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Making Capitalism Work for the Poor and Society

A Review Essay

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Asian Development Bank

The logo of the Asian Development Bank (ADB), consisting of the letters 'ADB' in a white serif font centered within a solid black square.

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Book Review

Yunus, Muhammad, and Karl Weber. 2007. *Creating a World Without
Poverty: Social Business and the Future of Capitalism.*
New York: Public Affairs. 261 pages.

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Abstract

Professor Yunus and Karl Weber argue that neither the profit-maximizing business nor the other conventional approaches adopted by nonprofit organizations and multilateral funding agencies can provide a sufficient answer to the problem of persistent poverty and many social problems that we see in the world. The corporate social responsibility approach of profit-maximizing businesses will not work either. To complete the structure of capitalism and address these problems, they argue, that we need another kind of business—one that recognizes the multidimensional nature of human beings. Their suggestion is the concept of social business. The book defines this concept and explains why they think it could provide the answers to poverty and social problems. They conclude that when this 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. Is this a realistic expectation?

“If the story of the past quarter of a century has one-line plot summary, it is the rediscovery of the power of market capitalism”

(Greenspan 2007, p. 14)

“We have to break the shackles holding back markets the world over. On that depends our own future”

(Rajan and Zingales 2006, p. 10)

“To make the structure of capitalism complete, we need to introduce another kind of business—one that recognizes the multi-dimensional nature of human beings”

(Yunus and Weber 2007, p. 21)

Introduction

Most of us, knowingly or unknowingly, build walls around ourselves that prevent us from seeing the wider world. What we see within the walls profoundly shapes our views of society. Moreover, we have values which guide us in making choices everyday. These values also shape our views, judgments, and actions. The values determine the lenses we use to look at issues. This book by Professor Yunus and Karl Weber is not just about elimination of poverty; it is also about the need to dismantle walls around us and the need to change values such that we see multitude of ways to eliminate poverty and address social problems that are rampant in the world.

Like most of us, Yunus—cowinner with the Grameen Bank of the Nobel Peace Prize in 2006—admittedly worked within thick walls around himself for some time before getting deeply involved in microcredit in Bangladesh. He stepped out of the classroom where he was teaching elegant theories of economics because he felt the emptiness of those theories in the face of crushing hunger and poverty so visible in the country. He wanted to do something immediate to help the poor around him. His extensive work with the poor, poor women in particular, in Bangladesh helped him dismantle the walls around him. He transformed what commenced as a small-scale pilot village program of microcredit—funded with his own funds equivalent to about \$27—into a national industry initially and then a global industry. There is little disagreement within the development community about his tremendous contribution to the expansion of financial services for the poor around the world by setting in motion an irreversible process of financial democracy. In addition, his work in microfinance for the poor had a profound impact on his values. Now, this visionary and global development practitioner is on a much larger mission: a mission to make the structure of capitalism complete by introducing and developing a new business model, that is, social business.

In this book, Yunus (with due credit to coauthor Weber), discusses the limitations of the traditional capitalist business model based on profit maximization and elaborates the concept of “social business” that he referred to in his Nobel Peace Prize lecture delivered in Oslo

on 10 December 2006. Obviously, Yunus is not the first to discuss the limitations of free market capitalism. The drawbacks of capitalism that he draws our attention to are familiar to most of us. What is new is the solution that he proposes.

Many others have discussed fundamental drawbacks of capitalism. John Maynard Keynes in his book, *The General Theory of Employment, Interest, and Money*, argued that free markets—left to themselves—do not always deliver the optimal good to society. He also prescribed government interventions to address this fundamental deficiency. The Communists offered drastic solutions to address the structural problems of capitalism and attempted to create a different kind of society—a society that they believed would be better than what is produced by the capitalist system—under central planning. But empirical evidence from a wide range of countries, which tried such solutions for decades, provided convincing evidence that they do not produce better outcomes. In most cases, one could even argue that they have led to worse outcomes than what free market capitalism has produced. Not only the appalling conditions of East Germany at the time of the fall of the Berlin Wall but also the persistent poverty in North Korea illustrated the pathetic results of central planning and Communist approaches. It is not difficult to understand why not only the economies of the former Soviet bloc but also most other developing countries have embraced the ways of free market capitalism. Most would agree that the spread of capitalism has made the biggest contribution to elevating hundreds of millions of the world population from poverty. The shift of the People's Republic of China to the rural household responsibility system in the late 1970s that allowed farmers to enjoy the fruit of their labor, by itself, elevated millions of poor people from poverty.

