

## BOOK REVIEW

# Creating a world without poverty: social business and the future of capitalism

By Muhammad Yunus

Public Affairs, New York, 2007

Review by Per L Bylund and Mario Mondelli

Per L Bylund and Mario Mondelli are PhD students in the Division of Applied Social Sciences, University of Missouri.

Email: Per.Bylund =a= mizzou.edu

MarioMondelli =a= mizzou.edu

(replace =a= with @)

How do you solve the problem of poverty in this modern day and age? That is the question the 2006 Nobel Peace Prize laureate Muhammad Yunus sets out to answer in *Creating a World without Poverty* (2007). He finds a possible solution in a concept termed “social business,” which is a way of running private businesses not primarily to earn profit, but to provide a social good. The book provides a discussion on this concept based on a number of Yunus’ own experiences in starting businesses with social rather than monetary aims. The book discusses primarily the recently established Grameen-Danone, a Grameen Bank and French dairy giant Danone joint venture, founded with the goal to supply a cheap and highly nutritional yogurt to poor children and families in rural Bangladesh. Partly based on these experiences, the book tries to convey the potential of Yunus’ concept of social business as a viable solution to world poverty.

Yunus, a banker and economics professor, maintains that the free market is an extraordinarily powerful tool to bring about prosperity and provide products to consumers. Market actors, aiming primarily to maximize profits, continuously find ways to do more with less. Still, the economic prosperity brought about by the free market, he claims, “has brought with it a worsening of social problems” (p. 4). The reason for this, he argues, is that it is not the purpose of the capitalist economy to solve social problems and therefore the free market may “exacerbate poverty, disease, pollution, corruption, crime, and inequality” (p. 5).

Yunus further states that the institutions and incentives in the market economy are inherently deficient in that they do not provide a means for solving poverty. Instead of bringing the benefits of the market to the poor, market actors seem to compete in providing more advanced and expensive products to consumers in

already prosperous countries. Even government is dismissed by Yunus due to its inherent inefficiency and a prevalent threat of corruption.

The solution offered by Yunus is not to design a new system, but to utilize the powers of the market in a new way. To make the structure of capitalism complete, Yunus argues, it is necessary to introduce another kind of business. His proposal relies on the recognition of a new type of entrepreneur whose motivation is not profit but to “do good,” a motivation that will lead not to profit-maximization but to “social business.” The social business is not primarily a charitable organization, but a competitive enterprise – restricted from making losses or paying dividends – working to provide charitable rather than business goals. The only real difference between a profit-maximizing business and a social business is their objective and therefore the criteria by which it should be evaluated: it is “operated as a business enterprise, with products, services, customers, markets, expenses, and revenues – but with the profit-maximizing principle replaced by the social-benefit principle” (p. 23). The major contribution and importance of the concept of “social business,” according to Yunus, is that it brings the benefits and advantages of free-market competition to social improvement.

As noted above, Yunus relies heavily on the ability of globalization and the free market to bring more benefits to the poor than any other conceivable alternative. But the concept also relies on a fundamental confidence that poor people are endowed with a latent ability to get out of poverty; that what is keeping them from doing so is the lack of an enabling environment. The problem is therefore structural in the market economy, but in a way that can easily be corrected by introducing a social aspect of market action that recognizes the “multi-dimensional

nature of human beings.” The underlying value of the constitution of a social business is to “unleash [the poor’s] energy and creativity” (p. 247) by providing the market infrastructure needed for poor people to create their own means of wealth creation. This is, roughly, the idea behind Yunus’ successful and world-renowned project of the Grameen Bank. *Creating a World without Poverty* is essentially an attempt to conceptualize experiences from that project.

The concept of social business is interesting, but depends heavily on the entrepreneur taking on a new role or function while playing according to the existing rules in the marketplace. While the objective of the social business is not to make profits, it is necessary that the entrepreneur manages the business in such a way that the social output is maximized while costs are kept well below revenues. The entrepreneur is therefore expected to carefully navigate in such a way that business decisions are optimal from the point of view of economizing, while maximizing output in terms of social good rather than revenue stream. This may be achievable where there is no market competition, but Yunus does not expect the social business to benefit from monopoly status. Contrarily, the social business is to compete with both profit-maximizing firms and other social businesses, a point that we will return to below.

It is not clear what would motivate entrepreneurs to pursue new ways of doing business and achieve a more efficient allocation of resources without profit incentives. Is the “social passion” of the entrepreneur enough of an incentive to allow him or her to compete successfully with profit-maximizing businesses? In the case of the investor-entrepreneur it is possible to argue that the only difference to for-profit enterprises is that the objective is not profit maximization but to maximize a solution to social/environmental problems. However, it is not clear how the performance of a social business can be measured without considering monetary profit. It seems the social business might tend to move from what Ludwig von Mises termed profit management towards “bureaucratic management” (Mises 1983). Is the “want” to maximize social benefits a sufficient driving force to minimize unit cost and keep bureaucratization of management at bay?

