

Revisiting Capitalism through Social Business Model

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Abstract

Seeing the fall of the Berlin Wall and the collapse of the Soviet Union gave a false hope to the proponent of capitalism that it is the only hope for the future. However, this very belief is crumbling the western societies with the rise of the populism and nationalism. Amidst this confusion, this paper revisited the published literature on social business model suggested by Nobel Laureate prof Muhammad Yunus and added a new dimension of entrepreneurial attention suggested by Ocasio (1997). Propositions are derived on how the entrepreneurial attention increases the sustainable performance of the social business.

Keywords: Capitalism, Social Business, Performance, Bias, Integrity, Ambidexterity, Attention

Introduction

Corporate Social Responsibility (CSR)¹ has been a widely discussed topic in the corporate world these days. World renowned corporate leader *Bill Gates* through the *Bill and Melinda Gates Foundation* is taking CSR initiatives in the form of charity. At local level, corporate entities of *Nepal* are also taking the CSR initiatives in the form of charity by contributing to various social organizations and independently conducting social works. In case of banks and other financial institutions they are legally obliged to spend some part of their profit in the CSR activities. Their CSR initiatives in the form of charity are highly appreciable.

¹international private business self-regulation (Sheehy, 2015)

But having spent a good amount of *CSR* fund in social activities in the form of charity, they have only brought some immediate and short-term impacts in the society. The philosophy of charity itself has been to spend the fund for one time without any chances of reusability of the initial fund. Despite of many great advantages of charity, the notion of one-time life has made it inefficient.

Let's imagine the scenario where same amount of *CSR* fund can bring the same amount of impact in society repetitively for endless period. Wouldn't it be a better option than a charity? Of course, it would be. The imagination is now not just confined in theory but is practically manifested. The concept is called the *Social Business* (Yunus et al., 2010).

After the wide success of microfinance to alleviate poverty, *Nobel laureate* Prof. Muhammad Yunus developed the concept of *Social Business* which would be equally effective as microfinance to fight the social and/or environmental problems. *Social Business* can be thought of as the midpoint between the profit-making business and non-profit charitable organizations for social cause.

The concept is now practically manifested in *Bangladesh*. More than 40 *Social Businesses* are running successfully in *Bangladesh* with full financial self-sustainability and eternal and wide social impact than any charitable organization. *CSR* till now has only been thought of in a standardized form of charity and donations, thus conducting various social activities with no sustainable impact. The organizations yearly spend a good amount of money for social and environmental causes only for immediate short-term results. In this regard, a better option for the corporate entities would be the investment in *Social Business* ventures. In the world with limited resources, the same *CSR* fund could be reused year after year to establish new venture with same fund.

Developing a conceptual framework

Corporate Social Responsibility (*CSR*) is the social responsibility pursued by any corporate entity towards the society. The concept embodies that any corporate entity needs to give back to

the society in return of exploiting the resources in the society. Social Responsibility refers to the obligation of a firm, beyond that required by law or economics, to pursue long-term goals that are good for society (Ioanna et al., 2005). The idea that firms, corporation and other organizations have social responsibilities leads to the development of the concept labeled as *CSR* and has evoked widespread interests and concerns both in business and among academicians (Vaaland et al., 2008).

The concept of *Social Business*

Social Business is a cause-driven business. In a *Social Business*, the investors can gradually recoup the money invested, but cannot take any dividend beyond that point. *Purpose* of the investment is purely to achieve one or more social objectives through the operation of the company; no personal gain is desired by the investors. The company must cover all costs and make profit, at the same time achieve the social objective, such as, healthcare for the poor, housing for the poor, financial services for the poor, nutrition for malnourished children, providing safe drinking water, introducing renewable energy, etc. in a business way (Yunus, 2007). The impact of the business on people or environment and *financial self-sustainability* measures the success of *Social Business*, rather than the amount of profit made in a given period measures the success of *Social Business*. Sustainability of the company indicates that it is running as a business. The objective of the company is to achieve social and/or environment goals (Yunus, 2007).

Leadership Skills Needed for a Social Business

Yunus et al. (2010) contributed a new business model called “*Social Business* model” to empower the dying capitalism to address challenges faced by the humanity and the planet earth itself. The underlying assumptions in such business models were based on the experience of *Grameen Bank*, founded in 1976, who was the first mover in developing micro-finance, and founding over 30 businesses solving a social and/or environmental cause. The emergence of *Social Business* model follows the normal business model innovation process which is guided by development of new customer utility, network of value orchestrators and new ways to capture

that value through profit plus social and environmental business benefits. Observing these businesses guided the authors of this paper to develop a conceptual framework as shown in Figure 1.

