

Andrea Grove · Gary A. Berg *Editors*

# Social Business

Theory, Practice, and Critical  
Perspectives

*Foreword by*  
Muhammad Yunus

 Springer

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# Foreword: From Microcredit to Social Business

## Professor Muhammad Yunus, Nobel Prize Laureate

This book is about social business – the idea, its uniqueness compared to other concepts, issues that arise, and, of course, examples. A social business makes money but the investors or owners don't take a profit because the whole company is created to solve a social problem. Most try to solve social problems by giving to charities, but charity organizations are not sustainable. If you can create a business to do the same job, the money circulates and recycles, and you address the social problem again and again with the same money. In a conventional business everything is for me, nothing for others. In a social business everything is for others, nothing for me.

## Origin of Social Business: Grameen Bank

In the first chapter of this book, Andrea Grove and Gary Berg situate the concept of social business and outline key issues that creators of social businesses have faced. Chapter 2 then treats the concept separately from social entrepreneurship; Beckmann, Zeyen, and Krzeminska describe how we can gain insights by making the distinctions between these organizational types.

When I had the idea for the Grameen Bank, I was not thinking about social business or microcredit – those words came much, much later. I went back to Bangladesh in 1971 right after the liberation war where many people died, and there was a great deal of devastation. I was teaching in one of the American universities, quit my job, and went back to Bangladesh and started teaching there. Bangladesh suffered a large famine in 1974, which shook everybody. I felt empty trying to teach Economics students there while people were dying outside the classroom. I wanted to do something to help people around me.

So I started working in the village, going every day to see if I could make myself useful. I saw that loan sharking – even in that situation of famine – was going on in

the village and I wanted to help. So I took a student of mine and went around the village for several days to make a list of people who were borrowing from the loan sharks. When my list was complete there were 42 names on the list and the total money they borrowed was 27 dollars. Twenty-seven dollars total!

I couldn't believe that people have to suffer so much for so little. Their entire life is taken away by the loan sharks because they lent you a dollar. I looked at it and thought this is a terrible problem, but I have a very easy solution. Why don't I lend these 27 dollars to all 42 people and ask them to return the money to the loan sharks? They will be free, and they will continue with their lives. I thought if you can make so many people happy with such a small amount of money, why shouldn't you do more of it?

I then created a separate bank to lend money to the poor people because conventional banks were extremely reluctant. I called it Grameen Bank (or village bank), and started lending tiny amounts of money, instead of giving business to the loan sharks. We didn't require collateral. We said, "Look we are not interested in your past; we are interested in your future. So let's build the future." We gave the loans for income-generating activities – raising chickens, milk cows – to enable asset building. And importantly we focused on women. Today that bank, Grameen Bank in Bangladesh, has more than eight million borrowers, 97 % of them are women. It lends out over 100 million dollars a month, in tiny loans, less than 200 dollars. Our re-payment record is nearly 100 %. It is a bank owned by the poor, and works for the poor.

Grameen changes people. In order to start something you need money, you need a dollar to catch a dollar. That first dollar was never given to these people. The loan sharks take advantage of this fact; they take very high interest rates or put additional conditions on the loans which are absolutely unreasonable. With the microloans, you are dealing as a business. So in a business you have rights; if you are not doing the right thing it can be questioned. When it is a charity you are obliged, you are at the mercy of another person because you have no voice in it. In a business the customer has a voice. When they take the loan they pay interest – it is not free. In a business both sides are equal. In a charity someone who is receiving has lower status; the person who is giving has a higher status. Doing this as business gives people dignity.

Some argue that this model works only for people who have entrepreneurial capability. My position always has been that all human beings are entrepreneurs. When we went to give loans to women in Bangladesh in the beginning, they were always pleading with us to give the money to their husbands, because the women themselves had no experience with money. We saw our job as to go back again and again to build up confidence in each woman. Peel off the fears, layer by layer, that ages and ages have piled on her. She will be scared to death, but she will try. If she is successful, then she will make her neighbors curious: "How did she do it? Maybe I can do it too?" It took us 6 years to come to that level of understanding.

After 37 years' experience in Bangladesh with the Grameen Bank, the idea of microcredit has spread all around the world. People who earn one dollar – that is almost one third of the world's population, 1.2 billion people. So for dollar-a-day

people, to receive a 100 dollar loan, to generate one dollar extra income, is tremendous. A dollar-a-day person becomes a two dollar-a-day person by investing 100 dollars that they just received from the bank to start a business – that is the kind of difference it makes.

## **Grameen Beyond Microfinance: Addressing Social Problems in Collaboration with Corporations**

Grameen Bank laid the foundational basis for the development of additional types of social businesses. We created a big solar energy company (Grameen Shakti), again to help people to get electricity in their home with just a solar panel. Every month we sell over 25,000 solar home systems, and by the end of the year we will probably have over 1.3 million solar home systems running. Nancy Wimmer's chapter on Grameen Shakti describes this work and relays the transformative nature of the social business on the lives it touches. Several other chapters in this book look at Grameen organizations involved in efforts beyond microfinance that often involve collaborations with large corporations: Grameen Caldas, Grameen BASF, Grameen Intel, Grameen Danone, and Grameen Veolia.

In one joint venture with Danone, Grameen Danone, we produce yogurt with all the necessary nutrition for the children of Bangladesh. We put all the nutrients, vitamin, iron, zinc, and iodine, into that yogurt and sell it for a very low price so that all the poor children can afford it and eat it. If a child eats two cups of this yogurt within a week and continues to do so over a year, the child gets all the nutrients and becomes a healthy, playful child. In Bangladesh, almost 50 % of the children are malnourished, so we want to overcome this. Veolia came to me in Bangladesh – I didn't go to Paris to persuade them that they should have a social business. I gave them tough conditions – only if you can assure me that you are ready to produce water that can be sold at a very insignificant price, only then will I talk. They came back 2 days later, said they could do it, and we created Grameen Veolia.

