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Social Enterprise: **A MORAL FRAMEWORK** for **LEADERSHIP** and **EXCELLENCE?**



We are in the midst of a global socio-economic transition and the way we think about the economy is changing. Here, Kevin Teo and Leng Leroy Lim trace the ideas and movements that have shaped beliefs about economics, business, and leadership, then challenge these assumptions to advance a new moral ethos for a new age.

Businesses have operated under the assumption that the poor were not credit-worthy because they had no collateral such as a home. But where banks were unwilling to lend, loan sharks were happy to step in, charging extraordinary interest rates of 100% or 200%, which often lured poor people into destitution. Muhammad Yunus of the Grameen Bank, however, perceived that the poor had *social collateral* to preserve – thus he lent to persons within groups, and held the group liable for the individual’s borrowing. If the individual did not pay, members of the group could not borrow in the future. He found a market niche and a business model for microfinance.

This shows how the world of social enterprise allows idealism and pragmatism to be joined such that ‘doing well’ and ‘doing good’ need not be mutually exclusive.

Challenging Cartesian Certitudes

This shift in thinking – from trade-off to integration, where the practical is also idealistic, where solving the needs of the poor can also create business value – appears to be a small shift. It is mental framing: from Either-This-Or-That to Both-And thinking, and while it appears to be a small shift, we predict that the implication over the years will be seismic, and will affect how we construct economics, business, valuation and public policy.

The trade-off, characterised as making money versus helping others, runs deep in many societies. It is embedded in our religions, as in ‘the desire for money is the root of all evil’. While the moralists rail against money, those on the other side – the amoral positivists – in an ironical normative twist, argue that making money *ought* to be freed, and totally detached from any notion of doing good for others or for society. The quintessential apologist for this view was Milton Friedman, the economic Nobel Laureate from the University of Chicago, who separated the moral and normative from the amoral and positivist.

In his seminal article, ‘The Social Responsibility of Business is to Increase Its Profits’, Friedman argued that the business of business is business – making money for its shareholders. In fact, to do otherwise – to try to get a business to address social, community and other stakeholder needs – was immoral, because it amounted to stealing money from the shareholders. These views have influenced an entire generation of business people and organisations to focus *only* on the bottom line. But the power of his article was not that he articulated something new, but that he distilled an idea that had held great currency for a long while.

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Three hundred and fifty years earlier, the thoughts of French philosopher and mathematician Rene Descartes, as well as those of his peers, had defined the Modern Age. *Cartesian* thinking, a hallmark of modernity, liberated science and scholarly investigation from the constraints of theology and morals. The Catholic Church of their time focused on the internal life – the normative areas of morals, spirituality, values, subjectivity, and matters of *ultimate good* – while science would focus on observable phenomena of external life, without interference from the religious.

Over the next several hundred years of the European Enlightenment, all the fields of science and mathematics, and the subsequent fields of economics, finance, and business would be pursued in a positivistic and objective light, unmoored from morality, and without accountability to the question of ultimate good, though not freed from legality, since laws are required to make markets work. The power of modern science, and some would say the power of modern business, is that it can explore whatever areas it chooses without thinking about non-scientific consequences. The biggest impact of Cartesian thought is that the search for knowledge for knowledge’s sake has been a huge driver in the burst of human achievements in the modern era.

However, the strong separation of the moral from the instrumental, the normative from the positivist, the humanistic from the scientific and the spiritual from the material, is being weakened in our times. We believe this weakening will ultimately be good. Humanity is becoming more integrative and holistic because we are globalising. Besides, we cannot get away from morals, because the act of relating to another human being is to acknowledge the necessity of morals. Whether a business creates harm via negative externalities, or might want to actually do some good via positive externalities is now an issue for serious intellectual discussion, and action. The ideology that business should only focus on making money is now being shown to be what it is – an ideology whose time for revision has come.

REVISITING CONVERGENCE

Evaluating money

One of the main arguments of monetary purists – i.e. the purpose of money is to seek its own highest returns – was that the return on investment of a social enterprise was much less than what could be achieved by the optimising function of a pure for-profit. Social enterprises could not compete for funding, and their inability to compete for funding itself became an argument for why they were a problematic hybrid. Now that the global financial bubble has burst, it appears that the extraordinary growth rates of the past few years were not due to the fact that money-maximising firms were so much more efficient, but that they were participating in systemic fictions.

Microfinance's ability to uplift the poor stands in contrast with the wealth destruction of the middle class caused by the hubris of large financial institutions. But more than that, the argument that a business focused only on making money would make more money is now shown to be empty – its returns were inflated and its disregard for community needs have not only caused harm to society, but business itself has suffered.

