

BUILDING SOCIAL BUSINESS MODELS: LESSONS FROM THE GRAMEEN EXPERIENCE

By

Muhammad YUNUS

Managing Director
Grameen Bank
Dhaka, Bangladesh

Bertrand MOINGEON

Professor
GREGHEC - CNRS, UMR 2959
HEC Paris, France
moingeon@hec.fr

Laurence LEHMANN-ORTEGA

Associate Professor
GSCM Montpellier Business School, France
Llehmnn-ortega@supco-montpellier.fr

HEC PARIS – WORKING PAPER 913, FEBRUARY 2009

ABSTRACT

The social business idea borrows some concepts from the capitalist economy, and therefore the implementation of social businesses can likewise borrow some concepts from conventional business literature. As an illustration, the notion of business model, which is currently attracting much attention from researchers, can be revisited so as to enable the building of social businesses. Social business models are needed alongside conventional ones. After defining what a social business is, we will describe the first endeavors to create such businesses within the Grameen Group. This in turn will lead to a discussion of the social business model.

Keywords: Social business, business model, social business model, Grameen, Danone

INTRODUCTION

In 2008, estimates published by the World Bank revealed that 1.4 billion people in the developing world - that is, one in four - were living on less than US\$1.25 a day in 2005. This figure was down from 1.9 billion, or one in two, in 1981. This suggests that the developing world is still on track to reduce extreme poverty by one-half from its 1990 levels by 2015, which is one of the eight Millennium Development Goals, a set of critical internationally agreed targets established under the auspices of the United Nations.

However, even at this rate of progress, in 2015 about a billion people will still be living on less than US\$ 1.25 a day. In Sub-Saharan Africa, the number of poor people almost doubled between 1981 and 2005. Although a decline in the poverty rate has been observed in middle-income countries in Latin America, the Middle East and North Africa, the total number of poor people in these areas has remained steady. Moreover, recent rises in food and fuel prices may prove to have a significant impact on poor people everywhere in the world.

Thus, governments, nonprofit organizations and multilateral institutions need to continue to work hard to alleviate poverty. However, those actors are unlikely to solve the problems of poverty by working alone. Governments can indeed do much to address social problems, but if governments alone could be effective then the problem of poverty would have been solved long ago. In fact, governments can be inefficient, slow, prone to corruption, bureaucratic, and self-perpetuating. Similarly, nonprofit organizations working alone have proven to be incapable of solving social problems, as they usually rely on a steady stream of donations. When these funds fall short, the good work stops. Nor have multilateral institutions achieved much in attaining their professed social goals. Like governments, they are often bureaucratic, conservative, slow-moving, and sometimes self-serving. Like nonprofits, they are chronically underfunded, difficult to rely upon, and often inconsistent in their policies. Most important of all, these entities cannot see that poor people can be actors themselves, part of the solution as well as part of the problem.

More recently, for-profit companies have shown some interest in the fight against poverty, as part of a more general emphasis on corporate social responsibility (CSR). Generally speaking, as a younger generation of managers rises to the top, more leaders are interested in social change. However, in the capitalist system, shareholder value maximization remains

the rule and the reconciling of this with social objectives is often problematic. Thus, although advocates of CSR like to talk about the ‘triple bottom line’ of financial, social, and environmental benefits by which companies should be measured, ultimately there is only one bottom line that matters: financial profit.

As well as governments, nonprofit organizations, multilateral institutions and companies, another type of institution which aims specifically at social goals needs to be developed. We call this new type the “social business”. The social business concept is still under construction, and has emerged mainly through the on-going experiences of the Grameen Group. This Group is a network of nearly 30 sister organizations linked to the Bangladeshi Grameen Bank, the microcredit pioneer and 2006 Nobel Peace Prize winner. Our ambition in this article is to provide detailed guidance for entrepreneurs (individuals as well as established companies) who wish to create social businesses.

The social business idea borrows some concepts from the capitalist economy, and therefore the implementation of social businesses can likewise borrow some concepts from conventional business literature. As an illustration, the notion of business model, which is currently attracting much attention from researchers, can be revisited so as to enable the building of social businesses. Social business models are needed alongside conventional ones. After defining what a social business is, we will describe the first endeavors to create such businesses within the Grameen Group. This in turn will lead to a discussion of the social business model.

WHAT IS A SOCIAL BUSINESS?

A new form of business

The Grameen Bank has created over the years 27 socially oriented organizations ranging from the country’s biggest phone company to one supplying affordable healthcare. This 30-year long experience of building firms whose purpose is to alleviate poverty has led to the development of a new type of business, the “social business”.

In the capitalist system, two types of corporate bodies can be distinguished. On the one hand, companies can be seen as profit-maximizing businesses, whose purpose is to create shareholder value. On the other hand, non-profit organizations exist to fulfill a social objective. A social business borrows from both these entities. It has to recover its full costs

from its operations, and owners are entitled to recover their invested money. However, the social business is more cause-driven than profit-driven, with the potential to act as a change agent for the world (see figure 1).

Insert figure 1 about here

In its organizational structure, this new business is basically the same as the profit-maximizing businesses. It is not a charity, but is a business in every sense. The managerial mindset should be the same as in a business: when you are running a business, you think differently and work differently than when you are running a charity but with an objective different from a profit-maximizing company. Social businesses need to recover their full costs, so as to achieve self-sustainability¹ while at the same time achieving their social objective. The owner never intends to make a profit for himself (there are no dividends), although he is entitled to get his money back if he so wishes. Rather than being passed on to investors, the surplus generated by the social business is reinvested in the business. Ultimately, it is passed on to the target group of beneficiaries in such forms as lower prices, better service, and greater accessibility. Thus, a social business is designed and operated as a business enterprise, with products, services, customers, markets, expenses, and revenues. It is a no-loss, no-dividend, self-sustaining company that sells goods or services and repays investments to its owners, but whose primary purpose is to serve society and improve the lot of the poor. Here it differs from NGOs, most of which do not recover their total costs from their operations, and therefore are forced to devote part of their time and energy to raising money. As it seeks self-sustainability, a social business only relies on its investors at the beginning of a development project.

Hence, a social business is a new form of business between a profit-maximizing and a non-profit organization. One might wonder why investors would put money into such a business. The many billions of dollars that people around the world donate to charitable causes every year demonstrates that there is a desire to give money in a way that benefits other human beings. But investing in a social business is different from philanthropy in several ways. As noted above, the social business is self-sustaining. Investors in a social business get their money back; people who donate to charity do not. The investor also remains the owner of the company and decides its future course of action. And as well as providing money, businesspeople find this as an exciting opportunity to leverage their own business skills and creativity to solve social problems.