In each of these cases, the businesses approached me. Why do they do that? Companies are run by people, just like you and me. After they do the day's work, they go home and feel something is missing, and social business attracts them. They are using their talents, their creativity, to make social businesses. This is something within their hearts that was not expressed before.

## **Social Business Going Forward**

We now have a network of people, companies, and institutions all around the world to promote the idea of social business. In 2010, I spoke at the historic launching of the California Institute for Social Business (CISB) at California State University



Channel Islands, the first of its kind in the world. The Institute's job will be to make it clear to people through courses and training labs how to design successful social businesses. In the United States, social businesses will consider different problems, such as the welfare system. Others will work on access to education, an increasing concern in America. Berg's chapter in this book takes a look at three American-based organizations involved in human capital or income-contingent student loans and compares their models within the social business context.

In the beginning, in the United States there was disbelief that programs from Bangladesh would be necessary in the United States. However, social businesses are growing in America. Our microfinance program in New York City started 5 years ago and is doing very well. We have over 14,000 borrowers, all women. No collateral is required and the average loan is under \$2,000 with re-payment nearly 100 %. Seeing this, other American cities are coming forward: Omaha, San Francisco, Los Angeles, Indianapolis, and Charlotte, North Carolina.

Globally, we are working with cities and regions around the world to create social businesses. Antonio Jimenez-Jimenez's chapter describes Wiesbaden, Germany, Fukuoka, Japan, and Pistoia, Italy's efforts to become Social Business Cities and evaluates the progress of Wiesbaden. Martin Loeffler's chapter describes his work and extraordinary progress with Grameen Caldas, in the Caldas region of Colombia. Nguyen's chapter looks at Type II social businesses in Vietnam. Type II social businesses are those owned by the poor themselves – like the Grameen Bank.

All of the work that we are doing together moves us closer to the eradication of poverty. I hope that many kinds of people will read this book – students, professors, leaders, entrepreneurs – and learn about the idea of social business. There is something to learn from all the cases. There are also chapters that address both the theory and practice of key design issues such as marketing, management, and financing. Kreutzer and Mauksch's chapter raises critical questions about this new concept of social business. The final chapter plays an important role for any idea – assessing where we are and where we can go next.

When we created the CISB at California State University Channel Islands, we were basing it on an idea that we can create a new kind of social environment, where we can express ourselves fully. Our selfishness is expressed with conventional businesses. In the same way our selflessness is expressed through social businesses, so that we can address the mess that we have created in a world filled with poverty. The message to young people at university and all around the world is to believe that each one of them can make a big difference. I encourage you to think "I can make a difference" – not in a small way, but in a big way.

Dhaka, Bangladesh

Professor Muhammad Yunus

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**Antonio F. Jiménez Jiménez** is the Director of the Center for International Affairs and Associate Professor of Spanish at California State University Channel Islands. Although his background is in translation studies and applied linguistics, after personally meeting Dr. Muhammad Yunus, he became very interested in the concept of social business. In 2011, the California Institute for Social Business chose him as its first *Social Business Research Fellow*. In this capacity he completed a research trip to Wiesbaden (Germany), considered the first Social Business City, where he learned best practices for the implementation of the social business model in the developed world. Contact email: Antonio.jimenez@csuci.edu.

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**Part I**  
**Introduction: Background and Theory**

# Chapter 1

## Social Business: Defining and Situating the Concept

Andrea Grove and Gary A. Berg

### Introduction

The emerging field of social business focuses on using business methods and practices to achieve positive social change. Described by some as “enlightened capitalism,” social businesses promote social objectives as primary, while also making a profit. The difference is that, in a social business, management and investors do not receive a share of the profits (though investors get their money back). Profits are re-invested to expand the company and its positive social impact. Stakeholders receive a dividend on their investment in the form of social change. This volume explores the ideation, practice, and evaluation of the concept of social business. In this introductory chapter, we define social business, situate the idea within the broader literature examining socially conscious business practices, then return to examine more closely the assumptions on which social business is based. We also raise the kinds of questions that must be asked in research that attempts to assess the impact of social business.

Subsequent chapters address these issues and allow us to push forward the research frontier. Chapter 2 in Part 1 goes into more depth in analyzing the differences between social business and social entrepreneurship on the dimensions of mission, financing, and innovation. The second part of the book consists of seven case studies. Using multiple methods, the authors explore social businesses around the world in the areas of: health care, nutrition, and microlending; education; disease; energy; the social business city approach; and Type II social businesses (which also focus on a social need but are owned by the beneficiaries or a trust held for them).

Part 3 is focused on practice, examining the state of the art knowledge in key areas concerning social business design and execution, as well as lessons learned

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thus far. Chapters look specifically at management, financial issues, and marketing. Part 4 turns a critical eye on the concept, its applications, and its promise, and Part 5 concludes the text with an assessment of the state of knowledge in the field and gaps in research. Finally the book ends by looking forward, suggesting a future research agenda.

## The Concept: Take One

“Social business” as employed in this book refers to the Yunus or Grameen model, best understood through Nobel Prize winning economist Muhammad Yunus’ Seven Principles of Social Business:

1. Business objective will be to overcome poverty, or one or more problems (such as education, health, technology access, and environment) which threaten people and society; not profit maximization.
2. Financial and economic sustainability.
3. Investors get back their investment amount only. No dividend is given beyond investment money.
4. When investment amount is paid back, company profit stays with the company for expansion and improvement.
5. Environmentally conscious.
6. Workforce gets market wage with better working conditions.
7. Do it with joy!

