The Morality of Profit In Business: Transforming Waste Into Wealth Through The *Iko Toilet* Business Venture In Nairobi, Kenya

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ABSTRACT

The main argument of this theoretical paper is that the pursuit of honest profits in a voluntary market exchange is not only moral but also ingrained in human nature, in that human beings pursue activities that benefit them and avoid those that cause them loss. Through an examination of the Kenyan business venture called Iko Toilet (which is a mix of the Kiswahili word '*iko*' meaning 'there is' and the English word 'toilet' to literally mean 'there is a Toilet'), the paper contends that there is no inherent contradiction between doing well (engaging in honest voluntary business transactions) in order to do good (maximize legitimate profits).

Key Words

Profits, Morality, Business, Ethics, Kenya

Introduction

Innovation has been viewed as the process of creatively using ideas to generate wealth and to promote social welfare (Juma & Lee 2005). However, most developing countries such as Kenya still face the challenge of finding ways of harnessing innovation to meet the aspirations of their people (Adwera 2011). Almost fifty years after attaining political independence, Kenya still grapples with core challenges in the provision of basic services to its people such as clean water and sanitation, food, adequate health and education facilities. Thus the masses of Kenya, like those of most developing countries, languish in poverty despite government and donor efforts to uplift their lives. Part of the solution to this problem lies in getting more people to be innovative and to think about their personal contribution to positive change.

For a long time, many Kenyans blamed their government for anything that went wrong in their lives - hunger, disease, ignorance, poverty, political crisis, among others. However, a person who visited Kenya in the early 1990s and made another visit in 2011 would realize a remarkable shift of paradigm in the mindset of many Kenyans in terms of who is in charge of their destiny. Most Kenyans have realized that just the same way that an economic system cannot make men moral, political leadership cannot in itself make men rich. The most it can do is to allow them to make riches- the bottom line is individual initiative and effort. Thus, at present, Kenyans are generally very enterprising and highly optimistic. They embrace new initiatives with enthusiasm and make the most out of them.

Many enterprising Kenyans have embraced a new business model guided by market based solutions to poverty. The new model involves blending entrepreneurial skills and perspectives with mission statements that seek to both serve the needs of poor customers and address the welfare of the poor (Hall *et. Al.* 2010). These new market based solutions to poverty have identified the poor as a potential market for their products (bottom of the pyramid market). Bottom of the Pyramid advocates, such as Prahalad, talk about the “untold wealth generated by the world’s four billion poorest people” (Prahalad 2004). On his part, Mahajan (2009) focuses on the business opportunities in Africa, and provides examples of local companies that have

flourished by meeting the needs of the many poor people in the continent rather than the few rich in it. The Iko Toilet business venture in Kenya is one such example. There is a growing body of literature looking at the role of hybrid enterprises in poverty alleviation (see for examples Hall *et. Al*. 2010; Juma & Lee 2005; Adwera 2011; Mahajan 2009; Prahalad 2004).

This paper examines the Iko Toilet business venture, an indigenous Kenyan initiative which has made considerable profits from the provision of quality sanitation facilities to the urban and peri- urban poor in the country. The paper seeks to answer the following questions:

1. Is the pursuit of profits in business compatible with ethical business behavior?
2. Are profits immoral *per se*, and if not, is there a level at which they become immoral?

The paper argues that profits give meaning to human activity because they act as a reward for hard work: evidence that a particular activity is worth the sweat and risk motivates innovations, and is the driving force for any economy. As such, the pursuit of profit *per se* does not raise any moral issues, but how profits are realized can and does. We should therefore appreciate the free market for enhancing the drive for profitability, and commend those enterprises that do business the right way and realize financial rewards in the form of profits. The paper is divided into two main sections. The next section gives insight into the Iko Toilet business venture in Kenya. The third section examines the question as to whether or not profit making is compatible with ethical business behavior.