Poverty and social problems, however, are persistent and rampant. Some attribute their persistence, ironically, to capitalism itself. Many proponents of capitalism, however, argue that the dark side of capitalism that we see is often a result of true free market capitalism being absent. What has been operating is a “failed version” of capitalism. Nonetheless, owing to the negative social and economic outcomes of this “failed version” that restricts competition

and equal access, many people tend to see capitalism “as a system of the rich, by the rich and for the rich” (Rajan and Zingales 2006, p. 2). Following this line of argument and logic, most economists then tend to suggest that measures be introduced to improve competition and equal access to make capitalism work for everyone. Or to put it in another way, “make markets work for the poor” as much as they work for the rich.

The Concept of Social Business

Yunus, in this book, suggests something fundamentally different to address the dark side of capitalism. He introduces the concept of “social business.” The main contribution of the book, in my view, is to introduce and define this concept and elaborate on not only how it could be made a significant component of the existing capitalist economic system but also on how it could help eliminate world poverty and address many other social and economic problems such as pollution and social inequalities. The book does not reject capitalism. The growth of social business, as envisaged in the book, very much depends on the surpluses generated by conventional capitalist businesses and their reallocation to social business through a range of mechanisms, including plain and simple philanthropic foundations.

Why Social Business?

To put the concept of social business in its proper place, Yunus discusses the limitations of major conventional approaches to address the economic and social problems of the poor. He argues that “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” (Yunus and Weber 2007, p. 5). Then can we rely on governments, nonprofit organizations, multilateral institutions such as the World Bank and the Asian Development Bank, or corporate social responsibility (CSR)? He points out the typical problems associated with each and their limitations.

Although governments can do much to address social problems and help create the kind of world we all want to live in, there are serious limitations. “Even an excellent government regulatory regime for business is not enough to ensure that serious social problems will be confronted, much less resolved. It can affect the way business is done, but it cannot address the areas that business neglects” (p. 7). Governments can be inefficient, slow, prone to corruption, bureaucratic, and self-perpetuating. Vested interests and politics stand in the way of efficiency and social orientation in government.

Nonprofit organizations alone have proven to be an inadequate response to social problems. “Charity 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” (p. 10). Charities have a role to play in providing social goods and services, but they cannot provide an adequate answer to the problems of poverty given the sheer magnitude of those problems.

What about multilateral institutions? Yunus points out that like governments, “they are bureaucratic, conservative, slow-moving, and often self-serving. Like nonprofit (organizations), they are chronically underfunded, difficult to rely upon, and often inconsistent in their policies” (p. 11). Moreover, their assistance has not produced significant poverty reduction results because they focus on economic growth to achieve the goal of poverty reduction. The arguments on multilateral institutions are overly simplified and do not capture the positive role they have played. However, his conclusion that we need to overhaul these institutions remains valid.

Can CSR be an adequate and effective response to the persistence of global poverty and other social ills? To answer this, he outlines two basic forms of CSR: the weak form in which companies adopt the “do-no-harm” principle and the strong form in which they adopt measures to do good for people and the planet. While admitting the positive role of CSR, he concludes that neither provides a satisfactory answer to the above question. CSR is an ineffective way to deal with the problem at hand because most of the time profit and CSR do not go together. In addition, when profit-

maximizing companies have to choose one over the other, they must give profit the highest priority. And for some companies, CSR will always be mere window dressing.

In general, most of the arguments put forward in discussing the limitations of the aforementioned organizations appear to be consistent with those articulated by Prahalad (2004) in *Fortune at the Bottom of the Pyramid*, although the two authors provide fundamentally different solutions to address the problem of persistent poverty. While Prahalad builds his solution on the power of profits and the profit-seeking behavior of investors, Yunus is guided by an entirely different set of incentives and assumptions.

Yunus points out that a major conceptual problem with capitalism is that it takes a narrow view of human nature, assuming that people are one-dimensional beings concerned only with the pursuit of maximum profit. In reality, however, people are not one-dimensional. According to Yunus, "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" (p. 18). This reminds us of Adam Smith's famous statement that it is not because of the benevolence of the baker that we eat fresh bread every morning but because of his desire to make money. According to Yunus, those who accept this theory believe that "well-functioning markets simply cannot produce unpleasant results." And Yunus reckons that things are going wrong not because of "market failures" but because we are persuaded by, and we imitate, "a theory that pursuit of profit is the best way to bring happiness to mankind...striving to transform ourselves into one-dimensional human beings" (p. 18).