Grameen Danone's Social Business

Among the many ventures created by the Grameen Group, Grameen Danone Food Limited (GDFL) is often considered as one of the first actual social business experiments. Created in 2006, GDFL is a 50-50 joint venture between the Grameen Group and the French Groupe Danone, one of the world's leading healthy food companies. With a revenue of €12.8 billion (\$18.4 billion) in 2007, Danone is number one worldwide in the market for fresh dairy products and number two worldwide in bottled water. Over the past 30 years, Danone has been involved in a dual commitment to business success and social responsibility. In the context of this approach, Danone's mission evolved at the beginning of 2000 from: "bringing health through food" to "bringing health through food to a maximum number of people".

The Grameen-Danone Project was created jointly by the managers of the two organizations. Its mission was "to bring daily healthy nutrition to low income, nutritionally deprived populations in Bangladesh and alleviate poverty through the implementation of a unique proximity business model". This project marked a new stage for Danone, which did not have a presence in Bangladesh at the time.

The mission as defined could not be fulfilled through a simple replication of Danone's conventional business model in Bangladesh. As shown in figure 2, we suggest² that a business model has two major components:

- **A value proposition**, that is, the answer to the question: who are our customers and what do we offer to them that they value?
- **A value constellation**,³ that is, the answer to the question: how do we deliver this offer to our customers? This involves not only the company's own value chain but also the value network with the suppliers and partners.

These two components need to fit together as pieces of a puzzle in order to generate a positive profit equation. This profit equation is the financial translation of the two preceding components: it describes the sales generated through the value proposition, and the cost structure and capital engaged resulting from the value constellation.

Insert figure 2 about here

Danone's conventional business model is similar to that of most fast-moving consumer goods (FMCG) producers. Its value proposition is focused on high-end products benefiting from a strong brand image supported by heavy marketing investments. The value

constellation relies on economies of scale: the manufacturing is centralized in large factories, from which products are shipped to distribution platforms and mostly sold through food retailers.

In order to meet GDFL's objectives a new business model had to be built. There are similarities here with business model innovation, which is about generating new sources of profit by finding a novel combination of value proposition and/or value constellation. Academic and managerial research on business model innovation has been growing over the last few years (although the research does not always use this exact term). Our idea is to combine the insights provided by this research with the Grameen experience – that of GDFL and other Grameen sister organizations - to develop a social business model framework. This framework will be helpful for managers seeking to build businesses designed to fulfill social goals.

HOW TO BUILD SOCIAL BUSINESS MODELS?

The literature suggests that business model innovation is facilitated by three major strategic moves: challenging conventional wisdom, setting up partnerships, and experimentation. The examples of GDFL and other Grameen Group organizations show that those moves are also relevant for creating social business models.

Challenging conventional wisdom and basic assumptions

The research on business model innovation, considering business models rather than products, processes or technologies as the locus of innovation, has led to a growing body of academic literature over the past years.⁴ Most of this research underlines the radicalism of this type of innovation, which is defined as the capacity to create new strategies which modify the rules of the competitive game in an industry. This represents an important challenge for companies, for it means they have to question the models that have previously led to success. This in turn requires revisiting a number of basic assumptions and resembles what Argyris and Schön have described as “double loop learning”.⁵ In contrast to single loop learning or first-order learning, which confines itself to changing strategies within an existing framework, this type of learning forces the organization to transform its fundamental references and to adopt new ones. Both the creation of Grameen Bank and GDFL offer insightful illustrations as to how conventional wisdom could be challenged.

Challenging conventional bank wisdom at Grameen Bank

This questioning of the current rules of the game was at the very heart of the foundation of the Grameen Bank. It was a village woman named Sufiya Begum who taught Yunus, then a professor in economics, the nature of the problem she encountered. Sufiya worked all day making bamboo stools. Like many others in her village of Jobra, she relied on the local moneylender for the cash she needed to buy the bamboo for her stools. But the moneylender would give her the money only if she agreed to sell him all she produced at a price he would decide, which was ridiculously low. Thus, although hardworking, she was trapped in poverty. Forty-two people in the same village, who had borrowed a total amount of less than \$27 from the moneylender, faced the same desperate situation. They could not borrow money from conventional bankers since they had no credit histories and no collateral to offer, and because they were illiterate they could not even fill out the necessary paperwork.

Eventually, Yunus lent the \$27 from his own pocket, and recovered this amount and its interest within a week. However, despite evidence provided by several other similar experiences, conventional bankers continued to be reluctant to consider poor people as potential customers. This eventually led to the creation in 1983 of the Grameen Bank (Grameen means “village”), within the framework of a new law made especially for this purpose. Rather than being focused on collateral, the whole business model was built around the poor themselves – their problems, their skills, their needs, and their abilities – hence reinventing new rules of the game.

Indeed, Grameen Bank’s business model relies on very different basic rules from those of a conventional bank. First, the value proposition of the bank is to make small loans that are sufficient to finance income-generating businesses aimed at lifting the poor out of poverty: rice-husking, machine repairing, purchase of rickshaws, buying of milk cows, goats, cloth, pottery and so on. The interest rate on all loans is 16 percent. Second, the value constellation is as follows. A bank branch is set up with a branch manager and a number of center managers, covering an area ranging from 15 to 22 villages. The manager and the workers start by visiting villages to familiarize themselves with the local milieu in which they will be operating and identify the prospective clientele, as well as explain the purpose, the functions, and the bank’s mode of operation to the local population. Groups of five prospective borrowers are formed. In the first stage, only two of them are eligible for, and

receive, a loan. The group is observed for a month to see if the members are conforming to the rules of the bank. Only if the first two borrowers begin to repay the principal plus interest over a period of six weeks do the other members of the group become eligible themselves for a loan. Because of these restrictions, there is substantial group pressure to keep individual records clear. Thanks to group support, group pressure and self-interest, and the motivation of the borrowers, the repayment rate on loans is currently 98.4 percent. Grameen Bank grants loans to over 7.5 million poor people, 97 percent of whom are women. Through credit, the poor lift themselves out of poverty: 64 percent of the borrowers who have been with the bank for 5 years or more have crossed the poverty line. The bank has been profitable in every year of its existence except 1983, 1991 and 1992, demonstrating a positive profit equation.

Thus, Grameen Bank's business model challenges several standard banking assumptions, including the belief that loans cannot be made without collateral and that 'entrepreneurship' is a rare quality. Grameen Bank and other institutions' experiences confirm that entrepreneurial ability is practically universal. Furthermore, the new value constellation shows that social pressure is more efficient than collateral based on bureaucratic control.

Challenging conventional FMCG model at GDFL

Such a questioning of conventional wisdom and the accepted rules of the game can also be seen in the example of GDFL. Due to the lack of infrastructure, retail outlets and refrigerators in Bangladesh, Danone's conventional fast-moving consumer goods' business model needed to be drastically amended. Managers at Danone had to come up with a radically new business model. The three major accepted and effective rules of the game in the business model in developed countries – high-end markets, centralized manufacturing and large-scale logistics - had to be put questioned in the Bangladeshi context.

