

Can social business save the capitalism system?

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- Interview with Dr. Muhammad Yunus of Grameen Bank

Interviewer: Sakan Yanagidaira

President of Group Dynamics Institute, Inc.

Q: What was it that triggered you to start microfinance program?

Yunus: In 1974 people in Bangladesh faced great famine. I was head of the Economics Department of Chittagong University and was greatly shocked to see many people suffering from hunger and poverty. And then I started to think that economic theory I learned at the ivory tower may not be so useful to save people in real society. Soon I went out to study and observe the economic living condition of the villagers in Jobra village near the university. Because I could not help thinking of problem people faced. I went out to the village and for the first time I started to see the reality of the situation. In fact high interest-rate moneylenders ruled the living of poor villagers. I thought "If I assume their debts, they will be liberated". I provided 27 dollars to women in the village from my own pocket. Villagers reacted saying "unbelievable" and I thought "If I can make people happy with small amount of money, then I should do more". So I lent 27 dollars to 42 households.

Of course I did not want to become a moneylender. I just wanted to solve the problem in front of me. When I asked a manager of local bank for help with loan to poor people, he replied "Are you serious? They do not have creditworthiness so you will not be paid back." So I said "I will be a guarantor" and was able to open the door from the bank. At that moment I thought we need program to lend money to people without collateral.

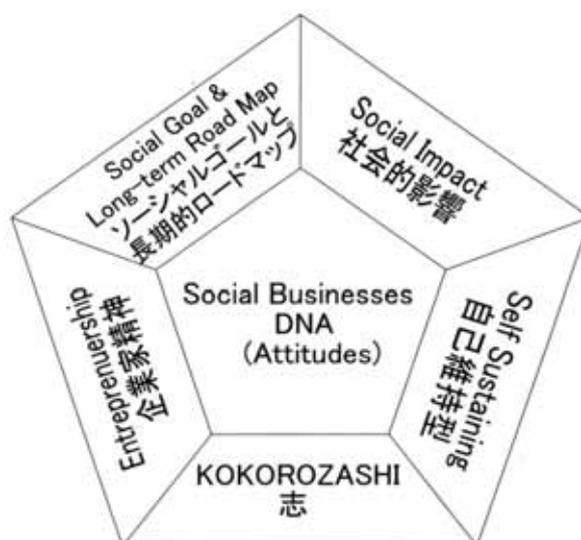
Q: In your book of "Creating a World Without Poverty: Social Business and the Future of Capitalism" published by Hayakawa Publishing in 2008, you advocated the concept of social business as the 21st century business model. Approximately when did you start to think of the idea of social business?

Yunus: I started Grameen Bank and other companies and from the beginning I never intended to make money for myself. These companies were created to solve social problems. The word "social business" did not exist at

that time. I started to use the word around 2005. I explained this concept for the first time when I made my acceptance speech for Nobel Prize. In social business, there are a lot of tasks to be done, not only for microcredit but also for healthcare and employment issues.

One of the characteristics of social business is to have social goal and long-term roadmap. Social goal is the objective goal you want to achieve by making social business. For example the goal of Grameen Danone is to improve nutrition for children, water for Grameen-Veolia, and health for Grameen Healthcare. In long-term roadmap, there are immediate roadmap and ultimate roadmap. In any case, there is no personal profit in social business. However, company can make profit. That profit stays within company. The profit is used to pay for expenses. Investors can take back his or her original money.

The Main Five Characteristics
of
Social Businesses' DNA



Q: How is social business different from charity or NPO?

Yunus: Charity is that you give money and it goes. Money never comes back. In social business, business is designed so that money is returned. NPO is

mostly charity. Its second characteristic is entrepreneurship. Just like any type of business, clearly in order to conduct social business, you need entrepreneurship. Large company executives or CEO think mainly likes salaried workers by receiving salaries. They do not own their company. Their job is to satisfy the shareholder and therefore interested in money making. The more profit they make for company, the more satisfaction it gives to their shareholders. Therefore they focus on money making and overdo it. They may step outside of their legitimate business and it becomes like gambling casino.

