

Social business, profit and sustainability

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SOCIAL business as an economic theory and alternative business model has received considerable attention in recent times. Many universities around the world have set up social business chairs or introduced social business courses. The main reason for the huge interest in social business is the failure of world capitalism in addressing pressing problems like poverty and unemployment and ensuring social, political and environmental justice as well as sustained economic growth.

In Bangladesh, a debate on social business - mainly as to its conceptual and theoretical acceptability and its consistency with established business and market theories - has recently started. The debate is triggered by no less an economist than Professor Wahiduddin Mahmud, who has mainly raised three concerns (in his Op-ed titled "Is Social Business the Way Forward" published in The Daily Star on July 29, 2015) against social business: (1) the idea of social business is not new; (2) Professor Yunus' ideas of social business are not well-defined; and (3) the efficiency of social business in grasping market signals in making decisions about prices and products and, as a result, its ability in motivating institutions and individuals with enough capital to embrace the idea is questionable.

His concerns are answered by Dr. M. Jahangir Alam Chowdhury, Professor of Finance at Dhaka University, in his Op-ed "Morality and Markets: The Emergence of Social Business" published in The Daily Star on August 16, 2015.

The debate has also encouraged others to join in. Dr. Muhammad Mustafizur Rahman, an international research fellow of the Japan Society for the Promotion of Sciences of the Faculty of Economics, Kyoto University, has come up with a review of some aspects of social business in his Op-ed titled "Social Business: Opportunities and Challenges" published in The Daily Star on September 6, 2015. Dr. Rahman, however, seems to have some misconceptions about the objectives of social business when he says, "Muhammad Yunus calls for addressing social problems at the expense of profits." His objections in this regard may be summarised as follows: (1) sacrificing profit and achieving self-sustainability are not compatible; (2) a non-loss, non-dividend policy may be harmful for social business; (3) a non-dividend policy makes social business similar to conventional non-profit businesses.

To answer Dr. Rahman's objections, let's have a closer look at the role of profit in social business. Before this, we need to know how "capital" is conceptualised in social business. Social business takes a



different approach to capital: capital in social business, in contrast to how it is regarded in modern capitalism, is not something that makes money; capital is something that produces products and services for the benefit of people. So the opportunity cost of capital in a social business is not how much profit is forgone by not investing the money elsewhere, but how much social benefit (in terms of social urgency) is sacrificed by not investing for another social cause.

As to profit, a social business, as correctly comprehended by Dr. Rahman, is a non-loss, non-dividend

business. A non-dividend policy does not necessarily mean that a social business is a non-profit concern. The dividend policy of a social business has nothing to do with the efficiency of the business; it has to do with the ownership structure of the social business. Market efficiency does not depend on whether a business is a 'for-dividend' entity or not. A social business does definitely seek profit, but not for the owner's sake; it seeks profit to ensure efficiency and sustainability of the business as well as to expand itself, but it does not seek profit beyond a level for

maximising social benefits. Charging lower prices on rural buyers and higher prices on urban buyers as a business strategy does not necessarily mean a social business addressing a poor - or rural- focused problem cannot run profitably. Differential prices for different market segments are quite normal in the business arena. Traditional businesses also do the same thing as part of their business strategies.

The primary concern in social business is its social objectives; social business is a way of doing business with certain restrictions imposed by itself on its ownership and financial structure so that it does not deviate from its original objective of providing services to the society and it does not become an instrument of making money.

Economic activities in the society did not begin with a profit motive; they arose out of the need to meet the basic necessities of life. As economic activities grew in size and became increasingly characterised with division of labour and exchange of commodities, production necessitated deliberate organisation of factors of production, and profit grew out as a tool to measure efficiency of business and to expand the business. The invention of money and its emergence as an independent entity (monetisation) led to complete separation of profit from production, and profit got the upper hand by emerging as an objective in itself. Social business recognises the

original role of profit in business (efficiency, sustainability and expansion), but subordinates profit to the primary objective of business - the fulfilment of society's needs. So social business is not opposed to profit; it utilises profit to sustain and expand the business so it could better serve its social objectives.

Professor Yunus' concept of social business is not narrow; perhaps it is too broad to be grasped at the moment owing to our infatuation with modern business theories and our trust in their infallibility. When Professor Yunus started his microcredit programme in a remote village in Bangladesh nearly 40 years ago, he was criticised on the ground that it was not compatible with banking theories and was doomed to fail. Yunus proved that banking theories themselves were wrong. Given the distressing reality created by modern capitalism - widespread poverty, unprecedented concentration of world's wealth and power in a few hands, unimaginable wastage and plundering of earth's finite resources, and unbearable pollution of environment - social business, accompanied with its appeal to the brighter side of human nature, seems to be the only way to purge capitalism of its sins and re-weave the fabrics of our economic life that have made civilisation possible on this planet.