Basic guiding principle is: humans are honest and their motivation is work itself rather than any extrinsic rewards. *Social business* operates on different dimension of finance which is not affected by basic cycles of economics. The evidence is the sustainability of *Grameen America*. Even in 2008-09 financial crisis the *Grameen America* had near 100% loan repayment rate.

Based on Yunus et al. (2010), among the five lessons gained from *Grameen* history, three are similar to traditional business model innovation such as questioning status quo, looking for complementary stakeholders and doing hit and trial works to learn about the new business model. However, the remaining two lessons revealed the *Social Business* model differentiation. First lesson guides that it is crucial to find *Social Business*- pro shareholders who are touched by the pains faced by the society and concerned with the businesses raping the planet earth to maximize their own profit. Second lesson guides that it is extremely important to specify social profit rather than normal profit related objectives clearly and early enough so that the shareholders and all other stakeholders have the right expectation about the monetary benefits of the venture. Based on this finding, entrepreneurial leaders driven by social profit defy agency theory² as they maximize the stakeholder's benefit rather than shareholder's benefits.

There are three major skills needed to be successful as a social entrepreneur. First, they need to have a freedom from *Agency* bias. According to the Agency theory (Eisenhardt, 1989), managers maximize their own benefits at the cost of shareholders. However, in a *Social Business*, the entrepreneur is motivated by higher purpose of social and environmental causes, rather than making only profit. Second, behavioral integrity is important to be successful in fulfilling the higher purpose of social and environmental benefits. Behavioral integrity is the perception of the fit between ones ideal and practiced values (Simons, 1999). One of the major reasons for failure of many transformational activities is the challenge of securing behavioral integrity. Third,

² Common knowledge in agency theory is that the agent maximizes own interest at the expense of the principals.

entrepreneurial ambidexterity guides social entrepreneurs to achieve their higher purpose. Literature on organizational ambidexterity is full of research at the firm level where balancing exploration and exploitation has been argued to be the major factor for sustainable performance (Uotila et al., 2009). By extending this firm level construct at the individual level, this research increases the understanding of the key antecedents to superior performance of a social business. All of the antecedents are moderated by entrepreneurial attention (Ocasio, 1997). At higher level of attention, the relationship between all three antecedents and sustainable performance reports higher performance and at the lower level of attention the lower level of performance is expected.

Sustainable Performance

The concept of *Social Business* borrows the positive aspects of both the extremities and creates an entity that can bring social impact which doesn't last just for one short period of time but for endless period. The entity has purely social objective with the self-sustaining and fund-reinvestable operation model. Under this model, the investor would invest on a business venture that innovatively solves the social problem and in return investor would only get back initial investment after the venture becomes able to generate enough profit to be financially self-sustained, after the return of investment the venture runs on its own and the initial investment amount could be used to establish another *Social Business* venture.

Let's imagine the scenario where same amount of *CSR* fund can bring the same amount of impact in society repetitively for endless period of time. After the wide success of microfinance to alleviate poverty, *Grameen Bank* developed the concept of *Social Business* which would be equally effective as microfinance to fight the social problems. Thus, corporate entities need to give a second thought on charitable approach to *CSR* for the more efficient and sustainable social and environmental impact from their fund and also for their own privilege to reuse the same *CSR* fund over and over again.

Traditional businesses pursue shareholder's benefits. However, in *Social Business* the major component with social (Yunus et al., 2010) and environmental benefits (added by authors) are

included as the organizational goal as shown in Figure 1 as social and environmental performance. As discussed earlier, in such a business the owners only get their investments back rather than dividends. The profit generated by the business entity is ploughed back in solving the social and environmental challenges facing the society not as a charity but as a business goal. An example is a *Bangel* in Bangladesh developed by *Grameen Bank's* customers that reduced patients of asthma by fifty percent in rural areas. This was possible by participative approach and changing the views of people about BIG business houses on corporate social responsibility (CSR). Sixty percent of the owners of *Grameen Bank* are the borrowers themselves; a unique approach against *winners take all* approach prevalent in modern *high-growth* entrepreneurship in the *United States* and elsewhere.

