used only in company-owned stores, which, in turn, charged inflated prices for shoddy goods.

This vicious cycle of oppression was reminiscent of the near-enslavement of poor Bangladeshis by moneylenders that I discovered in Jobra when I first began the work that led to the founding of Grameen Bank. It also recalls the exploitation of sharecroppers in the American South by landowners who used the indebtedness of their farm laborers to force them into doing business with overpriced company stores, creating a closed economic loop in which capital flowed only into the pockets of the owners and never went to benefit the working people.

Owen took practical steps to deal with this problem. At his own mills in New Lanark, Scotland, he opened stores where high-quality goods were sold at prices just above cost, with the savings from bulk purchases passed on to his employees. This was the germ from which the cooperative movement sprang. This movement is built around the concept of having businesses owned by their customers and operated primarily for the benefit of those customers rather than to generate profits for merchants. Shops that are operated on Owen's plan are common to this day throughout Britain and elsewhere in Europe.

The cooperative movement began as a response to the exploitation of the poor by rapacious company owners. However, the cooperative concept is not inherently oriented toward helping the poor or producing any other specific social benefit. Depending on the goals and interests of the people who band together to create and share ownership of a cooperative business, such a business can be structured to benefit the middle class as well as those who are needy. If they fall into selfish hands, cooperatives can even become a means for controlling the economy for purposes of individual or group gain rather than to help everyone in society. When a cooperative business loses sight of its original social objectives, it becomes, in practice, a profit-maximizing company almost the same as any other.

Another way in which some people have tried to combine the dynamism and self-sufficiency of business with the pursuit of worthy social goals has been through the creation of nonprofit organizations that sell socially beneficial products and services. These companies are not true social businesses as I define them. They generally achieve only partial cost recovery, which means that they do not attain the "lift-off velocity" that would enable them to escape the gravitational pull of dependence on charity. Also, they do not have the investor-owner feature that distinguishes social business, creating a source of funds with an interest in ensuring both the efficiency and effectiveness of the social benefits generated by the business.

There have also been attempts by managers of traditional PMBs to manage companies in a socially responsible fashion. That includes the occasional launch of a PMB that offers some social benefits alongside the pursuit of profit. Corporations may take this step for any number of reasons:

- To support the personal goals or values of a powerful or respected corporate leader
- To earn favorable publicity for the company, or to deflect criticism over past ethical and business lapses
- To attract customers who may prefer to do business with a company they perceive as "good guys"
- To win the friendship and support of government regulators or legislators who are considering laws that might affect the company
- To reduce opposition from community organizations or public-interest groups that might otherwise try to block company plans for expansion
- To gain a foothold in a new market that holds promise for the future but is currently unprofitable—while also earning points in the court of public opinion

It can be difficult to tell, in a particular instance, what combination of motives drives a particular company decision. In some cases, even the company executives may not be able to accurately describe the precise blend of motives that impel them. However, because they are PMBs, these businesses will ultimately be subject to the same financial pressures as all other for-profit companies. And this means that any social goals their managers may want to pursue will be set aside whenever they conflict with the maximization of profit.

In the end, none of the organizational structures I've described here—the cooperative, the nonprofit enterprise, or the socially responsible PMB—offers the powerful advantages of the true social business. This is why the world is crying out for this new way of doing business.

When the social-business concept becomes well known and begins to spread through all the free-market economies of the world, the flood of creativity that this new business channel will unleash has the potential to transform our world.

Where Will Social Businesses Come From?

Because the concept of social business is still new and unfamiliar, it may seem difficult at first to imagine who will create such businesses and why. Everyone is familiar with traditional entrepreneurs, and whether or not we admire them, we feel that we understand their values and motivations. The same is not true for the founders of the social business.

I think, given the opportunity, every human being is a potential participant in a social business. The motivating forces behind social business are packed inside each human being, and we see bits and pieces of these forces every day. People care about their world, and they care about one another. Humans have an instinctive, natural desire to make life better for their fellow humans if they can; given the chance, people would prefer to live in a world without poverty, disease, ignorance, and needless suffering. These are the causes that lead people to donate billions of dollars to charity, to create foundations, to launch NGOs and nonprofit organizations, to volunteer countless hours to community service, and (in some cases) to devote their careers to relatively low-paid work in the social sector. These same drives will lead many to create social businesses, once this new path is widely recognized and understood.

