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Social Space

Lien Centre for Social Innovation

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2009

### The Market and the Social Economy: Can the Twain Meet?

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#### Citation

Cheng, Willie. The Market and the Social Economy: Can the Twain Meet?. (2009). *Social Space*. 20-25.  
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# The Market and the Social Economy: **CAN THE TWAIN MEET?**

Can the different paradigms of the market and social economy be reconciled? Willie Cheng suggests that the current remaking of both economies offers an invaluable opportunity.



It used to seem pretty straightforward: The commercial world stood on one end and the charity world, the other. One is for profit, while the other is not. Two largely separate worlds where their purpose, basis and cultures differ, but they happily coexist.

In recent times though, fundamental questions have been raised and efforts made to remake both the market and social economies.

### The Market Economy

The commercial world is based on market economics where the prices of goods and services are freely determined by forces of supply and demand. Underlying this is Adam Smith's theory of an 'invisible hand' which would ensure that the pursuit of individual self-interests by market participants will result in an overall equilibrium and the collective good.

The fall of the Berlin Wall in 1989 reinforced the inexorability of the market economy and the capitalist system. 'Greed is good' became fashionable. Market-based economies across the world boomed. To be sure, there were technical corrections along the way, but governments and economists somehow managed to control the down cycles before they worsened.

The most recent and major down cycle is the financial crisis that surfaced with the unravelling of sub-prime mortgages in the US in 2008. In hindsight, lending against these mortgages had been overly aggressive; their identity and risks were lost in the subsequent securitisation and repackaging with other loans, known as collateralised debt obligations. As loan defaults rippled through the system, this led to a re-ratings of financial instruments and financial institutions, the tightening of credit, a general loss of confidence and a tailspin of deleveraging by investors worldwide.

Experts have their explanations as to why the global financial crisis happened. Alan Greenspan, former chairman of the US Federal Reserve, describes it as 'an accident waiting to happen' due to 'the underpricing of risk worldwide'.<sup>1</sup> Paul Krugman, the Nobel Prize-winning economist, sees the crisis as having its roots in the 'savings glut' of Asia which has now led to a 'global paradox of thrift'.<sup>2</sup> *The Economist* follows a similar tack to blame it on 'global imbalances – mainly, America's huge current-account deficit and China's huge surplus'.<sup>3</sup>

But perhaps, the root cause lies in the foundation of the free market. Why did we believe that a system

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which is premised on the very negative human traits of selfishness and greed will not rebound on us? As we had sought to live by the sword, then we need to bear the consequences. Witness, for example, how those involved in the vice industries of prostitution, illegal drugs and gambling have had more than their fair share of organised crime and other dire consequences.

### The Social Economy

If the free market is about unadulterated self-interest, the non-profit world entails the opposite – pure selflessness. The non-profit sector flows (or at least it is supposed to) with the milk of human kindness, meaning and fulfilment. People give freely of their time and money for the community causes they believe in.

This non-profit world complements the profit world because it picks up those who could not be provided for by the free market. In fact, it often picks up the broken pieces created by the excesses of capitalism. However, to do so, the non-profit world depends largely on the largesse of the profit world – or those who have profited from it.

Not all, however, is rosy in the non-profit sector. For one, without sufficient self-interest in the equation, efficiency and effectiveness can sometimes go by the wayside. Even worse, it seems that we can never completely eliminate self-interest: After all, you could argue that that is how human beings are. And when self-interest rears its ugly head, the non-profit world has had its fair share of ethical failings and abuses. Hence, there have been calls made and measures effected, especially in the aftermath of charity scandals, for greater accountability and greater regulation of the non-profit sector.