Concerning the value proposition, the product had to be affordable for poor families on a daily basis if it was to be effective. The goal of GDFL is to "help the children of Bangladesh to be healthy" by offering them "a nutritious and healthy product which they may consume on a daily basis". "Shoktidoi" (literally, yogurt which makes one strong) has been created with this goal. Thanks to its price –8 BDT per container, or approximately 6 US cents - it can be purchased regularly even by the poorest Bangladesh families; a radically different target

market from Danone's conventional high-end consumers. Made from cow's milk and date molasses and enriched in micronutrients, Shoktidoi contains calcium and proteins essential for children's growth and bone strength. In developed countries, the "cold chain" system ensures stability in the acidity of flavor of Danone's yogurts. Since there are no refrigerators in rural Bangladesh, reaching this stability was one of the big issues in developing the product. Numerous tests were required to achieve both appetite for children and proper nutritive quality.

As far as the value constellation was concerned, the cold chain system again had to be questioned. The three main processes of the value constellation - supply, production and distribution - needed to be radically revisited.

- *Supply*

GDFL favors the use of ingredients available locally for several reasons: cost reduction in terms of raw materials (no import fees, simplified logistics), minimization of fossil energy consumption (reduced transportation), and to promote local community development and fight against rural exodus. Thus, GDFL faces several issues. The market for milk, main ingredient of the Shoktidoi, is very informal in Bangladesh. The cost of milk is critical for GDFL and determines the sustainability of the firm's business model. To avoid coming into competition with other milk purchasers, and so as to limit any increases in already high milk prices, GDFL had to structure the upstream market. It chose to develop micro-farms to form part of its own supply network. Micro-credits are offered by the Grameen Bank to potential owners of dairy cattle, who receive a guaranteed annual fixed price and veterinary advice which helps to improve quality and output. The same channel structure has been created for date molasses, the natural date tree syrup, which is much cheaper than sugar and very appreciated by local populations for its strong flavor.

- *Production*

The GDFL factory at Bogra, a town in northern Bangladesh, is small (500 square meters in surface area) and has a capacity which is approximately one thirtieth of Danone's typical European factory. To meet the objective of selling each unit of Shoktidoi at 8 BDT, a reduced-cost yogurt production process was designed, despite the absence of usual economies of scale. The process was simplified to the extreme and slightly automated. Guy Gavelle, Danone's Production Manager, says that designing and building the Bogra plant has

been one of the richest learning experiences of his decade-long career. He discovered that small could be just as efficient as big, despite his years of assuming the opposite.

- *Distribution*

The informal network of main markets and door-to-door sales people is by far the most developed in Bangladesh (supermarkets are mainly located in rich neighborhoods of Dhaka, the capital city, and some small stores exist in more densely populated zones). Thus, GDFL had to find an alternative to its conventional retail distribution. Door-to-door sales are ensured by the “Grameen Ladies”. Although illiterate, these women are trained to deliver a nutritional message and receive a commission for each yogurt they sell; they are not employees of GDFL and their unsold items are not taken back. They can reach 200 households per day and benefit from additional credit from Grameen to buy materials and sufficient product stock. As well as door-to-door distribution, Shoktidoi is also sold in existing stores which offer an array of products, mostly food products.

Due to the lack of conventional media, the standard advertisement model (press and television-based ad campaigns) had to be questioned. GDFL was fortunate to get the support of Zinedine Zidane, the internationally famous French soccer player, who visited the factory and contributed to a spectacular brand launch.⁶

Thus it can be seen that the first step in setting up social business models is to challenge existing conventional wisdom and basic assumptions. As noted by Karnani,⁷ economies of scale cannot be generated by serving the poor. Dramatically different business processes need to be developed in order to achieve low costs while providing high quality products, so as to make the product affordable to low-income consumers.

Finding complementary partners

The second step in building social business models is to leverage expertise and resources by setting up partnerships. This again is nothing new in business model literature. There is a need to be open to other players in the industry, and to players in other industries. The ideas developed by Chesbrough,⁸ who called for open business models within technological environments, may therefore be applied to the context of poverty. By opening up their own business model to partner companies, firms benefit from new resources. On a theoretical level, contrary to the competitive paradigm, the cooperation paradigm places most of the emphasis on collaboration.⁹ Research stresses the importance of long-term relationships

among actors. Thus collaborative organizations gain access to new resources which otherwise they would have needed to either develop alone or purchase. The main advantage of such an agreement therefore lies in the pooling of resources and knowledge leveraged by the partners,¹⁰ which may in turn lead to the development of a broader portfolio of resources for firms joining the network. Cooperation is considered as a major factor of success for pro-active CSR strategies.¹¹ As already shown by the specific literature¹² on business model innovation which aims at social benefits, the Grameen experience illustrates how setting up partnership is a major step in building social business models.

Telenor and Grameen Phone

In 1996, in partnership with three outside companies,¹³ the Grameen Bank created a mobile phone company, Grameen Phone, to extend telephone service all across Bangladesh. Today, ownership of Grameen Phone resides with just two companies: Telenor (62%), the Norwegian incumbent telecommunications company with a total 2008 turnover of \$4.8 Billion and Grameen Telecom (38%), a non-profit company created specifically for this purpose.

Back in 1996, Grameen Phone was one of four companies licensed by the government to provide mobile phone services in Bangladesh. A UK-based consultant estimated the market in 2005 would be 250,000 mobile phones. Here again, this conventional approach about market growth in developing countries had to be challenged: in fact, the number of mobile phone users by 2005 turned out to be about 8 million! In 2008, it increased to 40 million subscribers. With no land-line service in most of the 80,000 villages in Bangladesh, mobile phone technology was essential to bring the country into the age of electronic communication. The success of Grameen Phone relied on both the non-conventional value proposition and value constellation. People who needed to make connections with a friend, family member or business associate could borrow a phone and buy just a couple of minutes from the now famous 300,000 “telephone ladies”, who provided phone service to their villages. Grameen Bank provided them loans to buy mobile phones and bulk air time.

By the middle of 2007, Grameen Phone, run by experimented Telenor managers, had become the largest tax-generating company in Bangladesh, with over twenty million subscribers. The advantages of the partnership are clear. Grameen had no experience in building a wireless phone network. Telenor for its part had no experience of the developing

world. It benefited from Grameen's knowledge of the country and the network of people the bank had already built, thus creating a strong barrier for new entrants. The combination of both Telenor's and Grameen's resources and skills created this successful venture, helping poor people become entrepreneurs and lift themselves out of poverty while at the same time offering a useful value proposition to customers.