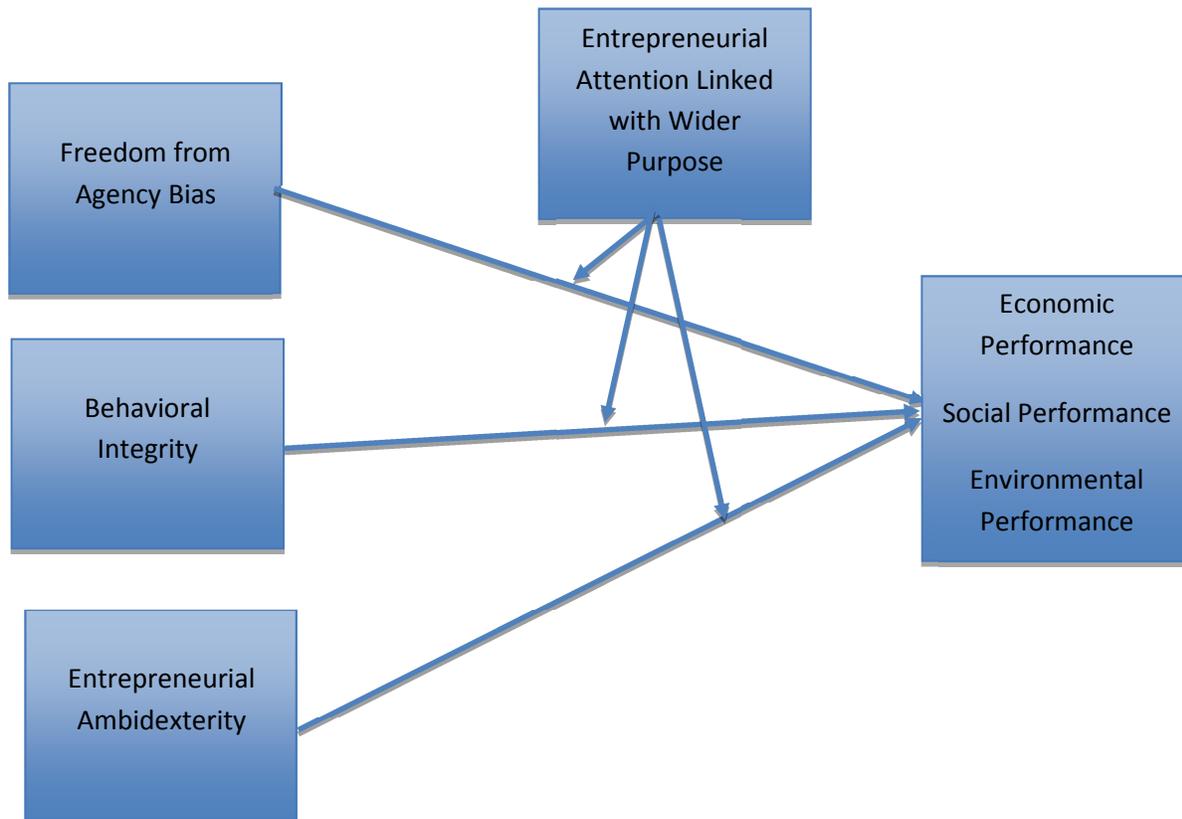


Figure 1. Social Entrepreneurial Traits Maximizing Economic, Social and Environmental Performance

Key Propositions

Social Business entrepreneurs have such an intellectual capital that guides them to deliver societal and environmental goods apart from generating profit. They surround themselves with similar investors and stakeholders to bring the change they want to see in the society and the environment. Also, the social entrepreneurs have high self-esteem driven by bigger purpose. Thus, all the three traits high intellectual capital, noble social capital and self-esteem and selfless purpose explain the inherent second order construct called freedom from agency bias as shown in Figure 2. Such an entrepreneur based on Yunus et al. (2010) maximizes the stakeholder's benefit rather than only shareholder's benefits. Thus:

Proposition 1: Freedom from agency bias has a positive relationship with sustainable performance