Over the past two decades, forces in various fields have surfaced promoting the notion that social problems might be better addressed through employing business methods. The context of this emergence of businesses with a social purpose and non-profits or NGOs with business methods is situated in a multifaceted discontent with the ability of both governmental and philanthropic agencies to address core social problems such as poverty, healthcare needs and environmental sustainability. “Social entrepreneurship” is the most common phrase used to cover the various forms of this movement including divergent approaches ranging from large corporations’ sensitivity to social issues and focus on emerging low-income market-places, to microfinance organizations using for-profit models.

As a specific organizational model within the emerging area of academic study known more generally as social entrepreneurship, social business touches on a wide range of related or competing publications with various degrees of relevance. The trend towards more socially responsible businesses can be seen in a broad way over the late twentieth century with one literature review finding 95 studies since 1972 positively linking financial to social performance (Margolis and Walsh 2001). However, the largest umbrella area of study comes in what is labeled social entrepreneurship generally defined as an activity or organization with social values and aims employing business concepts and tools in some form. Unlike social business, which is clearly delimited requiring for-profit status without return to

investors, social entrepreneurship conceptually encompasses many various forms and degrees of the incorporation of business techniques. The Yunus social business concept can be situated on a continuum that runs from nonprofit organizations to traditional profit-maximizing enterprises (PMEs; Yunus 2006). Social business would fall somewhere between the two poles but closer to the PME end because of the focus on creating a business model; social entrepreneurship is in fact a very broad category that might encompass any of these models. As Yunus states, “A social entrepreneur may not be involved in a business at all, it could be just helping your neighborhood, improving health care, helping people to do that in a new way” (Kickul et al. 2012, p. 456). Unlike PMEs, however, the core focus that drives the social business entrepreneur is that of addressing a social problem: “The distinction between social business and conventional business, that is, money-making business, is social business is totally de-linked from the very idea of making personal profit. It is very important to underline the words ‘very idea.’ Because once you keep the idea of profit, you get back to the old logic” (Kickul et al. 2012, p. 457). A social business is created for the collective benefit of others.

We contextualize social business as a concept within the literature by providing an overview of research about nonprofits, new philanthropy, international economic development, corporate social responsibility, and social entrepreneurship. While Yunus developed his concept in part in response to the limitations of these other models, the changing landscape over the years has opened the possibility of greater reception to the relatively new idea of social business. We then examine more closely the idea of social business.

## **Nonprofit Management and History**

According to the Nonprofit Almanac (Wing et al. 2008), nonprofit organizations in the United States account for 5 % of Gross National Product (GNP), over 8 % of total wages, and 10 % of the overall employment. Anheier (2001) notes that in America the nonprofit sector, as a percentage of the GNP, is larger than that of all but ten other nations in the world. Some scholars (Rose-Ackerman 1986) argue that nonprofits arose initially in capitalist systems because of the “contract failure” between for-profit organizations and society. Nonprofit organizations become more prevalent when government fails to step into the gap to satisfy demands of certain subgroups in society. The overall difference between public and private organizations can be traced to the notion of “private” versus “public” good and the goal of a “civil society” through a third sector. As opposed to government agencies, nonprofits have more autonomy to develop and implement programs and in hiring, purchasing and budgeting. They are often viewed in the research literature as optimal organizations for certain kinds of services, such as those provided by blood banks and nursing homes.

Beginning in the 1970s, a distinct research literature developed within business and economics which focused on issues specific to nonprofit organizations in

America. In Europe, nonprofits have been slow in comparison to develop, with scholarship not beginning until the mid-1980s. Powell (1987), in a textbook on nonprofits, describes the research on such organizations as broadly divided into theories of the role of nonprofit institutions and of their behavior. The purpose of nonprofits within a capitalist system is to permit greater diversity of social provisions than the state itself can achieve. Nonprofits in the United States are not prohibited from earning profits, but must devote any surplus to financing future services or distribute it to non-controlling persons. In some cases, cross subsidization occurs so that one unit supports another within a nonprofit. The economics of nonprofits is an important area in the research literature because of the challenge of sustainability. Gregory and Howard (2009) argue that most nonprofits do not spend or budget enough funds to adequately cover overhead. The underfunding of overhead can have disastrous effects causing a vicious cycle of underfunding.

In terms of finances, Salamon (1997) points out that the nonprofit sector is economically dominated by healthcare (61 %) and education (22 %) and pinpoints the growth of nonprofits in America to the 1960s with the Great Society and the growing pressure to alleviate poverty. This public policy effort resulted in a widespread partnership between government and the nonprofit sector. In the 1980s, the Reagan administration severely cut the Great Society efforts. Although financial support continued for healthcare, it declined 25 % in other areas such as community development. As a response, nonprofits were led to a “marketization” with fees and charges becoming an increasingly large part of the overall budget. This trend has narrowed the difference between nonprofit and for-profit organizations and strained the rationale for tax advantages for nonprofits. For universities, federal support of research diminished with the end of the Cold War and led them into commercial markets. The Dole-Bayh Bill of 1981, which authorized universities to hold patent and licensing rights to discoveries produced with federal funding, resulted in a new concentration on commercial opportunities, especially at research institutions.

Scholars have commented repeatedly on the increased commercialization of nonprofits, arising from a downturn in donor and governmental support, which in turn has provoked fundamental questions about the justification for nonprofit tax advantages (Artz and Sutherland 2010). Hopkins (1979) notes that the general theory behind tax-exemptions for nonprofit organization is that they step in where government does not operate – the tax benefit is an exchange for what would require government expenditure. However, since they are outside of the competitive marketplace, nonprofits face criticism of inefficiency and managerial competency. In fact, some local governments have legally challenged the taxability of nonprofits, and the Tax Reform Act of 1969 imposed tighter restrictions on many tax-exempt organizations. Clottelter (1992) notes that the redistribution of wealth through nonprofits appears to be slight with the wealthy tending to support organizations that support services for those only slightly lower in class rank. Specific forms such as the Limited Liability Company (LLC), and the Low-Profit Limited Liability Corporations (L3C) were designed to attract foundation funding for social enterprises. Galpin and Bell (2010) describe how a growing number of states have

enacted legislation which allows for the creation of Low-Profit Limited Liability Corporations and outlines its benefits and potential weaknesses to social entrepreneurs.

