

# GLOBAL CONNECTION

VIEWS ON GLOBALIZATION, THE DIGITAL REVOLUTION, AND LEADERSHIP

## Not All Profits Are Equal

Last week I noticed a flyer with a peculiar headline posted here at the Tuck School. A group seeking volunteers for local social work used the headline “Do you want to make a *profit* or make a *difference*?”

Of course, positing the pursuit of profit and the pursuit of a social contribution as complete opposites is nonsense. Still, even here at a business school, I suspect that the headline caused hardly a second thought. Fallacious or not, a sharp disconnect between serving public good and seeking private gain is deeply ingrained in the public consciousness.

Strong emotions are associated with the word *profit*. In the business community, where we speak of “profit maximization” and “profitable growth,” there is a strong psychological connection between *profit* and *goodness*, between *profit* and *success*. This could hardly be more distinct from the emotions evoked by the term *profit* among those who are distrustful of the business community, such as environmentalists, labor unions, consumer groups, and of late, a significant portion of the voting public. Among these groups, profit is often equated with greed, immorality, even wickedness. It is telling that the social sector organizations, at least in the United States, refer to themselves as *nonprofits*.

It is not hard to think of examples to support both viewpoints. When a corporation develops and commercializes a new and more sophisticated medical imaging device, it is clear that the pursuit of profit has simultaneously produced a social benefit. At the same time, when a business finds a loophole in an environmental law that allows marginal cost decreases while emitting substantially more pollution, there is a clear conflict.

To get beyond profit’s harsh and counterproductive emotional associations, a simple diagnostic is needed—one that quickly identifies whether or not an initiative to improve profitability also contributes to public good. In a recent article published in *Across the Board* magazine, the Center for Global Leadership introduced a new framework intended to meet this need.

Corporations face numerous options for improving profitability. We believe that these options can be categorized in one of three ways. Some make a distinct social contribution, some make no contribution, and some potentially diminish social well-being. These three categories—*social profits*, *neutral profits*, and *debatable profits* are quite distinct.

Social profits come in one of two ways. First, any time a corporation finds a way to increase the productivity of existing work processes, it makes a social contribution. Our

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total income, and therefore the limit to our total consumption as a society, is directly determined by our productivity. The more we produce, the more we are able to consume—from educational programs to health services to video games—and the higher our overall standard of living. The second route to social profits is through the introduction of new products and services that consumers desire. When corporations pursue social profits, they are literally creating something out of nothing. They provide more options for consumption and give society the capacity to consume more.

Neutral profits arise through routine negotiations—with suppliers, with customers, with employees. In such negotiations, one party gains and one loses, and the net benefit to society is zero. There is no *direct* social contribution, but it is important that businesses pursue neutral profits. If they did not, markets would fail to set prices appropriately, and resources would be misallocated.

Debatable profits are similar to neutral profits, except the transfer of wealth is not from one private entity to another; it is between a business and society as a whole. In pursuit of debatable profits, corporations seek to enrich themselves at the expense of a publicly owned asset—usually public health, public safety, or the environment. Businesses are not necessarily wrong to pursue debatable profits. However, they should feel the highest obligation for transparency in such pursuits, so that a public assessment can be made weighing costs and benefits.

Especially in these times, when corporate ethics and responsibility are in the news daily, the distinction among social, neutral, and debatable profits can make a difference. Clarifying how businesses can both contribute to and diminish our overall social well-being, creates a basis for trust among adversaries and builds a more productive foundation for discussion regarding the roles and responsibilities of corporations. ■

*The author, Chris Trimble, is the executive director of the William F. Ahtmeier Center for Global Leadership at the Tuck School of Business at Dartmouth.*

*Global Connection is published by the William F. Ahtmeier Center for Global Leadership. The center is dedicated to building and sharing expertise on the specific practices, processes, and organizational models that enable mature, global corporations to continually create, grow, and profit from innovative approaches to doing business.*



WILLIAM F. ACHTMEIER  
CENTER FOR  
GLOBAL LEADERSHIP

**TUCK SCHOOL OF BUSINESS  
AT DARTMOUTH**

100 Tuck Hall, Hanover, NH 03755 USA  
Phone: 603-646-0898 Fax: 603-646-1308  
[glcenter@dartmouth.edu](mailto:glcenter@dartmouth.edu)  
[www.tuck.dartmouth.edu/cgl](http://www.tuck.dartmouth.edu/cgl)

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