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***PROFIT WITH A CONSCIENCE:
CAN BUSINESS BE “GOOD”?***

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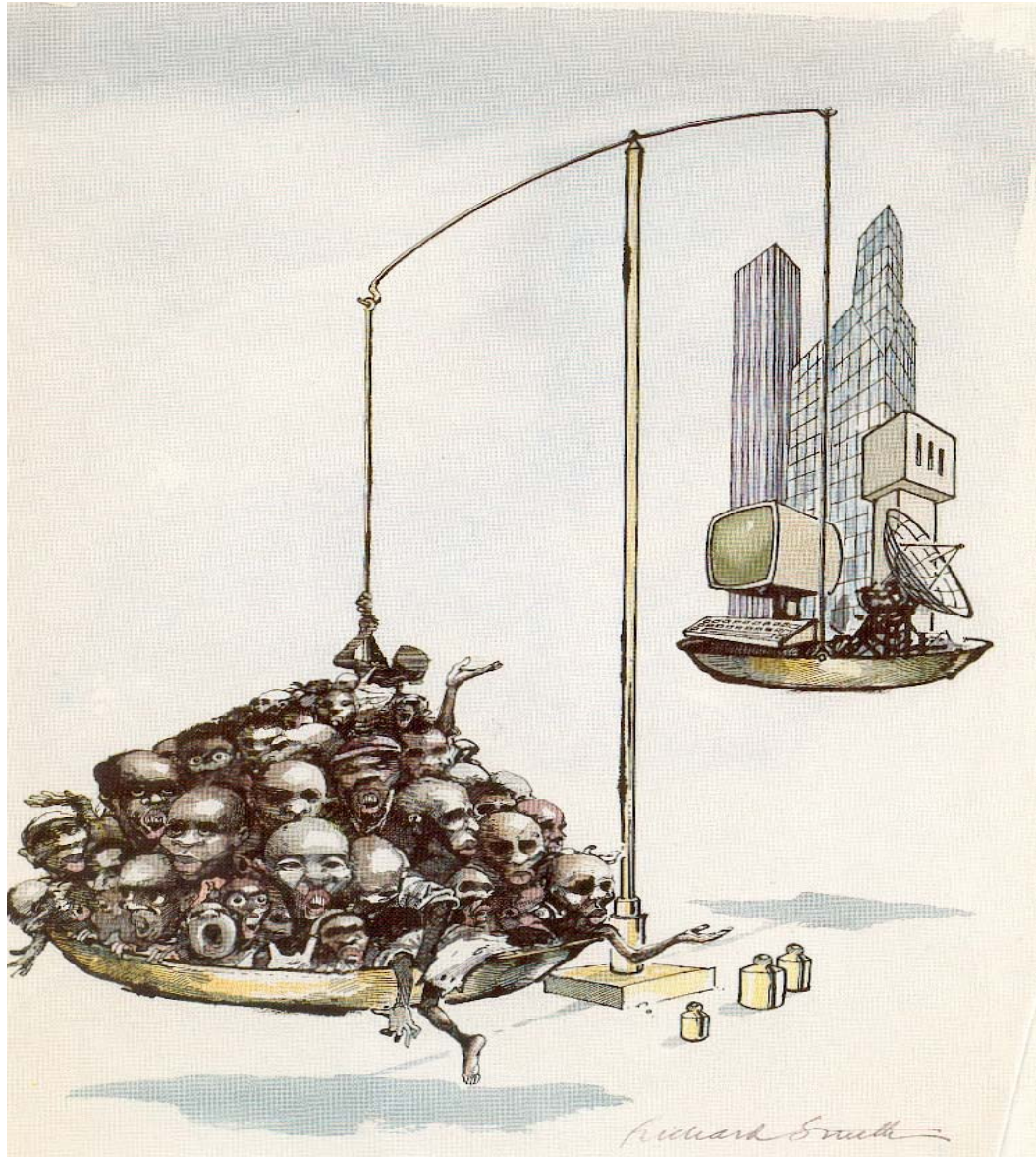


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Title page photo from Bethlehem (1988)

Abstract

This investigation seeks to promote discussion of for-profit social entrepreneurship by examining the conceptual and empirical evidence supporting this concept. The profit incentive fuels today's society and businesses drive our development. The trends in business, economic development, and society all seem to suggest the need to direct capitalism's energy and resources towards solving societies most intractable problems. I investigate the social business concept as a model for linking social value creation with economic incentives. A theoretical and contextual review supports the model's potential. I perform a case study of PeaceWorks, a pioneer social business, which yields evidence of real social benefits. I identify five main mechanisms through which the social mission contributes to the firm's business success and five others by which profit-seeking activities increase the social impact. We also find evidence that the profit motive is powerful and can threaten a social mission. However, entrepreneur characteristics mitigate this pull. I conclude that the model is valid and sustainable, with great promise for the future, but awareness and training must be promoted among potential entrepreneurs. Similarly, research and debate about the model's merits must be pursued and disseminated vigorously, in large part to debunk widespread skepticism.

Introduction

"People Not Profits," was how one Seattle-spun protest banner explained the popular view that pursuit of profit comes at the expense of people (Moran, et. al, 2001). Whether we first imagine mass layoffs from corporate downsizing, Exxon Valdez-type environmental devastation, or Nike-style sweatshops filled with child labor, it is easy to find examples of capitalist exploitation done in the name of shareholder value. The profit incentive fuels today's society and businesses drive our development (Lubetzky, 2000). While governments and multilateral groups increasingly are pressured to discipline business, globalizing forces and the growing dominance of markets has eroded their power to do so. This has heightened concerns over corporate conduct and prompted public displays of frustration. Yet, as an outgrowth of these spreading concerns, there also exists a small minority that believes the profit motive is better harnessed than battled. These individuals assert that economic incentives can induce resources—financial and human—to flow towards social problems in a way that the public sector or civil society cannot. Although these contrarians are easily attacked as idealists, fools, or even corporate raiders in "sheep's clothing", their propositions could yield socio-economic benefits too substantial to ignore. They challenge us to consider: Can there be such a thing as a "social" business?

The time is certainly ripe for innovative solutions to social problems (Dees, 1998). There are 27 million slaves in the world today, 35 million people infected with HIV, and nearly half the world's population lives on less than \$2 per day (Margolis and Walsh, 2001; Economist, 2001). The list goes on, with evidence of widening health, education, and income inequalities between the "haves" and "have-nots" (Quah 1996; Daws and Stewart, 2000). The rise of large-scale anti-globalization protests and violent conflict suggests swelling problems with the prevailing socio-economic system.

Businesses are being pressured from all sides to play an active role in addressing social problems. Consumers, employees, shareholders and the general public are demanding that firms operate, "within a context that acknowledges a wider view of work and the intrinsic value of non-monetary activities in maintaining the quality of life (Lloyd and Ramsden, 2000: 8)". At the same time, governments are demanding more of companies and enacting increased controls. Lawsuits like those against American tobacco firms are forcing businessmen to rethink their strategies and reconsider externalities. The engagement of business "in and with society is now being seen as central to its license to operate (PWBLF, 2000:3)".

Meanwhile, there is a voracious demand for new approaches to generating social and economic development in disadvantaged areas. Many governmental and philanthropic efforts have

fallen far short of public expectations (Dees, 1998). Despite decades of efforts and huge fund flows both between countries and within them, pockets of extreme socio-economic exclusion persist even in the wealthiest nations (Lloyd and Ramsden, 2000). Consequently, localities have been left to tackle their problems themselves and are searching for self-sustaining solutions (Cooke and Morgan, 1994; Peck and Tickell, 1994b).

We sorely need solutions that, as Kofi Annan describes, “unite the power of the markets with the authority of universal ideas (PWBLF, 2000: 4)”. The trends in business, economic development, and society all seem to be converging around this same suggestion. Yet, despite rising involvement by business leaders in community initiatives (Peck and Tickell, 1994b) and an explosion of social enterprises, economic value creation remains separated from social value creation. We do not even have the language required to conceptualize it differently and move us towards productive solutions.

The term “social entrepreneur,” in all its imprecision, is defined specifically in contrast to the markets (see Section 3 below). Similarly, efforts by businesses to become better corporate citizens aim to decrease harm and improve accountability, but fail to move substantially beyond a framework of cost avoidance and pressured obligations. Even the most progressive development practitioners and economic theorists, who widely acknowledge the need to simultaneously address social factors to influence economic performance, and vice versa (see Storper, 1997, Rodrik, 1997, Cooke and Morgan, 1994), have few suggestions how to get the two to act in chorus without much pushing and prodding.

The idea of social business offers a way forward; it is a concept that can seed new discussions about how to merge market incentives with social development. First, however, our skepticism about whether profit and people can align must be addressed by demonstrating that such thing as a social business—and we must define this “thing” —is not only possible and powerful, but also sustainable.

This study examines theoretical and empirical evidence to determine whether the social business concept is valid and sustainable. First, I consider the compatibility of this idea with the contemporary context and with trends in business and development. Then, I explore the roots of the social business concept to demonstrate its theoretical existence and distinguish it from related terms. Finally, I investigate the concern that profit is too powerful an incentive to coexist with a social mission by undertaking an empirical examination of dual mission efforts. The goal is to learn whether social businesses are really viable innovations – tools and catalysts for economic development and social advancement– or whether they inevitably devolve into more traditional

formats, such as subsidized organizations pursuing social missions, or veiled traditional businesses that sacrifice their social objectives for economic ones.

Organization of paper

The remainder of the paper is organized as follows: Section 2 reviews the rationale for social businesses and includes a discussion of the spatial development context that requires them. Section 3 examines the evolving concept of social entrepreneurship as the foundation for a definition of social business. Section 4 discusses my empirical methodology and details my analytic framework. Section 5 describes the results of my case study and robustness check. Conclusions and suggestions for further research are in section 6.

I. Context And Rationale

The social business model is a timely innovation. Broad systemic shifts have rewritten the global environment in which businesses must now operate. New technologies and increased competition have revolutionized production systems. In the process, however, they have wreaked havoc upon the social structures organized around those old systems. Additionally, advances in communications have enabled diffuse groups to interact quickly and cheaply. People, capital, and other resources can now mobilize easily beyond the control of governments, causing the balance of power to unexpectedly shift away from the nation-state.