The Iko Toilet Business venture in Kenya

Few entrepreneurs would think of investing their capital in the management of public toilets. Even fewer would imagine that human waste could be translated into a profitable business venture. However, four years ago, in 2008, David Kuria, the founder and chief executive officer of Ecotact Ltd., an architect by profession, saw a lucrative business opportunity in the provision of clean and accessible sanitation services in the central business district of Kenya's capital, Nairobi, and innovatively went for it. Ecotact is a social enterprise that invests in environmental ventures that

meet one of the most basic human needs - affordable sanitation in pleasant surroundings within cities and towns, with particular emphasis on the most disadvantaged areas such as urban slums (Karugu 2011, 2). Ecotact Ltd. is the company that founded and runs the Iko Toilet service, which is a mix of the Kiswahili word '*iko*' meaning 'there is' and the English word 'toilet' to literally mean 'there is a Toilet'. The Iko Toilet project is a network of pay per use toilet and shower facilities.

Ecotact Ltd., whose flagship project is Iko Toilet, has since its inception won several international awards, among them Guinness World Record on Hygiene 2010, Africa Social Enterprise of the Year 2009 by World Economic Forum, and Citation by President Bill Clinton during the Clinton Global Initiative 2009. Ecotact was also named one of the five finalists for the Most Innovative Award of the 2011 Africa SMME Awards (Ecotact 2012).

Iko Toilets are developed using the Build Operate- Transfer (BOT) model, whereby Ecotact enters into agreements with municipal councils through which it bears the cost of constructing the Iko Toilets on municipal land. Ecotact is then granted the right to run the facilities on a commercial basis for a period of five years to ensure recovery of the investment. The facilities are eventually to be handed over at no cost to the municipal councils to either run them on their own or to lease them out (Karugu 2011).

The Iko Toilet model has innovative conservation applications which include the complete 'Dry-Toilet System', which entails a bio-digestion system and a urine harvesting system. There are also water saving innovations which include the use of waterless urinals, low-flush cisterns and water-saving taps. The urine harvested from the waterless urinals is then segregated and sold to companies for onward production of fertilizer. Some facilities already use human solid waste to generate methane gas, which not only reduces sewage disposal, but also serves as an alternative energy source. Iko Toilet is also keen on exploring and demonstrating potential for agricultural and energy production from sewage (Karugu 2011, 10). Iko Toilet is therefore an environment-friendly and profitable business venture that aims to build

high quality public sanitation facilities in economically depressed areas in major urban and peri- urban towns in Kenya (Ecotact 2012).

The Iko Toilet initiative has revolutionized the public sanitation industry in Nairobi and its environs into a decent and dignified service to the public. Before this innovative initiative, it was almost unimaginable to think of going for a call of nature in the then municipal run public toilets- unless of course it was a matter of 'do or die'! The municipal run toilets were filthy to say the least, and were also hide outs for pick pockets and thugs. So over and above relieving oneself in these extremely unhygienic toilets, one faced the danger of being mugged, sometimes violently!

Through the Iko Toilet project, Ecotact has set up high hygienic standards in its 'sanitation hospitality' with an ambiance of convenience. Each Iko Toilet facility serves an average of 1,000 persons per day at a fee of 10 Kenya Shillings (an equivalent of $10 cents per use) through provision of quality toilet and shower services in urban markets, parks and the Informal Settlements. By thinking beyond the degrading municipal toilets, the Iko Toilet business model has offered a unique urban 'street escape' intervention. Inspired by the words of Mahatma Gandhi - 'Sanitation is more important than Independence' - Iko Toilet looks at transformation, restoration and sustainability of social dignity in our ever growing urban population (Ecotact 2012).

What is more, Ecotact is about to start making millions from converting the urine that they harvest under the Iko Toilet projects to Urea and selling it as fertilizer to local farmers. To optimize on the urine recovery venture, Ecotact, with the financial support of WASTE Netherlands, has initiated a 1.5 million Kenya shilling scientific research with the Jomo Kenyatta University of Agriculture and Technology on the use of urine as Agricultural fertilizer (Ecotact 2012). The utilization of the urea in urine to make Eco Fertilizer in Kenya presents a solution to the 21st century Agricultural problems in Kenya in particular, and in Africa at large. Food production has declined in Kenya largely due to land degradation and climate change. The organic Eco Fertilizer will be a major and timely scientific breakthrough in Kenya, especially now that over 10 million people are facing starvation due to reduced food security in the country (Opiyo 2011). What can we say to all this? That the pursuit of profits can

effectively transform waste into wealth- it can indeed create the wealth of the nation and improve the well being of the citizens (to paraphrase Adam Smith). Kenya is basically an Agricultural economy, and the urine harvesting project for the production of fertilizer is a step in the right direction.

