

# Sustainable business

The business model of the future rests on an alliance between economics and humanism. Social capitalism is making its inroads. Sustainable development is the joint guidepost that social entrepreneurs or just businesspeople start with. In that way, competition and connectedness are created. For the good of the bottom line and humanity.

In the traditional welfare state, the labor division was clear. Companies were put in the world to make money, while the public sector and non-profit organizations took care of society's interests. It is no longer that way. Pressure from NGO's, consumers, governments and international organizations have over the last 10-15 years raised expectations for companies. The time when they could simply serve the owner's economic interests is nearly over.

Because of that, ethics and responsibility are today an integrated part of corporate activity. This is reflected in some new terms: corporate governance, corporate social responsibility/CSR, socially responsible investing/SRI and double/triple bottom line.

In fact, the number of the world's largest companies that have non-financial reporting has almost tripled in the last ten years. This development is not just due to heavier demands from the surrounding world. It is also because it is clear to increasingly more in business life that including both environmental and social concerns in the business foundation is an essential competitive parameter. It is not philanthropy; it is ensuring the company's viability.

## The new business paradigm

The current development is in sharp contrast to the industrial society's clear economic focus. A focus that was based on the conviction that profit was both a goal and a means – that good finances were the paths to continued financial health. With time, farsighted business leaders and social entrepreneurs have blazed the trail for a new paradigm. Here, profit is seen as a means to serve human needs and promote a positive social development, rather than a goal in itself. This does not mean that results, profits and good trading sense are less significant. The one focus need not rule out the other. It is just that running a business has been put into a broader perspective. We are in, in other words, a paradigm shift.

The new business paradigm is borne forward on an increased consciousness of the effect we humans have on our world. The company is seen as a part of a bigger system and must therefore be a responsible actor and contributor in relation to its world. At the same time, growth and welfare today cover more than just a material dimension and profit maximization. It is also about life quality, about living in a clean environment, about having meaningful work – and about meeting today's needs without compromising the chances for future generations to do the same. Balanced growth – or sustainable development – will therefore be the future's innovation, growth and values parameters.

## Sustainability – the new bottom line booster

The social capitalistic business model appeals both to the strategic merchant who sees possibilities to make money from social responsibility, and to activists in suits who see market mechanisms as an effective means to serve society.

For example, General Electric, the world's biggest industrial and financial concern with 300,000 staff and US\$ 140 billion in sales, launched a new sensational strategic shift in 2005. According to GE CEO Jeffrey Immelt, the shift, called Ecomagination – a campaign for a more “green” business, was

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launched “not because it is trendy or moral, but because it will accelerate our growth and make us more competitive.”

In contrast, companies such as The Body Shop and Whole Foods Market showed that it is possible to build up a business around a social mission. They have shown that it is possible to be good and earn well. Anita Roddick started The Body Shop in 1976 with a mission that the chain’s products would to the greatest extent possible be produced under defensible conditions. Today, The Body Shop has over 2000 shops and 77 million customers in 50 markets. And in 2006, the chain was sold to the French cosmetics giant L’Oreal for more than \$US 1 billion.

In 1980, John Mackey and three partners founded a small natural foods supermarket in Texas called the Whole Foods Market. More than 25 years later, the business, with its 39,000 employees and 187 luxurious stores in the US and UK, is the world’s biggest organic and natural foods supermarket business. The company has managed to exceed Wal-Mart’s sales growth rate, and today has more than 20% annual growth in a sector that is overall close to being stagnant.

In addition to their strong financial figures, the companies share a trait in that idealistic capitalists founded

them. As American co-president Walter Robb has put it, “We are not food dealers with a mission. We are missionaries who deal in food.” In other words, they are social business entrepreneurs.

#### **The social entrepreneurs**

The social entrepreneurs put sustainable development in the middle. They have a clear social mission, which can stretch from environmental protection to poverty reduction to housing the homeless. Many of them have independent incomes in acknowledgement that financial independence offers the chance to practice even more social mission. They see society’s problems as a platform for developing new ideas for new products and services, and they meet needs that existing markets, organizations and institutions have not earlier managed to satisfy. They often break with established structures, ways of thinking, and convictions. In this way, they blaze the trail for new practices and social innovations that benefit both people and finances.