Today, global leadership means serious business. Economics has become the dominant language among nations, seemingly more influential than the threat of force. When the United States threatened to suspend Yugoslavia's aid—money sorely needed for reconstruction and investor confidence—Yugoslavia quickly responded by arresting its fugitive former leader, Slobodan Milosevic. National budgets from America to Japan are tightening as governments face greater pressure to maintain strong, stable, competitive economies. This leaves fewer funds for social investment, and furthers the influence of the corporations that generate jobs and drive national prosperity.

Society has not been oblivious to these changes. Global brands such as Wal-Mart, McDonald's, The Gap and Starbucks, whose arrivals were once viewed by communities as signs of prosperity and success, are now protested against as threats to local economies and cultural assets. A new "social consumerism"¹ has emerged as a mechanism for communicating mounting discontent. As a result, business is rethinking its role in the communities and societies where it operates.

Although the private sector may be steering the global course, its control of the helm is not as strong as many believe. Businesses worldwide, "are confronting more turbulent markets, more demanding shareholders, and more discerning customers (Wharton, 2001)". Booming financial markets have placed surging pressure on executives to increase share values. Ever since the oil shocks of the 1970's jolted rigid industrial production systems, businesses have been scrambling to find more flexible means of producing the products demanded by increasingly fickle customers. The resultant injection of innovation has increased competition and jarred entire industries from their foundations (Moore, 1996; Porter, 1990).

¹ Interchangeably, "consumer socialism." I refrain from using this ironic term in the text, but the curious implications would be an interesting topic to study separately.

Companies find it increasingly difficult to meet the expectations of their shareholders and customers. “Companies are under greater pressure than ever before to meet both *shareholder* demands and wider *stakeholder* demands (Nelson, 2000:17)”. For companies that flout consumer concerns, savvy protest groups are using their status as shareholders at corporate giants like Coca Cola², General Mills and Citigroup to force company hands or oust unsympathetic management. Stakeholder concerns are becoming hard to differentiate from shareholder demands, and thus more dangerous for executive officers to selectively disregard.

To remain competitive businesses need to be proactive, innovative, and agile. Managers are pressed to anticipate shifting customer preferences, identify new opportunities, and enter new markets and niches. Consequently, businesses are ever more reliant upon their “business ecosystems (Moore, 1996)”—networks of suppliers, subcontractors, and distributors—to meet the dynamic demands of consumer communities (Porter, 1990; Moore, 1996). Leaders must somehow “augment the drive for efficiency with a passion for entrepreneurship to create, grow, and profit from completely new approaches to business (Tuck, 2001)”.

Governments are being squeezed and can no longer support sufficient remedies to their most persistent problems. The recent emergence of “communities” and “localities” as actors in economic development reveals a widespread withdrawal of government from regional development spheres. Consequently, localities have become “prime terrain...to address the more intractable problems...of unemployment and social exclusion (Lloyd and Ramsden, 2000: 7)”.

Disadvantaged areas require ways to unlock their latent creative energy (Elbadawi and Hartzenberg, 2000; Bethlehem, 1988). “The people in local communities demand a chance to create jobs, to help deliver quality services for themselves and for others, and to tackle the physical and environmental blight which so reduces their quality of life (Lloyd and Ramsden, 2000: 7)”. Persistent poverty can lead to desperation, crime, and as frustrations mount, violence (Nelson, 2000). Paul Collier, head of the World Bank’s Development Unit argues that, “conflicts are far more likely to be caused by economic opportunities than by grievance (Collier, 2000: 2)”. In his paper *Doing Well out of War*, he explains,

The discourse on conflict tends to be dominated by group grievances beneath which inter-group hatreds lurk, often traced back through history. I have investigated statistically the global pattern of large-scale civil conflict since 1965,

² Shareholder protests are becoming a common form of modern activism. Normally, they are conducted by small shareholders owning just enough stock to permit introduction of a motion at the shareholder’s meeting. Coca Cola faced a shareholder action by Wardlaw, an original investor holding roughly \$98 million of stock. Source: <http://www.gene.ch/genet/2000/May/msg00000.html>

expecting to find a close relationship between measures of these hatreds and grievances and incidence of conflict. Instead, what I found was that economic agendas appear to be central to understanding why civil wars get going (Collier, 1999:2; also cited Nelson 2000: 42).

Reinforcing cycles of economic and social despair build, where economic malaise fuels social tension, which in turn repels investment, promotes capital flight, and worsens economic woes. These vicious cycles further deter prosperity and fuel the potential for violence by draining resources and inhibiting productive relationships (Nelson, 2000; Storper, 1997). If economic and social benefits could be generated from the same activities, then disadvantaged communities would have strong incentives to focus their creative energy on addressing urgent economic needs while also remedying the important underlying social conditions that perpetuate their economic problems.

Social strife exacts an enormous toll on an economy. Collier estimates that, “on average during civil wars the economy as a whole declines by around 2.2% per annum relative to its underlying growth path (Collier, 1999)”. This implies that after a decade of war a society will have an income 20% lower than it would otherwise have been. Consequently, Collier (2000:10) finds, “as an impediment to development, internal rebellion especially hurts the world’s poorest countries”. To combat these adverse effects, poor countries must try to address the needs of groups that have little to lose from social disruption while remedying broader structural problems (Collier, 2000).

There is growing evidence that as market economies become more widespread, the role of entrepreneurs in social endeavors is increasingly important (Nelson, 2000). Just as the large manufacturing sectors – long the focus of top-down policies (Hudson, 1994; Ashworth and Voogd, 1990; Peck and Tickell, 1994a) – were faltering, new research found that smaller firms contribute overwhelmingly to the economy in employment and growth. (Birch, 1979; Storey, 1994). These revelations helped substantiate theories that emphasized business creation, innovation, human capital, and other socially influenced elements as determinants of development (see Romer, 2000; Dreze and Sen, 1989; Anand and Ravallion, 1993; Krugman, 1994).

South Africa is one example needing entrepreneurial socio-economic development efforts. Apartheid has left the country blighted by poverty, exclusion, and strife. The society has pervasive widespread income, welfare, and opportunity imbalances, with massive concentrations of wealth held by a concentrated, easily targeted minority—redistribution or productive resources is a must, but has to be handled delicately. The spatial legacy of Apartheid has left much of the country highly disadvantaged with major human capability problems that must be dealt with in any economic development efforts (Bernstein and Dagut, 2001; Suckling and White, 1986). A legacy of animosity

and violent conflict runs deep, but for the time being, the country has set aside the conflict and must now find a way to avert a relapse (Elbadawi and Hartzenberg, 2000). The nation seems focused on remedying its problems, but the government can only do so much and it is clearly not enough. Frustrations are increasingly visible; violence is dramatically on the rise (Economist, 2001).

The Middle East is much like South Africa – first and third worlds meters apart – but not so fortunate. The conflict is a daily downward spiral with no end in sight. Whole generations know only hate, injustice, and despair. Both communities desire autonomy and control over their own destiny. Palestinians and Israelis need productive ways to replace images of “enemy” with experiences otherwise before they can peacefully coexist.

An effective remedy must contribute to social development while remedying the economic sources of instability. Collier (2000) estimates a country that “puts 10% more of its youths in schools – say 55% instead of 45% – cuts its risk of conflict from 14% to around 10% and increases its economic prospects (Collier, 2000:7)”. Enacting such programs is not as simple as it may seem. Effectiveness is often hampered by the same capacity deficiencies a program seeks to address. Social programs suffer because South Africa’s nine provincial governments and federal departments vary widely in competence and ability to carry out national policy (Economist, 2001: 86-4).³ But big companies are also finding it difficult to establish ventures (Bernstein and Dagut, 2001; Bethlehem, 1988). When Pepsi ventured into a South Africa emerging from apartheid, it was lost without a map explaining how to unite partners who have only known each other as enemies, but not before it lost nearly US\$20 million (Kobokoane, 1997).

Fortunately, profit is a powerful motivator. Market-based economic incentives can induce resources—financial and human—to flow towards social problems in a way that the public sector or civil society cannot. Indonesia, Yugoslavia, and Sierra Leone and others are attempting to open their societies and sustain peace. Social businesses could help release a “Schumpeterian wave of innovative activity (Lloyd and Ramsden, 2000: 7)”, to interrupt the cycles of conflict and poverty that plague places attempting to emerge from the shackles of conflict.

³ In one recent example, the Department of Health failed to spend 28% of its budget for hospital rehabilitation (Economist, 2001: 86-4).

II. Conceptual Review: What Is A Social Business?

II.1. Proposed Definition:

Social businesses seek to profit from acts that generate social improvements and serve a broader human development purpose. A key attribute of social businesses is that an increase in revenue corresponds to an incremental social enhancement. The social mission will permeate the culture and structure of the organization and the dual bottom lines – social and economic – will be in equal standing with the firm pursuing long-term maximization of both.

II.2. Conceptual Roots - Entrepreneur

The absence of a well-developed concept presents a major challenge for this investigation. The term “social business” is itself so new that only within the past few years has it begun to emerge as a seriously considered concept. Even now, it is rarely found outside of a handful of business schools and pioneering organizations. To examine this concept further and consider its potential, we must first clarify it and distinguish it from more familiar concepts before an empirical discussion has relevance. In this section, we seek to understand the origins of the concept and distinguish a social business from both social entrepreneurs (as popularly defined) and more familiar businesses that are socially active before constructing a definition that is sufficiently clear for our empirical work but not restrictive of future manifestations of the social business model. This result is offered above.

Although the term social business itself may be quite novel, the ideas behind it are neither new nor radical. The deepest roots extend several centuries into early modern economics and mainstream theories on entrepreneurship (Dees, 1998). The French word *entrepreneur*, literally one who “undertakes”, originated in economic literature early in 18th century to describe, “the venturesome individuals who stimulated economic progress by finding new and better ways of doing things (Dees, 1998:1-2)”. To Jean Baptiste Say, the economist widely credited with introducing the term, an entrepreneur is motivated by the potential profit he can harvest by facilitating greater “satisfaction of human wants (Say, *Treatise*: 43 quoted in Dees, 1998:3)”.

Joseph Schumpeter later recast “entrepreneur” to describe the more potent role of innovation. He argued that entrepreneurs create innovations in the face of competition and falling profits, and these spurts of activity generate economic growth (New School, 2001). In his words, “the function of entrepreneurs is to reform or revolutionize the pattern of production (Dees, 1998)”. He insisted that innovation – the movement of resources from old and obsolescent to new and more productive employments - is the essence of a modern economy (Drucker, 1983).