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The economics of 'dowry' payments

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FROM a welfare and policy perspective, dowry is a social evil and Bangladesh, like many other countries, has enacted laws prohibiting the payment of dowry during marriage (e.g. Dowry Prohibition Act 1980 and Women and Children Repression Prevention Act 2000). But, still dowry payments remain widespread in

family. For the bride's family, dowry payments are usually treated as a substitute for investments in female human capital (e.g. education) which hampers women's education and social equity and emerges as a significant barrier to promoting human rights.

In many societies, payments between families are prevalent at the time of marriage since ancient times. Such marital transfers come in various forms

among low-income households.

The amount of dowry varies substantially, mostly depending on socioeconomic stratifications and is negotiated on an individual basis. The amount of dowry claimed by the groom's family generally rises not only with the wealth of the bride's father but also with the groom's education and future earnings prospects. During negotiations, the most important

consisting of a prompt and a deferred proportion).

The economics of dowry payments may be explained in terms of economic models of the marriage market. In these models, the behaviour of women and men is stipulated on the basis of different qualities (e.g. income earning capabilities). Marriage is treated as a joint venture (e.g. in terms of potential family earnings) and each individual chooses his/her partner that maximises their utilities. Optimal partnership requires that no bride or groom can be made better off by marrying somebody else or not marrying at all. An efficient marriage market pairs a 'high-quality bride' with a 'high-quality groom' and a 'low-quality bride' with a 'low-quality groom'. However, if the marriage market is imperfect so that outcomes can be influenced by other means, compensatory transfers (such as dowry) may be used to influence the outcome. For example, if the bride's share of family income is above her 'shadow price' in the marriage market, a dowry may be paid by the bride's family to the groom's family. However, the division of surplus between wife and husband is unlikely to take place in practice due to social norms, legal restrictions, and inequity in power relations between wife and husband within the household. The economic prediction of such models is that dowry payment should be common in real world situations. Therefore, dowry payments are more likely to take place when men's contribution to household income is likely to be relatively high and there exists greater competition for 'high-quality' grooms from the brides.

The marriage market models imply that the differentials between females and males in terms of their potential income earning abilities determine the nature and size of dowry payments. In turn, the relative distribution of female and male human capital is the key determinant of respective earning capabilities. In Bangladesh, the past

development process has opened up new and better income-earning opportunities mostly for men, while women have been restricted to home-based or informal sector activities. This has resulted in the creation of a relatively 'homogenous' group of women with low 'economic' value relative to differentiated groups of men with a wide range of earning capabilities. Thus, dowry payments emerge as men remain the primary recipients of the benefits of development while women reap only marginal benefits.

So what are the policy implications of all this? In Bangladesh, there are many cases of families becoming poorer after paying dowry for their daughter's marriage. This results in unmarried daughters being perceived as economic liabilities. Many women and young girls face torture and even death when dowry demands are not met. Despite the enactment of laws that declare dowry payment a punishable offence, the practice of dowry remains unabated in the country.

When female earning opportunities increase, investing in female human capital will emerge as the preferred option of investing in girl children rather than paying dowries during marriage. For abolishing dowries, the policies therefore need to focus on creating more equal economic opportunities for women. In addition, along with strengthening the reach of the legal system, there is a need to adopt more effective programmes and campaigns against the practice of dowry violence against women. There should also be more efforts towards raising awareness on gender discrimination and improving female access to justice through the legal system. However, since dowry payments evolve in response to economic forces, policies should encourage parents to invest more in their daughters' human capital along with creating equal income earning opportunities for women.

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Bangladesh in some form or other. Traditionally, the payment of dowry at the time of marriage often becomes a significant burden especially for low-income households. It puts them in a state of perpetual indebtedness and poverty. In many cases, dowry is linked to domestic violence and death among women due to the inability of the bride's parents to pay dowry to the groom's

and amounts which fall under two broad categories: (i) payments from bride's family to groom's family, commonly known as 'dowry'; and (ii) payments from the groom's family to bride's family, known as "bride price." In Bangladesh, as mentioned above, dowry payments remain common, creating significant adverse social and economic consequences, especially

quality of a bride is usually her good appearance, while for the groom it is his ability to earn a good living. It may be mentioned here that the payment of dowry is different from the payment of mohorana (dower) in the traditional Islamic marriage contract, under which the husband promises to pay the wife a sum of money (or gold and other valuables) upon marriage (usually

In addition, along with strengthening the reach of the legal system, there is a need to adopt more effective programmes and campaigns against the practice of dowry violence against women.

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