The Iko Toilet initiative has been so successful that Ecotact has duplicated the same in other major cities in Kenya. Today, Kuria also tries to manage the deluge of orders from other cities such as Kampala, Dar Es salaam, Monrovia and Accra. These cities want to emulate Kenya's example by embracing the Iko Toilet project as a way of bringing quality sanitation services to their residents (Okutoyi 2011).

Morality and Pursuit of Profits incompatible?

As much as the innovative idea of the Iko Toilet has revolutionized the concept of public toilets in Kenya, it has not been without criticism. Questions have been raised about the morality of making huge profits from the provision of basic services! Put another way, some have asked if it is fair to profit from the provision of a necessary service (toilet facility), and perhaps even to deny the service to those who cannot pay for it. Is it moral for Mr. Kuria and his team to make profits from people's unavoidable 'misery' to answer a call of nature?

Each Iko Toilet facility serves 1,000 people per day at the price of $10 cents each. That translates to about $ 100 per unit per day. There are over 50 Iko Toilet facilities, and therefore that amounts to about $5000 income per day, which is an equivalent of Ksh. 500,000 per day! To put it in perspective, the amount of income that the Iko Toilet facilities generate per day can buy one a brand new Toyota Vitz car in Kenya. Now that is a profitable business by any measure.

Thus the overarching ethical issue is: Does Mr. Kuria deserve to make such profits from people's necessary and natural urge to relieve themselves? My answer to this question is a resounding YES! It is moral for Mr. Kuria and Ecotact to earn those huge profits for a job well done; and this is why. Ecotact has invested over US $ 1.2 million in the construction of 50 Iko Toilet facilities in more than 12 municipalities in Kenya, serving an average of 50,000 people daily with safe water and sanitation

facilities, and has created a pool of over 100 employees in a record three years. Their monthly income is Ksh. 1.5 million shillings, an equivalent of $15,000 (Ecotact 2012). That sounds like a lot of money collected out of the necessity to answer a call of nature!

However, most importantly, before this revolutionary idea, one would not even have thought about whether or not to pay the KShs.10 to answer to that call of nature. People either had to make do with the despicable and risky municipal public toilets, or persevere and hope that they did not catch a running stomach within the central business district! The fact that the initiative serves 50,000 people daily is an indication that the initiative has profited many people, and that the demand is high. Consequently, instead of being suspicious of this initiative, we need to commend Mr. Kuria, and, where possible, emulate his example so that we can have many more such facilities.

The Iko Toilet initiative also serves informal settlements (slum areas) in Nairobi. It is noteworthy that 65% of Nairobi's population lives in slums, occupying barely 5% of residential land (Adwera 2011). Most of the slums are located by the main urban water bodies (rivers and water catchments) and near mining quarries. Due to lack of adequate sanitation facilities, most of the slum residents use open defecation and 'flying toilets[1]' leading to many deaths from water and sanitation related diseases. Iko Toilet has therefore come in handy in these areas, and when one does the cost- benefit analysis, $10 cents is much more affordable than what one would use to go to the hospital or purchase some drugs (that is, if they do not succumb to a disease!). This to me is a clear indication that profit is essential to achieving innovation and improving the standard of living. Mr. Kuria saw an opportunity and invested in it, and now it is bearing fruit. From a one-man idea, thousands of people have benefited, not to mention the investor's benefit in terms of the satisfaction that comes from success.

Profit is a critical barometer of demand because it tells entrepreneurs where they should invest. Furthermore, without profit there is no capital to achieve progress. If

[1] 'Flying toilets' is a euphemistic term used in Kenyan slums to refer to human waste put in a polythene bag and thrown to some destination, which may land on someone's body or another person's house!

one does not have profit, one cannot get change (Forbes &Ames 2009). As Adam Smith (1776) observed in his *Wealth of Nations* more than a century ago, the pursuit of profits leads to innovation, including technological innovation. Smith predicted that the pursuit and competition for profits would advance efficiency and society would progress, hence the wealth of nations would flourish and the well being of the citizens would improve. So profit is not only moral, but also essential to a healthy economy. To me what would have been immoral is for the government or the municipalities to stop Mr. Kuria from making profits through Iko Toilet facilities.