Frank Knight, in contrast, viewed entrepreneurs foremost as risk takers who gamble with uninsurable risks, “uncertainties” (Knight, 1921). Innovation, in Knight’s view, is a by-product of risk-taking, rather than the essential economic function. Although the distinction has important implications, in practice the two roles are closely related – evidenced by the need for many entrepreneurs to risk their own capital to bring their ideas to market - and modern usage has expanded the definition to accommodate this both interpretations. Indeed, both risk and innovation have become central to our contemporary understanding of entrepreneurship (Kautz, 1999).

An alternate, more individualist view of entrepreneurs emerged in the twentieth century with the incarnation of the first school of management –the Tuck School at Dartmouth. Charged with training business leaders, Tuck and its new peers grew interested in firm formation and growth, particularly after the close of World War Two. Business schools began wondering how and why entrepreneurs act. The schools sought to instruct individuals about building successful organizations, and were less curious about discerning entrepreneurs’ incidental contributions to the broader system.

The concept of change is central to understanding entrepreneurship in all its interpretations. Economic definitions view change as the product of entrepreneurial activities. Definitions in the Say-Schumpeter spirit use this output to determine *ex post* if one has been an entrepreneur. In contrast, management definitions view change as a cause, rather than effect, of entrepreneurs. Peter F. Drucker, the most influential management writer, explains, "the entrepreneur always searches for change, responds to it, and exploits it as an opportunity (Drucker, 2000: 44)". Hence, the notion of opportunity is fundamental to management definitions of entrepreneurship (Dees, 1998). Entrepreneurs recognize opportunities, are resourceful in pursuing them (Drucker, 2000), and if successful, transform the wider system.

II.3. Conceptual Roots - Social Entrepreneurs

In the last twenty years or so, and in particular the past ten, a new breed of entrepreneur has emerged in response to the converging global and social trends. The dramatic political changes of the early nineties created new world demand for social goods. The floodgates opened for competition in this social sector; it became a race to adapt and survive (Moore, 1996).

Today, the term social entrepreneur has become immensely popular, but consequently means different things to different people. In some ways, this confusion has been helpful, broadening the conceptual playing field far beyond the traditional images of entrepreneurs as business creators (Dees, 1998). Social entrepreneurship has become synonymous with both

visionary leadership in compassionate pursuits (Ashoka, 2001a; Changemakers, 2001) as well as the broader systemic impact of these pursuits, and the Dees (1998: 4) definition nicely captures the connection between the individualist and systemic perspectives: "Social entrepreneurs play the role of change agents in the social sector".

Unfortunately, the imprecision of the term "social entrepreneur" obfuscates the distinctions between them and the entrepreneur from which the term springs. The Dees (1998) definition provides us with a clue to the practical distinction— social entrepreneurs, operate in the "social sector". This small, seemingly obvious detail actually helps explain the confusion that occurs when trying to build a definition for "social business" using familiar terms like "social entrepreneur". We find among definitions from many prominent social organizations that the term "social" is not a signal so much of what social entrepreneurs do, but rather the where they operate. The San Francisco's Entrepreneur Foundation defines the social entrepreneur as "an innovative passionate leader of *a non-profit* with a broad vision and bold ideas about effecting change and solving complex problems in the community (Entrepreneurs, 2001; italics added)". The Roberts Foundation, a big investors in market-leaning social enterprises, restricts its mandate to, "supporting the creation of social purpose businesses...that are run by non-profit organizations (Billitteri, 2000:2)". The assumption is social value can only be created in some space beyond the corrupting influence of the profit motive, and consequently, the private sector (see Ashoka, 2001b; Changemakers, 2001).

The real distinction then between social entrepreneurs and other entrepreneurs is not their actions or intent, but the conceptual space where they operate. This space is defined in specific contrast to the private sector. This helps explain why it is so difficult to conceptualize a for-profit social entrepreneur; the term is a contradiction. Yet, if we understand the "social" in the term to mean the type of actions and impacts rather than conceptual place, there is no contradiction in a social business.⁴

II.4. Debate

The wariness of profit reveals the *a priori* argument against the social business model, and explains why there is little debate about the topic. Profit is presumably too powerful an incentive to be balanced by better-meaning missions. We can infer the argument that a rational individual, faced with a decision of allocating resources, will seek to maximize profit, at the expense of society

⁴ There is little debate that firms can produce spillovers into society, with positive or negative consequences. A firm that engineers its design to produce positive social spillovers so that it profits from them could certainly exist, and to a certain extent does in any company that seeks to contribute to a social cause in the hopes it will make consumers look more favorably on its products and itself.

and social benefits. It is unclear, however, why there must be a trade-off between generating social benefits and economic ones⁵. While the origins of social activism were borne outside the market, and there is a healthy and historically justifiable wariness of the profit motive, there does not seem to be any rule that prevents for-profit social entrepreneurship—social business.

Moreover, theories of entrepreneurship, innovation, and growth seem to predict the eventual merging of market incentives with social goods. As consumers' preferences evolve - influenced by rising levels of education, income, and information— demand for socially beneficial spillovers would increase, raising their market value and the incentives for entrepreneurs to supply them. We know that many do already profit from providing social goods – in healthcare, education, and the environment among others. As consumers demand more social value, organizational models and production processes should evolve to better satisfy consumer preferences.

Another argument against the social business model is it would not function in practice because markets "do not do a good job of valuing social improvements, public goods and harms, and benefits for people who cannot afford to pay (Dees, 1998: 3)". In business, wealth creation is a way of measuring value creation. In the same marketplace, it is much harder to determine whether a social entrepreneur is creating sufficient social value to justify the resources used in creating that value (Dees, 1998).

This problem is not resolved, however, by relegating social activities to the non-market sector. It is inherently difficult to measure social value creation, wherever it occurs. At least the markets impose a discipline and provide a means to measure an organization's efforts in terms easily understood. Market feedback can provide social organizations clues to enhance their viability and mission performance. This feedback can be evaluated alongside other information to re-deploy resources. Finding a way to tie the social mission to the market may provide an invaluable proxy in the measurement of social impact.

This recognition helps us create an operational definition that remedies the terminology gap as well as meet empirical identification needs. Using the proposed definition we see that, although they are indeed social entrepreneurs in theory, in practice, social businesses are distinguished from them by their pursuit of profit. A dual mission – one part financial and one part social – incorporated throughout the firm's decision-making and resource-allocating processes distinguishes them from other socially-involved for-profit firms. Social investments do not require redirecting the rewards from their core business activities; they are a product of them.

⁵ There is a clarification often made that would also undermine this framework of mutually-exclusive choice. The point made is that individuals do not necessarily maximize profit, but rather their utility, which is why workers value vacation time and consumers do not always purchase the cheapest products. This debate being a more common one, I have chosen to focus on the more specific issues in my limited space.

III. Methodology

III.1. Selection of Approach

Generally, there are two main methods that can be employed to evaluate the success of social businesses. The first would be a macroscopic accounting of these organizations and the use of statistical techniques to evaluate their social impacts and financial success. This presents numerous challenges, not the least of which would be omitted variable and endogeneity biases, controlling for cross-sectoral and cross-regional variations, availability of reliable financial data and similar data regarding social impacts. This would require an undertaking far beyond the scope and resources of this investigation, in theory. In practice, there are few social businesses, and those that exist are difficult to find, so that such a survey is not yet possible.

This investigation employs a case study approach to evaluate the viability of a social business model. This approach seems most fitting to the topic and circumstances. Yin (1994:1) explains that “case studies are the preferred strategy when ‘how’ and ‘why’ questions are being posed, when the investigator has little control over events and when this focus is on a contemporary phenomenon within some real life context”.

There are many interpretations of the case study’s specific design and scope (Yin, 1994; Burton, 2000). I focus my research on a single firm and use multiple methods of data collection. This is consistent with the approach commonly used in organizational research (Burton, 2000; Platt, 1988), and is widely accepted in business schools as the most effective means for revealing key issues driving firm actions, and understanding them as an interaction with the broader environment (HBS, 2001).

III.2. Case Study

Specifically, I examined a firm called PeaceWorks, a self-proclaimed “not-only-for-profit” business that seeks to promote reconciliation and peace by uniting former adversaries in viable business ventures. I acquired information about Peaceworks through:

Table 1 – Data collection Methods

I. Scrutiny of internal and external firm documents:	
o	Basic data sheets
o	Draft proposals
o	Internal Communications
o	Business Plans
II. Two-weeks of participant-observation at:	
o	Headquarters
o	Trade Show

III. Semi-structured and unstructured interviews with:	
o	The CEO / Founder
o	Most major suppliers
o	Most employees and interns
o	Some Customers and Competitors

This design is useful in several ways. First, iterative communication with multiple data sources helps elucidate the mechanisms through which social and economic pursuits interact. Moreover, the diversity of perspectives solicited provides robust insights into the challenges of creating and maintaining a dual-mission organization. Additionally, the extensive participant-observation period enables the acquisition of information using all faculties of perception unfiltered by third parties. As Gaskell (2000: 44) reports,

Becker and Greer (1957) argue that participant-observation is ‘the most complete form of the sociological datum’ As such, it provides a benchmark against which to judge other methods, or as they put it, to ‘know what orders or information escape us when we use other methods.’

I evaluate the sustainability of the social business model by identifying the mechanisms through which the social and business missions interact and complement each other. By isolating the aspects of a business that are enhanced by being social, we can assess whether the result generates perceived benefits, and thus potential incentives.

I use the profit (π) equation (see Equations {1-3}), which guides long-run strategies in businesses, as a simple tool for identifying effects of the social business model⁶. We can look for social factors that may reduce costs or increase revenues or otherwise positively influence π . We can use a similar conceptual framework to search for business activities that generate net benefits for the social mission. We are particularly interested in those that provide an advantage over a non-profit structure, such as surplus capital for social investment or access to new potential supporters or stakeholders.

