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
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.

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that enable mature, global corporations to continually create, grow, and profit from innovative approaches
to doing business.