

Sustainable development, sustainable profit



Social entrepreneurship can be a powerful tool for corporations to gain entry and build loyalty in developing markets

No wonder managers are irritated. The promise of growth is already built into today's share prices, as a reminder of investors' expectations of future cash flows. This poses a dilemma. Markets are saturated, political and economic uncertainty lowers spending, birth rates - particularly in Europe - are declining, and only one in 10 companies is able to sustain growth.

To add to the dilemma, an intense discussion about the roles and responsibilities of companies towards global society has called the whole concept of growth into question. While economic growth has led to tremendous improvements in personal freedoms and well-being for people in industrialised societies,

Key messages

- Sustainable development and corporate profits are not incompatible goals.
- Big corporations can be social entrepreneurs too, and can reap the same rewards as their smaller counterparts.
- The social entrepreneurship model offers companies a new strategic option for market entry in developing markets.
- Social entrepreneurship itself develops markets and expands economies, with benefit for all parties.

it has left too many behind. The images of hunger, disease and human misery refuse to disappear from our television screens.

How can growth be made more sustainable while at the same time including and benefiting all of society? The paradox is painful: while traditional markets are satu-

rated, billions of people are desperately waiting for companies to cater to their most basic needs and wants. Could this be the panacea for the collective quest for corporate growth?

The bottom of the pyramid (BOP) concept gained popularity in the late 1990s as a new perspective on doing business in a potential market of four billion people with incomes of up to \$4 per day. However, we have seen very little corporate action, considering the size of the opportunity. Are corporations simply not imaginative enough, or are there serious hurdles to pursuing the BOP?

A number of factors may explain the lack of progress. First, there is strong heterogeneity in the income levels of the poor. Many simply do not have enough income to constitute any kind of market. Second, centrally designed solutions have mostly failed to be effective locally. Experimentation, discovery and prototyping may be necessary for appropriate models to emerge. Third, the management resources, organisation designs and capabilities of established corporations in capital markets may not lend themselves to this kind of experimentation at the BOP.

Perhaps what is needed is a change of paradigm. A growing number of entrepreneurial initiatives seem to defy the barriers to providing services to the poor and disenfranchised. How these entrepreneurs find and employ resources and

combine them in new ways creates a rich field of discovery for inspired models of value creation. Often termed 'social entrepreneurship', the most innovative models are inclusive: they do not leave out the poor, and they combine social and economic value creation. The following case studies help to illustrate how this is done.

Aurolab: eyes and ears for the poor

In the developing world, 40 million people are blind and 130 million are visually impaired. The most frequent cause is cataracts, a clouding of the eye's natural lens. While the costs to the world economy are estimated at \$25 billion per year in lost productivity, only 8.7 million cataract surgeries are performed each year. David Green, an entrepreneur with a degree in public health, considers this a market failure. The artificial lenses used in surgery are priced out of reach of the poor. Green developed a model that combines profits with a social mission; compassionate capitalism, as he calls it, where the lowest price is free treatment. In 1992 he founded Aurolab, next to the Aravind Eye Hospital in India, to manufacture lenses. Today Aravind Eye Hospital, together with a group of five hospitals in South India, performs 220,000 surgeries per year. Forty-seven per cent of patients pay nothing, 18 per cent pay two-thirds of the cost of manufacture, and 35 per cent pay well above cost, thus generating profits for the company.

Overall profit margins are 60 per cent. The trick, says Green, is to gain control over the whole value chain of manufacturing, pricing and distribution. At every stage, decisions are guided by the goal of serving as many people as possible with highest quality medical care, while remaining financially independent and not infringing patent rights. Green estimates that the global market leader for lenses currently sells roughly one million lenses, earning revenues of more than \$500 million. Aurolab globally sells about 600,000 lenses of comparable quality per year, earning revenues of \$4.3 million, and still makes a substantial profit. After repeating the success of Aurolab with hearing aids and surgical sutures, Green's latest project is aimed at providing affordable AIDS drugs. Many poor people still depend on local governments or charities for drugs. Green wants to give people choice by establishing business models that also work for the poor.