⁶ This equation is the most fundamental metric of for-profit enterprises. It drives decisions and resource-allocation within a firm; it cannot be disregarded in the long-run. All actions and strategies of a business will relate back to this equation. Thus, if there is a business case for the social business model, we can identify it through the drivers of this equation. Business schools teach this as the most effective approach to start with in any analysis of a business when desiring to understand why decisions might be made and how they effect the firm. We can then take a reverse look at the equation – identifying business decisions made to enhance profit – to help us see if those decisions impact the effectiveness of the social mission. In the absence of any established frameworks for judging a social business this fundamental approach appears to be the best reasoned option.

$$\begin{array}{c} \downarrow \\ \text{Equation \{1\}} \quad \pi = \text{Revenue (R)} - \text{Costs (C)} \\ \uparrow \quad \uparrow \end{array}$$

$$\text{Equation \{2\}} \quad R = \text{Units Sold} \times \text{Price}$$

$$\text{Equation \{3\}} \quad C = \text{Fixed Cost} + \text{Marginal Costs} \times \text{Units Sold}$$

The most common objection to a case study design is the question of “representativeness”, the extent the findings can be generalized to the wider population (Burton, 2000). One defense stands on philosophical grounds: If the principle focus of a case study is to test theoretical propositions, such as with ours, then the relationship of the case study findings to the theory are of primary importance (Burton, 2000). In this, our approach, Burton (2000:225) explains, “Case studies are about making analytical generalizations, not statistical inference”. An alternate defense is to deal with the issue of representativeness statistically and generate more data points. To a certain extent, I have sought to address this as well by conducting the simple macroscopic study (see below) to search for other instances of social business models or precursors.

Note – Financial Figures

This is a qualitative examination the PeaceWorks and the social business model. As a methodological consideration, I have avoided using financial data in this report. I believe this report benefits in several material ways and suffers in none from the exclusion of monetary figures. First and foremost, dollar values distract our focus. The information we seek is found in the organization’s behavior, impact, sustainability over time, and its response to market signals vis-à-vis its missions.⁷ Second, without comparable measures of the social performance this investigation would be providing a biased framework for comparison and undermining the analysis. Finally, as a practical matter, the process of gathering and cross-referencing ledgers needed to perform a meaningful and accurate analysis or portrayal of figures would strain PeaceWorks⁸ (and my relations with them) while yielding no substantive changes.⁹

⁷ Cost structures and perceived profits vary dramatically among industries and individuals. Without benchmarks, they have little relevance, but leave room for many subjective arguments.

⁸ Small, privately-held businesses like PeaceWorks do not face reporting requirements as do large publicly held companies, nor do they possess the same extent of information management tools. Additionally, access to an independent auditor would not be possible to confirm figures.

⁹ It should be reminded that I have reviewed many facts and figures about the organization and have corroborated all substantive data through interviews, questioning, and documentation.

III.3. Robustness Study

I performed a side investigation to gauge the "robustness" of the case study results – i.e., to scan for representativeness and for evidence of the social business model's broader potential role in social and economic development. If PeaceWorks represents an anomaly, then conclusions about the wider applicability of the model might be misguided.

I leveraged the opportunity that South Africa presents for social enterprise research. The country contains extremes of wealth and poverty. (Economist, 2001: 86-3). South Africa has temporarily found a political resolution to its conflict; now, the nation that the Economist (2000) calls "Africa's Great Black Hope" must find a way to rapidly resolve its numerous economic and social problems if it hopes to avert a relapse into conflict. The result is a significant mobilization of the private sector to find sustainable solutions to its socio-economic problems (Schlemmer, 2000)

I performed a broad scan of private social enterprise in South Africa, searching for innovative attempts by established businesses and entrepreneurs to reconcile economic and social missions. It is by no means a thorough or complete review, and the results are meant to be suggestive at best. The key issues of interest are how South African social initiatives achieve sustainability and increase their impact.

The closeness of South Africa's tightly-knit business community (Mlambo and Nell, 2000) facilitated this investigation. A small number of players have substantial impact; I could quickly uncover significant social-purpose efforts and learn the approaches of influential actors (Elbadawi and Hartzenburg, 2000). The Anglo American corporation is the prime example: It controlled more than 80% of the value listed on Johannesburg's Stock Exchange at one point in the early 1980's, and is South Africa's largest social responsibility spender (Ryan, 1999).

IV. Case Study

IV.1. The Study

I performed an on-site participant-observation study of PeaceWorks at their New York headquarters for two weeks. During this visit, I had nearly unfettered access to internal documents, including many confidential materials such as business plans and communications; participated in client meetings; observed staff; met privately with founder and CEO Daniel Lubetzky; witnessed operations; and interacted informally with employees.

Additionally, I attended the Fancy Foods Show, which is the largest American trade show in the industry, at the Jacob Javits Convention Center. This event provided an opportunity to observe PeaceWorks' performance in a market situation, where tens of thousands of purchasers, suppliers, and distributors seek out promising new products and relationships. Furthermore, I met and spoke freely with PeaceWorks' largest suppliers – firms from the Middle East, South Africa, and Australia. I augmented this research with an extensive literature review and, where possible, have referenced third-party articles and written works that corroborate my fieldwork.

IV.2. The Organization

PeaceWorks is a rapidly growing U.S.-based corporation whose objectives include the simultaneous pursuit “of peace and profit (PeaceWorks, 2001)”. Its philosophy is, according to the company’s founder and CEO, Daniel Lubetzky, to “help bring about peace through business (Pirozzi, 1999: A7)”. As a business concern, its mission is to provide high-quality, socially conscious consumer products. As a social business, PeaceWorks seeks to “maximize economic returns” whilst “creating an economic basis for cooperation and peace-building (PeaceWorks, 2001)”.

The theory behind PeaceWorks is that economic incentives can be the catalyst to bring people together, and cooperation in search of a profit can cement relations among rivals by providing a stake in each other’s success (Lubetzky, 2000).¹⁰ If feuding neighbours, such as Arabs and Israelis, work together, it ties their futures, shatters stereotypes and creates a healthier economy (Steinberg, 1997). Lubetzky believes that giving people to chance to collaborate for economic

¹⁰ PeaceWorks founder and CEO, Daniel Lubetzky, first formally advanced this theory of economic cooperation as a Visiting Fellow to the Begin-Sadat Center for Strategic Studies (see Lubetzky, 1994: 407-11).

rewards is “the only way to break the vicious cycle that leads to desperation and anger (Lubetzky quoted in Fabricant, 1996:40)”¹¹.

PeaceWorks’ model utilizes business to bring together rival groups in for-profit enterprises. PeaceWorks imports, markets, and sells products from companies operating in conflict-prone regions (see Appendix A) that it either carefully selects or helps establish. These ventures must adhere to strict partner guidelines (summarized in Table 2) to ensure that each partner’s activities generate social benefits in their communities, and that the local economic benefits also work to remedy historical imbalances (Lubetzky, 1994).

This model is engineered so that making more profits also generates more social capacities and community improvements. The social benefits result from self-sustaining economic ventures that rely on trade and complementary comparative advantage to create value (IPR, 2000). Because incentives to produce economic and social outputs are aligned, the more products - "fruits of cooperation" – that are sold, the more cooperation and coexistence will be fostered (Lubetzky, 2000). Additionally, because PeaceWorks shares its expertise with its partners and helps to establish links among them, disadvantaged communities become able to locate resources and knowledge globally—and across regional divides—for their local development needs.

Table 2

PeaceWorks' Trading Partners Criteria:
<p>I. Certify in writing that they agree with PeaceWorks' philosophy of fostering coexistence through business, and that their venture with PeaceWorks will strive to further said mission; and</p> <p>II. Certify in writing that the enterprise respects human rights, conducts itself in a lawful and ethical fashion, and abides by international environmental standards; and</p> <p>III. Be located in a country or region that PeaceWorks can legally do business with; and</p>
<p>IV. Qualify under one of the following categories of companies:</p> <p>a. A company located in a Conflict Region, as defined in Annex A (within Appendix A of this document) must either</p> <ol style="list-style-type: none"> 1 Purchase from 2 Be Co-owned by 3 Be co-managed, co-operated, and with an integrated labor pool <p>b. A company located in a Volatile Distressed Area, as defined in Annex B (within Appendix A of this document) must either</p> <ol style="list-style-type: none"> 1 Fit descriptions above 2 Agree to work with PeaceWorks to create economic opportunities with social and reconciliation components <p>c. A company located in a non-conflict area, defined as an Area that does not fit the definitions provided in Annexes A and/or B must either</p> <ol style="list-style-type: none"> 1 Fulfill/fit any one of the descriptions laid out in section IV. A. (1,2, or 3) above, or, 2 Invest or partake in a PeaceWorks venture with companies that qualify under sections IV. A. Or IV. B., or, 3 Provide resources to a PeaceWorks venture; <p style="text-align: center;">AND</p> <ol style="list-style-type: none"> 4 Donate at least 5% of the profits of its venture with PeaceWorks to non-profit organizations promoting tolerance, understanding, and coexistence

Source: PeaceWorks Partner Criteria Document , as Summarized by author

¹¹ Similar operating theories have guided U.S. foreign policy for some time, and this approach was emphasized under

PeaceWorks is itself an entrepreneurial product of these theories. While in the Middle East, Daniel Lubetzky discovered a “delicious” sun-dried tomato spread. Unable to find more at the store, Daniel tracked down the company in search of a supply to take home only to discover that they were going out of business. The Israeli firm faced high costs—they were buying expensive supplies from Europe—and marketing problems. Mr. Lubetzky, faced with the choice of returning home “to be a boring attorney (Schuch, 2000)”, recognized an opportunity to put his theories to the test. Although Yoel Benesh, the company’s owner, was interested in Mr. Lubetzky’s ideas for peace through business, he remained skeptical until he recalculated his costs and realized that if he bought products from Arab neighbors, like olive oil from Palestinians and sun ripe tomatoes from Turks and glass jars from Egyptians, he could save significant money. It was in his economic interest to cooperate with Arabs. So, in March 1994, Mr. Lubetzky invested \$10,000 of his own money to start Peaceworks. He worked with Mr. Benesh’s re-established company, Olivia’s, to develop a new product line with Arab partners who were also committed to the new concept.

PeaceWorks Holdings, LLC is the privately-held parent of an umbrella group structure that supports commercial initiatives in conflict regions worldwide through its two subsidiaries, PeaceWear and PeaceWorks Specialty Foods. A separate company, Vandelay Industries, currently markets one non-social product. Although the PeaceWear apparel division is in the advanced stages of development and will expand the company’s scope considerably when it launches, PeaceWorks current activities occur within its specialty food division. Mr. Lubetzky is owner of the parent company and the specialty foods division, while PeaceWear has several individuals involved who could become partners by the time it is ready to launch.