One of the largest categories within the research literature on nonprofits concerns specific pragmatic management issues, and ways that nonprofits differ in this regard from for-profit firms. One well-known example of a scholar writing about nonprofit management is Peter Drucker (1999) who provides tools for strategic planning workshops focused on five primary questions which nonprofit organizations should ask themselves about mission, customers, customer values, results and planning. In terms of management approaches in nonprofits, Drucker advocates making people's strengths effective and their weaknesses irrelevant. He argues that "changed lives" is the bottom line for all nonprofit organizations.

Arrove (1980), in a critical analysis of the socio-political impact of major philanthropic organizations in America, contends that foundations such as Carnegie, Rockefeller and Ford have operated in a mostly unregulated way to further their own aims and function primarily to dampen radical political unrest. The development of these foundations can be traced to the beginning of the twentieth century when very large wealth was accumulated by industrialists, while at the same time social unrest grew broadly in American society. According to Arrove, major foundations have historically supported right wing movements concentrating on issues such as genetic superiority and standardized intelligence testing as a way of hardening an educational class system. After World War II, foundations were concentrated on maintaining power structures through international development efforts, as well as in universities overrun by an influx of veterans. Both the Ford and Carnegie Foundations played major roles in forming higher education public policy. Specifically, officials from Carnegie greatly influenced the California Master Plan in 1960, slanting it towards preserving the elite nature of the University of California. Critical points of view on nonprofit organizations, such as those from Stanley Surrey (1973) at Harvard Law School, point out that nonprofits are in fact funded by the government through a tax expenditure, or direct cost to the government. Furthermore, nonprofits increasingly compete directly with for-profits who are at a competitive disadvantage because of tax policies. Charitable giving laws are structured so that the wealthy receive a much higher deduction for gifts than the poor.

## **New Philanthropy and the Third Way**

What is described by some as "new philanthropy" and the "third way" intersects with publications on welfare reform and social entrepreneurship. Giddens (2000), in his influential book *The Third Way and its Critics*, traces discussions of a "third way" to various movements begun in the wake of WWII, then subsequently brought to America and Britain by the Democrat and Labor parties, respectively, in the 1990s. The cornerstones of the movement are a new progressivism focused on equal

opportunity, personal responsibility, and community activism. The notion that “with rights come responsibilities” points to limiting government and concentrating on new wealth creation rather than redistribution. This perspective is a departure from the traditional leftist perspective, which tends to see dangers in the market that need to be constrained by the government. According to Giddens, this new approach appeals to those who feel there is too much government yet still hold many leftist values. Hale et al. (2004) link the third way to 1992 with the Clinton and Blair administrations, and with social democratic efforts in Europe, as seen especially in Germany, France and Scandinavian countries. “Third Wayers” argue for social inclusion and community values rather than the individualist values of the New Right movements. What is said to be new in this movement is a focus on economic efficiency tied to social justice. Blair et al. (2001) claims that the third way represents a historic realignment of economic and social policy, and that effective markets are a pre-condition for a successful modern economy. In this formulation, the proper role of political systems is to help individuals through education and training to succeed.

In *Forces for Good: The Six Practices of High-Impact Nonprofits*, Crutchfield (2008) argues that the trend is for nonprofits to become “catalytic agents of change.” He advocates against nonprofits acting like businesses, but endorses leveraging the power of business models. Similar representatives of this type of publication include Egger’s *Begging for Change: The Dollars and Sense of Making Nonprofits Responsive, Efficient, and Rewarding for All* (2004), a first-person account of work as head of the D.C. Central Kitchen and the United Way. Egger follows the rise of the interest in business approaches to running nonprofits to the mid-1990s, when with the thriving economy and technology boom, managers who came from for-profits to work in nonprofits brought in business terminology, methods focused on measurable outcomes, donors as investors, and increasing capacity. Similarly, in *The End of Charity: Time for Social Enterprise*, Frances (2008) provides an account of personal experiences creating the Cool nrg organization, making an argument against the perceived traditional dichotomy between charity and business. Frances defines social enterprises as using market values to properly identify a problem, understand the costs and the benefits of the solution, and then sell the benefits at a greater value than the costs. Foster, Kim and Christiansen (2009) argue that nonprofit leaders are much more sophisticated about creating programs than they are about funding their organizations, and philanthropists often struggle to understand the impact of their donations. As a result, money doesn’t flow to the areas where it will do the greatest good.

Finally, Meehan et al. (2004) describe a survey on personal charitable giving in which respondents view themselves as “investors” rather than simply donors, seek information about the nonprofits they fund, and expect measurable social returns on their investment – much as investors in the stock market aim for financial returns. They identify all those who give to charity, along with the nonprofits they fund, as comprising a vast web that they call the “social capital market.” According to Meehan, Kilmer and O’Flanagan, a more efficient social capital market would mean more efficiency in the nonprofit sector generally.