However, as is often the case in partnerships, cooperation can uncover conflicts between the partners over time. Grameen's idea was to convert Grameen Phone into a complete social business by giving the poor the majority of shares in the company, letting them benefit from the soaring profits. But Telenor refused to sell its shares in this profitable business. Thus, conflicting goals between partners may appear over the course of the project. It is important that the objectives of the cooperation need to be fully stated at the beginning.

Combining Danone's and Grameen's skills to build GDFL

Likewise, GDFL's business model could benefit from both Danone and Grameen's resources and knowledge. Thus, GDFL relied on the existing Grameen Ladies network: without this specific resource, an efficient distribution network would have taken time to build, all the more so as the Grameen Ladies already benefited from an excellent image. Grameen had no experience in food production, and the joint venture made it possible to extend its operations. In addition to these two partners, the Swiss-based nutrition organization GAIN¹⁴ helped to develop, test and validate the program to ensure that the poor people of Bangladesh enjoyed meaningful health benefits from the new product. Through this partnership Danone found nutrition experts who specialized in the needs of developing countries, an area where Danone lacked expertise. Such partnerships between businesses and NGOs can be highly productive and low in risk, as they take place between actors who are not in direct competition with each other.¹⁵ It is worth noting that several years earlier, Grameen Bank had undertaken an experimental project to develop a locally produced weaning food to compete with imported baby food. The product, named Cerevit, was trial-marketed at a much lower price than that of imported products, but it did not succeed, probably because the project lacked the right kind of partners to make it happen. Moreover, to avoid the problems eventually encountered with Telenor, the mission of the joint business was established in detail at the beginning of the project.

Undertaking a continuous experimentation process

This is another recommendation derived from the business model innovation literature. In effect, the implementation of this type of innovation by an existing firm forces it to imagine and learn new ways of doing business, and since the change needs to be radical, this also questions the conventional way that business is done. Strategic experimentation appears in the literature as a specific type of knowledge acquisition. In the “classic” strategic approach, learning occurs mainly in the preliminary phase of the diagnosis: analysis and studies undertaken during this phase lead to strategic choices formalized in a business plan. However, the fundamentally innovative nature of business model innovation means that simple market studies or client surveys are inefficient and not very useful. People who are surveyed are not able to project themselves into this ‘radical newness’.¹⁶ Learning must therefore come through another route such as, for example, strategic experimentation.¹⁷ Learning from experimentation is fundamental to solving problems for which solutions are uncertain, or when critical information sources are inexistent or not available. Launching a series of small experiments helps minimize risk and maximize a firm’s rate of learning, making it possible to identify a strategy’s potential for success.¹⁸ Thus, as for conventional business model innovation, social business models can start small, be refined and then be rolled out.

Experimenting new access to drinking water

Veolia Water, a subsidiary of Veolia Environment, is the world’s leading provider of water services with a turnover of €11 billion in 2007. In March 2008, Veolia Water created a joint venture with the Grameen Bank. The objective was to provide rural populations in Bangladesh with affordable access to drinking water. Previously, many people had been compelled to buy bottled water, or drink polluted surface water or even water tainted with arsenic. Over the past several years, Veolia Water had been developing solutions to allow access to drinking water for vulnerable people living in urban areas, but it had not yet reached isolated rural areas. Veolia Water’s conventional business model, as for other water service operators in developed countries, consisted in recycling and purifying unclean water and billing individuals or families who had water points in their homes for their water

consumption. But the rural people of Bangladesh cannot afford to pay for a water point at home.

Veolia and Grameen therefore decided to build a factory and a whole network of water supply in Goalmari, a rather densely populated rural area, by the end of 2008. The value proposition was to provide drinking water at an affordable price to the inhabitants. The value constellation challenged Veolia's conventional business model in several ways. First, the cost of water treatment was to be reduced as much as possible in order to offer the cheapest price. Thus the factory needed to be kept simple. It was decided to recycle surface water as this is less costly. The drinking water produced would not meet current norms in the US or Europe, but would nonetheless meet World Health Organization standards. Second, three different water access modes needed to be implemented: inside people's homes, at the village's public drinking fountain, or by distributing water cans. The latter are dispatched to the most isolated villages by rickshaws driven by Grameen financed entrepreneurs. This distribution mode is a first for Veolia. Finally, new payment facilities needed to be implemented and a system of prepaid cards is being established. Here again, Veolia has had to challenge its conventional methods. It also benefits from the Grameen partnership, with Grameen providing country knowledge and the Grameen network.

During the first stage of operation, this factory intends to supply water to approximately 25,000 inhabitants. Facilities will be extended during a second stage, which will allow the factory to reach around 100,000 people. Other factories will then be built throughout Bangladesh. Thus this social business model is still under construction, and just like the earlier GDFL business model it needs to be fine-tuned as it is implemented.

Fine tuning GDFL's business model

Experimentation does not mean intuition, but an ability to change if the chosen path turns out unsuccessful. Experts from the corporate world can provide the relevant tools for analyzing the market and finding new outcomes. For example, at the beginning the Danone team seemed too academic in their analysis and too focused on getting precise statistics about the Bangladeshi market. However, the Grameen team ultimately discovered that as more information became available, old ideas were discarded and new ones were developed. This helped shape a whole new framework for the business.

In January 2007, the first commercial batches of Shoktidoi were produced at the Bogra site. GDFL considers that this project is still in its fine-tuning phase and intends to learn from this first site before rolling out the concept. Adaptation is still taking place. For example, at the beginning of 2008 GDFL was faced with soaring milk prices. This challenged the planned supply process, and compelled the company to buy from the existing milk groceries rather than exclusively from the planned micro-farms. The learning process goes on: the business is not yet profitable, so it still has to be adapted in order to become a real social business that recovers its costs and is self-sustainable. Once this aim is reached, this social business model will be rolled out all over Bangladesh and probably other poor countries as well.

Thus, as in all ventures, social business models are fine-tuned through experimentation. The Grameen Group usually has several programs running simultaneously, trying to find which social business formats works best. Grameen starts with a tentative structure and working procedure, then gradually adjusts these as it goes along. Sometimes the whole structure is abandoned if it is not working. The Grameen family of companies is characterized and animated by the spirit of innovation and experimentation. They are constantly looking for new ideas for businesses that can benefit the world, especially the poor, and they are not afraid to try something that no one has ever tried before. If the initial business plan does not succeed, then they start over, taking as long as is needed to find a winning formula. Basically, the Grameen Group approaches every new challenge in the same spirit of open-ended experimentation that drove the founding of the Grameen Bank.