Institute for One World Health

IOWH is the first US non-profit pharmaceutical company. It was founded by Victoria Hale, who previously worked at Genentech, a US biotech company. She is pioneering a new business model to deliver medicines that cure the most neglected diseases in developing countries. By redesigning the value chain of drug delivery, IOWH attempts to challenge traditional profitability thinking, which seems incompatible with



David Bornstein,
author of two books on
social entrepreneurship

Christian Seelos and Johanna Mair offer a compelling argument for the 'competitive advantage' of accelerating major system changes by

In my opinion

investing in social entrepreneurs. It is clear from the examples they cite that social entrepreneurs are indeed going where most of the private sector currently fears to tread. Given the extraordinary challenges in the global economy - challenges that include simultaneously achieving growth, attacking poverty and hunger, and satisfying basic human needs without sacrificing long-term environmental health - it is clear that innovation is an imperative. We need better

recipes, not just more cooking.

Seelos and Mair have wisely focused on the fountainhead of innovation: the entrepreneur. While the role of the business entrepreneur is well understood - the source of the 'creative destruction' necessary for major economic advances, according to Joseph Schumpeter - the role of the social entrepreneur in devising models that improve the overall performance capacity of societies is just beginning to be recognised. The qualities of the social entrepreneur - initiative,

creativity, energy, obsessive focus on results, capacity for self-correction, profound understanding of the market and, above all, a deep commitment to building a just and humane world - are precisely the qualities that are most needed to break free of the past and build something more beautiful. As Einstein said: "The problems that exist in the world cannot be solved with the level of thinking that created them." We need to encourage, celebrate and support the creative thinking

developing such cures. The Bill & Melinda Gates Foundation and the US National Institutes of Health have donated over \$11 million to launch the first programmes.

IOWH has established new partnerships aimed at creating value for everyone involved. Biotechnology companies find an appealing outlet for intellectual property they consider has no commercial value. Compassionate research and development efforts attract scientists and volunteers to donate time, effort and knowledge to the project. The company pushes strongly to utilise and integrate the scientific and manufacturing capacity of the developing world to "deliver affordable, effective and appropriate new medicines where they are needed most". In November 2004, the initial results of a Phase 3 clinical trial in India were reported for IOWH's first product, an anti-parasite drug to treat visceral leishmaniasis, which affects more than 1.5 million people and causes 200,000 deaths per year. The patent for the antibiotic was provided by the World Health Organisation, which received it many years ago from the original pharmaceutical patent holder, who had decided not to pursue it further.

Computers for favela children

CDI, founded in 1995, is Rodrigo Baggio's dream of transforming the reality of socially excluded kids in Brazilian favelas, the slums that surround large Brazilian cities. Many young people see no opportunities for

breaking out of the misery of their daily fight for survival. With the motto "social inclusion through digital inclusion", Baggio inspired social community organisations, volunteers and company sponsors to jointly set up schools that teach children how to use information technology to exercise citizen rights and as a development tool. By improving their IT skills, CDI has transformed young people from drug dealers to skilled workers. Over 80 per cent of the 500,000 alumni of these schools have found simple jobs. Support now comes from the business community and CDI alumni who return to volunteer in CDI schools.

Companies like McKinsey, Microsoft, Philips and Telefonica have donated much-needed equipment, know-how and funding. Organised as a non-profit NGO, CDI has used a social franchise model to open hundreds of schools in Brazil, as well as in many other countries in Latin America and even in Japan and South Africa. Currently, Baggio focuses less on expansion and more on quality control and managing the existing network of schools more efficiently.

ApproTEC

Two former development workers, Nick Moon and Martin Fisher, grew frustrated over the lack of impact of the expensive and sophisticated technology used in development programmes, technology that was not what poor people needed or wanted.