In addition, the financial boom, rather than being proof of markets working, was financial incentives distorting the human-capital market. Highly inflated wages lured some of the brightest and ablest, albeit immature young people, into the financial sector, squeezing out careers in science, engineering and even the medical professions. Teaching, very much the foundation builder of an educated society, along with public office, non-profit and social enterprises, were thus leached of talent. Now that wages are more realistic, perhaps the young will choose to go to business school or a start-up company for the right reasons – to create profitable businesses actually capable of doing good, and not just as short cuts to unearned wealth.

Opportunities exist to provide a meaningful career balance for college graduates. Harvard Business School gives out fellowships for its MBA graduates to work in the non-profit world; and the Echoing Green Fellowship gives out 10 start-up fellowships and funds for those who found social enterprises. SEALNet², the non-profit which both of us co-founded has worked the last six years with the young people of Southeast Asia to build their capacity to be both idealistic and pragmatic.

Transforming Dysfunctional Systems

Social enterprises understand the purpose of money as means to accomplish something they are passionate about. A social enterprise endeavours to make an economic surplus to address social issues.

Also, social entrepreneurs take on intractable problems and bear significant risks in their endeavours. John Elkington and Pamela Hartigan, Volan Ventures' co-founders and authors of 'The Power of Unreasonable People'³ highlighted that social entrepreneurs are unusual individuals who seek out outlandish goals that include social and environmental sustainability, and then aim to transform the dysfunctional systems that create or aggravate the major socio-economic, environmental and political problems of today. As they beat their paths through new territory, they tend to disrupt established industries and create new pathways into the future.

Similarly, the Volans Ventures team is working towards creating a movement where more endeavours, such as the Grameen-Danone⁴ partnership in Bangladesh,

can flourish, fundamentally altering the capitalistic worldview and leveraging on corporate and government muscle to replicate and grow successful models of social innovation. Two of Volans' co-founders, Pamela Hartigan and Kevin Teo, in their work at the World Economic Forum and the Schwab Foundation, have shown that opportunities exist to create such win-win partnerships between corporations and social enterprises.

It would be untrue to say that businesses have no soul. Quite the reverse, they do have missions and do serve societal concerns; some of Singapore's earliest banks were founded to solve social problems such as helping the immigrant Chinese communities and *Thye Hong Biscuit* factory provided food during the Japanese Occupation. But in many businesses, the mission orientation takes a back seat as scale, corporatisation and efficiency issues create a flywheel where profits matter over mission.

The difference for social enterprises is that the dual mission – to make money and to carry out a mission

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– are structurally intertwined. The social good for which it was created is always at its forefront. It has declared its *raison d'être*, and by the nature of its work, is constantly reminded of its 'soul's purpose'. Hagar is an example.

Hagar's founder, Pierre Tami was in the aviation business when a life-changing incident prompted him to start Hagar in 1994. With initial operations in Cambodia, Hagar set out to provide rehabilitation and recovery services for women and children who suffered abuse, many rescued from the human and sex trafficking trade. Hagar's operating model includes a set of social programmes that provide recovery and rehabilitation. Hagar provides skills training and runs its own social businesses in the areas of food catering, handbag manufacturing and packaged soya bean drinks⁵ to provide employment for the women participating in Hagar, as well as to generate profits to support the shelter.

Unusual among organisations rehabilitating victims of human trafficking, Hagar emphasises the reintegration of its beneficiaries back into society by getting them out of the shelters into a paying job within Hagar's social businesses. On the prevention end, Hagar works to strengthen society by reducing the propensity of families to sell their children (knowingly or not) into slavery due to their abject poverty. It thus spends significant resources on building community resilience through education, healthcare and clean drinking water programmes. Having established a sound operating model in Cambodia since 1994, Pierre is now looking to replicate this model in Vietnam, Afghanistan, Laos and India.

Exercising Moral Imagination

That leadership is about morals is something embedded in humanity's oldest religious and philosophical traditions. The problem has been that moral leadership has often been expressed as a *moralising* leadership – self-righteous, arrogant, fundamentalist, and trampling upon the morals of those who disagree. When we witness wars in the name of religion, many of us are rightfully wary of leadership that claims too high a moral ground. But we also worry at the alternative – amoral Machiavellian leadership that attends only to its own interests.

Because leadership is also an exercise in imagination that brings about the new, it is important whether it is exercised as a *moralising* imagination, *amoral* imagination or *moral* imagination.

A *moralising imagination* seeks to imagine a better world, but a world in which one view of what is *the good* is fundamentally superior to another. Religious fundamentalism is such an example of moralising imagination.