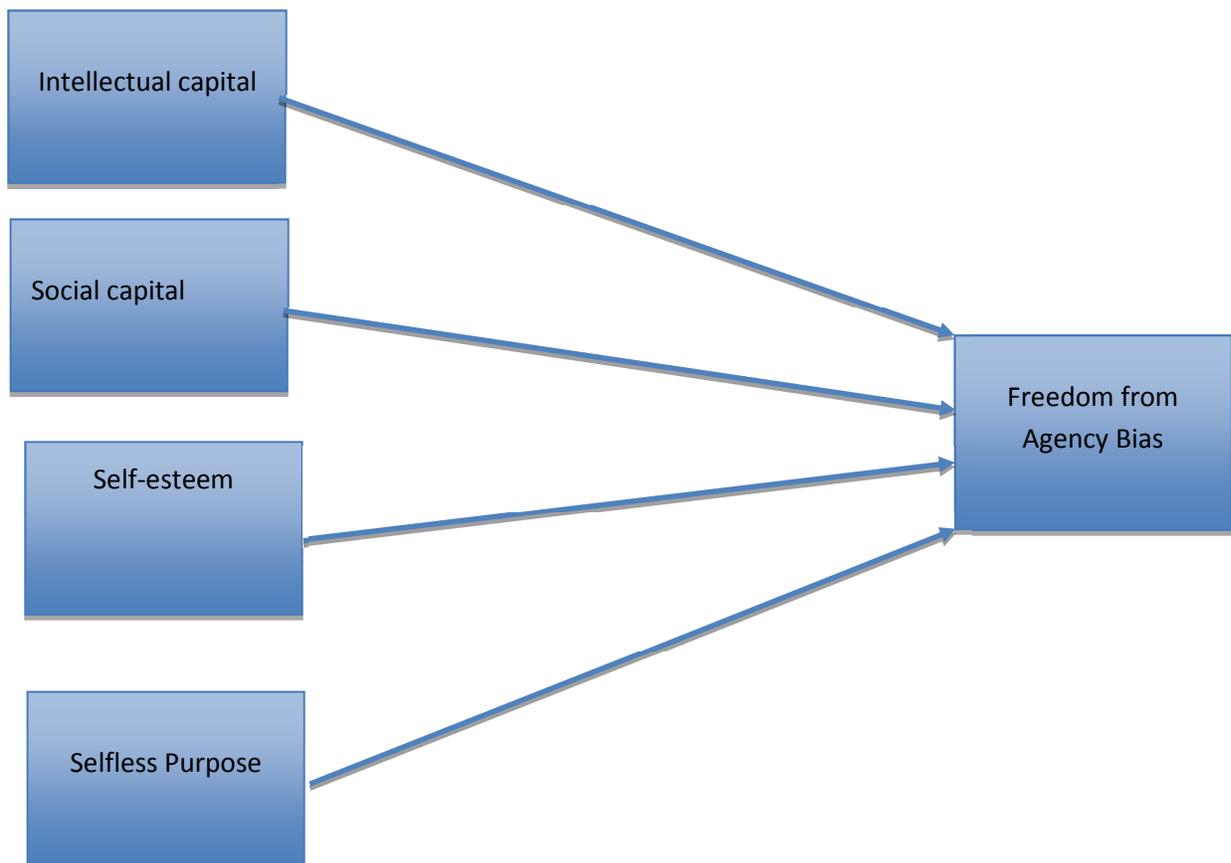


Figure 2. Antecedents to Freedom from Agency Bias

Behavioral integrity as shown in Figure 3 is the fit between espoused values and enacted values. In case of *Social Business* leaders, this trait seems to be very important as they have to walk the talk. Such a trait delivers economic, social and environmental benefits for the society. Thus, our second proposition is:

Proposition 2: Behavioral integrity has a positive relationship with sustainable performance