Table 1 provides a summary of the examples cited in this text, emphasizing the points that in all cases, conventional wisdom needs to be challenged, partnerships pay and the experimentation process provides a good road map before rolling out the concept. Those are just some examples of the 27 organizations the Grameen Bank has contributed to building over the years. The story behind each of these companies shows the gradual emergence of the social business concept: a self-sustaining company that sells goods or services and repays its owners for the money they invest, but whose primary purpose is to serve society and improve the lot of the poor. Those lessons lead to the definition of a social business model.

Insert table 1 about here

FEATURING SOCIAL BUSINESS MODELS

Some of the Grameen companies have already been remarkably successful in achieving their social goals; others are still working toward achieving them. Some have proven to be financially successful; others are still searching for the path to financial self-sufficiency. Not every venture is equally successful. When they have faltered, it was usually because the market was misgauged or the business was not structured so it could become self-sufficient. The successes can be explained through the creation of a business model that meets genuine market needs. However, every company started by Grameen has been a success in one way: they have all provided a learning experience that has helped to shape the concept of social business. Again, GDFL is considered to be the world's first consciously designed multinational social business, that is, a business with a social mission but run as a for-profit organization. Its business model can be described as follows (see table 2 for a comparison with Danone's conventional business model):

- **A new value proposition:** GDFL offers an easily available and affordable dairy product, developed to fulfill the nutritional needs of children in Bangladesh.
- **A new value constellation:** The nutritional formula of the yogurt was developed by GAIN, an NGO. Grameen Bank grants micro-loans to farmers to buy the cows needed to produce the milk locally. The milk is then made into yogurt in a small factory, and distributed door-to-door by Grameen ladies.

Insert table 2 about here

As described earlier, building social business models relies on some of the same strategic moves as conventional business model innovation. However, the GDFL example also illustrates the specificities of this type of business model: the need to take into account all stakeholders, not only shareholders, and the need to define the social profit that is the aim of the social business.

Favoring social profit oriented shareholders

As mentioned earlier, more and more managers are eager to launch CSR projects that seek to help developing countries. The problem they are facing is that even if those projects remain small in terms of the overall scale of the company, they still require resources. In the case of Danone these resources included asset expenditure for the factory and the valuable time of top management. Since the managers of a business report to the owners or

shareholders, they must give profit the highest priority. If they were to agree to reduce profits in order to promote social welfare, the owners would have reason to feel cheated. Corporate social responsibility could be seen as corporate financial irresponsibility. Financial profit-oriented shareholders want to know whether the incurred costs will turn into a positive cash flow in the medium or long term.

Despite the ever growing number of studies trying to measure the impact of CSR on financial performance over the past thirty years (some mention 52 of such studies, others 127¹⁹), researchers still argue about the existence of a positive, negative or neutral link. These unclear outcomes stem from different shortcomings, including inappropriate constructs, methodological flaws or problems in the definition of “performance”.²⁰ More recent studies have taken into account these shortcomings and have attempted to correct them. Yet, as stated by Barnett, “the link between CSR and financial performance has become only murkier”.²¹

Even if we admit a positive link between CSR initiatives and financial performance, another debate remains. Friedman’s advocates would argue that such a positive financial contribution is not necessarily consistent with maximization of shareholders’ wealth. As the CEO of a publicly held company, Danone’s Riboud is answerable to his shareholders, but he is unable to provide clear evidence of how the resources used in the GDFL experiment maximize their value. So, in order to avoid alienating skeptical shareholders, Danone has developed another innovation by disconnecting the funding of GDFL from the stock market. The company has created a mutual fund with a special mission, and has given Danone’s shareholders the option of joining if they wish. The goal of this mutual fund is to give investors social benefits rather than financial benefits. The fund raised \$135 million in 2007, of which 20 percent came from Danone. Over 30 percent of Danone employees have already opted to invest part of their profit-sharing income in the fund. 90 percent of the mutual fund’s assets will be invested in money-market instruments yielding a predictable market rate of return; the remaining 10 percent will be invested in social businesses, which will pay no return. Taken together, these two pools of money will provide investors with a near-market yield on their money, while at the same time supporting businesses that are bringing specific social benefits to people in need.

This leads us to refine the business model framework so as to include not only customers, suppliers and other partners, but also shareholders who accept the social mission of the

experiment. Thus in building social business models, the value proposition and the value constellation are constructed through the innovative links between all stakeholders, including shareholders.

Clearly specifying the social profit objectives

When the objective is to build a social business, there is a shift in business models from traditional financial profit generation towards social profit generation. This is possible because only social profit-oriented shareholders are involved in the project, but it makes the design of the business model more difficult since it is focused not only on financial profit but on profit for all stakeholders. Thus social business models need to clearly define their objectives, whereas in conventional business model innovation, financial profit is merely implicit.

In the GDFL example, several sources of social profit were targeted, with two constraints: the need to limit the environmental impact of the operation, and the need to become economically viable (full cost recovery constraint):

- The nutritional profit

Shoktidoi naturally contains calcium and proteins, essential elements for bone strength and growth, and it is also enriched in micronutrients. A container of 80 grams provides 30 percent of a child's daily nutritional needs in vitamin A, iron, zinc and salt. Its live cultures also reduce the intensity and length of diarrhea. Shoktidoi should have a strong nutritional impact on children aged 3 to 15 who eat it on a regular basis.

- The employment profit

Jobs have been created locally in the micro-farms, the factory, and the distribution channel. The GDFL factory in Bogra has been conceptualized to favor local employment rather than the use of sophisticated machinery in order to create employment and avoid recurrent equipment maintenance problems. When the factory reaches its maximum production capacity in three years, it will employ approximately 50 people full time. Furthermore, GDFL plans on creating 3,000 micro-farms, and the Grameen Ladies have increased their income through their distribution of the product. Hence through the development of local employment which does not compete with existing networks, GDFL helps fight against rural exodus, which is at the root of many problems in developing countries. Furthermore, GDFL

hopes to attract local investment and promote local entrepreneurs who will also have ownership of the project.

- *Eliminating negative impact on the environment*

It is also important to add that these profits have not been achieved by compromising on what is usually considered as the third bottom line: environmental issues. In fact, quite the opposite is true. GDFL has been particularly vigilant in the implementation of its environmental policy, which is focused on ecological packaging and reduced energy use. Although the cup in which the yogurt is contained is not yet edible, it is made out of PLA (Poly Lactic Acid) elaborated from corn starch, and entirely biodegradable when placed in a specific milieu respecting hygrometric and temperature constraints. Furthermore, the rickshaw vans used in distribution of the production do not use any natural gas or oil.

The GDFL example shows that social and environmental goals do not necessarily conflict with long-term economic goals. Rather, these goals can be complementary, although as mentioned earlier there can be difficulties and conflicts during the process of fulfilling these objectives.