Working in Kenya, they founded ApproTEC to produce more appropriate technology as a basis for sustainable economic growth. ApproTEC co-ordinates a series of activities and diverse groups of people to create value from very limited assets and resources. Scanning the local market, it identifies opportunities that can be exploited with simple technology solutions, such as oilseed presses or manual irrigation devices, as a base for establishing small businesses. The technology products, bearing names such as 'The Super Money Maker', are produced at low cost along a value chain of local manufacturers, resellers and the final purchasers of the technology.

For example, by using specially designed pumps to irrigate land, a small-scale farmer can grow three or four crops a year. Increasing farm yields by 100 per cent, he can escape the trap of subsistence farming and become a commercial farmer. ApproTEC has become an important structure, empowering people to act in their own interest. It has built a whole industry and increased the size of the middle class, creating over 35,000 businesses in the last five years. It also has expanded to Tanzania, Uganda and Mali. The scale of the operation may well have a transforming effect on whole communities.

Sekem: holistic development

Sekem is considered a leading example of how to help create a stable and healthy

and ambition behind the likes of AuroLab, IOWH, CDI, ApproTEC, Sekem, the Grameen family of institutions and many others. In highlighting such organisations and the people behind them, and explaining their corrective and leadership functions, Seelos and Mair have helped to clarify the path ahead.

The emergence of social entrepreneurship and the global 'citizen sector' represents a fundamental reorganisation in the way the work of society gets done. As

such, two key terrains that are ripe for innovative activity are the relationships between social entrepreneurs and, respectively, businesses and governments. The significant business opportunities that exist today in meeting human needs by serving BOP (bottom of the pyramid, the poorest four billion people in the world) customers can only be practically seized if businesses develop mutually beneficial partnerships with social entrepreneurs, who understand and have already forged

distribution channels with these markets.

Similarly, social entrepreneurs in almost every society represent the cutting edge of social research and development. They are the 'skunk works' of society, the sources of new ideas and the operational excellence to make those ideas succeed. Governments, should be looking to social entrepreneurs as key inputs in all public policy discussions. In many cases, only governments possess the legitimacy and resources to

address problems across society. Social entrepreneurs possess the blueprints. A good marriage - respectful, voluntary, with each partner doing what it does best - will lead to a dramatic acceleration in social problem-solving.

David Bornstein is author of *How to Change the World: Social Entrepreneurs and the Power of New Ideas* (Oxford University Press, 2003) and *The Price of Dreams: The Story of the Grameen Bank* (University of Chicago Press, 1997).

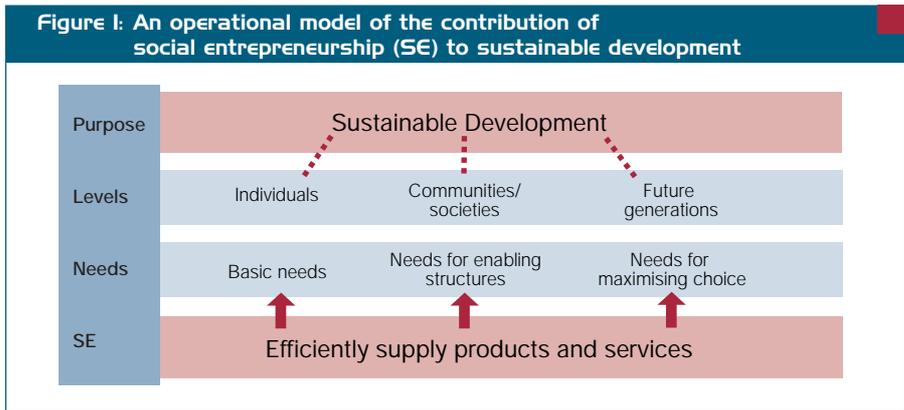
society. It has grown from the vision of a single entrepreneur, who bought a piece of desert land near Cairo, to a multi-business firm that combines economic with social and cultural value creation, and has a significant impact on Egypt's society.