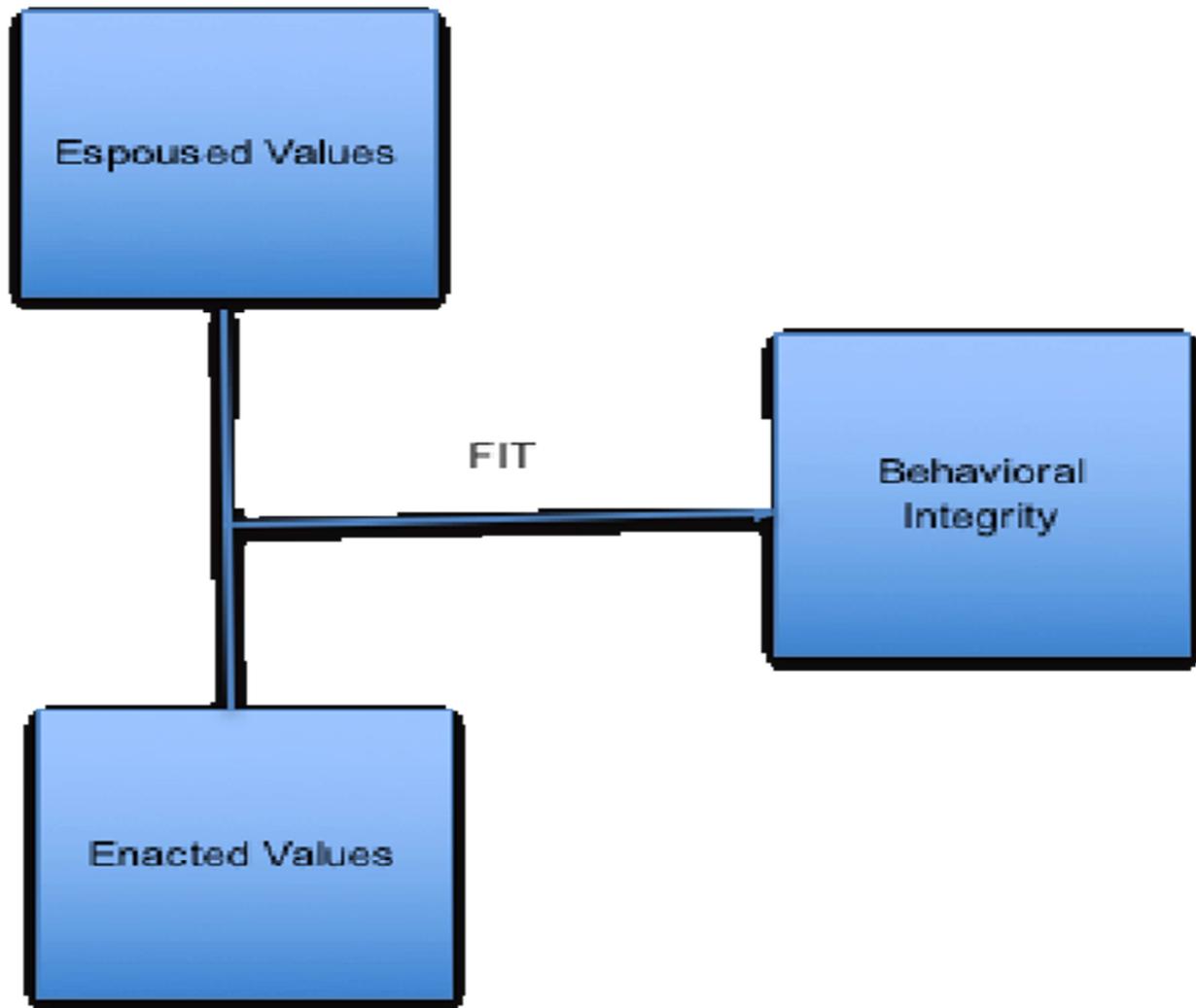


Figure 3. Antecedents to Behavioral Integrity) (adapted from: Simons, 1999).

Per Bryant (2009) entrepreneurs are driven by promotion focus and prevention focus which are influencing exploration orientation or exploitation orientation of an entrepreneur as shown in figure 4 used as entrepreneurial ambidexterity in this paper. Social entrepreneurs are both driven by promotion and prevention balance and hence the balance of exploration and exploitation. Thus,

Proposition 3: Entrepreneurial ambidexterity has a positive relationship with sustainable performance.