It is argued that reality, however, is different. "People are not one-dimensional...; they are excitingly multi-dimensional" (p. 19). This simple view that reflects reality has provided the foundation for the concept of social business. As articulated in the book "the presence of our multi-dimensional personalities means that not every business should be bound to serve the single objective of profit maximization" (p. 19).

What is a Social Business?

Chapter 2 of the book answers this question. It explains what social business is not. “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” (p. 22). A social business differs from a profit-maximizing business (PMB) in its objectives. The underlying objective of a social business is to “create social benefits for those whose lives it touches” (p. 22).

A social business also differs from a charity because social business has to recover full costs while achieving its social objective. This cost-recovery feature is the most fundamental difference between a charity and a social business. Thus, 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 (p. 23). Accordingly, many socially oriented nonprofit and nongovernment organizations providing social benefits that do not recover their costs from their operations are not social businesses. However, a charity can graduate to become a social business when it achieves full cost recovery and enters the world of business while retaining its social objective.

In its organizational structure, a social business is different from a charity in that it has owners who are entitled to recoup their investments. One or more individuals or investors may own a social business. Government, or a charity, or any combination of different kinds of owners may own it. Thus, its organizational structure can be the same as that of a PMB.

Profitability is important to a social business for two reasons: First, to pay back its investors; and second, to support the pursuit of long-term social goals. Generating a surplus enables the social business to expand its outreach in many ways (p. 24). However, unlike a PMB, a social business does not pay dividends to its shareholders. Thus, Yunus concludes that a social business might be defined as “a non-loss, non-dividend business” (p. 24), although he explains in a later section that social businesses can pay dividends. The bottom line for 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” (p. 24).

Once initial investment funds are recouped, the investors remain as much the owners of the social business as before and have as much control over the company as before. However, unfortunately, the book neither elaborates on this aspect nor does it adequately discuss how this can be translated into effective practice.

Why should anybody who is in the right frame of mind invest his/her hard-earned money in something that yields no financial return? Yunus’ answer to this question is that investors get personal satisfaction from the social benefits created by a self-sustaining business. Investing in a social business has several enormous differences from philanthropy.

- First, social business is self-sustaining. There is no need for a yearly injection of funds. Once set up, it continues to grow and therefore investors get more social benefits for the investment. Social-business dollar is, therefore, much more powerful than the charity dollar (p. 231).

- Second, investors in a social business get their money back, which can be reinvested in the same or a different business.

- Third, social business allows investors to leverage their own business skills and creativity to solve social problems (p. 25).

It is interesting to note that Prahalad (2004) and others point out that well-run PMBs can leverage their financial and human resources to generate tremendous social benefits while working within the PMB framework. This point has been further refined and articulated by Porter and Kramer (2006).

Kinds of Social Businesses

There can be two possible kinds of social businesses:

- Companies that generate social benefits by focusing on the provision of socially beneficial goods and services rather than maximizing profits for the owners.
- Businesses owned by the poor or disadvantaged irrespective of whether they produce or deliver socially beneficial goods and services. (Obviously, we need to recognize that exceptions to this exist. For example, Yunus may not consider tobacco or liquor businesses as social businesses even if the poor or disadvantaged own them).

The social benefit of the latter type is derived from the fact that the dividends and equity growth produced by the business will benefit the poor (p. 28). The second type of social business may pay dividends to the poor and low-income people who own the company, thereby providing them direct financial benefits (p. 30). The book cites Grameen Bank as an example of a social business in this category. According to this description, a social business can also combine both forms of benefits to the poor. It can produce social benefits through the nature of the goods and services it produces and sells and be owned by the poor and the disadvantaged (p. 30). If the second type of social business is to bring significant social benefits, logically a large number of poor people must have ownership in businesses or there must be a large number of social businesses owned by the poor.