## Global Economic Development

Internationally, scholars have centered on new approaches to economic development in emerging economies. The creation of the Grameen Bank was to some degree a response by Muhammad Yunus to governmental and charitable failures in Bangladesh. Recent research (Bright and Godwin 2010) concentrates on encouraging social innovation in global organizations and categorizes attempts into two different approaches: (1) the planned approach fosters hierarchically driven innovation and (2) the emergent approach fosters bottom-up, self-organizing innovation. Lodge and Wilson (2006) assert that corporate support for world development efforts will benefit not only the world's poor but also company shareholders as a result of improved multinational corporation legitimacy. In a similar way, Wilson and Wilson (2006) promote working with the world's poor by focusing on numerous low-risk, low-cost recommendations. This book claims to view the poor as more than mere consumers. Instead, it takes a strategic view of all the ways in which a companies can influence the lives of the poor.

Sen (1999) focuses on the notion of freedom as a means for sustaining economic life as well as addressing poverty and political instability globally. He conceptualizes poverty as a capability deprivation and notes the importance of empowering women in social change movements worldwide. Charles Wankel's *Alleviating Poverty through Business Strategy* (2008) considers first the need for a new approach to the alleviation of poverty internationally, and then secondly argues for new thinking about poverty, asserting that the poor must have access to some useful resources that can be utilized in approaches to poverty reduction.

Another area receiving increased notice in publications is in the view of emerging nations and low-income global populations as a potentially lucrative new market, while at the same time addressing social needs. In this way, Prahalad (2010) in *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits* argues that companies are neglecting opportunities in the developing world to serve the poorest. Prahalad claims that the Bottom of the Pyramid (BOP) market amounts to four to five billion people and \$13 trillion dollars. The book looks at the key elements of successful business approaches to working in this unique market and includes numerous case studies from various sectors. The overall concept is to build the capacity of the poor through market models which then lift them out of poverty. Scalability is a key issue because Bottom of the Pyramid business tends to be low margin, high volume and sensitive to scale. Prahalad asks how one brings the entrepreneurial innovation of private enterprise to solving social problems, arguing that the primary problem of the twenty-first century is finding a way towards "democratization of commerce," which he defines as "bringing the benefits of globalization to all micro consumers, micro producers, micro innovators, micro investors, and micro entrepreneurs." He urges the reader to look at the poor not as victims, but instead as creative entrepreneurs and value-conscious consumers. The latter ideas align well with the assumptions of the Yunus/Grameen model of social business.

In *Untapped: Creating Value in Underserved Markets* (Weiser et al. 2006), the authors define “underserved markets” as having a high percentage of low-income individuals or a high percentage of ethnic minorities, and builds on theories regarding the opportunity to exploit new markets at the Bottom of the Pyramid. The book looks at specific challenges and opportunities in this new marketplace, focusing on issues such as recruiting and retaining a workforce, increasing value in the supply chain, product and process innovation, building partnerships, and creating value for both businesses and the community.

Similarly, *The 86 Percent Solution: How to Succeed in the Biggest Market Opportunity of the Next 50 Years* (Mahajan et al. 2006) is aimed at managers focused on developing markets, and begins by making an argument for opportunity to better focus on the 86 % of the world population in developing countries that make less than \$10,000 per year. Roy and Roy (2010) argue that over half of the world’s population lives on less than 2 dollars a day, and yet international business education to date has continued to ignore low-income customers. They propose a holistic pedagogical approach to studying this market by considering the historical background of the growth of inequality and poverty in different regions of the world, as well as the criteria for segmenting various levels of poverty. Next, they suggest a two-pronged approach to address poverty issues: first, show how traditional international business principles can be adapted to address the needs of the impoverished market segment using a macro (top-down) approach; and second, show how this untapped market can be harnessed for profits while simultaneously uplifting it out of poverty using principles of social entrepreneurship as a micro (bottom-up) approach.

A different focus in the literature is the BOP market and investments. So called “impact investments” have been identified by investment companies such as J.P. Morgan, as described in a 2010 report entitled *Impact Investments: An Emerging Asset Class*. This report examines impact investing as a new alternative for channeling large-scale private capital for social benefit. It notes the history of “impact investing” in developing countries, sees large range in expectation on investor returns, and links to BOP theories of exploiting emerging markets. Matthaus-Maier and von Pischke (2006) also look at microfinance as investment funds. Microfinance investment funds (MFIF) have developed since the mid-1990s and are characterized by millions of private investors, often are in form of mutual funds, provide equity capital for retail microfinance institutions, and are in almost 150 developing countries. Simon and Barmeier (2010) consider investments designed specifically to promote development across a broad range of sectors and raise questions regarding sustainability, scale, and assessment of effectiveness. The authors recommend increased transparency and standardization in the sector. Miller and Wesley (2010) reflect on social venture capitalists (SVCs) who have emerged to provide a new source of funding for social entrepreneurs, and argue that such organizations have dual identities grounded within the social and entrepreneurship sectors, thus prompting them to value the resources and goals of both sectors.

## Corporate Social Responsibility

The trend towards more socially responsible businesses can be seen in a broad way over the late twentieth century. In *People and Profits? The Search for a Link between a Company's Social and Financial Performance*, Margolis and Walsh (2001) present a literature review listing 95 studies since 1972 linking financial to social performance. They find a 68 % positive relationship between financial and social performance in the businesses studied. Specific efforts to look at multinational companies' operations as socially responsible are also prevalent (Baines 2009). Hopkins (2007) explicitly links Corporate Social Responsibility with international economic development and spells out how it can be a useful tool to promote economic development via corporations.

However, Doane and Abasta-Vilaplana (2005) note that there are serious limitations that the market imposes on attempts at corporate social responsibility initiatives. Legal obligations of corporations to their shareholders further restrict such attempts to help solve social and environmental problems. Mitra and Borza (2010), in a study based on a quantitative research of 79 Romanian firms, debate the differences between social enterprises and commercial enterprises related to task performance, and the way that social mission is accomplished. They argue that commercial entrepreneurs must pursue both economic and social issues, but their primary mission should be to acquire financial independence by investing and creating value for stakeholders. Corporate Social Responsibility has an undeniable positive effect on both society and businesses, but this practice depends on the company's willingness and ability to get involved, which is at the discretion of the managers and shareholders. In the end, their primary motivation is the maximization of profits.

