



Innovations in Capitalism: The New “Social Business” Model

April 13th 2011

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Presented to: UC San Diego Extension
Innovation and Integration of Sustainable Practices



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Presentation Outline

- Why would you start and run a social business?
- What it is and what it isn't?
- Social-business practices
- Obstacles & opportunities
- Discussion
- Recommended reading



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Is Capitalism Broken?

Hawken, Lovins, and Lovins (1999) states:

“Capitalism, as practiced, is a financially profitable, non-sustainable aberration in human development. What might be called ‘industrial capitalism’ does not fully conform to its own accounting principles. It liquidates its capital and calls it income. It neglects to assign any value to the largest stocks of capital it employs—the natural resources and living systems, as well as the social and cultural systems that are the basis of human capital.”



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Why would you?

- Characteristics of for-profit vs. Not-for-profit?
- Need for social solutions : natural disasters, man-made crisis (e.g. war), ingrained poverty
- Sustainability : achieving self-sufficiency
 - Social justice
 - Economic value creation
 - Environmental sustainability
- Eradicate Poverty
 - Narrow the divide between “Have”s and “Have not”s
 - Economics at base of pyramid
 - Create opportunities for everyone to thrive and prosper



	Traditional Non-profit / Non-Governmental Organization (NGO)	**** NEW MODEL**** Social Business	Traditional For-profit Business
Type of organization	Private Foundations (Family, Corp) Public Charity (Church, school, hospital, community etc.)	Currently LLC, C-Corp, S-Corp etc.	LLC, C-Corp, S-Corp etc.
Ownership	None (owned by the non-profit organization itself)	Shareholders	Shareholders (Private or Public) Partners
Primary Objective	Achieve a purpose other than generating profit	Sustainably eradicate poverty and/or social injustice	Maximize profit generation
Funding / Investment Sources	Grant funding (Government, Foundation, Corporate Social Responsibility Program) Individuals / Philanthropists Income from social enterprise (e.g. Newman's Own)	Social investors Cash surplus from social-business	Individuals (Cash, bank loans etc.) Angel investors Corporations Corporate Investors
Return on investment	No financial gains 'Feel good' factor / Return on Compassion (ROC)	Return of original investment Interest on loan High leverage 'Feel good' factor / Return on Compassion (ROC)	Dividends Profit sharing Traditional Return on Investment (ROI)
Profit Making?	No. 100% of (any) cash surplus used to pursue organizational purpose.	Yes. Worse case break even. 100% of profit treated as cash surplus to expand or improve business.	Yes, to be reinvested (retained earnings) or paid to investors (dividends).
Product / Service	Those that relieve suffering or fund the relief of suffering.	Those that help eradicate poverty and social injustice.	Anything
Pricing Policy	For-free or below market.	Sufficient to generate a profit	At market or maximize profit
US Tax Framework	Tax deductible donations per IRS	Currently treated as traditional business	Per corporate tax codes



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Social-business Practices

Vision – Mission - Goals - Strategies - Objectives - Action Plan of Who Does What When & How

- Direct line of sight from Vision to WDWWH
- 3 strategies for success (similar to any business)
 - Route-cause analysis & needs assessment
 - Value creation i.e. affordably meeting real needs of target clients
 - Understand their needs
 - Understand their means
 - Understand their cultural norms
 - Competitive advantages / differentiation strategy
- Performance measures
 - Social, economic and environmental impact
 - Can you measure “Return on Compassion”?



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Obstacles & Opportunities

- Limited access to non-profit grants and traditional for-profit investment vehicles
 - New tax code “For-benefit” to encourage social investors?
 - Change to foundation granting rules?
 - Alternative for corporate social responsibility funding (CSR)?
- Conflicting goals of a ‘triple’ bottom line?
 - True impact measurements – not just results
 - Yunus advocates a singular bottom line: social impact
- Evolution of new social-business model (first documented in 2008)
 - Public Private Partnerships being pursued to resolve social challenges
 - Business-savvy philanthropists as social investors



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Obstacles & Opportunities

- Truly understanding the need
 - Philosopher Lao Tzu: “Go to the people. Live with them. Learn from them. Love them. Start with what they know. Build with what they have. ...”
- Generational change in what typically motivates us as individuals
 - Social justice before religious doctrine
 - Sustainability understood to be key to long term success



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Q&A / Discussion

Q&A

Discussion Topic: time permitting

- Consider the prison system as example of how a social business might work more effectively than a private business or a non-profit



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Reference & Reading

- **Capitalism at the Crossroads : Next Generation Business Strategies for a Post-Crisis World** by: Stuart L. Hart
- **The Fortune at the Bottom of the Pyramid : Eradicating Poverty through Profits** by: C. K. Prahalad
- **Building Social Business : The New Kind of Capitalism That Serves Humanity's Most Pressing Needs** by: Muhammad Yunus (of Grameen Bank fame)
- **Natural Capitalism: Creating the Next Industrial Revolution** by: Paul Hawken , Amory Lovins , L. Hunter Lovins.

Thank you !