In collaboration with the Ministry of Agriculture, Sekem deployed a new system of plant protection in cotton, which led to a ban on crop dusting throughout Egypt. Prior to the ban 35,000 tons of chemical pesticides were sprayed yearly, but now pesticide use in Egyptian cotton fields has fallen by over 90 per cent. This has also helped to resolve the dilemma of exporting only cheap raw cotton while at the same time having to pay to import the agrochemicals considered necessary for the next crop.

Today, Sekem exports high quality cotton products, organic vegetables, fruit, herbs, and pharmaceuticals at competitive prices. A holding company with six businesses generates the profits necessary to sponsor the many social and cultural projects. Sekem has also established a non-profit NGO, the Egyptian Society for Cultural Development (SCD), as a way of reaching out beyond its commercial activity in pursuit of its goal to realise "Egypt's unique contribution to global development" by raising the consciousness of the individual as an important way to achieve sustainable development.

'Social entrepreneurship helps the poorest individuals to build lives that are not just a mere struggle for survival, but an expression of their potential as human beings.'

SCD operates a private kindergarten, primary and secondary school, and a special needs education programme for the children of all employees and the neighbouring community. An adult training centre, an academy of arts and sciences and a university, scheduled to be opened in 2005, complement the educational mission. A medical centre provides treatment for around 30,000 people annually, offering basic healthcare services. High-level delegates from neighbouring countries are knocking on Sekem's doors, asking for help in implementing the Sekem model in their countries.



Sustainable development

Stimulating private sector-driven economic growth is the main goal of development efforts because it directly reduces income poverty and provides resources for improving general social, humanitarian, and environmental conditions in developing countries. Unsatisfied basic human needs are a crucial hurdle to economic development, as social and economic development reinforce and are dependent on each other. Consequently, the United Nations Millennium Declaration puts social objectives and goals upfront. The eight Millennium Development Goals proposed by

innovative business model developed by David Green with Aravind Eye Hospital, roughly 80 per cent of the poorest patients, who had lost their jobs as a result of blindness, regained those jobs after cataract surgery. On average, they generated 1,500 per cent of the cost of their surgery in terms of increased economic productivity during the first year after treatment. If Victoria Hale succeeds in her efforts to produce drugs for the poor, hundreds of thousands will escape their fate of social exclusion and inability to participate in economic life due to disease and premature death.

However, satisfying basic individual needs is necessary but not sufficient to stimulate economic development. To create positive development spirals, communities and societies need enabling structures, institutions that seek responsible allocation of resources, protection of ownership rights and means of risk-sharing for building entrepreneurial initiatives through efficient legal, communication and market structures. CDI, ApproTEC and Sekem act in an institutional vacuum, as trusted structures that set rules and formalise behaviour that is in the interest of the community. They protect the rights of individuals, orchestrate relationships and transactions, ensure property rights and enable individual and collective action that has a transforming effect on whole communities. By transforming those in need from mere receivers to members of society who are capable of contributing, they create positive development cycles.

Sustainable development also has a temporal dimension. Future generations have a current - albeit abstract - need for us to act on their behalf and in their interest as well as our own. Because we do not know the exact nature of future needs, social entre-

preneurship must be a flexible and dynamic model in order to react to emerging social needs over time. Certainly future generations have a need for choice, and inheriting serious environmental and social problems will be a severe constraint on the choices available to those generations. On the other hand, Sekem's success in growing cotton organically in Egypt has dramatically lowered the use of pesticides and thus pollution of the land. Sekem and many other entrepreneurs with an environmental mission clearly make a contribution to sustainable economic development by maintaining the quality of land as an important resource for future generations.

A unifying definition of sustainable development does not exist, but the most frequently cited definition was put forward in 1987 by the World Commission on Economic Development. This refers to sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". As demonstrated above, this definition can be operationalised on three levels: the basic needs of individuals, those of groups of communities and those of future generations (see Figure 1). Many social entrepreneurs cater to one or all of these levels, thus making a contribution to sustainable development.