PeaceWorks Foods markets gourmet food products created through the cooperation of partners from different political communities around the world. Although many products are produced in the Middle East, the company increasingly sells products from other conflict regions. Some examples include specialty pasta made in a South African factory that empowers and trains its black workers and roasted coffee grown in the war-torn Mexican state of Chiapas by a cooperative of indigenous farmers from rival tribes (Lubetzky, 2000; see Table 3). Overall, PeaceWorks sells approximately seven social product lines and one non-social.

Table 3

PeaceWorks Products

#	Product Line	Description	Region	Social Impact Mechanism
1	La Bici	Chips, pasta	South Africa, KwaZulu-Natal	Employment
2	Meditalia	Pesto Sauces and Spreads	Middle East	Trading Partnership
3	Moshe & Ali	"Sprate", sauce-spread-pate	Middle East, Israelis supplied by Arabs	Trading Partnership
4	BeNatural	Energy Bars	Australia	N/A
5	WAFA	Chocolate bars	Middle East	Joint Ownership
6	Azteca Trading Co.	Salsa, fruit salsa	Chiapas	Trading Partnership
7	Coffee Cooperative	Locally Grown and Roasted Coffee	Chiapas	Co-operative
8	UNOPS - GEDI	Services - Guatemala Economic Development Initiative	Guatemala - Zona Paz	Capacity Building

** Non-social: Imported through Vandelay Industries, a division of PeaceWorks, L.L.C.*

To bring these new items to the U.S. and other markets, PeaceWorks provides several advisory and value-added services (see Table 4) to its partner companies. Its revenue model, however, is almost exclusively linked to generating product sales, rather than service fees. The upfront services are viewed as initial investments necessary to create successful commercial offerings that also help reinforce ideas of economic cooperation early within a relationship (Personal Conversation with Daniel Lubetzky).

Table 4

PeaceWorks Services

#	Service Line	Description
1	Consulting & Strategy	"To ensure readiness, an aggressive entry strategy [is executed] for foreign market penetration"
2	Marketing & Promotion	"ensure the successful launch of all product lines: market entry strategy is customized...E-commerce, print advertisements, promotions, direct marketing and trade shows are some mechanisms utilized to access the international marketplace"
3	Product Development	"[En]sure that products are ready for entry into the international marketplace... customizing product formulas to appeal to ensure market appeal, design and development of packaging and labeling and presentation for maximum market appeal"
4	Sourcing & Matchmaking	"combines a business-based model with market expertise...to bring to the marketplace competitively-priced and designed items that appeal to the most demanding customer tastes"
5	Sales & Distribution	"assist partners in connecting directly to the global marketplace"

IV.3. The Findings

This section reports my findings that either support or contradict the sustainability of PeaceWorks' social business model. As described in the methodology, supporting evidence demonstrates benefits to one mission by the other, thus reinforcing the dual mission model. The social mission was observed to benefit business, positively impacting the profit (π) equation, in five general areas.¹² Similarly, I found five ways in which the business activities strengthen the social mission. Furthermore, I found two attributes that weaken the sustainability of PeaceWorks' model.

IV.3.a. The Business Benefits of a Social Mission

1. Publicity

Building a strong, nationally recognizable brand is challenging and expensive. PeaceWorks' has realized, however, that its mission can earn it the interest and attention of the media. In the PeaceWorks' headquarters, there is a library of nearly 1,000 articles and press references on PeaceWorks. The firm has been featured several times in the Wall Street Journal, BusinessWeek, the New York Times, the Christian Science Monitor, and many regional newspapers and trade publications.

I witnessed the power of PeaceWorks' publicity appeal at the Fancy Food Show in New York City. As the largest gathering in the industry, PeaceWorks' was surrounded by thousands of other specialty food vendors vying for attention of retailers and purchasing agents. CNN, however, had arranged to film the PeaceWorks booth for feature on Business Unusual with Lou Dobbs, perhaps the best-known American financial correspondents. For several hours the CNN crew filmed and interviewed PeaceWorks staff, suppliers, and customers, generating a substantial buzz at the show. Throughout the day, people stopped by and mentioned they had seen the film crew, which had piqued their curiosity. Several vendors in the general area commented that PeaceWorks was the focus of much of the day's gossip. Two other reporters, one from the New York Post, noted the attention and requested information for their own report¹³.

¹² Throughout the findings it will be understood that each aspect influences costs or revenues, and often both. For efficiency, I will not re-explain this each time. This will also help simplify the discussion in part because the question of whether an activity impacts revenues or expenses is somewhat subjective. For example, being able to attract top quality employees probably both reduces recruiting and salary expenses and enhances revenue-generating abilities.

¹³ Although no one can say whether this attention generated additional sales otherwise not likely to occur, it undeniably educated the market about PeaceWorks and its products, which increases likelihood of a future purchase (Underhill, 1999).

2. Talent

People make an organization. The PeaceWorks mission is a powerful asset in recruiting talent. The firm has received help from many intelligent people without paying financial compensation. PeaceWorks has received the help of students at the Wharton School¹⁴ and the Fletcher School of Law and Diplomacy. "There is an element of altruism and a greater cause that drives all of our students", remarked the Fletcher professor, "We had a chance to show them how to leverage that passion so that they could have an impact (Cook, 2000:15)". Businesses that do not have social missions will pay these same students top-dollar after they graduate, if they can attract them. As one student explained, "It taught me that I could have a good business career in a company that also had a good social cause; it opened my eyes to look at these companies a little bit more (Cook, 2000:15)".

The calibre and credentials of the individuals working at PeaceWorks is impressive. The headquarters is staffed with a young energetic team of very well educated individuals. One individual holds a Masters from the Fletcher School of Diplomacy¹⁵, and another holds two graduate degrees from Oxford University, one an MBA. Additionally, the two individuals selected for unpaid summer internships represented top American universities: Tufts University and Ivy-league Wharton School. During their time at PeaceWorks, the interns developed a professional-appearing website for a new non-profit project. Hence, at nearly zero financial cost, PeaceWorks was able to launch a new venture and solicit funding.

PeaceWorks' board of directors possesses individuals with experience and status unlikely for firms of PeaceWork's size and industry. The individuals include Ben Cohen, founder of Ben & Jerry's Ice Cream¹⁶; Leonard Hausman, Director of the Institute for Social and Economic Policy in the Middle East at Harvard University's Kennedy School of Government; a well-known food consultant; as well as advisors from McKinsey & Company, a leading strategy consultancy, and Goldman Sachs, the prestigious global investment bank. These heavy hitters are significant assets to PeaceWorks. According to Roger M. Kenny, managing partner of a New York recruiting firm, "Big players with contact and clout can bring in new business and open doors nationwide (cited in Business Week, 1999: F24)".

Furthermore, there is a "multiplier" effect between PeaceWorks' ability to attract people and its publicity pull. Although Ben Cohen may provide great advice, that value is arguably dwarfed by

¹⁴ Wharton is the business school at the University of Pennsylvania

¹⁵ Associated with Tufts and Harvard

¹⁶ Ben & Jerry's is perhaps the world's best known social business.. Ben and Jerry's pioneered the idea of a community-based business; one that sources supplies locally and donates a percentage of its profits to community causes (Ashoka, 2001b) It is consistently known as one of the 100 best businesses to work for in America.

the publicity he pulls to PeaceWorks, in part from his own loyal customers. PeaceWorks' social mission and potential for economic development has attracted the attention of celebrities and statesman, including Former U.S. Secretary of State Madeline Albright, U.N. Secretary General Kofi Annan, and Former Israeli Prime Minister Ehud Barak. Their association with PeaceWorks grabs the attention of potential new customers and helps carry the brand into new markets, without the expense of Michael Jordan-priced contracts.

3. Customer Loyalty

PeaceWorks' cause seems to strengthen customers' feelings about the products. As Mr. Lubetzky explains, "if the quality of the product is right, many consumers will avidly choose a product made by a socially conscious company over an alternative". Although I could not easily observe "loyalty" as demonstrated through repeat purchases over time, I saw several indications that the social mission builds customer bonds with PeaceWorks' products. During a sales meeting with one of the world's largest flower and gift delivery companies, the conversation was dominated with discussion about the product's emotional appeal and consumer identification with the message of mutuality and hope. The social message allows them to reap benefits from a product that they never consume (Participation in Meeting, July 2, 2001). Mr. Lubetzky claims, "consumers reward us with loyalty and almost fanatic support; we find that they frequently demand that local stores carry our products (Lubetzky, 2000)". Olivia's General Manager, Ami Schreiber, substantiated this claim, "We thought it would be a gimmick, but he was right. We get 99% repeat orders (cited in *The Grocer*, 1998)".

4. New Opportunities

PeaceWorks' attracts other organizations that seek to pursue new opportunities together. Some are businesses that manufacture possible products for PeaceWorks to sell. They are eager to tap into its distribution network and publicity pull. This gives PeaceWorks a competitive advantage in securing the best new products to represent. For example, Mr. Lubetzky was inundated with offers from South Africa, reviewing more than 200 products before finding his current South African partner.

Development agencies, governments, and civil organizations like the United Nations Office for Project Services (UNOPS), Seeds of Peace, The Prince of Wales Business Leaders Forum, and the World Economic Forum seek to expand the PeaceWorks model to new communities and spread the company's work. UNOPS, for example, pursued Mr. Lubetzky persistently before he committed to a joint venture in Guatemala (Personal Conversation, Lubetzky, May 19th, 2001). Few businesses have independent organizations actively searching for new opportunities for them.

5. Funding

One of the biggest barriers to the creation of new businesses is access to funding (Klein et al., 2000; Elbadawi and Hartzenberg, 2000). Although Mr. Lubetzky avoided this initially by self-funding PeaceWorks, he must consider how to finance each potential new venture it seeks to undertake. Unlike its competitors, PeaceWorks can leverage its social mission and apply for grants from a multitude of charities, foundations, and philanthropic organizations to cover start-up costs. In the Guatemala venture, UNOPS and the World Bank's Post Conflict Unit (UNOPS Proposal Document, 2000; Personal Interview with Lubetzky) will fund start-up costs and defray the expense of PeaceWorks initial pre-market services and knowledge transfer, yet PeaceWorks will still help bring those products to market and benefit commercially.

