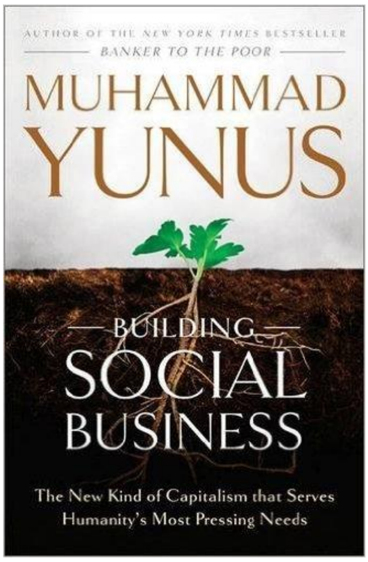
CHAPTER 1

Why Social Business?



A social business is a new kind of business. It's quite distinct from either a traditional profit-maximizing business (which describes practically all private companies in the world today) or a not-for-profit organization (which relies on charitable or philanthropic donations). It's also quite distinct from some other frequently used terms, such as "social enterprise," "social entrepreneurship," or "socially responsible business," which generally describe varieties of profit-maximizing companies.

A social business is outside the profit-seeking world. Its goal is to solve a social problem by using business methods, including the creation and sale of products or services. Grameen Danone, for example, is working to solve the problem of malnutrition by selling affordable yogurt fortified with micronutrients. Grameen Veolia Water addresses the problem of arsenic-contaminated drinking water by selling pure water at a price the poor can afford. BASF Grameen will reduce mosquito-borne diseases by producing and marketing treated mosquito nets. There are many other examples—some already in operation, others in the making.

There are two kinds of social business. One is a non-loss, non-dividend company devoted to solving a social problem and owned by investors who reinvest all profits in expanding and improving the business. The examples mentioned above fit into this category. We call this a Type I social business.

The second kind is a profit-making company owned by poor people, either directly or through a trust that is dedicated to a predefined social cause. We call this a Type II social business. Since profits that flow to poor people are alleviating poverty, such a business is by definition helping to solve a social problem. Grameen Bank, which is owned by the poor people who are its depositors and customers, is an example of this kind of social business. And as I'll explain later in this book, the Otto Grameen textile factory, currently in the planning stages, will be a second example. It will be owned by Otto Grameen Trust, which will use the proceeds to benefit the people of the community where the factory is located.

Unlike a non-profit organization, a social business has investors and owners. However, in a Type I social business, the investors and owners don't earn a profit, a dividend, or any other form of financial benefit. The investors in a social business can take back their original investment amount over a period of time they define. It could be a very short period, such as one or two years, or a very long period, as much as fifty years or more. But any increase in the money going to investors beyond the original investment disqualifies the business from being a social business.

This even applies to an adjustment for inflation. In social business, a dollar is a dollar is a dollar. If you invest a thousand dollars in a social business, you'll get back a thousand dollars—not a penny more. We are strict about this because we want to make it very clear that the notion of personal financial benefit has no place in social business.

Because social business is a new idea, I've devoted a lot of time and energy to defining it precisely and figuring out ways to communicate its nature clearly and compellingly to the general public. An important ally in this effort has been Hans Reitz, director of the Grameen Creative Lab (GCL) in Wiesbaden, Germany. Reitz helped me formulate the Seven Principles of social business, which do a particularly good job of presenting the key characteristics of a Type I social business:

1. The business objective is to overcome poverty, or one or more problems (such as education, health, technology access, and environment) that threaten people and society—not to maximize profit.
2. The company will attain financial and economic sustainability.
3. Investors get back only their investment amount. No dividend is given beyond the return of the original investment.
4. When the investment amount is paid back, profit stays with the company for expansion and improvement.
5. The company will be environmentally conscious.
6. The workforce gets market wage with better-than-standard working conditions.
7. Do it with joy!!!

The last of the Seven Principles was Reitz's suggestion, and I must say, I like it. Caught up in the aggressive environment of conventional business, we forgot that business can have anything to do with joy. Social business is all about joy. Once you get involved with it you continue to discover the unlimited joy in doing it.

The Seven Principles are the core of social business. Keep them in mind as you read the rest of this book. You'll notice these principles at work when we describe specific social businesses that are already in operation as well as ideas for new social businesses that have yet to be launched. When companies and entrepreneurs meet with us to learn about the social business concept and explore ways to get involved in this movement, we share the Seven Principles with them. They serve as a touchstone and a constant reminder of the values that are at the heart of the social business idea.

Another type of organization that might be confused with a social business is a cooperative.

A cooperative is owned by its members. It is run for profit to benefit the member-shareholders. When the cooperative movement was first created by socialists such as Robert Owen in the early nineteenth century, it had clear social objectives: to empower the poor, to encourage self-sufficiency, and to promote economic development. Today, some co-ops still create social benefits. For example, there are housing co-ops that make affordable homes available to working-class people, food co-ops that bring healthy nutrition within the reach of city dwellers, and banking co-ops that provide financial services to consumers who might otherwise be underserved.

However, some co-ops are run very much like ordinary profit-maximizing companies. They simply bring together collections of people or companies—farmers raising a particular crop, for example—and create a business structure within which they operate so as to increase their personal profits. There's nothing wrong with this. But it's not a social business.

Is it possible for a co-op to be a social business? Yes, if the members who own the co-op are poor people. In that case, any profits generated by the co-op would go to supporting the poor and helping them escape from poverty—which, by definition, is a socially beneficial activity. An example is the Self-Employed Women's Organisation (SEWA), a trade union that helps self-employed Indian women pursue the goals of "full employment": work security, income security, food security, healthcare, child care, and shelter. Organized as a trade union for home textile workers in 1972, SEWA now has over 900,000 members throughout India. These members select their own leaders and effectively run the organization for the benefit of the rank-and-file.

Types of Social Businesses

Type I: focuses on businesses dealing with social objectives only.

Eg. The product produced is for the benefit of the poor.

Type II: can take up any profitable business so long as it is owned by the poor and the disadvantaged, who can gain through receiving direct dividends or by some indirect benefits.

Eg. The product could be produced by the poor but exported to an international market while net profits would go towards workers benefits.

Source: http://www.muhammadyunus.org/index.php/social-business/social-business