Social entrepreneurship

Large-scale economic progress in underdeveloped countries is the ultimate growth story. It should be on the radar screen of any corporation that itself has ambitions to grow over the long term. The current dynamic surrounding China's rapid development provides tangible evidence of the opportunities that await. Two questions may stimulate corporate strategists to think of ways in which they can participate:

1. How can we contribute to seed the market for economic development?

2. How can we position ourselves early to participate in development spirals?

The European Commission has defined corporate social responsibility as "a business contribution to sustainable development". Despite the recent momentum in the global debate about corporate social responsibility, corporate efforts remain largely targeted at their own local communities. Given the extent of global poverty and human suffering, it might be asked to what extent

further investment in communities in developed countries can be justified from the perspective of global responsibility. Given the ability of social entrepreneurs to create tremendous social value from much smaller financial resources, should not corporate money be spent on objectives that have a stronger relationship between investment and value creation? What about developing a market by partnering up with social entrepreneurs? Imagine what CDI students would buy with their first salaries: mobile phones, computers? Philips and IBM clearly think so. They partner closely with CDI, and thus position their brand in the minds of potential future customers, of whom there are already 500,000. ApproTEC has proved that poor people are able and willing to work if some structure is provided, and has helped to start 35,000 small businesses that generate 0.5 per cent of Kenya's GDP. Aurolab demonstrates that profitable business on a significant scale is compatible even with serving those who are unable to pay.

The example of GrameenPhone also shows how corporations can participate in such a development spiral. Telenor, the largest provider of telecommunications services in Norway, recognised an opportunity in the under-served market in Bangladesh. A local organisation, the Grameen Bank, proved to be the ideal partner, and together the two firms established GrameenPhone in 1996. GrameenPhone became profitable in 2000, surpassed two million subscribers in September 2004, and has a market share of more than 63 per cent today. What were the success factors?

Bangladesh is a country of 135 million people. In the 1970s, the social, political and economic situation of the country seemed almost hopeless. But Muhammad Yunus, a professor of finance, believed that the people were stuck in poverty because they had no access to credit from which to build small businesses. Yunus invented a new way of lending microcredits to the poor, and founded the Grameen Bank in 1976; today, Grameen's 1,300 branches serve more than 3.5 million people in 46,000 villages in Bangladesh.

Grameen, one of the most studied examples of social entrepreneurship, became very profitable over the years and enjoys a loan pay-back rate of 99 per cent. Grameen's profits were used to build a number of other companies known as the Grameen Family, one of these being GrameenPhone. Bangladesh's mobile phone

penetration rate is still low, at 2.3 per cent, but already GrameenPhone is one of the largest tax payers in Bangladesh and one of the largest private sector companies. It runs an inspiring social programme called VillagePhones that provides valuable information services to rural villages. It also has double digit net profit margins, and its joint venture partner, Telenor, recently increased its stake to 55.5 per cent of the company.

As partners for corporations, social entrepreneurs bring a lot to the table. Those who make it through the experimentation and failure phases have already removed significant uncertainty and risk. Social entrepreneurs act as change agents that enable the poor to participate in economic life. Entrepreneurs invent business models that can be scaled up and possibly repeated elsewhere: the Grameen Bank model has been replicated all over the world, with huge success. Social entrepreneurship initiatives also constitute local resources that lend themselves to new configurations for novel forms of value creation. For example, Grameen Bank as a trusted brand in Bangladesh was a crucial resource for the success of Telenor and GrameenPhone.

All of this could be of great interest to corporations. They can act on these opportunities in several ways: by re-employing philanthropic community spending as 'social venture capital' to support early stage social entrepreneurship initiatives that complement corporate resources and have potential for future partnerships; by identifying potential spill-over effects and synergies between initiatives that the entrepreneurs themselves may not recognise because they are so focused on their own initiatives; or by providing management skills and resources for scaling up and so freeing the entrepreneur to start new ventures. Serial social entrepreneurs may be the best hope, both for the poor and for companies wanting to participate in new market development models. Today, social entrepreneurs and corporations still live in different worlds. But as David Green of Aurolab says: "I am waiting for big corporations to come and work with me, or even put me out of business to the benefit of the poor!"

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