IV.3.b. Social Benefits from Business Mission

1. Beneficial Employment

PeaceWorks' creation of quality jobs is itself an important contribution to communities blighted by conflict and extreme economic distress. These jobs establish shared economic incentives for cooperation among historical enemies, something that non-economically linked efforts at rapprochement and mediation cannot easily do. Yoel Benesh, the owner of Olivia's, explains, "When people work in business partnerships, all the barriers come out...people have a stake in the system, so they'll work to uphold that system (Pirozzi, 1999: A7)".

Mr. Benesh's company demonstrates the effect market linkages can have on social reconciliation efforts. His firm was going out of business in 1994, laying off three employees. After adopting the PeaceWorks model and launching the lines of sauces that has helped PeaceWorks' and Olivia's grow, he now employs more than 100 people at his own factories, while others are employed at his partners' companies in Turkey, the West Bank, Egypt and Syria (Personal Conversation, July 10, 2001). His PeaceWorks sales have grown from 200 cases to beyond 300,000, plus that same amount to other distributors worldwide (Personal Conversation, July 9, 2001; Fabricant, 1996). Those involved have been continuing the same relationships for seven years running (Lynfield, 1998).

Further evidence came in early 1996, when a spate of violent bombings halted the progress towards Middle East peace. Lubetzky had second thoughts about his efforts and contacted his partners to suggested closing PeaceWorks. His Arab and Israeli partners replied that they were

committed to continuing the enterprise and confident they could persist in the chilled political climate.

PeaceWorks provides opportunities for cooperation and dialogue as well as the incentives to work together successfully. In the Wafa enterprise that produces premium chocolate bars, company ownership is shared among several Israeli and Palestinian partners, and the production occurs in a Ramallah (West Bank) factory employing over 220 people (Contreras, 1997). The La Bici product line is manufactured South Africa in a factory employing twenty racially diverse people in KwaZulu-Natal, one of South Africa's most troubled regions. Elsewhere, roasted coffee is being grown in the war-torn Mexican state of Chiapas by a cooperative of 1,000 indigenous farmers from seven rival tribes. Similarly, the UNOPS project will benefit a cooperative effort among former rival Mayan farmers, effecting some 2,880 families (Cook, 2000). Although a precise count is difficult, current PeaceWorks ventures employ 300-500 former adversaries, and affect several thousand family members (Schuch, 2000). If current plans all come to fruition those numbers might multiply.

2. Capacity Building

Economic incentives focus individuals on building social and practical trade skills while improving their living conditions. Olivia's has sourced new products with regional partners since 1994, helping to spread inter-group cooperation while pursuing business interests (Pirozzi, 1999; Fabricant, 1996). At the chocolate factory in Ramallah, Arab and Israeli partners must put animosities aside to direct the company in their shared ownership structure. As Israel's former Consul-General Colette Avital explained, "Where Israelis and Arabs put their minds together, this [will] create much closer links (Brahimi, 1994)". Berfin's business enables it to "economically empower [their] employees by providing stable employment, education in basic business principles and training in specific skills thereby increasing their self reliance and improving their quality of life (Berfin, 2001; Personal Conversation with Grant McGregor, July 9, 2001). Additionally, Olivia's and Berfin spend 5% of their profits for employee workshops on developing tolerance.

PeaceWorks' services improve local competitiveness in international markets. Like most PeaceWorks' activities, the UNOPS project targets, "communities and entrepreneurs most impacted by war [in places] characterized by a lack of infrastructure, the practice of subsistence production, and a scarcity of job resources (GEDI Proposal, 2000). The mechanisms detailed in the proposal explain that PeaceWorks will promote capacity building through, "technical assistance with logistical issues, management, marketing, organizational structure and legal matters (GEDI Proposal, 2000)".

In South Africa, PeaceWorks has demonstrated its ability to transfer business skills into disadvantaged communities: Berfin's La Bici product collaboration earned a national design award for the packaging and was well received at the New York Fancy Food Show.

3. Foreign Direct Investment

PeaceWorks injects into local communities much needed foreign direct investment (FDI), which according to a World Bank report "is a key ingredient for successful economic growth in developing countries (Klein, et al., 2000:2)." PeaceWorks links the community ventures to international markets where they can obtain hard currency. FDI has added stability at Olivia's in the Middle East, enabling it to invest in new markets and build its own brands (*The Grocer*, 1998). At Berfin, its partnership with PeaceWorks has provided capital for investment in their domestic products, one of which is a market leader (Personal Conversation, McGregor, July 9, 2001). The Guatemala project will generate several million dollars of FDI in the country's poorest community, the "Zona Paz" (GEDI Proposal, 2000).

4. Publicity

The business mission is not the only beneficiary of publicity. Business campaigns extend awareness of the social mission to a new audience of consumers. As Mr. Lubetzky explains: "We've sold products to millions of consumers, and each time they see Moshe and Ali -- a Jew and an Arab pictured hugging on the label -- it sends a message [that] we can do good things together (Pirozzi, 1999: A7)". Business school professor Nathanson, "the public won't buy a product for its social conscience alone. It has to be good.... (Quoted Pirozzi, 1999: A7)". A quality product will reach those seeking to fill a culinary need, informing them of the efforts to end conflict. As an added benefit, each consumer can buy a moment of social activism by supporting the mission with a purchase of the product.

5. Surplus Social Spending

Over time PeaceWorks has accumulated surplus resources that are reinvested in social concerns. The popular Wafa chocolate bar line donates ten percent of its profits to the Seeds of Peace Camp, which sends children from rival sides of conflict to a camp teaching about reconciliation. PeaceWorks LLC donates additional profits to other causes like *Aid to Artists*, the *Prince of Wales Business Leaders Forum*, and *The U.N. and Business Alliance*.

PeaceWorks is also at work developing non-profit ventures. Top among these is the PeaceWorks Network, a platform for overcoming collective action problems by connecting moderate individuals – the vast majority of people – supporting peace in the Middle East to

counteract the detrimental influence of extremists. Lubetzky has committed significant energy to developing this idea and a prototype web-based network. These non-profit efforts would be more difficult without the PeaceWorks business to provide a critical mass of resources, people, and contacts.

IV.3.c. Evidence Against Social Business Sustainability

Although there seem to be many incentives and benefits for PeaceWorks to maintain its dual missions, preserving the social business model has not been without challenges. Specifically, there are two significant threats to the model's future at PeaceWorks.

1. Finding Social Partners

PeaceWorks has difficulty finding new organizations that meet both its social and business criteria. Typically, only 3-5% of products submitted pass the first review stage (PeaceWorks, 2001). It reviewed 200 candidates from South Africa to find one qualified candidate. This difficulty limits PeaceWorks ability to grow, even if it has the capacity to do so. It also hampers PeaceWorks' ability to send a "critical mass" of product to its distributors, who must meet their diverse needs and justify their transaction costs of working with PeaceWorks. As PeaceWorks' network has expanded, this has become a significant challenge for Mr. Lubetzky. He is at a competitive disadvantage if his competitors can offer distributors dozens of different product lines versus his handful of socially conscious ones.

2. Non-Social Opportunities

PeaceWorks is often solicited by a number of appealing non-social opportunities. Its inability to find social partners increases the temptation of these opportunities. If PeaceWorks cannot supply its distributors with a minimum of social products, its survival may depend upon filling that demand with non-social products. Moreover, if PeaceWorks can profit from non-social activities for which it is competitively positioned, it must choose between profit and social value, the key dilemma that I mention could be the Achilles' Heel of the social business model.

Mr. Lubetzky has often rejected these non-social partnerships, but not always. He has now created a separate company, Vandelay Industries, to sell the BeNatural line of energy bars made in Australia by the Surene company. Mr. Lubetzky claims that the offer was too compelling to refuse; the volume of this line helps him to maintain his extensive distribution network so he can continue to serve PeaceWorks social mission. "The company's peace-supporting mission would be moot", he says, "if there weren't any profits (Pirozzi, 1999: A7)". The creation of a separate corporate

structure serves to distance PeaceWorks from these activities and keeps the social business model “pure”.

The central issue is the allocation of resources and staff time by the firm to these non-social profits. So far, PeaceWorks has not needed to divert its focus substantially to pursue the BeNatural opportunity. The product is offered alongside the other social products and, since the margins are all comparable and the lines do not compete, strategies to profit from BeNatural products are aligned with the success of PeaceWorks’ other goods. However, the product’s dramatic success – sales have increased 600% in a year – pose a future challenge. If the product becomes a significant source of the firm’s overall revenue, then Mr. Lubetzky may yet be forced to devote more energy and resources to maintaining its success. Furthermore, if the firm must be propped up on non-social revenue, then the model is suspect.

V. Robustness Study

Now we refocus our perspective from an individual instance, PeaceWorks, to a wider context. To do so, we take a broad glance at South Africa, a country desperate for innovative, self-perpetuating, conjoined approaches to social and economic development. If our search finds instances of social value creation being linked to the creation of economic value, then it may suggest a role for social business approaches, and furthermore, that other actors also believe that market-aligned social enterprises can succeed. If we find few trends towards social businesses, or failed attempts, then this may temper our conclusions about the model.

V.1. The Study

I pursued an overview of the business and development climate in South Africa by communicating with Johannesburg-based partners in two leading business consultancies, Bain & Company and McKinsey & Company, as well members from a private sector think-tank. The consultancies are familiar with the operations and strategies of many of the largest companies in South Africa, and both have considerable expertise in the development of social and non-profit ventures. Bain Company has an entire subsidiary, The Bridgespan Group, devoted to social enterprise. McKinsey & Company supports South Africa's National Business Initiative (NBI), a major push for increased entrepreneurship. The think-tank, the Centre for Development and Enterprise (CDE), is South Africa's largest privately funded center for public policy aimed at improving the private sector's impact in development matters. Additionally, I spoke with South Africa's two socially influential corporations about their efforts: I conversed with the Chairman of the Liberty Foundation and a business development director at AngloAmerican's *Zemele* unit.

V.2. The Findings

Here I summarize the results as they relate to our search for indications of social business-type activities. The full findings about South Africa's private social enterprise landscape are described in Appendix A.