## Social Entrepreneurship

The largest area of study is grouped under the umbrella label of "social entrepreneurship," which is generally defined as an activity or organization with social values and aims employing business concepts and tools in some form. Dees (2001), a leading scholar in the field of social entrepreneurship, defines key elements of the field as adopting a mission to create and sustain social value; pursuing new opportunities to serve that mission; engaging in a process of continuous innovation; acting boldly without being limited by resources; and exhibiting heightened accountability. Unlike social business, which is clearly circumscribed by its for-profit status and lack of return to investors, social entrepreneurship incorporates many forms and degrees of business technique utilization.

One of the most prominent texts in this area is *Entrepreneurship in the Social Sector* (Wei-Skillern et al. 2007), designed as a core or supplementary text for advanced undergraduate and graduate courses in social entrepreneurship from the

Harvard Business School faculty. These authors define social entrepreneurship as “innovative, social value-creating activity that can occur within or across the non-profit, business, or government sector.” The book points to the origin of the social entrepreneurial movement in the need for nonprofits and charities to control costs, increase revenues, and enhance effectiveness. The authors argue that the blending of social and commercial approaches poses a unique set of management opportunities and challenges which need to be studied.

Charles Light’s 2008 book *The Search for Social Entrepreneurship* attempts to define the field and then presents data from two large surveys. The author begins with a broad definition and then categorizes organizations by the degree to which they are aligned with basic principles. He explains that generally researchers define social entrepreneurship as a method to change the status quo by creating social value, pursuing systemic social change, creating a new social equilibrium, or pushing for a pattern-breaking change. One of the leading books in the field is *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs* (Dees et al. 2001), a practical handbook designed for nonprofit managers based on entrepreneurship business best practices appropriate for the social sector. Bornstein and Davis’ *Social Entrepreneurship: What Everyone Needs to Know* (2010) presents a brief overview of the field defining social entrepreneurship, its emergence as a social movement, and identifies key figures in the movement. The authors contrast social entrepreneurship with government activities, activism, and democratic political movements.

Non-academic works such as John Elkington’s *Cannibals with Forks: The Triple Bottom Line of 21st Century Business* (1998) discuss a philosophy of the “triple bottom line,” defined as focused on the traditional profit bottom line, as well as environmental quality and social justice. This study traces the development of this new focus to five great social changes including the end of communism, the shift to economy based on knowledge rather than physical resources, changing demographics, the global economy, and the lack of superpowers. Elkington and Hartigan’s *The Power of Unreasonable People: How Social Entrepreneurs Create Markets That Change the World* (2008) looks at social entrepreneurs internationally using individual case studies, attempting to synthesize patterns across various organizations. The authors argue that there are three basic models: leveraged nonprofits, hybrid nonprofits, and social businesses. Social business ventures are defined as having a social mission, the generation of profits, seeking out investors, and ability to scale up taking on debt and equity. They further note that social businesses struggle with national law because no single country has a specific legal model to accommodate social businesses.

Much of the research literature consists of case studies that focus on the field’s early stage of development. *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-profit Enterprise Creation* (The Roberts Foundation 1996) is a collection of case studies of various individuals and organizations in the community development arena, as well as perspectives from social workers, community organizers and socially concerned business people emphasizing a synthesis of business and social service techniques. Key findings include the assertion that nonprofits

have the capability of running for-profit ventures, but need access to capital and technical skills. Furthermore, the authors find that there is a tension between an organization's desire to pay living wages and the limits of the marketplace. Welch's *The Tactics of Hope: How Social Entrepreneurs are Changing Our World* (2008) is a collection of case studies of social entrepreneurs with some primary interview data. Targeting the popular rather than academic market, the author divides the case studies into the following general categories: health, education, microcredit, fair trade, human rights and social justice, disaster relief and rehabilitation, the environment and restoration of a sustainable planet, and other agents of change. Some of the case study research literature focuses on historical perspectives. For example, in *Beyond the Bottom Line: Socially Innovative Business Owners* (Quarter 2000), the author presents a series of profiles of key socially innovative businesses, starting with an historical look at Robert Owen and utopian labor models. The book then proceeds chronologically through the John Lewis partnership and Endenburg Electric, up to the more recent Body Show and K.T. Footwear cases. The volume ends with an analysis that finds a general pattern throughout the cases and offers propositions such as the need for leader control, compliance from management, alignment to norms, and relationships to government.

Case studies on specific segments such as homelessness (Carroll et al. 2010) and online microcredit (Coates and Saloner 2009) often appear in academic journals. Other specific case studies focus on cases about social entrepreneurial businesses in specific countries and social-political contexts such as in Curtis et al. (2010) on Poland and the United Kingdom, and Faminow et al. (2009) on Central America. One key issue in international perspectives on social entrepreneurship is the various legal organizational classifications (Galera and Borzaga 2009). Some of the academic journal articles concentrate on specific management issues linked to social entrepreneurship such as identifying business opportunities (Corner and Ho 2010). One category of the literature offers specific theories related to social entrepreneurship. For example, Bull et al. (2010) present a debate about the notion of ethical capital in social enterprises, and in Di Domenico et al. (2010), the bricolage concept is applied to social entrepreneurial action.