To begin with, here are some of the specific sources from which the social businesses of the future might spring:

- Existing companies of all shapes and sizes will want to launch their own social businesses. Some will choose to devote part of their annual profit to social business as part of their existing "social responsibility" mandates. Others will create social businesses as a way of exploring new markets while helping the less fortunate. They may create social businesses on their own, with the help of other companies, or in partnership with specialized social-business entrepreneurs.
- Foundations may create social-business investment funds, operating parallel to but separate from their traditional philanthropic windows. The advantage of a social-business fund is that its money will not be exhausted even as it works to produce social benefits, continually replenishing the foundation’s ability to support good works.
- Individual entrepreneurs who have experienced success in the realm of PMBs may choose to test their creativity, talent, and management skills by establishing and running social businesses. They may be driven by the desire to give something back to the communities that have enriched them, or simply by the urge to try something new. Those who enjoy success in their first experiments may become "serial social-business entrepreneurs," creating one social business after another.
- International and bilateral development donors, ranging from national aid programs to the World Bank and the regional development banks, may choose to create dedicated funds to support social-business initiatives in the recipient countries, or at international, or regional, or institutional levels. The World Bank and regional development banks can create subsidiaries to support social businesses.
- Governments may create social-business development funds to support and encourage social businesses.
- Retired persons with wealth to spare will find social businesses an attractive investment opportunity to pursue. Similarly, inheritors of wealth or recipients of windfall gains may be inspired to think of launching or investing in social businesses.
- Young people fresh out of college or business school may choose to launch social businesses rather than traditional PMBs, motivated by the idealism of youth and the excitement of having the opportunity to change the world.

Young people all around the world, particularly in rich countries, will find the concept of social business very appealing. Many young people today feel frustrated because they cannot recognize any worthy challenge that excites them within the present capitalist system. When you have grown up with ready access to the consumer goods of the world, earning a lot of money isn't a particularly inspiring goal. Social business can fill this void.

With so many potential sources, I predict that, within a few years, social businesses will be a familiar fixture on the world business scene.

Human Beings Are Multi-Dimensional

We might enrich the economists' narrow-minded view of society by assuming a world in which there are two kinds of people—one that wants to maximize profits and one that wants to create social benefits and do good things for people and the planet. But even with this new assumption, we still remain in a world of one-dimensional people—only two kinds of one-dimensional people, instead of the single kind imagined by classical economics.

In the real world, there are not two types of one-dimensional people. Instead, there is only one type of person: people with two, three, four, or *many* interests and goals, which they pursue with varying and ever-changing degrees of interest. For the sake of simplicity, we can divide these interests into two broad categories—profit and social benefit—which correspond to the two types of businesses we've described in this chapter: traditional PMBs and social businesses.

How will individuals, companies, and investors choose which of these two paths to follow? The beautiful thing is that people will not be faced with an absolute, either/or choice. In most cases, they will have the opportunity to participate in both PMBs and social businesses in varying proportions, depending on the goals and objectives they most value at a particular moment in time. For example:

- An individual with a nest egg to invest might choose to invest part in PMBs (with the goal, for example, of creating a retirement fund) and the rest in social businesses (in order to help society, humanity, and the planet).
- The board of directors of a PMB might decide to use part of one year's surplus to buy out another company in order to expand their business into a new market—and use the rest of the surplus to launch a social business or to invest in an existing one, as an alternative to traditional philanthropy or corporate charity.
- The trustees of a foundation might choose to use part of its endowment income to fund one or more social businesses whose objectives coincide with the goals specified by the foundation's donors.
- Even when it comes to making career or life choices, social businesses will only increase the possibilities we enjoy rather than foreclosing any of them. The same person might choose to work for part of his or her life for a PMB; another part for a traditional charity, foundation, or NGO; and still another part for a social business. The choice will depend on how the individual's career interests, goals, and social concerns vary and evolve over time.

There is no reason why we need to feel constrained, in either our investment choices or our life decisions, to follow a single, one-dimensional model of human behavior. We humans are multidimensional creatures, and the business models we recognize should be equally diverse. Recognizing and encouraging social business as an option will help make this possible.

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[1] There are almost as many definitions of poverty as there are individuals and groups studying the problem. A recent World Bank study mentions thirty-three different poverty lines developed and used by particular countries in addressing the needs of their own poor people. Earlier in this chapter, I mentioned the widely used poverty benchmark of an income equivalent to one dollar a day or less. In the remainder of this book, whenever I refer to "poverty" with no more specific explanation, this dollar-a-day definition may be assumed.