

# tbl

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## triple bottom-line

people • planet • profits



### poverty to prosperity: the microenterprise option

**8**  
**cover story**  
economic bottom-lines:  
inclusivity and microenterprises

**14**  
**transformation of  
women-owned  
businesses: a policy shift**

**18**  
**case study**  
microfinance and  
the triple bottom line

**22**  
**macro impacts of  
microenterprises**

**25**  
**social partnership**  
the interest-free  
microfinance option

**28**  
**the fortune companion:  
business with society**

**34**  
**report**  
socially conscious consumerism

**42**  
**csr networks: talking shops or  
partnerships with a purpose?**

# the fortune companion: business with society

by ali sohail  
for tbi

There exists a mental rather psychological demarcation between what is referred to as the social sector, and what is referred to as the business sector. In essence (and in theory), both are interchangeable, depending on an individual's outlook, as what may be social for one, is business for the other and vice versa.

In the current age, sectors such as education, health and crime are referred to as social sectors, whereas retail, real estate, auto manufacturing (among others) are known as business sectors. However, this is only a matter of perception, as demonstrated by Danone, a French dairy food company, which has undertaken a combined project with Grameen Bank to set up a factory in Bogra, 200km north of Dhaka, Bangladesh. Moreover, if social is defined by needs, then the term 'roti, kapra aur makaan' (bread, clothing and shelter) implies that the scope for social activity should also exist in real estate, textile and wheat industry, rather than just in its conventional use.

The Danone-Grameen yogurt producing venture is referred to as social business by Professor Yunus, the founder of Grameen Bank; the business objective of the project is to breakeven rather than to make a profit. The multinational firm seeks to gain market knowledge of the region, learning the social and business norms of the territory, enhancing its presence and comprehension of the



region, states BBC correspondent, James Melik, The investment will generate clear social benefits, targeted at reducing malnutrition in Bangladeshi children.

Approximately fifty percent of the population of Bangladesh suffers from malnutrition.

## Discussing Scope for Pakistan

Start a social business, is the advice I would give to local conglomerates, multinationals, charities, not-for-profit organizations or any entity willing and able to contribute to society to the scale proposed in developing countries such as Pakistan. Investment in social businesses has multiple benefits as compared to the activities of charities or lump sum donations undertaken by many such organizations under the label of corporate social responsibility or social awareness.

Enterprises should be established with a focus on providing a specific good or service (under the necessity category) to generate social goodwill and uplift people

out of social and economic poverty which millions face in current day Pakistan. There are various models of such kind which can be undertaken, some of which will remain sustainable only through charity, others which can become self sustaining in due course.

The 'sasta tandoor' project, a recent endeavour undertaken in Karachi (second of its kind in Pakistan), is an example of a charity-based operation which provides food to more than 300 people per day. One can buy two naans (bread) and a plate of daal (lentil) for Rs. 5. Under current market conditions, Rs. 5 would be equivalent to one naan (bread). Hence the difference is subsidized through charity, managed and generated by a few likeminded beings with a pure social purpose, to provide the impoverished with food at affordable prices.

There are cases where social ventures can also turn into sustainable social businesses. For instance, assume a profit-focused firm in the oil sector decides to

utilize some of its funds designated for corporate social responsibility to start up a real estate company (soc estate), with the optimum objective to breakeven at cost. The funds will be used to provide for initial capital and human resource, however once the business gains momentum, the parent will divulge its resources from the incumbent. The social nature (breakeven at cost) of activity will imply that 'soc estate' will charge a lower price than other profit-focused firms in the market (after the initial cost difference is reduced). This will attract a larger share of business to the incumbent, assuming quality and other standards are met. Moreover, given worthy alternatives and rising presence of substitutes, old-horses in the real estate sector will also be forced to reduce prices to compete for a larger market base.

Brand loyalty (where present) will eventually run-out, especially if equivalent quality and services are provided by competitors. This will reduce industry-wide prices, enhance consumer welfare, and provide a larger set of individuals with the basic necessity of housing.

Under the proposition, some may argue for the parent firm's role as being similar to a social venture capital firm. However, there exists two clear distinctions. First, the direct resource stake and involvement will ensure the success of the startup. Second, the parent will also be involved in setting the 'incentives' for continuous improvement and innovation, rather than turning the incumbent in a state look-alike firm. For instance, the parent can continue utilizing its corporate social responsibility funds to provide growth incentives for managers and sales personnel, in a periodic manner, and divulge itself from the regular running of the social venture.

Other innovative models of

governance can be studied and developed to provide the incumbent complete governing autonomy. Similar examples for initiating startups across a range of input and output industries (beyond the scope of education and health) can be proposed to big companies in Pakistan.

### **Gloating or Beaming**

Although scope for some disadvantages exists, the benefits of undertaking such ventures are vast. Some of the costs can be in the form of potential retaliation from producers in industries where one decides to undertake social activity (as we live in an interconnected business world). However, this may not be a valid argument if activity is focused on becoming self-empowered rather than depending on a continuous flow of charity, as in the former case, an equal playing field will exist.

Others may argue that since large conglomerates do not necessarily restrict their profit-business presence in one industry, they may not be willing to undertake such activities in competing industries, as such may also be an area of profit for them. In other words, a profit-focused entrepreneur can have a stake in multiple industries.

There are general, firm-specific and consumer-oriented benefits of undertaking such an activity. For one, the flow of money can be readily monitored, with assessment and evaluation of incremental outcome. Second, this will allow provision for better targeting and subsequent alteration of investment (channel time is reduced) rather than pure lump sums given. Third, as in the case of Danone-Grameen, new market entrants can utilize the opportunity to gain context specific knowledge.

Moreover, the venture given its social focus will be a source of developing social goodwill for the

firm. It will also polish the brand face of the parent company, enhancing scope for future profits across the world, states the World Business Council For Sustainable Development in an article published in the European Business Review.

Companies of such nature (even if local and relatively small) may gain lenience from strict regulators. They may also be able to win favours from the government, or undertake contracts of 'barter trade' from respective bodies. Furthermore, these activities provide room for innovation and growth for the firms concerned, with scope for economies of scale.

Prices of goods considered as basic requirements are reduced, consumer access increases, ultimately enhancing the standard to living of the general public, especially the poor (as they have a high marginal propensity to consume). The potential scope for supply side inflation may be reduced. However, this is not necessary as the inflation process is dependent on a combination of factors. Such innovation and direction of business thinking is what Giovanni Arrighi would probably refer to as the flexibility of capitalism in *The Winding Path of Capital*. ■

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### **About the Writer**

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