Moreover, the entrepreneur in social business needs a special ability to perceive social *and* business opportunities where profit-maximizing entrepreneurs do not, since social businesses are expected to emerge in niches not currently explored by profit-maximizing business. It is reasonable to assume that such niches may not be profitable or that they may be burdened with high degrees

of uncertainty. The question then arises: do social businesses require a special breed of entrepreneurs, or can they be easily implemented by entrepreneurially minded individuals guided by a social passion?

Rather than seeing the poor as consciously and deliberately passive actors, Yunus sees them as very able people, victimized by a market environment stripping them of the means to take advantage of everyday business opportunities. The truth, he claims, is that “[t]he poor can be self-employed entrepreneurs and create jobs for others” (p. 12), and the social business is a way to provide a setting where they can reach their true potential.

Social business is therefore not only a complement to profit-maximizing and not-for-profit business and organizations in the contemporary economy, but an *alternate set* of market actors bound by a distinctly different purpose. It is not simply a version of corporate social responsibility, but an organizational form where social responsibility has taken profit’s place as main goal and incentive. Social businesses will put into practice a new category of business models calling for listing on a separate stock exchange, market and business analysis in social business magazines, demand for “social” educational programs, etc. This system will, just like the contemporary capitalist for-profit market system, include competition between social businesses as well as competition with profit-maximizing businesses.

But the nature of the social business, as defined by Yunus, seems to suggest neither the reason nor the means for competing. Social businesses aim to create social benefits and social improvement rather than profits, so there would be no reason for them to establish in markets where profit-maximizing companies supply the same services. They would also have no reason to continue operations if a market they create attracts profit-maximizing businesses; in fact, they would do better selling their capital assets and establish operations in an area not yet enjoying basic products supplied by for-profit market actors.

Rather than realizing this implication of the definition of social business, Yunus claims they “will compete with [profit-maximizing businesses] *on the same terms* as we see in traditional capitalist competition” (p. 26, emphasis added). But social business does not have the same aim, purpose or incentives as its for-profit counterpart, and would therefore be hopelessly at a disadvantage trying to supply the same service or product in the same market. Even though Yunus understands that the “social business must be *at least* as well-managed as any [profit-maximizing business]” (p. 137, emphasis in original) to be competitive, he fails to understand that the

social business lacks an inherent maximizing incentive comparable to the profit motive.

Social businesses are also said to be able to compete with one another in a non-rivalrous manner, since they have the same non-exclusive goal and act as complements rather than substitutes. Social business competition is therefore to a great extent cooperative rather than rivalrous, which means these firms are thought to spur each other to supply better products and services at lower cost (competition) while rejoicing in *each other's* success in doing so as part fulfillment of the over-arching goal. But this is at the heart of the problem: cooperative group action without individual profit incentive is subject to the free-riding problem; there is weaker incentive to minimize costs and/or maximize output in the absence of real competition and profit.

Perhaps this is part of the reason why social business is not a widely observed phenomenon. Another reason might be the high-risk, no-return nature of social business enterprises. The social business is supposed to find opportunities to do social good through supplying products and services in markets where no profit-maximizing businesses have dared enter. Doing so, the social business is to be primarily financed by investors who do not seek return to their invested capital, and with a business idea to supply services in a market with little purchasing power without making financial losses.

Yunus does not acknowledge these potential problems of social business. Instead, his discussion is imbued with optimism and an unwavering focus on the potential good brought about by successful social business. The social business has the potential to create a world without poverty through utilizing existing market mechanisms but doing so in a new way. The strength of the social-business concept is that it “brings the advantages of free-market competition into the world of social improvement” (p. 27), and as such it does indeed seem to have the potential to be an effective anti-poverty measure. It is in essence an arrangement that brings the supremacy of market organizing of resources to charity, rather than – as Yunus wants us to believe – adding a humane dimension to capitalism.

His optimism and confidence in the power of social business are commendable, but this does not shroud the fact that the potential in the concept seems to be compromised in its very nature. There seem to be very few social businesses in the world, which implies that social business is a very difficult enterprise.

Yet it is difficult to assess the real potential and problems of social business. His treatise is a personal narrative rather than a structured introduction to the conceptualizing of social business and therefore does not offer an in-depth discussion on what social business really is. The book is permeated by contradictory statements on concepts essential to the understanding of social business, leaving the careful reader wondering what Yunus truly believes.

Furthermore, the argument for social business is saturated with politically correct statements, apparently in an attempt to seduce the audience through the use of an emotionally-charged vocabulary. In fact, it is not implausible that a compelling argument for social business can be made without such statements – and that it may even be a *better* and more persuasive argument. More genuine efforts to operationalize the concepts and a more detailed discussion on the role of the entrepreneur motivated by social passion would have given more weight to the argument.

In conclusion, the book presents a number of interesting ideas, but leaves the reader with only limited guidance as to whether these ideas are realizable; after reading the book, the reader is left with more questions than answers.

## References

- Mises, Ludwig von. 1983. *Bureaucracy*. Cedar Falls: Center for Futures Education (originally published in 1944).  
Online version available at <http://mises.org/etexts/mises/bureaucracy.asp> .