Ecotact has also started other profit-oriented services at the Iko Toilet outlets such as shoe-shining services, selling airtime vouchers for mobile phones, mobile phone money transfer, newspaper vendors, barber shops and quick snack outlets (Ecotact 2012). This is certainly a profitable revolution that benefits the Kenyan society.

So, are profits immoral per se, and if not, at what point do they become immoral? For centuries, people have been suspicious of profits because of the belief that profit to one person must mean loss to someone else. This suspicion is rooted in the 'brute capitalism' of the medieval business classes, which rested on the dictum of 'A profit is a profit however it is acquired' **(**Vogel 1991**).** In my view, this is a rather narrow, if not mistaken, view of the essence of profits in any market exchange. In a market situation, if I voluntarily give some money, whether it is a cent or a million dollars, in exchange for something, it is evident that I think that I will profit more from what I get in return than from holding on to the cent or million dollars, and there is nothing morally wrong with that. As Younkins (1998) notes, in a free market exchange, business transactions take place by mutual agreement for perceived mutual benefit. Through honest voluntary exchanges, buyers and sellers can promote their own interests only by serving the interests of others.

In most cases the right thing to do can also be the profitable thing to do, and in the long run most profitable businesses tend to be operated in accordance with the minimum principles that most people hold dear. In a perfectly competitive market, profits create competition and higher profits bring more players into the market. The competing producers have to bring down their prices, resulting in lower prices to the benefit of the consumers (Forbes and Ames 2009). 'Immoral' business behaviour

mostly arises when the free market ceases to be perfectly competitive and monopolies emerge (Velasquez 2002).

The most obvious moral failure of monopoly markets lies in the high prices they enable the monopolist to charge and the high profits they enable him or her to reap- a failure that violates capitalist justice. The monopoly market imposes unjustly high prices on the buyer, and generates unjustly high profits for the seller (Velasquez 2002, 235-236). Nevertheless, through the legitimate pursuit of profits we can grow the world economy, and thereby fight poverty in the developing economies through initiating innovative and profitable ideas such as the Iko Toilet project to improve the quality of life. So then instead of demonizing profit as the root cause of all social evils, we should applaud it for being the motivating factor for any human activity and the driving force for the growth of any economy.

Furthermore, as Ayn Rand puts it in *The Virtue of Selfishness*, human life requires productive achievement, and the noblest act of moral virtue is using one's mind to create life- sustaining values. According to Rand (1964), productive work is the central purpose of a rational person's life because in order to survive, human beings have to discover and produce all that is necessary for their survival. This in effect means that they have to adapt (to be innovative) in order to alter their environment to meet their needs. Rand argued that the pursuit of profit is moral because it enriches the individual who achieves it. As such, someone like Bill Gates or David Kuria deserves the highest moral praise not for giving away his wealth, but for creating it. The making of profits does more than make some people rich; it is the way our economic system mobilizes people to provide for others as they respond to the demands of the market (Younkins 1998). Profit is a here-and-now reward for doing something that is beneficial to the actor and to other people.

Whether we call it benefit, gain or advantage, profit is a reward, an incentive - that which answers the 'why' question in any activity we undertake. Is there anything intrinsically wrong with getting a reward for working hard and fairly out doing a competitor? I do not think so. Neither do I think that there is anything inherently wrong with pursuing honest profits in entrepreneurship. If anything, making profits *per se* does not raise any moral issues. What we need to be concerned about is how

individuals and businesses realize profits. If they make profits through hard work, innovation and quality service delivery, then they ought to be applauded. We should emulate them as we seek prosperity for ourselves. Profits are the necessary evidence of good stewardship. If earned through voluntary honest market exchanges, profits arise from morality and reinforce morality. Profits add value to the world because they channel self interest into activities that promote the interests of others. As noted earlier, profit is a critical barometer of demand, telling producers where they should invest: it is evidence that a particular action taken by an entrepreneur created more benefits than costs (Younkins1998).