The third characteristic of social business is self-sustaining. Business needs to earn enough to cover for all the expenses. For example, if you want to maintain your business and to prevent suicide, then you need to make profits to pay for expenses. At the end of the year, you need to make profit equal to expense in order to manage business even though profit may exceed expense.

Q: The fourth characteristic of social business is “Kokorozashi”, I think. Dr. William Clark, the first president of Sapporo Agricultural School, now known as Hokkaido University, told his students “Boys be ambitious” when he returned to U.S.A.. Actually after his famous statement, he continued with the following remarks. “Be ambitious not for money or for selfish arrangement, not for that evanescent thing which men call fame. Be ambitious for the attainment of all that a man ought to be”. Kokorozashi in Japanese is one word and I think the concept you describe as social business is very close to the meaning of kokorozashi by Dr. Clark. What do you think of this?

Yunus : Well, I think the concepts are similar but with this expression he did not precisely define what kokorozashi is. He only described it broadly as “Be ambitious for the attainment of all that a man ought to be”. For example, “ I want to be honest.”, “I want to be religious.” ,or “ I want to be a good father.” , none of these cases are business. Social business we are talking about here is in regards to “business”.

Q: We can say that kokorozashi relates more to social goal, pointing to higher-level universal valuable goal or objective in life rather than personal

goal.

Yunus: If kokorozashi is not special goal only applicable for a particular individual but rather business goal or objective in life that impacts society in a constructive way, then it is one of the characteristics of social goal.

Q: The fifth characteristic of social business is social impact. What does social impact mean?

Yunus: For example, if we save a person from committing suicide, then we can say we give social impact because we have saved a human life. At the end of the year, we can count how many peoples' lives we save this year from suicide. Let's say last year there were ten suicide death cases before we start the social business and this year we were able to reduce it to three. Then we are successful for saving seven lives.

Q: In regards to Japanese banks, I heard from Mr. Kikuji Yoneyama, Professor of Emeritus at Hokkaido University, that Japanese major banks i.e. megabanks have consumer finance companies as their affiliate companies. Consumer finance lends small amount of money without collateral. What do you think of them?

Yunus: I heard that today in Japan there are about 2 million people suffering from repayment to consumer finance and heavily multiple-indebted people receive attention as social issue. According to official suicide white paper, every year about 33,000 people commit suicide. In reality there are more numbers of suicide cases exceeding the official statistic. Its consequence is even bigger as it affects families and people surrounding him or her in negative way. Suicide is great damage to Japan that is coping with declining number of birth. One of the causes for suicide is likely to be suffering from debts. It is unreasonable to attribute poverty and suicide problem to each individual problem. In America there is small-amount consumer finance called payday loan that lends money with high interest rate. However suicide due to personal bankruptcy is unheard of. Megabanks have strong influential power over its consumer finance affiliate companies as they wish to earn more profits. They make more money because consumer finance companies charge higher interest rate. They tried to issue a lot of

credit cards in order for people to spend more. Because it is plastic credit cards, people do not have much sense of spending money, it is easy to spend, so people end up buying a lot of goods. People spend a lot of money without thinking about the actual amount of money they can repay. When people cannot repay debts, consumer finance increases its loan interest rate. They make a lot of profits. Loan interest rate of credit cards in America is quite high between 17% and 25%. Bank loan in America is only 3%. In Bangladesh there are not many consumer finance companies. There is small-sum consumer loan used when people purchase cars or refrigerators in Bangladesh.

Microfinance program supports people with motivation to work for reproduction process i.e. manufacturing or providing services.

Q: Problem of subprime loan drew a lot of attention as the theme of financial crisis last year. What do you think about this issue?

Yunus: Well it triggered the start of financial crisis. However subprime loan is superficial issue and not the true cause of financial crisis. The well known cause of financial crisis is behavior of banks and that was brought to light at that time. In many places problem behavior by banks came to be known.

Banks assess the poor do not have much financial creditworthiness compared to the rich. They lent the loan as subprime loan rated inferior to usual loan. And they could not collect debts. Bank claims there is a fault on the borrower's part but I think the fault is on negligence of the organization. Grameen bank lends money to the poorest of the poor. Grameen bank provides loan to people with zero rating. People can work as they are human beings and they can repay their loan.