The social business model framework

Drawing from GDFL and more generally from the Grameen experience, we can highlight the adjustments needed to switch from a traditional business model framework to a social business model framework. The first change is the specification of targeted stakeholders and the definition of desired social profits, through a comprehensive view of the eco-system. The second is that the economic profit equation targets only full recovery of cost and of capital, and not financial profit maximization. Those changes are illustrated by figure 3.

Insert figure 3 about here

CONCLUSION

Through the Grameen experience, we have shown that building social business models is a difficult process but a possible one. Our topic here has been limited to the social impact of social businesses, however, it is important to stress that the social business model can also be applied to environmental issues. Problems ranging from climate change and water shortages to industrial pollution and high-priced energy, which are mere nuisances to people

in the North, pose life-and-death difficulties for those in the South. These problems could also be addressed by social businesses using specific new social business models.

We consider this article as a first step in shaping the social business model concept, and further field experiment and research is needed for researchers and practitioners to study and develop this type of self-sustaining business. Many questions indeed remain unsolved. As just one example, one can wonder how to assess the performance of social businesses. Return on capital employed is an accepted measure for conventional business models. Social profit, however, is difficult to measure with standard ratios. Indicators suffer from greater time lags than in financial performance management: the impact of the Shoktidoi on children's health will only be measurable in a couple of years. Certification procedures, such as the one developed by the Global Reporting Initiative, might be helpful but are still under construction.

However, we believe strongly there will be a growing interest in building social business models, for three main reasons. First, humans have an instinctive, natural desire to make life better for their fellow humans if they can. Given the chance, people would prefer to live in a world without poverty, disease, ignorance, and needless suffering. These are the causes that lead people to donate billions of dollars to charity, to launch NGOs and non-profit organizations, to volunteer countless hours to community service, and (in some cases) to devote their careers to relatively low-paid work in the social sector. The same drivers will lead many to create social businesses, once this new path is widely recognized and understood.

Second, the GDFL experience should encourage businesses to engage in this type of initiative. Indeed, we believe this \$1 million business has a prominent role to play within a \$19 billion company, Danone. Several studies have explored the link between CSR and firm reputation, and found a positive relationship.²² Research has also shown consistent results as to the effect of CSR initiatives on employees and prospective employees²³. The idea is that the best employees are attracted to companies which demonstrate a commitment to CSR, thus helping a firm to win the "war for talent". This recent stream of research speaks in favor of the development of social business initiatives within established companies.

Last but not least, there is another reason. Competing social businesses are not engaged in a contest like conventional businesses. Since the objective is social, they can learn from each other: best practices should spread rapidly. Social business models might be copied and

rolled out by other partners in other parts of the world. They might even merge with each other to become a stronger social force. For all those reasons, there should be a proliferation of social businesses through new or duplication of business models.

Generally speaking, social business is the missing piece of the capitalist system. Introducing it into the system may save the system altogether by empowering it to address the overwhelming global concerns that now remain outside mainstream business thinking. Thus, generating ideas for social business is the most important immediate challenge for today's business thinkers.

APPENDIX

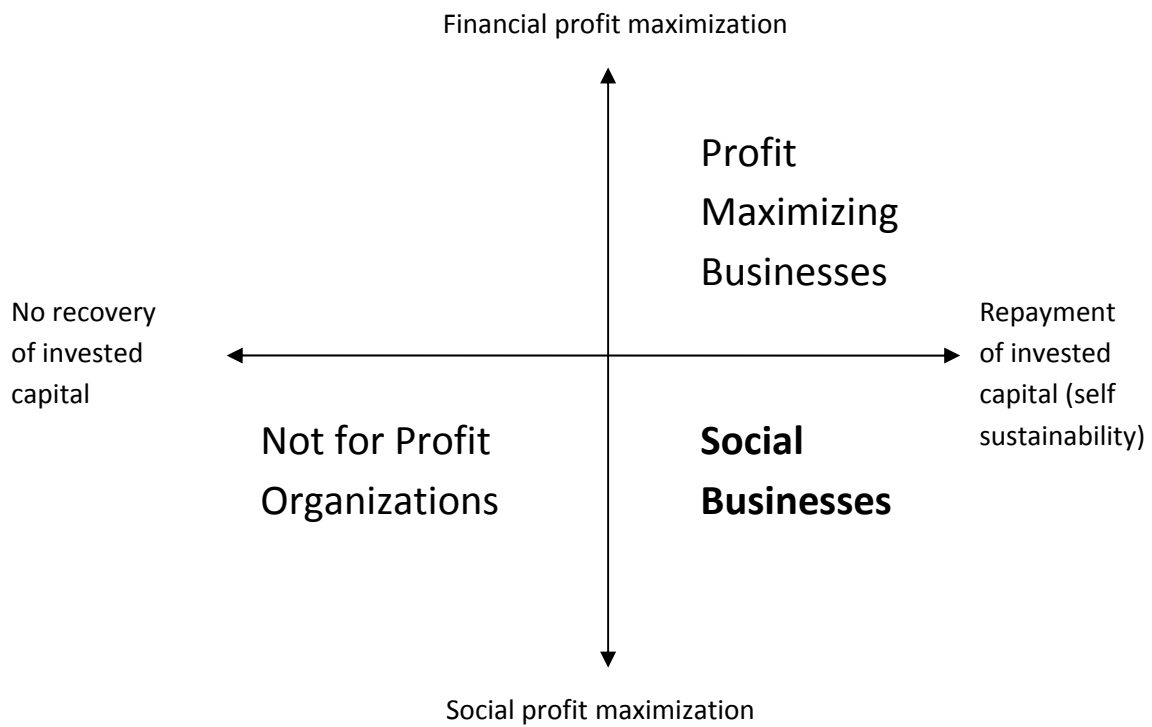


Figure 1 : Social business vs profit maximizing business and not for profit organizations