Many opponents of the morality of the pursuit of profits in business transactions often cite the thoughts of Adam Smith in The Wealth of Nations (Werhane 1991; Stilwell 1975; Wogaman 1977). One of the most oft cited remarks of Adam Smith, widely regarded as the father of modern economics, is the one about the butcher, the brewer and the baker. An extract from *The Wealth of Nations* reads: 'It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but to their self love …' (Smith 1776, 14). This is cited as evidence that those who are involved in business activities are only concerned about promoting their self-interest (pursuit of profits) and therefore they are not interested in the rhetoric of the do's and don'ts, the goods and bads that are the subject matter of ethics.

However, such an argument can be faulted because in essence, promoting one's self-interest (pursuit of profits) does not necessarily translate into one being selfish and hence immoral. As psychological egoists have pointed out, human beings are by nature inclined to promote their long term self interest. There is therefore nothing inherently unethical in the butcher, the brewer and the baker promoting their own self-interest because that is the only way we can be assured of 'our dinner'. The butcher, the brewer and the baker want our money, and we in turn want their products. This amounts to an exchange that benefits both parties in each case.

In an economy organized according to market principles, the only way to acquire wealth is to satisfy the material needs of others: profits are the rewards business men and women receive for successfully fulfilling the legitimate expectations of their

employees, customers and investors. Wealth accumulated through the market does not subtract from the total volume of goods and services available through the market system: the consumer is no worse off for having exchanged his or her money for a commodity than the merchant is poorer because he or she now has fewer goods and more money. Thanks to the miracle of the market, both are better off than they otherwise would have been, though not necessarily in the same proportion (Vogel 1991).

The two broad approaches in ethics (deontology and teleology) can generally be used to justify the legitimate pursuit of profits in a voluntary market exchange: as a means to an end, a good in itself, a practical measure of how to deploy resources, a reward for risk taking, technical innovation and efficiency. Deontological ethics emphasizes our duty as human beings to do the right thing, not because of the consequences, but out of good will (Velasquez 2002). An action is therefore right or wrong because of its inherent nature, irrespective of the expected outcome. If we take the pursuit of profits at the personal, national or international level, there is nothing intrinsically wrong with it. So then, deontologically, it is the 'howness' of the pursuit of profit that raises moral issues, not the pursuit of profits *per se*.

According to teleological ethics, the consequences of a particular action determine its moral rightness or wrongness (Velasquez 2002). If the consequences are beneficial, then the action is morally good, and vice versa. As I have already mentioned, profits are the motivating factor for any human endeavor. Human beings are by nature utility/benefit oriented, and the pursuit of profits only raises moral questions when it is thought that it negatively affects the interests of others to a significant degree. So if an entrepreneur starts a business and it makes profits, his or her action becomes a good action because it brings about desirable consequences. Profits in such a case become a means to desirable ends - a means to building the business and rewarding the entrepreneur and employees and serving the community better.

However, it is a fact that some profits are acquired through the worst expressions of greed, deception and fraud. Deontologically, such pursuit of profits would be intrinsically bad no matter how much we would want to justify them on teleological grounds. Most evil, dangerous and unethical business practices in pursuit of profits

result from the shortsightedness of the entrepreneurs and managers in relation to the norm of maximum profit, not from the inappropriateness of the norm itself. Such practices are in most cases incompatible with long-term maximal profits once the public learns of them, as it inevitably does. This in effect translates to unethical behavior since the doctrine of maximizing self interest rooted in ethical egoism advocates for only those practices that are likely to promote long term self interest (Velasquez 2002).

