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Philanthrocapitalism: dawn of a new era?

**When Bill Gates and Warren Buffett stood on stage together at the New York Public Library and the elder billionaire announced the he was going to give away most of his fortune through the Bill and Melinda Gates Foundation to help the poor, a new ideology was born.**



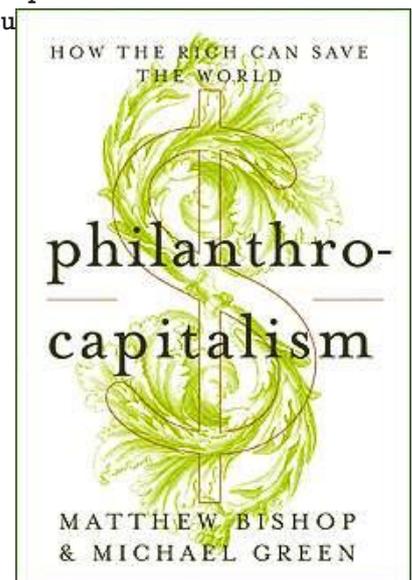
According to **Matthew Bishop**, US business editor and New York bureau chief of *The Economist*, and co-author of *Philanthrocapitalism: How Giving Can Save the World*, that was the seminal moment for philanthrocapitalism, essentially a marriage of philanthropy and capitalism.

“That struck me as a genuinely unique moment in history, and a moment which needed to be understood. It raised many, many questions about the responsibilities of wealth, the opportunities that wealth gave, and about the future and nature of capitalism.”

These questions, he says, have become more relevant since the global economic crisis, which has

resulted in a lot of new questions being asked -- about what this force of capitalism is, how do we get a capitalism that actually works with society, rather than against it.

Bishop cites the example of Goldman Sachs which once “had a deep cu



lture in philanthropy” but who is now “fighting for its life” because the investment bank has failed to understand how the public is demanding higher standards from business. As a result, it faces the

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danger of becoming “a much diminished firm” through government action and through their own customers leaving them.

Fortunately, many other companies have woken up to the reality of philanthrocapitalism, which Bishop says is “a global phenomenon”.

“In the boardrooms of multinationals now, there is an understanding that as they think long term, they have to be on the right side of social progress; they have to be part of the solution rather than part of the problem. This is, in my mind, a complete shift of thinking that is taking place.”

“It’s still in its early days, but if you go back 20 years, companies like Nike, Nestle, Coca-Cola, Wal-Mart regarded it as a badge of honour to be seen as not soft and sentimental, and socially progressive. They preferred to be seen as really focused on efficiency, and maximising profits and shareholder value.”

“I think that was just an incredibly short-sighted view of capitalism, and now you see a company like Wal-Mart embracing green products, working with vast numbers of non-profits to change the whole product range that it is offering to the American people and other parts of the world where it operates. And this is, in turn, changing the supply chains, changing the companies all around the world, particularly in China, that it works with. It is by no means creating perfection, but it’s substantially different to what we saw before. And you hear more and more companies starting to explore this, starting to work with the non-profit world to actually improve their game.”

A notable success story to come out of philanthrocapitalism, according to Bishop, is the microfinance movement, spearheaded by Muhammad Yunus, the founder of Grameen Bank. Microfinance, he explains, went from a charitable model to a for-profit model where people figured out how to do the lending to poor people profitably.

And once people learnt how to do that, they went to the capital markets and tapped much more money to expand financial services for poor people than was ever going to be available through charity.

Relying on charity is never a good place to be. The mood often changes as to whether this is a good cause or not. Whereas if you have a profitable business, then you’re always going to find investors that are going to put money into it.

The phenomenal success of Grameen Bank has sparked new thinking among other philanthropists.

“Philanthropists are now looking at what happened

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in microfinance and saying ‘can we do this: this change from philanthropy to business much more quickly than (what) happened with microfinance which took 30 years, in areas like basic healthcare for the poor, education for the poor, clean water provision, a whole series of different areas?’”



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Bishop is confident this will come to fruition soon enough. “I’m expecting over the next few years to see an increase in models that are bottom-of-the-pyramid models, designed by philanthropists who are willing to experiment, but then are taking the scale by the capital markets. I’m also seeing the start of a change among institutional investors and mainstream finance to address the social impact consequences of their investing.”

That said, he concedes that philanthrocapitalism is still “not a very well defined field” and that “there’s an awful lot of experimentation”, such as learning from others and trying things to see what works and what doesn’t.

But therein too lies the challenge. “One of the attractions of philanthrocapitalism to me is that it’s bringing lots and lots of different ideas and people into the process of trying to solve some of these big social problems,” Bishop told INSEAD Professor Anil Gupta in an interview for INSEAD Knowledge. “It’s breaking away from this monolithic approach of just saying this is just the government’s job or whatever, and letting a thousand flowers bloom -- and that I think is a very positive thing.”

Measuring social impact is going to be a major challenge however. “My view is that the crisis in capitalism that we’ve seen over the last couple of years should make us all question the data that we use to judge progress, whether it be GDP numbers that misled us, or indeed share prices that seem to be telling us that companies were a good bet for the future, but turned out to be a very bad guide to whether those companies were any good or not. We should be looking at what better data we can find about social performance and sustainability.”

A “big idea” he says he’s floating around as chair of the World Economic Forum’s Committee on Philanthropy and Social Investing, is a Global Social Competitiveness Index that would be a basis for comparing different countries on how socially innovative they are, so that countries would actually compete to create the right infrastructure in which social change for the better could take place.

“We think that this would be a huge step forward to have countries compete in that way. The challenge is going to be to figure out how to create such an index and what should go into it ... We now must shape a better capitalism than the capitalism that we’ve had for the last 25 years, one that works definitely to improve society.”

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