Q: In order to expand demand for domestic Japan, it is important to circulate money to the street-level people who work in medium, small and ultra-small companies.

Yunus: I agree with you. It is important to circulate sufficient money to medium, small and ultra-small companies with great care. Otherwise economy falls into gangrene condition without sufficient blood circulating to terminal cell and demand stagnates. Also it is criticized that Japanese economy is export oriented and that domestic consumption demand is too low.

It is necessary to expand demand for domestic market by bottom-up approach. That applies to Chinese economy as well. China experienced rapid economic growth based on exports. When financial crisis hit, China quickly changed its direction. Even when their export became stagnant, domestic factories continued to produce focusing on domestic market as population in China is quite large. Due to the fact that population in China is huge, Chinese people purchase variety of goods. They tried to arrange production facilities for domestic demand rather than worrying about whether their products can sell well in Europe. By turning around from export-orientation to domestic-market focused production, they tried to deal with the current financial crisis.

Q: Mr. Yasuo Takeyama was a lead editor in chief of Nikkei Newspaper and received Miles Vaughn International Reporter Prize. He once analyzed the structure of American oligopoly economy. About four years before his death, he kept saying “Problem in Japan lies in oligopoly.” What do you think of this “oligopoly trend”?

Yunus: Monopoly or oligopoly is a big issue. They share the market and the sense of fair competition is gone. Multiple numbers of companies try to make money by cooperating and making profits together. In order to prevent that, it is important to create more companies and for government to encourage more entry into the market and to generate more competition. In America there is anti-trust law and they have the right to break up company with monopoly position. That is American approach. If there are only two companies without any other company or if the two companies have more than 90% market share with the rest only by tiny-sized company, the government can intervene and split the companies. According to market theory mechanism, if company is making profits by monopoly or oligopoly, market will respond and more investors and other companies will participate to generate competition. However, in practice it does not happen that way. If a company dominates more than 50% of market share, then it becomes too strong and even if somebody else tries to create business and enter the market, it requires too much money and cannot really compete, therefore not generating competition. Such a big company tries to get involved in decision making by government by exercising influential power. For example, the

large company like Microsoft dominates software industry, and the government was trying to break up Microsoft. Microsoft was claiming that anybody could produce software so there was no reason to blame them.

Q: What do you think of the role of Japan in post financial crisis era?

Yunus: Financial crisis is not started by Japan. It is generated by the financial system of America. Japan is one of the victim countries of financial crisis. Therefore the role of Japan is to challenge on this issue. It was never questioned before why people who generated financial crisis come to have such power and to have made peoples living so miserable. Japan should question and challenge why financial authority did not supervise and regulate financial institution leading to crisis.

Also Japan can contribute by making international financial regulatory authority who can regulate financial institution of all the countries. In U.S. they tend to think economic system or financial system is purely domestic, however it is actually affecting people like us who live outside of U.S. The role of Japan is to take up such international financial regulation issue and to discuss about it. Therefore Japan can form a collective group with other countries to establish international regulatory authority in financial area. It should establish regulatory guideline to regulate internationally. It should think of ways to avoid financial crisis in the future.

Q: What do you expect from Japan toward building new capitalism?

Yunus: The current financial crisis is surely a big crisis but at the same time it provides an opportunity to redesign the system. It is a good opportunity to rethink about the system. When things are going well, nobody want to change the system but when things do not work, it is a good opportunity to change things. Therefore it is a good opportunity to review financial system or regulatory scheme and to invent new type of business like social business. In doing so, Japan can play a leadership role. It is to redesign the system step by step. Japan is the second largest economic power in the world so if Japan promotes transformation, it can affect world economy greatly.

Q: How do you think Japanese money should be utilized to solve poverty issue?

Yunus: The most important point about poverty issue is not money. The important thing is to redesign the system. For example, financial system can be reconsidered so that banks can lend loan to the poor. In the current banking system banks will not lend money to the poor. New government in Japan is encouraging for financial institution to provide more loans to small companies but at present very few loan is provided. It is necessary to newly build such a financial system globally.