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### PHILANTHROCAPITALISM

Philanthrocapitalism is a term that has emerged to broadly describe the movement where business approaches are substantively used to solve social problems. The following have been variously covered (some questionably) under the umbrella of philanthrocapitalism:

- Mega-philanthropists who apply their capitalist gains to achieve social goals through market-based approaches. For example, Bill Gates is using his money to support economic incentives for companies and others to develop and implement solutions for areas stricken by disease and poverty, particularly Africa.
- Social enterprises which are regular businesses with a social mission. Typically, they are said to have multiple bottom lines – environmental sustainability, social returns and profits channelled towards the charity or community. For example, the Condoms & Cabbages Restaurants, along with 15 other businesses, fund Thailand's largest non-governmental organisation, the Population and Community Development Association (PDA).
- Social entrepreneurs who are social innovators that effect large-scale social change. Dr Mechai Viravaidya, founder of PDA and initiator of its social enterprises, is a prime example of a social entrepreneur. However, not all social entrepreneurs are business-oriented or philanthropists. Hence, social entrepreneurs should not necessarily be considered philanthrocapitalists.
- Venture philanthropy refers to the application of venture capital approaches to helping social organisations. Key aspects are personal engagement and a focus on the capacity-building (as opposed to the mission-based programmes) of the client organisations. Social Venture Partners (SVP) is the world's largest venture philanthropy group with affiliates in 25 cities. Members contribute small grants of money and time to support a selected charity or social enterprise in their capacity-building efforts. In the last year, the Lien Centre helped to set up the SVP Singapore Chapter.
- Even Corporate Social Responsibility (CSR), where it is socially transformational, has been classified under this canopy of philanthrocapitalism. An example is the joint venture between Danone and the Grameen Bank. Apart from creating business and employment opportunities for the poor in Bangladesh, the health food company has also partnered with the community development bank to provide food for undernourished children in the country.

the neophilanthropists are seeking to import their ideas and practices from their profit world into the non-profit world. It ranges from simple corporate concepts of good governance and accountability to the more esoteric aspects of what has come to be called 'philanthrocapitalism' (see box).

The jury is out on how social enterprises, venture philanthropy and the likes will pan out in terms of impacting the non-profit world.

Hopes are high in many quarters. A recent report, *The Phoenix Economy* by Volans<sup>4</sup> speaks of 'a new economic order...and a new generation of innovators, entrepreneurs and investors (who are) accelerating the changes essential for delivering scalable sustainable solutions to the world'. The report celebrates 50 organisations which have been effectively developing

market solutions to the world's most pressing social and environmental concerns.

#### Social Reality

Despite the hope, there are reservations on how far these experiments in meshing business practices with social goals can progress.

Social enterprises, for example, have been markedly unsuccessful compared to their commercial counterparts. An analysis by the Bridgespan Group<sup>5</sup> showed that beyond the few celebrated cases and the hype of misleading statistics, social enterprises are generally not profitable. Another report on social enterprise by Seedco<sup>6</sup> cautions against mixing models: "Non-profits must understand that the desire to earn income and the desire to use business practices to pursue social change are two different and almost

entirely incompatible objectives for a non-profit organisation.”

The incompatibility of principles underlying the commercial and the social world is a frequent point of contention by sceptics of this ‘heady and seductive cocktail’ of philanthrocapitalism.<sup>7</sup> Michael Edwards in *Just Another Emperor? The Myths and Realities of Philanthrocapitalism*<sup>8</sup> highlights the contrasting assumptions underlying the workings of the market and the social sector: wants vs rights, competition vs cooperation, consumers vs citizens, technocracy vs politics, and market metrics vs democratic accountability.

Yet, how far philanthrocapitalism, social entrepreneurs or any adjustments in the workings of the social sector for that matter, can go in creating lasting and sustainable social change is limited by one undeniable fact – the dependence of the social sector on the commercial sector.

The social sector depends largely upon the largesse of the commercial sector in bringing its resources (time, money, expertise) to bear in fomenting social change. To be sure, many social workers and entrepreneurs make do with the bare minimum that they can access. But by virtue of this dependence, the social sector will never approximate the size and impact that the market can make, and it does not.