One of the current best-known examples of social entrepreneurship is the Bangladeshi economics professor Muhammad Yunus, inventor of the microloan and founder of

Grameen Bank. The bank loans small amounts, as little as US\$ 3, to poor people to start their own business. The bank serves 5.6 million borrowers in 70% of the villages of Bangladesh. 96% of the borrowers are women; the average loan is about US\$ 75; and 99% of the loans are repaid. In 2005, more than US\$ 500 million was lent to start microbusinesses.

Grameen Bank's business model challenges the prevailing thinking in banking by being built up around principles of trust instead of paper work, and networking instead of legal systems. Borrowers do not need collateral but must show they need the money. In return, they pledge to repay the loan in small increments every week or two, and must join a five-person borrower group.

Since Yunus got the idea for microloans in 1976, his business model has spread to 3000 microbanks in 58 countries, including the US. The UN declared 2005 to be the International Year of Microcredit, and in 2006, Yunus was awarded the Nobel Peace Prize for his work to create economic and social development.

### Corporate social innovation

Social innovation is also established companies' next step to strengthen competitive power. Because the weakness with traditional CSR initiatives such as monetary donations and sponsorships is that they complement the financial business. Therefore, they would be the first to be scrapped in a crisis. In the field of social entrepreneurship, a new class of companies has arisen that, with corporate social innovation, have found a way to get around that built-in weakness. This type of company has built their entire business up around the development of new solutions to old social problems and new social needs. This opens up new markets and at the same time gives the company unique competitive advantages.

Aresa, a Danish company, is a good example. Aresa has one goal: to develop plant biotechnology that improves people's living conditions – and that at the same time have commercial potential. Aresa's first product is RedDetect, a gene-modified plant that turns from green to red when it is exposed to explosives. In that way, it can be used to show where landmines are. To avoid the spread of genetically modified material, the plant has been made "male sterile" so that it does not produce seeds.

According to the UN, landmines kill or maim 15,000-20,000 people a year in an area that is equal to five times the area of Denmark. A landmine costs less than US\$ 3 to make, but up to US\$ 1000 to remove. Landmines, in other words, have great human and financial cost. In 2006, Aresa attracted US\$ 8 million in capital through an IPO for continued development of the plants that can find buried mines, and the company expects sales of US\$ 12 million in 2009.

Vestergaard Frandsen is another example of a business that builds on CSI. The family-owned Danish textiles company made work clothes until the beginning of the 1990s. Gradually, the line grew to include emergency blankets and tents, and today the focus is on textiles for disease control.

The company's first breakthrough was PermaNet, a polyester mosquito net treated with a chemical that dissolves the malaria mosquito's legs, after which it loses the ability to fly, sting and spread the malaria parasite into people's blood. Vestergaard Frandsen produces about 2 million mosquito nets a month, and PermaNet accounts for 90% of the firm's turnover of US\$ 31 million.

In 2005, the company introduced LifeStraw, a 25cm long drinking straw that with built-in filters – and a price of under US\$10 – can be used to drink all sorts of water for up to a year without health risks. The invention is expected to have a massive effect on the life quality for many millions – if not billions – of people. Because according to the UN, about 1.1 billion people do not have access to clean water, and about 80% of all illness in developing countries is related to polluted water.

### The unexploited potential

At the interface of social entrepreneurship, traditional corporate activities and social efforts of the public sector and non-profit organizations, there are a number of unexploited opportunities. New possibilities that not only have the potential to solve social problems. Many of them are also innovative business possibilities with growth potential in the million and billion class.

There are already a number of examples of the social and economic potential with the food industry, agriculture, banking, pharmaceuticals, biotechnology, design and others. The Body Shop, Ben & Jerry's, Whole Foods Market, Grameen Bank, Aresa and Vestergaard Frandsen are just the visible top of a thicket of social entrepreneurs that together are a corps of groundbreaking social pioneers that create growth, value and a better world. It is therefore unsurprising that social entrepreneurship as a phenomenon is beginning to attract interest from the public and private sectors, the civil sector, academia and political leaders in their search for new solutions that can strengthen the power of innovation, competitiveness and connectedness.

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