An *amoral imagination* has mostly been practised in the field of business, economics and science, where the optimising function seeks to discover the new for its own sake. By and large this seems to be quotidian, until we examine the Enron scandal in 2001, or the Satyam Computer Services investigation into accounting fraud⁶, or as described earlier, the collapse of the financial sector triggered by sub-prime lending. The strategies and products created were some of the most innovative, but leadership did not, and would not, take into consideration the moral impact created in actual human and non-human lives.

Some path-breaking business leaders have been different. They have exercised their moral imagination, by paying attention to the triple bottom line of *profits, people and planet*. Ray Anderson, the founder of *Interface*⁷, the world's largest manufacturer of modular carpet applications, was once asked by his sales force what his attitude was towards the environment. His cavalier reply was: comply with the law. But later, he continued to read up on the issue, and realised that his carpet business, while legally compliant, was damaging the environment with the resources it consumed and the waste it created. This led to a personal crisis: "I was running a company that was plundering the earth. Someday, people like me will be put in jail."

Anderson then turned his business process around to become one of the most environmentally sustainable by leasing rather than selling his carpets. In this way, his customers could regularly upgrade to new carpets, he could control his waste and resource use because now the entire business process could be controlled. His moral imagination had allowed him to think about the improbable.



Kevin Teo is the co-founder of Volans Ventures. Previously head of East and Southeast Asia at the Schwab Foundation and Global Leadership Fellow at the World Economic Forum, Kevin spent eight years in software start-ups in the US and also co-founded the Southeast Asian Service Leadership Network (SEALNet). Kevin graduated from Carnegie Mellon University with a MS in Information Networking, and holds a BEng in Computing from the Imperial College, London.



Leng Leroy Lim is a director at Pivotal Partners. As a leadership coach, he brings his expertise from management science, developmental psychology, organisational development, and insight meditation to international senior and C-suite executives. He chairs the non-profit SEALNet which develops youth service leadership in Southeast Asia. Leng was educated at Harvard Business School, Harvard Divinity School, Princeton University and the United World College.

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The exercise of *moral imagination* belongs to that category of leadership capable of imagining a new future in which the greater good is made possible for an ever widening group of people. It is not merely utilitarian, which would only seek to maximise numbers. It actively seeks to break down walls and integrate differences by pointing to a universal truth, that we and all of nature are interconnected in a vast web of life. *Moral imagination* helps to promote life, by seeking to join different and even divided entities, thus helping all to imagine what is possible when we recognise that we hold everything in commonwealth.

We may immediately think of some national leaders who have done so: Martin Luther King Jr. who spoke to the unity between blacks and whites; Gandhi to a multi-religious India; and our own Lee Kuan Yew who inspired a vision of a multi-racial Singapore. Moral imagination thus creates a larger community from disparate fragments because it enlarges our sense of what it means to be a human being. It makes us more generous and courageous and visionary than we believe possible for ourselves. Such a leader's moral imagination allows each of us to think of ourselves differently, often in ways which enable us to call upon our better selves. Peter Senge's *The Necessary Revolution*, and Amory Lovin's *Natural Capitalism* recount stories of business and social enterprise leaders who are doing just that.

In the exercise of moral imagination, ideology is tempered by the need to actually make things work. However, the need to be practical is never merely

instrumental, but is always in service of that larger vision of shared destiny and commonwealth. We believe that this form of leadership is necessary for our times because of the complex issues that face us as a society, humanity and planet. We are in the midst of change, and social enterprises and social entrepreneurs are helping us do that. ❖

¹ Milton Friedman, "The Social Responsibility of Business is to Increase its Profits," *The New York Times Magazine*, September 13, 1970

² SEALNet <<http://www.sealnetonline.org>>

³ John Elkington and Pamela Hartigan, "The Power of Unreasonable People," (Harvard Business Press, 2008)

⁴ Grameen-Danone Joint Venture <<http://www.danone.com/en/what-s-new/focus-4.html>>

⁵ *Hagar Catering*, "Hagar On-Time and Hagar Soya" <<http://www.hagarinternational.org>>

⁶ Heather Timmons and Bettina Wassener, "Satyam Chief Admits Huge Fraud," *The New York Times*, January 7, 2009 <<http://www.nytimes.com/2009/01/08/business/worldbusiness/08.satyam.html?ref=technology>>

⁷ Charles Fishman, "Sustainable Growth – Interface Inc.," *Fast Company*, Issue 14, March 1998 <<http://www.fastcompany.com/magazine/14/sustaing.html>>