The pursuit of profits is not inherently incompatible with morality or doing the right thing. In essence, when one pursues profits legitimately, one is doing the right thing! The business entrepreneur is a rational profit maximizer in neoclassical economics; and just as Adam Smith (1776) observes, self-interest is the 'invisible hand' in any economic exchange. It is the self interested behaviour of those engaged in any economic activity that ultimately has an unintended positive effect for society at large, provided that the prevailing institutional framework directs self interested entrepreneurial behavior in the right direction (Davidson *et. Al.* 2007). Profits are the most immediate rewards for someone having efficiently produced something useful, and they are the lifeblood of any business corporation: without them corporations would not survive (Arjoon 2000). The pursuit of profits in business 'can be seen in much the same way we see food in our personal life. We probably do not define food or eating as the purpose of our lives, but we recognize that it is essential to maintain our health and strength so that we can realize our purpose (Naughton *et. Al.* 1996)

The purported evilness of the pursuit of profits has been closely associated with capitalism, which has been accused of promoting selfishness in its emphasis on the pursuit of profits. As an economic system, capitalism has therefore been accused of corrupting individuals and contributing to most of the evils in society (Forbes and Ames 2009). I think that this is an unfair accusation. No economic system can make people morally good. The best that an economic system can do is to allow people to be good; and since for people to be morally good they have to be free, capitalism more than any other economic system allows individuals to be morally good since it grants them individual freedom. Therefore although capitalism cannot guarantee us a moral society, it is necessary for the pursuit of one (Younkins 1998). It is the individual freedom in capitalism that facilitates voluntary and honest exchanges in the

pursuit of profits, creating fair competition, promoting innovative ideas with the consequent growth of the economy both nationally and globally, leading to higher standards of living. As Ayn Rand (1964) noted, capitalism is the only economic system that rewards the profit motive and respects the individual's right to act on his own judgment in the pursuit of his own life and happiness.

In public and academic debates, especially on economic or business activities, profit is often seen as an exercise in "greed and avarice" and therefore synonymous with 'exploitation' (Bowie 1988); but is it so? If we are to be honest with ourselves, it is difficult to find any meaningful human activity that is not consciously or unconsciously geared towards profit (benefit) and the avoidance of loss. Loosely put, human beings engage in various activities, business or otherwise, because they expect to get some benefit out of them. Starting with the most basic activities such as eating, sleeping, being educated, being clothed, relaxing among others, we do all these because we stand to benefit from them. For us to benefit from each of these activities, we need not just do them, but do them well. Take for instance sleeping and eating, which are basic to human nature. To profit from the act of sleeping, there are a minimum number of hours one has to sleep- no matter how relative that may be. Similarly, to profit from eating, one has to eat the right amount, the right food and in the right way- again no matter how relative that may be. So then I think it would be right to say that human beings are by nature profit oriented, not for selfish reasons, but because they are inherently self-interested, and this gives life meaning. As Aristotle (1908) puts it in his *Nicomachean Ethics*, every human activity is geared towards some goal (benefit), with the ultimate goal being Happiness.

Nevertheless, Norman Bowie (1988) correctly argues in his "The profit seeking paradox" that profits, like happiness, are best obtained if not pursued as such. If one wants to be happy, one needs to pursue not happiness, but the conscientious attention to other goals such as quality and dependability. To get profits, one needs to concern oneself with the pursuit of other goals such as quality service and the observance of minimal ethical standards than with profits as ends in themselves. When profits become the end of an organization, something is radically amiss. This is because to see business behaviour exclusively in terms of profit maximization neglects many

subtleties of commercial conduct, including the influence of societal conventions and mores, social interactions, and the principle of 'give and take' in business (Sen 1997).

However, if the profits come through innovation, hard work, the provision of quality goods and services, and excellent customer service among other actions that can be regarded as "good business behaviour", then such ought to be applauded, and we should actually emulate them as we seek prosperity for ourselves. There are restraints that bind the pursuit of profits including not only the 'feasibility constraints' that reflect the limits of what one can do, but also 'self imposed restraints' that a person chooses to obey on moral, conventional or strategic grounds (Sen 1997, 6).

Conclusion

This paper has presented a case for the morality of profits in voluntary and honest market transactions. It has used the Iko Toilet business venture in Nairobi, Kenya, to illustrate that profits are incentives for innovations and business ventures that have been run within the minimum ethical principles that govern all human activities. The main goal of any business activity, as that of all human activities, is some benefit (profit). Since human beings are naturally benefit oriented, there is nothing inherently immoral in acquiring profits in business. What does raise ethical issues is how particular profits are acquired - how a particular business venture is run in pursuit of gain. If profits are earned through honest and hard work, they are not only moral, but also reinforce morality.

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