In most countries, the social sector pales in comparison to the commercial sector and the public sector. In the US, for example, the social sector makes up to less than 5% of the Gross Domestic Product (GDP) whereas the commercial sector is about 85%.<sup>9</sup>

In a book review of *The Power of Unreasonable People: How Social Entrepreneurs Create Markets that Change the World*, *The Economist* pointed out that ‘the greatest agents for sustainable change are unlikely to be the well-intentioned <social entrepreneurs mentioned in the book>. They are much more likely to be the entirely reasonable people, often working for large companies, who see ways to create better products, reach new markets and have the resources to do so’.<sup>10</sup> It cites the example of Ratan Tata, founder of India’s

largest company, the Tata Group, who ‘may improve more lives than any social entrepreneur has done’ with his one-lakh car.

### Market Utopia

The fact is that creating social value is not only the domain of social workers and the social sector, but also of corporations and the commercial world. As highlighted by *The Economist*, the potential for creating social value can be far greater with companies who have greater resources. The long-term sustainable answer to a just and kind society may thus lie in reforming the commercial world, instead of merely focusing on expanding and enhancing the social world.

That move, many will argue, has started and is well on the way, with the CSR movement.

CSR is about good corporate citizenship. It is a commitment by businesses to address the economic, environmental, moral and cultural concerns of the communities in which they operate. The commitment is typically manifested through a range of progressive initiatives, from enlightened human resource practices, ethical conduct and environmental responsibility, to corporate volunteerism and philanthropy.

Unfortunately, the main argument used by CSR advocates is that CSR can be good for business. As a consequence, where companies find little value to their business in CSR, they do not practise it – which is in the majority of instances. Hence, this explains the low take-up rate of CSR.

The proper rationale for CSR should be responsibility – the responsibility of power that corporations wield in impacting the community. Since (voluntary) CSR has limited take-up, there have been calls to mandate it through greater regulations. Thus, increased regulations have been effected over the years in areas such as environmental protection, business ethics and governance. The current global financial meltdown is seeing more regulations and restrictions being pushed in the area of governance and ethics, to prevent a similar future occurrence.

**The social sector depends largely upon the largesse of the commercial sector in bringing its resources (time, money, expertise) to bear in fomenting social change.**

For the social economy, there is the increasing belief that it is too bloated and inefficient, and that the infusion of business principles would increase accountability and reduce waste. For the market economy, there is an increasing recognition that self-interest has been taken to an extreme that has brought out the worst in all the players.



The limitation of regulations is that they are established to prevent corporations and persons from doing wrong, but it is difficult to legislate corporations and people to impel them to do good. Regulations on acceptable behaviour may also be just dealing with the symptoms rather than the root of the problem. The root cause lies in the nature of the corporate beast. Joel Bakan, a legal scholar, noted that corporations are legal persons constituted to be pathologically selfish, to 'valorise self-interest and invalidate moral concern.'<sup>11</sup> This 'singularly self-interested' inborn gene of a corporation has led to a prevailing institutional culture of 'obsession with profits and share prices, greed, lack of concern for others, and a penchant for breaking legal rules'.

Therefore, the long-term answer should be to redefine what a corporation is. Corporation 20/20, an initiative of Tellus Institute and Business Ethics<sup>12</sup>, seeks to do just that. It has developed a set of principles (see box) that provides businesses, investors, governments, labour and civil society with an overarching framework for building a sustainable future.

Such redefinition across the board will take time. But the current debate on how market economies should be tweaked or changed provides an opportune time to move this agenda forward.

**CORPORATION 20/20  
NEW PRINCIPLES FOR CORPORATE DESIGN**

1. The purpose of the corporation is to harness private interests to serve the public interest.
2. Corporations shall accrue fair returns for shareholders, but not at the expense of the legitimate interests of other stakeholders.
3. Corporations shall operate sustainably, meeting the needs of the present generation without compromising the ability of future generations to meet their needs.
4. Corporations shall distribute their wealth equitably among those who contribute to its creation.
5. Corporations shall be governed in a manner that is participatory, transparent, ethical and accountable.
6. Corporations shall not infringe on the right of natural persons to govern themselves nor infringe on other universal human rights.



any economy and the transformative work of social entrepreneurs is necessary in making a difference and leading the way, much greater social impact can be achieved by changing the culture of the commercial sector.