Influential non-profits are searching for market-based methods of delivering socioeconomic development. Ashoka, a pioneer in social entrepreneurship, has partnered with McKinsey to launch South Africa's Center for Social Entrepreneurship. The mission is to "build a business-social bridge...and deepen the ties between the social and business sectors (Ashoka, 2001b)". The Liberty

Foundation, one of the most progressive, developed an on-line portal called *Buy-Africa.co.za* to promote the design, development, and marketing of African artifacts for sale to international consumers. The current catalogue offers more than 3 000 products made by 800 manufacturing enterprises with a combined employee reach of about 23,000 people (Liberty, 2001).

Large corporations are also attempting to align core activities with social contributions. The Liberty Group seeks out, “mutually beneficial community project opportunities as they arise in the everyday marketplace activities of the Group’s business units (Liberty, 2001)”. One effort, the Freeplay Radio, has been hugely successful. Liberty’s initial investment provided funds for the Freeplay radio to be produced in KwaZulu-Natal. By 2000, a million units were sold, providing jobs, expanding the region’s economic base, and increasing Liberty’s share value: General Electric recently purchased a stake in the company that valued the firm at US\$25 million (Personal Conversation with Hylton Appelbaum).

South African Breweries (SAB) is one of South Africa’s largest and most progressive companies. It seeks to maximize long-term shareholder value, “while behaving in a socially responsible and progressive manner (SAB Review, 2000)”. SAB’s CEO, Graham Mackay, explains, “there need be no trade-off between commercial success and social responsibility (Allix, 2000:1)”. SAB even publishes a list of “social business principles (see Appendix C),” and employs 30 social responsibility staff to provide skills and funds for empowerment-focused community enterprises. Michael Tuffrey, an external auditor and co-founder of The Corporate Citizenship Company, concludes that SAB, “offers a model for best international practice (SAB Review, 2000)”.

Even Anglo American, the company often accused of establishing Apartheid, has an initiative to align social contributions with its core business strategies. This program, *Zemele* (literally “to be independent”), seeks out opportunities to establish minority owned *and* managed companies¹⁷ that can supply complementary products and services to the company, allowing Anglo to focus on its core activities. Dr. Lia Vangelatos, one of *Zemele*’s three business development managers, likens the approach to socially-conscious venture capital; they seek out strategic opportunities to create companies that can stand on their own (Personal Conversation, July 16, 2001). Their rationale in part is that SME creation in South Africa is extremely difficult due to lack of capacities and an unfavorable tax structure (Personal Conversation, July 16, 2001). Hence, Anglo has difficulty finding reliable partners capable of meeting its long-term needs and must seed potential partners. The results of *Zemele*’s efforts are impressive: Total turnover of all companies launched totaled US\$7 million in 1999, and in 2000, seventeen firms generated US\$9.7 million (Personal

¹⁷ They define this to mean a minimum of 30% representation by “Previously Disadvantaged Individuals”, the official term for non-whites, in *both* management and ownership.

Conversation, Vangelatos, 7.16.01), with both figures surpassing Anglo's Foundation expenditures each year.

VI. Discussion

This investigation has sought to understand whether the social business model offers a new way for business and society to coexist symbiotically. Through great effort, I secured access to influential actors and key information. These high-level professionals and academics are decision makers and thinkers. They have provided insights into their strategies, shared their experiences, and offered candid perspectives. I believe this is a great strength of this investigation: Academic access to prominent business leaders is particularly restricted. Thanks to their contributions, we have been able to tackle the many challenges facing this investigation. First we identified the large-scale trends signalling the need for a social business model. Next, we reviewed contemporary terminology to understand its limitations and construct a conceptual foundation and operational definition. Finally, we reviewed a pioneering example of a social business and further performed a quick situational survey to check for representativeness.

Our empirical evidence seems to support the existence of social businesses as an outgrowth of the converging global trends. PeaceWorks is an entrepreneurial response to the times and fits our predictions for the model's birth. Mr. Lubetzky saw an opportunity to benefit materially by producing social benefits, and he created an organization with this purpose. Efforts in South Africa indicate PeaceWorks is not an anomaly. Companies are looking to link their social contributions to their core economic mission, trying to reconcile their responsibilities to their constituencies and communities. They seek to recast their social responsibilities, turning a tax on their profits into an opportunity to profit.

To answer whether social businesses are sustainable we probed into PeaceWorks' operations. We find that PeaceWorks' gains substantially from the complementarity of its missions. We identified five main mechanisms through which the social mission contributes to the firm's business success: the ability to attract talent, retain customers, increase publicity, attract new opportunities, and secure funds or offset costs. Similarly, we found five mechanisms by which profit-seeking activities increase the social impact: creation of high-quality employment in disadvantaged areas along with incentives for collaboration, capacity building and skills transfer, the channelling of foreign direct investment to places least likely to receive it, expanded publicity, and surplus funds for reinvestment in social causes.

We found evidence that PeaceWorks generates real social benefits. The commitment by the Middle East partners to continue their venture despite a deterioration in the Middle East indicates the model's strength. The longevity of the collaborative ventures stands as sharp contrast to local activities in the Middle East, South Africa, and Chiapas. Similarly, efforts by other groups in South

Africa are finding success through models structured to address social factors. Even if the participants were *ex ante* more moderate than the general population, their persistence reflects optimism based upon their accrued experience working together, not blind idealism. In contrast, those like Pepsi who ignore these elements suffer difficulties.

Our findings also validate concerns that pursuit of profit can interfere with the social mission and undermine the model. PeaceWorks's success has positioned the company to profit from non-social opportunities. The limited supply of potential social partners exacerbates the pressure to take these opportunities. PeaceWorks has temporarily mitigated this by selecting a non-social product that complements the social products in the market place and sales process, and by managing it under a distinct company. However, we see that the social business model cannot remove the attraction of profit, whether for wealth or survival. The BeNatural line did not provide a life-saving subsidy to PeaceWorks, but it provided breathing space and now has grown to be an important part of PeaceWorks' revenue. It still stands to threaten the model.

We have several indications that the pull of profit need not be the downfall of PeaceWorks or the social business model. First and foremost, the key variable in an entrepreneurial venture like PeaceWorks is the entrepreneur. Entrepreneurs are innovators who provide the creativity, drive, and management to transform an idea into an organization (Lloyd and Ramsden, 2000). Daniel Lubetzky created a company that allowed him to pursue his ambitions to both generate personal wealth and social benefit. If he was simply a "profit maximizer", he likely would pursue a more assured path to wealth. A social business model allows individuals motivated by more than just money to pursue those ambitions alongside their financial ones. Second, Mr. Lubetzky is pressured by the lack of social alternatives. As awareness grows about ventures like PeaceWorks, other would-be entrepreneurs may recognize new opportunities to create social business ventures, increasing the supply of potential partners. Furthermore, the pressure to consider non-social profit focuses Mr. Lubetzky on identifying other social opportunities. His current plans for a PeaceWear start-up in the apparel industry seem quite promising and could reduce the pressure to pursue non-social profit.

We find appeal for the social business model within national contexts. In South Africa, the search seems to be on for a means of linking social and economic development efforts to each other and to the markets. Large companies are attempting to merge social and core activities. The World Bank and UN's interest in replicating PeaceWorks model suggests its potential in places where other models have failed. As Nobel Laureate Amartya Sen explains, "it is hard to think that any process of substantial development can do without very extensive use of markets (cited in Kapur, 1999)."

There is still no peace in the Middle East. The twenty people employed by Berfin will not alone remedy South Africa's problems. Mr. Lubetzky admits, "We cannot change the world alone." (Pirozzi, 1999: A7). Nevertheless, incremental efforts like PeaceWorks' are precisely the fundamental building blocks for lasting social change. PeaceWorks' biggest impact may derive from its role model potential to others as a paradigm-shifting pioneer of "capitalism with a conscience". This value will go unrealized, however, if Mr. Lubetzky's efforts, experiences, and successes are not disseminated and examined, replicated and improved.

Three actions are needed next. First, a lack of social impact measurement tools must be remedied with concerted research. Work has begun in recent years to quantify and measure the effectiveness of social organizations. However, this body of research targets non-profits, and has yielded few useful metrics, most of which are cumbersome. Social businesses like PeaceWorks are desperate for management tools to help them objectively evaluate opportunities for maximum performance against both missions and to balance the feedback from financial reports. Without such tools, social businesses may make poor investment decisions or favor choices with clear profit potential over others that may better serve the firm's long-term objectives.

Furthermore, studies are needed to substantiate our findings and develop more effective social business models. This will facilitate the identification of new opportunities for entrepreneurs, creation of more effective enterprises, and dissemination of best practices.

Finally, a major effort is needed to train, educate, and equip future entrepreneurs in the practice of social business. As Lloyd and Ramsden (2000) conclude, "If the limit is the supply of self-selecting charismatic social entrepreneurs [large-scale change] will not be achievable (13)." We need a system for celebrating social business successes for converting that experience into an education and training system.

These actions should ignite serious debate about how to focus the skills and resources of the economic mainstream upon society's stickiest problems. A decade ago, "social entrepreneur" was an obscure concept, perhaps as "social business" is today. These are exciting times, but we will not advance as we hope if we cannot provide the means for economic empowerment and social advancement that a majority of the world is without. The attention these problems are receiving is encouraging; the lack of suggested solutions is not. Amidst the protestors we need more people proclaiming, "People AND Profit."

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Appendix A

PeaceWorks' Qualified Regions

ANNEX A

A conflict region is defined as a geographic region where undue hostility among neighboring countries or peoples has prevailed in the recent past and/or continues to prevail to a degree that a high probability of aggression exists among the countries or people located in the region.

Specific regions that fit this description include, but are not limited to, the following:

- Southern Mexico (Chiapas)
- Central America
- Middle East
- India-Pakistan Regions, including regions of neighboring countries directly affected by this conflict, such as Sri Lanka, East Timor, Bangladesh
- Southeast Asian countries formerly affected by Vietnam War and related crises
- South/North Korea
- China, Tibet
- Countries formerly belonging to the Soviet Union
- Former Yugoslavia and neighboring countries
- Southern Africa
- Northern Ireland
- Crown Heights, New York

ANNEX B

A Volatile Distress Area is defined as a zone, city, country, region or area currently undergoing such socio-political volatility, uncertainty, and/or instability that an average traditional foreign multinational corporation would probably choose not to invest therein or otherwise have any operations. It is alternatively defined as a zone, city, country, region or area where merely interacting with PeaceWorks could subject it and/or PeaceWorks to political, commercial, and or social risks due to PeaceWorks' associations with companies located in perceived rival countries.