Q: Is there problem not only in the system but also in mind or attitudes?

Yunus: It is mutual. By changing the system, attitudes start to change as well. When attitudes change, it generates mental energy to change the system. It is because when you redesign system, thinking also starts to get used to it. At present people think we can only work under the current system. But at first we need to change institution like banking. For example banking system need to be changed. And then we can create social business. Japan can generate excellent social business to help the poor in poor countries. Social business can address many issues such as health issue, micro-credit program, housing issue, environmental issue, and agricultural issue. It can work for providing high-quality water or improving nutrition for children. Japanese business has the first-class technological capabilities it can be pound of in the world. By leveraging technology by Japanese social business, it can quickly help to resolve poverty or health problems of poor counties like Bangladesh or Cambodia.

Q: What is the significance of Japanese social business engagement?

Yunus: For example, Japanese automobile manufacturer can help Cambodia as social business. By doing so, it transfers technology or business skills to the country. However the government does not have that. The government only provides money as aid. Even when Japanese government provides monetary aid to Cambodian government, because of bureaucracy, the money is not used for the right purpose. For Japan to engage in social business, it can help the poor in poor counties because it provides technology to the

country. The important point is that when Japan accepts something, it understands it deeply and learns it and becomes first-class in the world. When education was introduced to Japan, it started its process and learned it and became topnotch education country in the world. When mastering science, Japan made efforts to become number one science country in the world and it produced topnotch scientist in the world. It was the same situation for business as well. For automobile manufacturing and electronics industry, Japan learned well from overseas and mastered it and became number one in the world. Therefore if Japan engages in social business, it can deeply master it and can create world's first-class social business. That can provide significant impacts at many places in the world. Japanese agricultural ODA provides the largest amount in the world, but it gives little social impact. People are not happy about this. Nor agency like JICA is satisfied. In short money and technology can be utilized to conduct social business in poor countries. Then it can provide significant impact.

Q: What kind of specific approach is there in doing so?

Yunus: For example, you can create social business fund in Cambodia. Then people who want to start social business can borrow money from the fund or can receive investment. In social business your original investment money can be returned. For example, if you bring 1 million dollars to the country, you can recover 1 million dollars after some period of time. Therefore people in that country have nothing to fear. If Japanese or overseas' company enter the market, people in that country tend to think that they lose everything, profits taken away by overseas company, and that they will become poorer. However in case of social business, they have nothing to lose.

Q: In Japan we have philosophy of self-sacrifice. What do you think of this philosophy?

Yunus: What we are talking about in social business is "self-sacrifice". Therefore social business fits Japanese way of thinking and it should be useful in practicing "self-sacrifice".

Q: Is BOP (Bottom of Pyramid) the expression of "self-sacrifice"?

Yunus: The concept of BOP is originally proposed by Prof. C.K. Prahalad. He is the professor at Duke University in America and started to use the word BOP for the first time. I do not like BOP. He claims there is big market in the bottom of (economic) pyramid and one can make profits there. However I object to that idea. People at the bottom of economic pyramid should not be considered as opportunity for money-making. It is rather important and necessary to help those people to get out of the economic bottom. For example, there are people who try to make a lot of profits by lending money with high-interest rate loan to people at the bottom of pyramids. However, microcredit provides loan to these people at bottom so that they can get out of the bottom. Therefore there is clear-cut difference between these two ideas. This is criticism against BOP. I strongly hope that it does not hide any armor under the cloak of BOP.

Also oligopolistic companies tend to think only of PMB (Profit Maximizing Business) and do not have any sense of “self-sacrifice” It may even bring capitalism system itself into collapse.

Q: What is your ambition in the future?

Yunus: It has been said that “The great pleasure in life is doing what people say you cannot do.” I believe that the greatest pleasure in my life is to provide positive impact on happiness of people by creating a world without poverty through social business. I want Japan to contribute to the world by Japanese “self-sacrifice”. In doing so, it is important to exercise the power of Poly-Covalent that you often talk about.