For the market economy, it is to recognise that the enlightened long-term self-interest of corporations is a balanced approach to all its stakeholders. This means creating social value as well as economic value for its owners. It is important to embed this thinking in corporate culture and structure. Despite the financial muscles that corporations wield, the social sector's 'soft power' in mobilising the community to support or censure corporations, can tip the balance for some corporate players.

Meanwhile, the celebration of social entrepreneurs, philanthropists and socially responsible corporations can hopefully move us more speedily toward this brave new world where doing good and doing it well are fundamental values embraced by players in both the market and the social economy. ❖

### Doing Good and Doing Well

The forces of change in both the market and the social economy have been driven by different considerations.

For the social economy, there is the increasing belief that it is too bloated and inefficient, and that the infusion of business principles would increase accountability and reduce waste. For the market economy, there is an increasing recognition that self-interest has been taken to an extreme that has brought out the worst in all the players.

The good news is that there is agreement that the world will only be a better place if we balance social and economic objectives. The answer may not lie in meshing the two economies to achieve a force-fit, as many of the philanthropism initiatives seek to achieve. It probably lies more in getting each sector to recognise the value of the other and borrowing the best from each other.

For the social economy, it is to recognise that a modicum of enlightened self-interest can create the incentive structures that will increase the sector's effectiveness. There is also a need to recognise its dependence on and the value of the commercial sector. While the social sector is a critical pillar of

<sup>1</sup> Alan Greenspan, *The Age of Turbulence* (USA: The Penguin Group, 2008)

<sup>2</sup> Paul Krugman, "Revenge of the glut," *New York Times*, March 1, 2009. See also Joseph Lazzaro, "Krugman: The financial crisis has roots in Asia", *New York Times*, March 17, 2009

<sup>3</sup> *The Economist*, "When a flow becomes a flood," January 22, 2009

<sup>4</sup> *The Phoenix Economy: 50 Pioneers in the Business of Social Innovation* (Volans, 2009). Volans is a sustainability and social enterprise incubator. The report is written with support from Skoll Foundation, Sustainability, Net Impact and United Nations Environment Programme.

<sup>5</sup> Cited in William Foster and Jeffrey Bradach, "Should nonprofits seek profits?" *Harvard Business Review*, February 2005

<sup>6</sup> Neil Kleiman, Nancy Rosenbaum and Andrea Collier, "The Limits of Social Enterprise: A Field Study & Case Analysis," *Seedco Policy Centre*, (June 2007) <<http://www.seedco.org/documents/publications/socialenterprise.pdf>>

<sup>7</sup> Michael Edwards, *Just Another Emperor? The Myths and Realities of Philanthropic Capitalism* (US: Demos, and The Young Foundation, 2008)

<sup>8</sup> Ibid.

<sup>9</sup> Elizabeth T. Boris & C. Eugene Steuerle, "Scope and Dimensions of the Nonprofit Sector," in *The Nonprofit Sector: A Research Handbook*, ed., Walter W. Powell and Richard Steinberg (US: Yale University Press, 2006)

<sup>10</sup> *The Economist*, "Agents of Change," January 31, 2008

<sup>11</sup> Joel Bakan, *The Corporation: The Pathological Pursuit of Profit and Power* (New York: Free Press, 2004)

<sup>12</sup> Corporation 20/20 <[www.corporation2020.org](http://www.corporation2020.org)>



**Willie Cheng** is the author of *Doing Good Well: What Does (and does not) Make Sense in the Non-profit World*. He was formerly the country managing partner of Accenture Singapore and is currently a director of several commercial and non-profit organisations. He is chairman of the Lien Centre for Social Innovation.