Specific Regions/Countries/Areas that qualify under this category include, but are not limited to, the following:

- Palestinian Authority
- Bosnia, Kosovo and other war zones
- Cambodia
- North Korea
- Egypt

Appendix B

V. Robustness Study

Below are the expanded findings from the robustness study.

V.1. The Study

I pursued an overview of the business and development climate in South Africa by communicating with Johannesburg-based partners in two leading business consultancies, Bain & Company and McKinsey & Company, as well members from a private sector think-tank. The consultancies are familiar with the operations and strategies of many of the largest companies in South Africa, and both have considerable expertise in the development of social and non-profit ventures. Bain Company has an entire subsidiary, The Bridgespan Group, devoted to social enterprise. McKinsey & Company supports South Africa's National Business Initiative (NBI), a major push for increased entrepreneurship. The think-tank, the Centre for Development and Enterprise (CDE), is South Africa's largest privately funded center for public policy aimed at improving the private sector's impact in development matters. Additionally, I spoke with South Africa's two socially influential corporations about their efforts: I conversed with the Chairman of the Liberty Foundation and a business development director at AngloAmerican's *Zemele* unit.

The Findings

Actors

There are three types of actors relevant to our study in South Africa. Of central interest are the business concerns most active in social development efforts. Either directly or indirectly, these companies, mostly South Africa's largest, are involved with many major initiatives and experimentation in the social sector. Social enterprises and other civil sector organizations are also relevant. While private sector firms must shift their activities towards social issues, these organizations are on the other side of the divide, faced with challenges of sustaining their mission, enhancing their efficiency, and increasing their impact. The third category of actors broadly includes governments, communities and other groups focused on increasing local development. These organizations are attempting to address the needs of the communities and leverage the resources of the private and social sector.

Appendix B

Activities

1. **Charitable foundations** are the main vehicles for corporate efforts in social activities. Most of the largest companies have established or contribute to foundations to fulfill their social responsibilities. The vehicles often allow companies to contribute resources to a problem without demanding they acquire substantial social enterprise capabilities themselves (Interview Dr. Vangelatos, July 16, 2001). Foundation funds are either allocated directly, such as to purchase schoolbooks or build a clinic, or are allocated through an application process to social enterprises with specific expertise in a given area. In a 1998 study conducted by the Center for Development and Enterprise (CDE), seventy-five of the largest corporations¹⁸ foundations spent about US\$70 million on Corporate Social Initiatives, excluding sport sponsorship but including sport development programs. While this represents a substantial and important flow of funds for social development, this amount translates to less than 1% of pre-tax profits by the major corporations. (Schlemmer, 1998; see also Corporate Social Investment and Development Handbook, South Africa, 1999).

The Anglo American foundation is by far the largest with nearly 10% of the CDE Survey total (Schlemmer, 1998). Anglo's role in South Africa's society is undeniable; it is South Africa's largest corporation and number one employer of black South Africans (Schoofs, 2001). Its holding include AngloGold, the world's largest gold extractor, and DeBeers, the world's raw diamond monopoly. Anglo's charitable activities focus mainly on the education sector, with more than US\$3.6 million invested in 1999. Still, weighed against the \$3 billion profit it declared in the same year, Anglo's charitable activities represent an insignificant amount relative to its greater socio-economic impact within South Africa.

2. **Social enterprises** are constrained by the actions of corporate foundations, which provide funds for these enterprises to operate. Many of these community groups, such as the Dakawa Art and Craft Centre in the Eastern Cape, aim to build social and economic capacities in the worst-off communities. Their goal is to achieve self-sufficiency, often by

¹⁸ In 1998 CDE conducted a survey among 75 of the country's largest or most prominent corporations. A comparison investigation was undertaken among a larger sample of more than 600 established businesses of all sizes, mainly small and medium enterprises. The two samples overlapped slightly because one or two large corporations also appeared in the sample of businesses of all sizes. For further detail on this study or its methodology, see Schlemmer, 1998. Available on web: <http://www.cde.org.za/focus/corporate.htm>

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linking small stores or trade to their efforts. Many of the foundations that support them, such as the prominent Liberty Foundation, seek to spread their resources by funding groups that attempt market activities. According to Liberty's executive director, Hylton Appelbaum, the foundation and company seek to promote, "empowerment, rather than a culture of short-term charitable handouts. (Liberty, 2001)." This is not a simple process, however, for most communities' infrastructure, education levels, health, economic base, and poverty present combined challenges these initiatives must address with their limited budgets. (Elbadawi and Hartzenberg, 2000).

3. Large non-profits and foundations are searching for market-based methods of delivering socioeconomic development. Ashoka, a pioneer in social entrepreneurship, has partnered with McKinsey to launch South Africa's Center for Social Entrepreneurship. The mission is to "build a business-social bridge...and deepen the ties between the social and business sectors (Ashoka, 2001b)." The Liberty Foundation, one of the most progressive, developed an on-line portal called *Buy-Africa.co.za* to promote the design, development, and marketing of African artifacts for sale to international consumers. The current catalogue offers more than 3 000 products made by 800 manufacturing enterprises with a combined employee reach of about 23,000 people (Liberty, 2001).

4. Large corporations are also attempting to align core activities with social contributions. The Liberty Group seeks out, "mutually beneficial community project opportunities as they arise in the everyday marketplace activities of the Group's business units (Liberty, 2001)." One effort, the Freeplay Radio, has been hugely successful. Liberty's initial investment provided funds for the Freeplay radio to be produced in KwaZulu-Natal. By 2000, a million units were sold, providing jobs, expanding the region's economic base, and increasing Liberty's share value: General Electric recently purchased a stake in the company that valued the firm at US\$25 million (Personal Conversation with Hylton Appelbaum).

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Appendix B

and employs 30 “social responsibility” staff to provide skills and funds for empowerment-focused community enterprises. Michael Tuffrey, an external auditor and co-founder of The Corporate Citizenship Company, concludes that SAB , “offers a model for best international practice (SAB Review, 2000)”.

Even Anglo American, the company often accused of establishing Apartheid, has an initiative to align social contributions with its core business strategies. This program, *Zemele* (literally “to be independent”), seeks out opportunities to establish minority owned *and* managed companies¹⁹ that can supply complementary products and services to the company, allowing Anglo to focus on its core activities. Dr. Lia Vangelatos, one of Zemele’s three business development managers, likens the approach to socially-conscious venture capital; they seek out strategic opportunities to create companies that can stand on their own (Personal Conversation, July 16, 2001). Their rationale in part is that SME creation in South Africa is extremely difficult due to lack of capacities and an unfavorable tax structure (Personal Conversation, July 16, 2001). Hence, Anglo has difficulty finding reliable partners capable of meeting its long-term needs and must “seed” potential partners. The results of Zemele’s efforts are impressive: Total turnover of all companies launched totaled US\$7 million in 1999, and in 2000, seventeen firms generated US\$9.7 million (Personal Conversation, Vangelatos, July 16, 2001), with both figures surpassing Anglo’s Foundation expenditures each year.

5. Government policies

The new president has repeatedly voiced his expectations of business if it is to help develop and transform society. Many people are still ambivalent about the relative costs and benefits of the profit motive and the workings of the market. there is widespread disagreement over the extent to which governments have to intervene in the market to 'optimise' the contributions of the private sector. Still, too many South Africans still lack access to housing, water, land, and other essentials of life (Economist, 2000: 86-4).”

In short, the policy regime and government efforts are confusing, dynamic, and hotly debated. The tax regime clearly suppresses entrepreneurship. For a good review of

¹⁹ They define this to mean a minimum of 30% representation by “Previously Disadvantaged Individuals”, the official term for non-whites, in *both* management and ownership.

Appendix B

South African policies and their effects on socioeconomic development, see Bernstein and Dagut, (2001); Elbadawi and Hartzenberg (2000), and the Economist (2000a).

Appendix C

Our social business principles - in brief

Employees

- fair remuneration, according to skills and performance and related to competitive industry and country conditions
- continuous improvement in health and safety performance
- an environment in which all individuals and teams can develop their full potential
- respect for the wide range of human diversity and encouragement of inclusiveness
- honest and respectful communication, freedom of expression, right to free association of employees and collective bargaining
- encouraging employees to be creative, innovative and open to new ideas
- integrity in business conduct – not engaging in, or tolerating, any corrupt practice

Products and services

- promoting products and services in an honest manner, respecting the values of our consumers' societies
- engaging with issues of concern in society and, through consumer education, seeking to avoid the misuse of our products and services

Community engagement and consultation

- partnerships which bring measurable benefits to people in local communities; particular support for organisations which strengthen and develop civil societies
- regularly consult people affected by operations, both formally and informally, especially on social issues and environmental impacts, giving due weight to their views

SAB's corporate accountability framework is based on a comprehensive set of 26 detailed Business Principles, covering economic, social and environmental impacts (see www.sabplc.com).

Appendix D

Daniel Hosea Fleischer

Dan Fleischer grew up in central New Jersey until leaving to attend Emory University in Atlanta, Georgia. While enrolled as an undergraduate at Emory, he researched sustainable economic development in Latin America for a semester and identified a novel metric for quantifying the economic impact of over-development around waterways, which was later used in a government study. During travels across the Middle East, Dan studied the Oslo peace process and investigated the plausibility of peaceful coexistence around environmental concerns. In 1996, Dan graduated *phi beta kappa* among the top two percent of his class, having earned Bachelors' degrees in Political Science and Ecology.

After Emory, Dan first worked in finance before becoming a management consultant with the leading healthcare consultancy. In June of 2000, Dan became the first person without MBA training to be selected for the competitive Endeavor eMBA program in Latin America. There, Dan helped a Chilean entrepreneur to develop an international business plan and compete for venture capital. After briefly traveling around South America, Dan attended the London School of Economics where he received a Master of Science degree with highest distinction and graduated first among peers.

Currently, Dan is enrolled in the MBA program at Stanford University's Graduate School of Business, Class of 2003. Among many activities, Dan is the Managing Editor of the school newspaper and heavily involved in the Public Management Program and Social Leaders Initiative.