On the possible kinds of social businesses, the book raises an important question: Can there be a hybrid of PMB and social business? This is possible but operating such a business, it is argued, is difficult because of the possible conflicts between the profit-maximization goal and social benefits. CEOs of such businesses will gradually inch toward profit-maximization goal when points of conflicts between the two emerge. This may be true in the real world. But the general conclusions that “none of the existing modes

by which people have tried to adapt businesses to serve social goals has been very effective” and “only social business offers the full solution for which thousands of people have been searching” appear unrealistic. The latter seems to indicate an extreme position that cannot be supported firmly and unambiguously at this stage. To me, this extreme position is a glaring weakness of the book. While PMB model has its limitations, which this book discusses, empirical evidence from a wide range of countries and types of PMBs tend to indicate immense potential to address poverty and social problems through models that operates at points where desire for profit can intersect with social objectives. The fact that this potential has not been fully harnessed is insufficient ground to dismiss the potential. As Prahalad and an increasing number of others have pointed out, it is more realistic to recognize the potential that the poor can be served profitably and in a socially beneficial manner. However, the recognition of this does not restrict the room for the social business concept outlined in this book. A more realistic view could be that social business will play an increasing role in addressing poverty and social issues, but it is unlikely to be the predominant model that would transform our world as envisaged in this book.

Grameen Danone—New Social Business of the Grameen Family

Part II of the book provides a brief account of the birth and evolution of the Grameen Bank and its reorganization in 2002 into a financial intermediary providing flexible deposit and loan products and services. But the most important and novel sections of Part II are chapters 6 and 7, which focus on the joint venture between Group Danone (a large French corporation) and a group of four Grameen companies. Given that this book focuses on social business, I shall confine myself to social business discussion surrounding Grameen Danone—“the world’s first consciously designed multinational social business” (p. 137).

This new company, Grameen Danone, was established to reduce poverty by a unique proximity business model that brings daily

healthy nutrition to the poor through a reasonably priced yogurt product specially designed to match the nutritional requirements of poor children. The story of Grameen Danone—from concept to reality—is fascinating and it would certainly encourage more mainstream PMBs and philanthropic foundations, among others, to explore opportunities for social business in many different areas in the future.

The two chapters provide a great deal of guidance on how to design a social business:

- First, it shows that social business needs as much research and planning as required in the case of a PMB. The fact that target clients are poor does not discount the need for such intensive research and planning.
- Second, and more important, it indicates the need to integrate pricing strategy not only into the entire process of product development, but also into the basic organizational structure of the venture to ensure affordability of the product for the poor.

The Grameen Danone design team “recognized the importance of keeping the price point for any snack-food purchase aimed at the poorest Bangladeshis at ten *taka* or less (about 15 US cents).” Attention to affordable pricing is vitally important if one is serious about reaching the poor with any product and/or service.

This approach to pricing approximates what most Japanese PMBs have been practicing. Japanese companies often produce a product to meet a predetermined price point rather than setting prices to cover costs. When a company adopts this approach to pricing, it has profound implications for both product design and design of the organizational structure, and for the depth of outreach. When the target clients are the poor, the approach in particular tends to drive the organizational design into a lean structure that, in turn, enables serving the poor more effectively.

Broadening the Market Place

Part III of the book consists of four chapters and the Nobel Peace Prize lecture delivered by Yunus on 10 December 2006 in Oslo. Chapter 8 outlines measures needed to spread social business and it discusses issues such as who will invest in social business and possible financing modalities. The author is of the view that once philanthropic foundations think about social business as a worthwhile target for support, they could become a great source of funds. He also points out that bilateral and multilateral funding agencies can create in each recipient country dedicated social business funds to provide equity, venture capital, and loans to social businesses. Multilateral institutions such as the World Bank and Asian Development Bank can create new lending windows for social businesses. The book also expects the creation of new kinds of financial institutions to cater to the financing needs of these businesses.

An important point stressed in chapter 8 of the book is the need to develop an appropriate evaluation methodology and a system. According to the author, the existence of a social business market will create two forces to produce evaluations that are more effective. Investors who forgo financial returns will insist on concrete assurances of social returns, making it essential to measure those systematically and periodically. Consumers who will patronize a social business because of its claims of helping reduce poverty or provide other social benefits will demand real evidence that the claims are true. In social business, social impact is the prime objective. Hence, the methodology for measuring the social impact must be aligned with this purpose (p. 177). The author correctly recognizes that “developing institutional facilities and methodologies for credible impact evaluation of social business will be critical to the success of the social business concept” (p. 179).