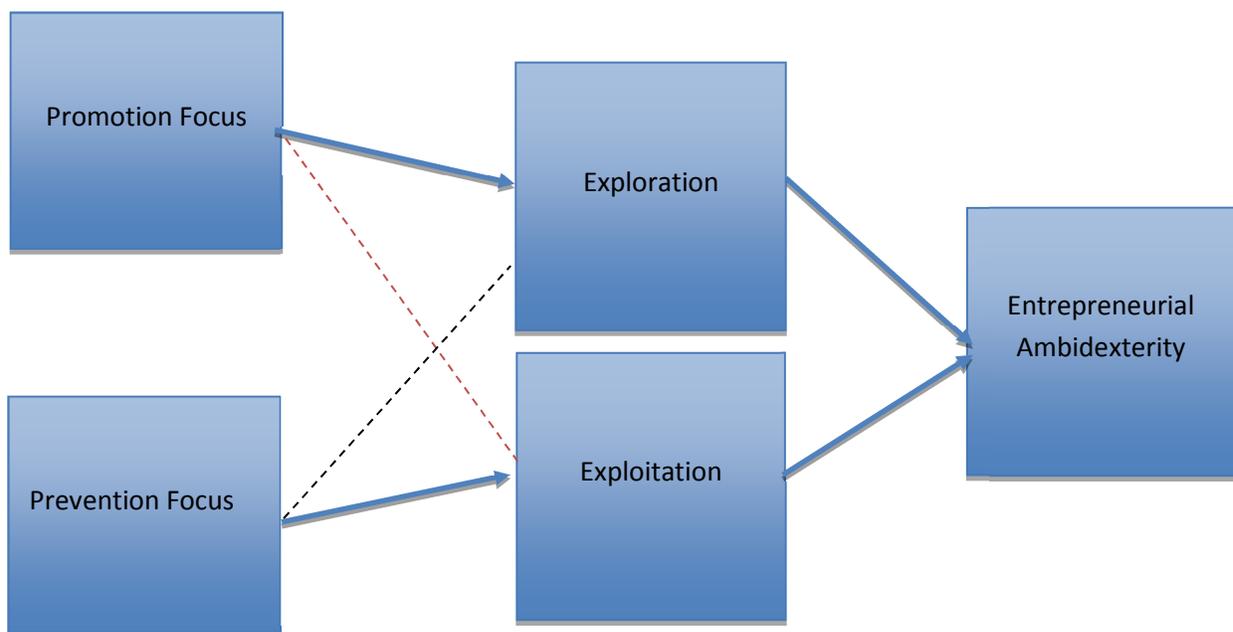


Figure 4. Model of Entrepreneurial Ambidexterity (Dashed Lines Indicate Weaker Effects) (Adapted from (Bryant, 2009; p. 29)

Discussions

Going beyond the redefinition of success from profit to profit to serve people, in this research we argued that the leadership traits needed for implementing change are different than normal profit-making venture. Compared to normal profit-making venture, social entrepreneurs have altruism

embedded into entrepreneurial orientation. Similarly, they have social responsibility embedded into market orientation. Thus, we contribute a new dimension to existing literature on entrepreneurial orientation and market orientation each.

Laureiro-Martínez, Brusoni & Zollo (2010) conducted a cognitive research to find out the origins of the ability to explore and exploit at the same time, we call it entrepreneurial ambidexterity. Exploration means finding novel domains of activity while exploitation means the use of current knowledge base with increasing efficacy. The duality of exploration and exploitation has been studied extensively in the literature at the firm level. However, understanding this at the individual level is still a mystery. Resources are rare and the both conflicting objectives of exploration and exploitation compete for entrepreneurial attention, shown as the moderating variable in figure 1. Neuro modulation of attention (Laureiro-Martínez, Brusoni&Zollo, 2010) suggested that neuroscience, psychology, and management skills are crucial in deciding for exploration and exploitation related activities. Thus, all the antecedents have a good impact on the sustainable performance if the entrepreneurial attention (Ocasio, 1997) is in place. Thus, we propose that:

Proposition 4: The overall performance impact of freedom from agency bias primarily depends on the entrepreneur's attention. Entrepreneurial attention moderates the relationship between freedom from agency bias and overall performance in such a way that high levels of attention increase the performance gains attributable to freedom from agency bias.

Proposition 5: The overall performance impact of behavioral integrity also primarily depends on the entrepreneur's attention. Entrepreneurial attention moderates the relationship between behavioral integrity and overall performance in such a way that high levels of attention increase the performance gains attributable to behavioral integrity.

Proposition 6: The overall performance impact of entrepreneurial integrity³ also primarily depends on the entrepreneur's attention. Entrepreneurial attention moderates the relationship between entrepreneurial ambidexterity and overall performance in such a way that high levels of attention increase the performance gains attributable to entrepreneurial ambidexterity.

Discussions and Implications

“[Entrepreneurship] can be seen as the study of sources of opportunities; the processes of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them” (Shane and Venkataraman, 2000: 218).