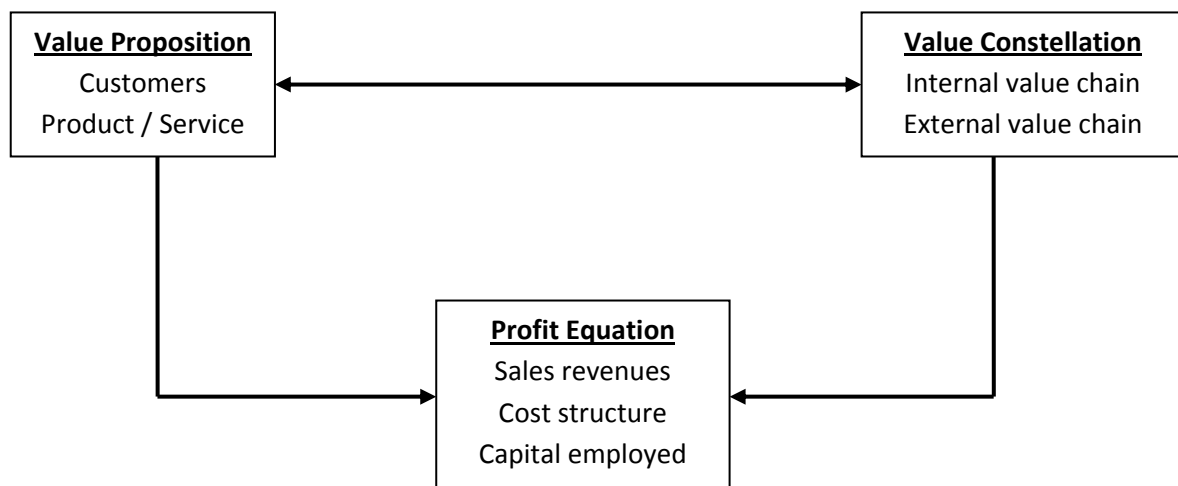


Figure 2 : The three components of a business model

	Challenging conventional wisdom		Partnership	Experimentation
	Basic assumption	New recipe		
Grameen Bank	Money cannot be lent to poor people at decent rates since they are not able to offer collateral	Being close to the lender involves a social pressure that ensures repayment	From 1983 to 1995, Grameen Bank relied on donor money	The project started in a village in 1976 with total loans of \$27 before being rolled out all over Bangladesh and other countries over the world
Grameen Phone	Buying power in developing countries is too low to build a profitable wireless network	Grameen Ladies own the phone, buy discounted air time in bulk and sell minutes on their own phone to users when needed	Telenor, the Norwegian incumbent	Grameen Phone extended the network step by step
Grameen Veolia	In developed countries, water treatment factories with a high level of technology, recycling water and ensuring maximum water quality. Distributing water through taps located inside people's homes ; and sometimes, in emerging countries through public water fountains in villages	Construction of a much simplified water plant, recycling surface water. Prepaid card payment system. New distribution channel for isolated locations: rickshaws driven by "Grameen boys"	Veolia (French company), one of the global leaders in water services	Fine tuning of the model in Goalmari
Grameen Danone	High end dairy products benefiting from a strong brand image supported by heavy marketing investments. The production is centralized in large factories, enabling high economies of scale. The products are shipped towards distribution platforms and mostly sold through food retailers	An easily available and affordable dairy product, developed to fulfill the nutritional needs of children in Bangladesh. Grameen Bank grants micro-loans to farmers to buy the cow needed to produce the milk locally; Milk is then transformed in a small factory, and distributed door-to-door by Grameen ladies	Danone, one of the world's leading healthy food companies	First plant in Bogra serving families within a 30 km radius

Table 1: Lessons learned from the Grameen Experience

	Danone's conventional business model	GDFL 's business model
Value proposition	<ul style="list-style-type: none"> • High-end products • Emphasis on lifestyle • Strong brand name through advertisement 	<ul style="list-style-type: none"> • Low price • Fulfillment of basic nutritional needs • Grameen Brand Image
Value constellation	<ul style="list-style-type: none"> • Centralized purchasing and production (economies of scale) • Logistics towards distribution platforms • Sales through food retailers • Storage by end consumers 	<ul style="list-style-type: none"> • Local supply of raw products • Local production • Direct door-to-door sales through Grameen Ladies • Limited storage by end consumers

Table 2 : Danone vs GDFL's business model components

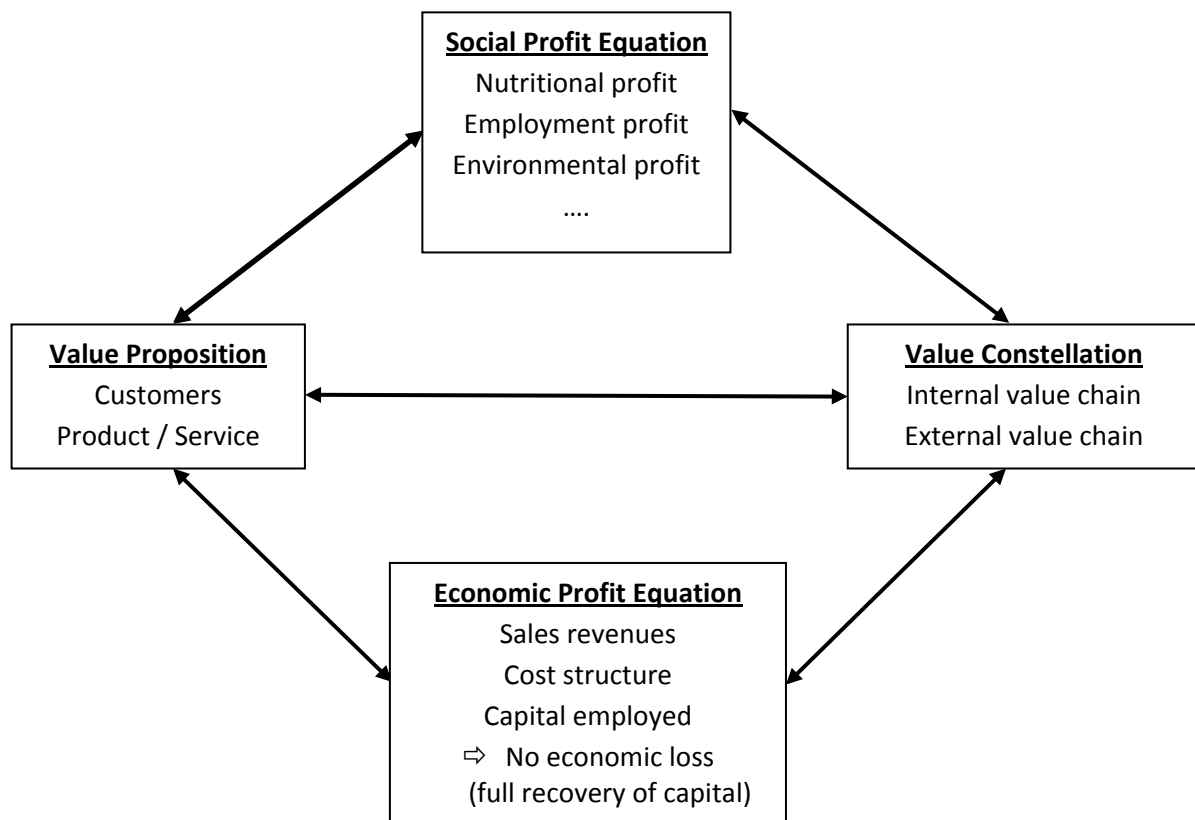


Figure 3 : The components of a social business model

¹ This is close to the concept of “social entrepreneurship”, defined by Mair and Marti as “a process involving the innovative use and combination of resources to pursue opportunities to catalyze social change and/or address social needs” (p. 37). Based on an extensive literature review, the authors state that both profit and not-for-profit initiatives are part of social entrepreneurship, which can be distinguished from conventional entrepreneurship through the “relative priority given to social wealth creation vs economic wealth creation. In business entrepreneurship, social wealth is a by-product of the economic value created” (p. 39). However, we see social businesses as a subset of social entrepreneurship. All those who design and run social businesses are social entrepreneurs, but not all social entrepreneurs are engaged in social businesses. There is also a difference with bottom-of-the-pyramid strategies, where multinational companies merely seek financial

profits. J. Mair and I. Marti, Social Entrepreneurship Research: A Source of Explanation, Prediction, and Delight, *Journal of World Business*, **41**(1), 36-44 (2006).