Chapter 8 also deals with the possible taxation issues of social businesses. While pointing out the need for governments to develop their own criteria under what conditions social businesses will be eligible for specific types of tax benefits, the book envisages a role for taxation policies to encourage social business. The author offers

a sound criterion for this: “if government is convinced that social businesses are fulfilling a role that the state is usually expected to fill, then it would make economic sense to encourage social business through tax exemption” (p. 177). The author also rightly recognizes the broader importance of developing a tax policy for social business. Tax policy design will compel the policy makers to define key concepts concretely (p. 178). Such concepts include: what is a social business? What activities by an organization disqualify it from being considered a social business? And what specific organizational and financial characteristics distinguish the not-for-profit organization from the social business? Another advantage of having a set of clear, government-enforced definition of social business is to prevent unscrupulous business people from creating fake social business to fool investors and consumers (p. 178). However, it is unfortunate that the author does not discuss what sort of process that a government needs to adopt in designing an appropriate taxation policy for social business. Political economic issues of social business, among other things, tend to suggest a comprehensive consultative process rather than a top-down, bureaucratic approach as most appropriate for the purpose. In addition, the issue concerning possible competitive disadvantages that tax-paying PMBs may experience vis-à-vis tax-exempt social business, have not received the attention it deserves.

Excessive Optimism

Perhaps a disappointing aspect of the book is the excessive optimism that runs through the entire discussion of the concept of social business. As a result, the author seems to have overlooked the potential formidable barriers to making social business a major pillar in the envisaged new capitalist system. For example, how would incumbent PMBs likely respond to this new trend? One could expect significant direct and indirect opposition from PMBs, and neglecting such possibilities may be unrealistic. Although many people and businesses may want to address poverty and a multitude of social issues, a quantum shift in thinking and action in favor of social business is unlikely. A parallel voice in the marketplace must be built

in support of this concept against the current efforts moving “in the opposite direction.” Admittedly, most of the creativity of the developed world is focused on spreading the unhealthy, unsustainable lifestyle of the North into the growing nations of the South (p. 217). It is in this same context that social business has to establish its foothold and thrive. This is swimming against the current. How these negative and formidable forces could be overcome to spread social business as major pillars of the new capitalist society should have been thoroughly discussed by the author.

Conclusions

The book articulates the concept of social business and explains how it could help in addressing persistent poverty and a host of social problems. It also suggests a possible architecture of a world where social business is a major phenomenon. Admittedly, a lot more work has to be done to refine the concept and spread it in the business world. I hope the development community such as academics, policy makers, practitioners, bilateral and multilateral development agencies, philanthropists, and business leaders—with a commitment to address the dark side of capitalism—will together build on the contribution that Yunus has made through this book and through Grameen Danone. As he argues, “poverty exists because of (our) intellectual failures.” It is our collective responsibility to leverage intellectual capital to eliminate poverty from this world. We should be grateful to Yunus for enriching not only the development literature but also the development practice aimed at addressing the problem of poverty and social issues. The concept of social business is worth not only debating on but also actively promoting it. We know from the successful case of Grameen Danone that the concept of social business is no fairy tale. The book, supported by the real-life example of Grameen Danone, has initiated a new process of socially-oriented development. The process hopefully will gather momentum over time as the concept is further refined and the development community thrashes out many practical issues relating to the modality of social business.

Finally, many readers may wonder whether this book essentially challenges the bottom of the pyramid-market approach to poverty reduction that Prahalad and others have outlined in their work. My view is that it does not. Instead, the book reinforces the view that diverse approaches and partnerships between many different players are essential to address the stubborn problem of poverty and many social issues. Just as much as people are excitingly multidimensional, approaches to elimination of poverty and social problems of this world must be diverse. No single approach will do the job.

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Making Capitalism Work for the Poor and Society—A Review Essay

Nimal Fernando, ADB's Practice Leader for Microfinance, reviews Muhammad Yunus and Karl Weber's book, *Creating a World Without Poverty: Social Business and the Future of Capitalism*. The book states that neither the profit-maximizing business nor the other conventional approaches adopted by nonprofit organizations and multilateral funding agencies can provide a sufficient answer to the problem of persistent poverty in the world. Their solution—the concept of social business.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two thirds of the world's poor. Nearly 1.7 billion people in the region live on \$2 or less a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance. In 2007, it approved \$10.1 billion of loans, \$673 million of grant projects, and technical assistance amounting to \$243 million.

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