One specific subcategory of social entrepreneurship focuses on environmental sustainability. Brown's *Plan B 4.0: Mobilizing to Save Civilization* (2009) explores a possible transition to a new economy based on alternative energy forms. In *Capitalism at the Crossroads: Aligning Business, Earth and Humanity*, Hart (2007) argues that governments are not equipped to lead in a direction towards a sustainable world, and that only corporations have the technology, resources, capacity, and global reach required to meet the challenge. The author points out that the redistribution of wealth alone would not be enough to combat poverty, and that new wealth on a massive scale is required. This fact suggests the need for innovative business models rather than government approaches.

Scalability and sustainability are two key issues confronting non-profit and social entrepreneurial organizations repeatedly addressed in the research literature (Bloom and Chatterji 2009; Bloom and Smith 2010). Bloom and Skloot (2010) in *Scaling Social Impact: New Thinking* provide a collection of 13 essays focused on

the issue of scale in social entrepreneurial organizations with sections framing the discussion; the pros and cons of larger scales; alliances; branding and funding. Dees et al. (2004) suggest policymakers need to take a more strategic and systematic approach to the question of how to spread social innovations, and address the issue of scalability of social entrepreneurship activities/organizations by looking at various cases.

Phillips (2006) establishes the growing perception of the importance of the social enterprise sector in the United Kingdom, and notes that it is current UK government policy to encourage that sector's growth. However, social enterprises, in common with many small businesses, find growth difficult, and this limitation could impact negatively their sustainability. The author goes on to explore the reasons for that difficulty, and concludes by suggesting how best to support social enterprise, but warns that further marketization of this sector could be to its detriment.

## The Concept: Take Two

With influences outlined above, "social business" is a specific version of what is more broadly described as social entrepreneurship in the research literature. Daniel Bornstein's 1996 *The Price of a Dream: The Story of the Grameen Bank and the Idea That is Helping the Poor to Change their Lives* is a primary resource that traces the history of the origin of social business and the Grameen organization. This book by a journalist is an inside look at the history and development of the Grameen Bank based on a series of observations and interviews over two different 6-month time periods in the 1990s. Bornstein traces the theoretical development of Yunus' ideas to Schumpeter's theories on creative destruction and entrepreneurship. In a reversal of the Reaganomics trickledown theory, Yunus came up with the theory of "bubble up economics," wherein economic improvement rises from the bottom for the benefit of all. The author points to five major Yunus themes repeated throughout the history of Grameen: credit should be accepted as a fundamental human right; self-employment is preferred over wage employment; women should be a focus; the concept of development should be redefined as focused on the poorest 50 % of a given population; and the conceptual vagueness of development theorists should be replaced by specific actions against poverty.

The primary source for information on the notion of social business comes from Yunus himself through his books and numerous speeches and interviews. Early works by Yunus include a group of essays written while he was an economics professor at Chittagong University (1976). At that point, his focus was on research regarding approaches to economic development. But one can see, even then, his emerging thinking on the kind of organizational transformation he had in mind: "Development planning involves selectively discarding old institutions, germinating new ones, grafting new institutions to the old ones to guide the society from one level of economic existence to another level, from one set of social coordinates to

another set” (pp. 15–16). In this hand-typed collection he presents ideas on a strategy for educational reform in Bangladesh; economic development; a description of the Rural Economic Research Programme; discussion of self-reliance in Bangladesh; and a note on village planning. His facility with words and skill in reconceptualizing the problems of addressing extreme poverty is evident throughout this work: “Between the bulk of inputs on the one side of the production process and the output on the other side, there is a fascinating human story where Time, Nature, Bureaucracy, greed, ignorance, and many more elements come into play” (p. 18).

In the 1991 *Jorimon and Others: Faces of Poverty*, the interviews and observations made in the 1980s during the early years of the Grameen Bank Project in Tangail, Yunus presents moving studies focused, to a large extent, on the plight of women, a theme that becomes a constant in Yunus’ work. As he notes in the introduction, “. . .one must look through the experience of a woman to find out the true colour of our society. All the deformities and perversions of our society are bound to show up very distinctly if you see them as a woman does; particularly if the woman happens to be a poor woman” (p. xvi). Later, small monographs, such as *Grameen Bank as I See It* (1994), were responses to common questions received by Yunus on the Grameen Bank, including what is behind the organization’s success, its rapid growth, and replicability. In terms of expanding the Grameen model, he notes in this work that in an American effort in 1986, led by Bill Clinton, a Grameen model microfinance program called the Southern Development Bank Corporation was developed and funded by the Rockefeller and Ford Foundations.

*Banker to the Poor: Micro-Lending and the Battle Against World Poverty* (2003), Yunus’s first widely read book, gives his personal account of witnessing the cycle of poverty that kept many poor women enslaved to high-interest loan sharks in Bangladesh. He describes how he lent money to 42 women so they could purchase bamboo to make and sell stools. In a short time, the women were able to repay the loans, while continuing to support themselves and their families. With that initial eye-opening success, the seeds of the Grameen Bank and the concept of microcredit were planted. Yunus tells his story of after earning a doctorate in Economics at Vanderbilt University, he returned to Bangladesh to settle into a life as a professor. Armed with little more than a lofty dream to end the suffering around him, he started an experimental microcredit enterprise in 1977; by 1983 the Grameen Bank was officially formed. The idea behind the Grameen Bank is simply to extend credit to poor people and they will help themselves. At Grameen, loans are administered to groups of five people, with only two receiving their money up front. As soon as these two make a few regular payments, loans are gradually extended to the rest of the group. In this way, the program builds a sense of community as well as individual self-reliance. Most of the Grameen Bank’s loans are to women, and since its inception, there has been an astonishing loan repayment rate of over 98 %.