² An in-depth analysis of the components of business models in the academic literature shows that three components are usually distinguished among the plethora of definitions of a “business model”: the product/service proposed to customers, the way the company organizes so as to deliver this product and services to its customers, and the revenue model. Some authors, however, focus on just some of these components: Chesbrough and Rosembloom (2002), for example, focus on the revenue model, whereas Zott and Amit (2008) focus on transactions among the firm and its external constituents. We think our definition offers an integrated and consensual view about what business models are. Chesbrough, H., and Rosenbloom, R. S., The role of the business model in capturing value from innovation: evidence from Xerox Corporation's technology spin-off companies, *Industrial & Corporate Change*, **11**(3), 529-555 (2002). Zott, C. and Amit, R., The fit between product market strategy and business model: implications for firm performance, *Strategic Management Journal*, **29**(1), 1-26 (2008).

³ This is a reference to Normann and Ramirez’s vocable: Normann R. and Ramirez R., From Value Chain to Value Constellation: Designing Interactive Strategy, *Harvard Business Review*, **71**(4), 65-77 (1996).

⁴ The main references on strategic innovation include : Hamel G., Strategy Innovation and the Quest for Value, *Sloan Management Review*, **39**(2), 7-14 (1998); Markides C., *All the Right Moves : A Guide to Crafting Breakthrough Strategy*, Harvard Business School Press, Boston (1999); Kim, C., and Mauborgne, R., *Blue Ocean Strategy*, Harvard Business Press, Boston (2005); Schlegelmilch, B. B., Diamantopoulos, A., and Kreuz, P., Strategic innovation: the construct, its drivers and its strategic outcomes. *Journal of Strategic Marketing*, **11**(2), 117-133 (2003).

⁵ Argyris C. and D.A. Schön, *Organizational Learning: A Theory of Action Perspective*, Addison-Wesley, Reading, (1978); C. Argyris, *Knowledge for action*, Jossey-Bass, San Francisco, (1993).

⁶ In their framework based on four factors (affordability, acceptability, availability and awareness), Anderson and Markides (2007) have focused on how to increase the awareness for a product launch at the bottom of the pyramid, see Anderson, J., and Markides, C., Strategic Innovation at the Base of the Pyramid, *MIT Sloan Management Review*, **49**(1), 83-88 (2007).

⁷ Karnani, A., The Mirage of Marketing to the Bottom of the Pyramid: How the Private sector can help alleviate poverty, *California Management Review*, **49**(4), 90-111 (2007).

⁸ Chesbrough, H., Why companies should have open business models, *MIT Sloan Management Review*, **48**(2) 21-28 (2007).

⁹ Porter’s work is in line with the competitive paradigm, whereas Dyer and Singh are mostly cited for the cooperation paradigm. Porter, M. E., *Competitive Strategy*, The Free Press, New York, (1980). Dyer, J., and Singh, H., The relational view: Cooperative strategy and sources of interorganizational competitive advantage, *Academy of Management Review*, **23**(4), 660-679 (1998).

¹⁰ See Gulati, R., Alliances and networks, *Strategic Management Journal*, **19**(4), 293-318 (1998).

¹¹ Brugmann, J., and Prahalad, C. K., Cocreating Business's New Social Compact, *Harvard Business Review*, **85**(2), 80-90 (2007).

¹² Seelos, C., and Mair, J., Profitable Business Models and Market Creation in the Context of Deep Poverty: A Strategic View, *Academy of Management Perspectives*, **21**(4), 49-63 (2007).

¹³ Telenor of Norway, Marubeni of Japan and New-York based Gonofone Development Company.

¹⁴ GAIN: Global Alliance for Improved Nutrition.

¹⁵ Andreasen, A. R., Profits for Nonprofits: Find a Corporate Partner, *Harvard Business Review*, **74**(6), 47-59 (1996).

¹⁶ Kim C. and R. Mauborgne, Creating New Market Space, *Harvard Business Review*, **77**(1), 83-93 (1999); C. Gilbert, The Disruption Opportunity, *MIT Sloan Management Review*, **44**(4), 27-33(2003).

¹⁷ Slocum J.W., McGill M. and Lei D.T., The New Learning Strategy: Anytime, Anything, Anywhere, *Organizational Dynamics*, **23**(2), 33-47 (1994); Govindarajan V. and C. Trimble, Strategic Innovation and the Science of Learning, *MIT Sloan Management Review*, **45**(2), 67-75 (2004).

¹⁸ Hamel G., Strategy Innovation and the Quest for Value, *Sloan Management Review*, **39**(2), 7-14 (1998).

¹⁹ Orlitzky et al’s meta-analysis comprises fifty two studies; Margolis and Walsh mention 127. Orlitzky, M., Schmidt, F. L., and Rynes, S. L., Corporate Social and Financial Performance: A Meta-analysis, *Organization Studies*, **24**(3), 403-441 (2003); Margolis, J. D., and Walsh, J. P., Misery Loves Companies: Rethinking Social Initiatives by Business, *Administrative Science Quarterly*, **48**(2), 268-305 (2003).

²⁰ See Barnett M.L., Stakeholder Influence Capacity and the Variability of Financial Returns to Corporate Social Responsibility, *Academy of Management Review*, **32**(3), 794-816 (2007); McWilliams A. and D. Siegel,

Corporate Social Responsibility and Financial Performance: Correlation or Misspecification?, *Strategic Management Journal*, **21**(5), 603-610 (2000).

²¹ Barnett, op. cit., p. 794.

²² Brammer S. and Pavelin S., Corporate Reputation and an Insurance Motivation for Corporate Social Investment, *The Journal of Corporate Citizenship*, **20**, 39-51 (2005).

²³ Turban, D. B., and Greening, D. W., Corporate social performance and organizational attractiveness to prospective employees, *Academy of Management Journal*, **40**(3), 658-672 (1997); Sen, S., Bhattacharya, C. B., and Korschun, D., The Role of Corporate Social Responsibility in Strengthening Multiple Stakeholder Relationships: A Field Experiment, *Journal of the Academy of Marketing Science*, **34**(2), 158-166 (2006).