The Future of Wealth

By Michael Romain

In *Harvard Business Review’s* September issue, there’s an article—“A New Alliance for Global Change”—that predicts nothing short of a paradigm shift toward a new business-nonprofit partnership: “Collaboration between corporations and CSOs [citizen sector organizations] has reached a tipping point: It is becoming standard operating procedure.”

After stumbling into the *New York Times*’ Economix Blog today, I saw this graph under the headline “Corporate Profits Near Pre-Recession Peak”

![Graph of Corporate Profits](image)

As you can see, second quarter earnings for 2010 are hovering around the third quarter 2006 level, despite the Labor Department’s disappointing announcement that the jobless rate rose to 9.6% this month. *If Harvard Business Review* is correct in its assessment of the nascent partnership of corporations and CSOs, then this seemingly paradoxical news shouldn’t make me wince that much. It would suggest that the current quarterly success of corporations reflects, if only in small measure, the concurrent success of organizations such as Cabrini Connections and TM/C. But is this the case, yet?

There definitely seems to be a growing body of scholarship and popular literature that points to something of a turning point, if not a revolution, in the way businesses are beginning to think about social responsibility. Andrew Greenblatt of Criterion Ventures, a consulting firm that helps entrepreneurs launch social enterprises, in an interview with the blog Business Pundit, says: “I went back to school to speak at Harvard about a year ago. Someone came from the business school to watch me speak, and we went out for drinks afterwards. He said that the largest student club at the Harvard business school today is the private equity club. The second largest club is the social venture club.”
Indeed, the time seems to be particularly ripe for a change away from what Meredith Walters, Senior Associate at the social venture capital firm Good Capital, calls binary thinking regarding charity, towards what might best be described as a hybrid model of social responsibility. Whereas before, the emphasis among investors was on profits first, then tax-exempt (emphasis on tax-exempt) donations to their favorite charities second; today and in the near future, the social benefit of a particular stock will be apart of the very decision of whether to invest or not to invest.

There’s even something called “hybrid value chaining,” in which a company’s social and environmental footprint figures to be almost as important as its bottom line when thinking about its products’ production-to-distribution process. Not only is efficiency considered integral to the equation, but social responsibility is as well. And who will be keeping these companies “honest” in their attempts to be good? CSOs.

While these developments in the corporate sector are laudable, it would be naïve to think that corporate America has had some overnight change of heart. That isn’t the case. An unhealthy emphasis on short-term profits, high debt-to-capital ratios, golden parachutes, hostile takeovers, greed, and decadence still hold sway. But several unsettling realities are beginning to intrude on business as usual.

First and foremost, there’s the economic crisis. The paradox of recessions, depressions, market meltdowns, and crashes is that in their destructive wake, they unleash torrents of opportunity for the most enterprising and persistent among us. This is what economist Joseph Schumpeter called “creative destruction.” Just as the Dot-Com Crash of the early 2000s created an atmosphere of cheap fiber optic technology for India to exploit, thus creating its own IT Revolution; so will the crash and resulting unreliability of America’s welfare state make way for business-minded entrepreneurs with social missions.

Secondly, global concerns such as climate change, resource depletion, mass biodiversity loss, overcrowding, and poverty are causing many public policy-makers to second-guess unregulated free-markets as the portals to peace and prosperity they were once widely believed to be. Prominent economists such as Jeffrey Sachs and Nobel laureate Gary Becker argue that currently, big businesses from McDonalds to Boeing get away with murder by not actually paying for the pollution they put into the environment, since those kinds of negative externalities aren’t accounted for in the costs of doing business. As governments, with all of their sluggishness, finally begin to tax corporations for the negative externalities to which they subject people, animals, and the biosphere, thereby indirectly subsidizing “positive” activities, entirely new niches will be carved for the CSOs with the ability and wherewithal to take advantage of them.

Thirdly, corporations are beginning to realize that social responsibility doesn’t have to go against profits. The biggest challenge companies will face will be acclimating themselves to the much slower, yet much more fulfilling maturity of socially responsible ventures. Imagine if companies took the truly long-view and thought not just about the future beyond the next quarter, but that beyond the next generation. If CEOs truly valued this type of long-term thinking, they would incorporate programs like Cabrini Connections into their corporate philosophy. They’d risk
losing earnings to pay their employees to mentor, because they’d realize that it’s in their best interest. Not only do studies indicate that employees become better, more reliable employees by mentoring, but any economist worth her bonus will tell you that a better educated, better prepared workforce is necessary for a competitive economy, and a competitive economy is necessary for a competitive company. Mentoring transforms people who might otherwise have been permanently shut out of the mainstream economy into highly productive citizens. This is a service to the nation that should have real, quantifiable, measurable value so that organizations responsible for delivering it can be compensated according to their contribution.

The world may be a little ways from Wal-Mart opening its shelves to none but the most sustainable and equitable vendors, but momentum is accelerating towards an economic system that considers costs and benefits based on values that account for more than the allotment of finite resources. For starters, there’s the growth of the “emerging domestic market”. According to Michael Porter, one of the concept’s originators, “emerging domestic markets” are much more than opportunities for philanthropy—they’re opportunities for market growth. In an article in *Bloomberg Businessweek* he writes:

> Nowhere are the opportunities for creating shared value more apparent than in impoverished urban areas. Economic inequality raises fundamental challenges to capitalism, and inequality will not be solved until we help residents of disadvantaged communities prosper in the market system. Inner-city residents need jobs near their homes that offer good pay and the prospect of long-term employment. These can be created only by business.

As business begins to realize that its greatest asset is quality employees; that healthy, vibrant communities are essential to any well-functioning and competent employee; that the inner-cities represent perhaps the greatest pool of untapped human potential in the country; that it would be a competitive advantage to any business to be among the pioneers who develop this pool of resources; but that before it can develop the people, it must develop the environments in which they are nurtured, the incentive not only to fund, but to incorporate organizations such as TM/C and Cabrini Connections into business models and budgets will become more lucrative with every government budget cut.

This is the future of wealth in America. And the future may be now.