As outlined in the quote above, when sources of opportunities are seen through discovery, evaluation, and exploitation process by the entrepreneurs we call it entrepreneurship which has become a dominant research field since 2000 when Shane and Venkataraman published their seminal paper ‘*The promise of entrepreneurship as a field of research*’; awarded AMR decade award but another stream of scholars argued that we need to move forward with the entrepreneurship as a science of the artificial (Venkataraman, Sarasvathy, Dew, & Forster, 2012) in three ways: *understanding opportunities as made as well as found, moving beyond new combinations to transformations, and developing a new nexus around actions and interactions*. However, a new approach to entrepreneurship research has emerged with positive theory of social entrepreneurship (Santos, 2012) which argues that understanding the key trade-off between value creation and value appropriation triggered by market or government failure driving sustainable solutions to all problems of neglected positive externalities. In this approach addressing the problems involving positive externalities is the unique part of social entrepreneurship benefitting the powerless segment of the population; in doing so social entrepreneurs are prone to finding sustainable solutions compared to sustainable advantages, a domain of research in strategic management; and social entrepreneurs are focused on developing a solution built on the logic of empowerment than on the logic of control.

³Social business is a business based on trust solely as evidenced by the fact that you do not need a collateral to women who take loans from the *Grameen Bank*

Another stream of research in understanding entrepreneurship research is under the umbrella of theory of planned behavior in entrepreneurship (Krueger & Carsrud, 1993). Entrepreneurial intentions are triggered by social psychology and as suggested by Ajzen's (1985) intentions-centered 'theory of planned behavior'. The argument lies on the fact that intentions are the single best predictor of such state of being which depends on attitudes toward the target behavior driven by beliefs and perceptions.

Social Business will not only solve the social and environmental problems but also create some employment through entrepreneurship. Thus, corporate entities need to give a second thought on charitable approach to CSR for the more efficient and sustainable social and environmental impact from their fund and for their own privilege to reuse the same CSR fund repeatedly.

Agency theory suggests that there is a conflict between principal and agents and agents maximize their own benefits in the expense of principals. However, social entrepreneurs defy this assumption and they maximize stakeholder's (not only shareholder's) benefits. This is very interesting contrast with normal entrepreneur who is driven mainly by pursuits of profit (not social profit). Also, supporting trait apart from the freedom from agency bias is the entrepreneurial ambidexterity combined with behavioral integrity. These are potentially the most important antecedents that generate sustainable performance measured in terms of profit, social impact, and environmental impact; we call it social profit. As capitalism is crying for rescue, perhaps such social business thinking could be the next frontier of policy making and curriculum development at the schools and colleges. This might be the solution to the unemployed, serialized, Naxalites who are seeking for truth and emancipation and reuniting with the society. Governments could initiate such a drive that the future generation may remember us for safeguarding their future through social business.

Heimans and Timms (2014) contributed a synthesis on the new reality created by technological and societal transformation taking place. The old power values have been transformed into new power values. Managerialism, institutionalism, and representative governance have been replaced by informal, opt-on decision making, self-organization and networked governance.

Similarly, exclusivity, competition, authority, and resource consolidation have been replaced by open source collaboration, crowd wisdom, and sharing. Another emerging trend is that the discretion, confidentiality, separation between private and public spheres have been replaced by radical transparency. Professionalism and specialization have been challenged by do-it-ourselves, “maker culture”. Long-term affiliation and loyalty and less overall participation have been replaced by short-term, conditional affiliation and more overall participation. In this changing reality, to become successful, *Social Business* leaders must embrace this reality and its possible for them because they are free from agency bias, they have behavioral integrity, and they can balance exploration and exploitation at the same time. However, their attention spans are limited, and they need to decide with limited information. Therefore, to become successful *Social Business* leaders, they must make a conscious choice on which area to focus and which traits to nurture so that sustainable performance becomes a reality. Capitalism metamorphoses into new reality and the world sees a new era of *Social Businesses*.

Further Research

Though we have outlined social business model as a golden opportunity, a critical perspective in entrepreneurship research is highly recommended which may question ideologies or dominant assumptions or grand narratives in entrepreneurship. Also, a fruitful avenue for further research is to analyze the socio cultural dynamics of entrepreneurship scholarship; critiquing the dominant ideologies that construct particular political economies of entrepreneurialism.

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