

Contours of social business - A social business is one that has a social purpose, but, like other businesses, it should use the market to achieve its goals

From www.livemint.com | Aug 15 2010

I disagree with Nobel laureate Muhammad Yunus.

This is no small matter. For good reason, Yunus is a living legend among social business types. He pioneered microcredit to the poor at a time when my professor C.K. Prahalad (alas, no longer alive) had not even coined the phrase “bottom of the pyramid”, let alone written the best-selling book about finding fortune there.

Yunus believes that markets have a role in social business, but that role is limited to one that makes the business “just sustainable”. In Yunus’ view, social businesses can be profit-making, but that profit has to be ploughed back into the company. Beyond that, markets should be kept at bay.

In an ideal world, social business shouldn’t exist. If all the organized actors in economic society—the government, businesses and philanthropies—did their job well, this hybrid animal called social business would not be necessary. The government would ensure fair play and a safety net, businesses would provide employment, make available goods and services as well as pay taxes, and private philanthropies would support causes beyond what the government can do. Then why all the fuss and buzz

In India, social businesses are required precisely because the organized actors do their jobs imperfectly. Government schemes are grand and usually start with good intentions, but the implementation is most often quite poor. Through improper design, shoddy workmanship, insufficient supervision and debilitating graft, many efforts come to naught. Businesses do play a constructive role in our economic society, but recent trends point to an alarming type of crony capitalism. Firms in industries that require government access—real estate, mining, oil and gas, infrastructure—appear to be hogging a disturbing piece of the economic action. This crowds out those businesses that seek to solve a social problem. The impact of philanthropies is quite limited. Indian philanthropy clings to its deep-seated cultural roots—bhiksha, zakat and the tithe play a role in enabling religious causes, but few large-scale social ones. And Western-style focused private philanthropies have only just arrived.

And so, social business.

Social businesses in India exist and thrive mostly as a substitute for government. In many instances, the government is unable to cover the last mile and provide food, shelter, clothing, education, vocational training, financial products or health services in a consistent way. Business—social and otherwise— has stepped in. Through microfinance institutions, mom-and-pop private schools, training institutes, ad hoc housing, affordable retail and other such models, the market attempts a solution to this need gap. In a vast majority of such cases, the goods and services are provided without much fuss, simply by identifying and plugging a gap for mutual benefit. In addition to microfinance, other examples are prepaid SIM cards, temporary employment, shampoo sachets and schools of the type that James Tooley writes about so engagingly in his recent book *The Beautiful Tree*.

Social businesses also exist in India because the vast majority of Indians are either underserved or not served at all by the modern global economy. Take just one statistic. Nearly 90% of the urban population in India has a household income of less than Rs20,000 a month. At least 75% of this group has little or no access to financial services despite proximity. Social businesses exist in this gap and will continue to do so until, hopefully, one day they will no longer be necessary. In other words, social business in India is likely to be a two or three-decade phenomenon and will last until the vast periphery joins the small mainstream.

The way I see it, a social business is one with a specific social purpose that uses the market to scale. A collection of people with good intent is not sufficient to deliver food or medicines or financial services in a scalable, sustainable way to those whom the conventional system does not reach. Capital and scale are required not only for technology and investments, but also to bring in specialized talent. The choice of whether this social business “enriches” its founders (promoters, as we call them) or not, is a choice that’s left to them. Company regulation in India permits forms of companies that are the standard “for profit” as well as “no dividend”. So promoters can indeed choose.

The angst comes when founders who choose to retain equity and participate in profits bestow on themselves an “altruistic halo”. Most Indians have no quarrel with companies that make money, so long as the company is not cloaked in a Gandhian garb. It is this misappropriated halo that should be dispensed with, not the market that permits scale, allows technology, brings in talent and, in all likelihood, improves affordability. And so, I offer an alternative definition to Yunus’: A social business is a business that serves a social purpose, but like any other business, it should use the market to achieve its goals. If it elects to organize as a “no dividend” company, then it can seek part of its return as gain to its reputation—the halo. If not, it is just another business.

Narayan Ramachandran, Operating Partner

© 2010 Gaja Capital Partners