In *Creating A World Without Poverty: Social Business and the Future of Capitalism* (2007), Yunus’ second popular book, we have a recounting of the story of microcredit, then a discussion of social business theory. Specific case

studies include the French food giant Danone's partnership to market yogurt in Bangladesh are described in detail, along with other businesses that operate under the Grameen banner. He distinguishes between Type I and Type II social businesses. Type I is the model described thus far in this chapter. Type II is a profit-maximizing company, still focused on a social need, but owned by its beneficiaries (who are poor or otherwise disadvantaged) or by a trust dedicated to improving the lives of the poor (Yunus 2007). One of Yunus's clearest statements on social business comes in a 2009 article entitled, "Economic Security for a World in Crisis," in which he describes capitalism as a half-built system: "The present theory of capitalism holds that the marketplace is uniquely for those who are interested in profit only." Whereas Adam Smith (2002) envisioned a moral function and universal sympathy for others that could be supported through the capitalist system, Yunus sees this urge towards sympathy expressed in charity. However, such organizations do not have the ability to innovate and expand the way businesses do. Thus, Yunus argues for the need for a third sector alongside the free market and government. The key distinction with social businesses is that no profit is generated for investors, except in the case of those which are owned by the poor as with the Grameen Bank (Type II).

*Building Social Business: The New Kind of Capitalism That Serves Humanity's Most Pressing Needs* (2010) is Yunus' most recent book, in which he describes how social business has gone from being a theory to a practice, adopted by large corporations, entrepreneurs, and social activists globally. Yunus offers practical guidance for those who want to create social businesses of their own. He explains how public and corporate policies can adapt to make room for the social business model, and shows why social business holds the potential to redeem the failed promise of free-market enterprise. Recently, Yunus has also turned to writing about practical lessons learned in his Grameen experiences (Yunus et al. (2010)). In this article, he follows the gradual development of Grameen's expertise in formulating social business models, which require new value propositions and business model innovation. The article presents five lessons learned from experience. Three are similar to those of conventional business models: innovation challenging conventional thinking, finding complementary partners and undertaking continuous experimentation. Two are specific to social business models: recruiting social-profit-oriented shareholders and specifying social profit objectives clearly. Finally, the authors suggest these new business models, which involve the replacement of shareholders with stakeholders, could empower capitalism to address overwhelming global social problems.

A common criticism of socially minded models is that they ignore human nature, which is innately self-interested. Yunus confronts directly this assumption about the match between human nature and profit-maximization models; he does so in most every piece he has written about social business, indicating the centrality to his theory of his ideas about human nature (Yunus 2006, 2010, 2011; Kickul et al. 2012). He argues that the application of capitalist theory in today's world suffers from "the failure to capture the essence of a human being" (2006, p. 2). Writing in 2011, Yunus argues that Adam Smith himself recognized the multi-dimensional nature of human



beings, not only selfish but also selfless. The theory of capitalism that has come to dominate makes “no room for the selfless dimension of people” (Yunus 2011, p. 13). He argues that there will always be people willing to create and invest in social businesses even though they are not maximizing the financial profit; they instead reap other kinds of profits. Elaborating on the urgency of excluding the pursuit of profit, or payment of dividends to social business owners, Yunus provides three reasons. First is a moral argument – Yunus believes that it is immoral to make a profit from the poor (Yunus 2010, p. 13). He asserts that his second reason is a pragmatic one: “In times of stress, profit will always trump the other ‘bottom lines’” (Yunus 2010, p. 14). The third reason is what he calls a systemic one: there must be a clear third alternative to business and charity, “in order to change mindsets, reshape economic structures, and encourage new forms of thinking” (Yunus 2010, p. 16). One reaction to learning about the social business idea is that it will be hard if not impossible to find investors, because while the initial investment is paid back, investors must forfeit interest on their funds. There is in fact a financial cost to investors. Yunus’ idea about the other side of human nature is relevant in a rebuttal – there will be those willing to pay this cost because of the other dividends they reap.

The foundational principle that social businesses are created to address/solve a social problem first and make a profit to reinvest in that business second raises several key issues. First, it creates the need for different measures of business performance, beyond financial ones. While there are many, varying approaches to measuring social impact, the good news for those in the field of social business (whether creating them or attempting to assess them more academically) is that they exist. One clearinghouse for such measures is maintained by the Foundation Center at <http://www.trasi.foundationcenter.org>. At a recent focus group session of the 2012 Global Social Business Summit, several presenters discussed the challenges of and avenues available to measure social impact. Sophie Eisenmann of Yunus Social Business, a consulting and incubation firm established by Ms. Eisenmann, Saskia Bruysten, Hans Reitz, and Muhammad Yunus in 2011, argued at the Global Social Business Summit that the measurement of social impact is one of the most urgent topics that the social business movement faces today. She listed several measures currently being used: Acumen Fund: The Best Available Charitable Option (BACO); Social e-valuator: Measurement of social return on investment (SROI); the Boston Consulting Group: Quantifying Social Impact; the William Davidson Institute: Base of the Pyramid Impact Assessment Framework; and Ashoka: Measuring Effectiveness (Eisenmann 2012; author’s [Grove] notes).

The focus on the amelioration of social problems entails not only finding measures to assess the extent to which the focus issue is being solved but also the prior understanding of the target social issue. Consider the list of issue areas Yunus provides in his Seven Principles (see above): education, health, technology access, and environment. From these broad areas many additional, familiar social issues can be derived: nutrition, clean water, homelessness, etc. If social business entrepreneurs are to design effective social businesses, they must have an educational background that is relevant to grasping the causes and contexts of the target issues.

Depending on the issue, they might draw on sociology, political science, geography, economics, biology, computer science, information technology, and/or psychology, for example. Insight from these areas can also offer background on the country or locality in which the social business is proposed to operate. What works in one place may not work in another. In the case studies included in this book, cultural and political contexts play a role in the business planning and outcomes of their operations.

While not considered much in published work thus far, when thinking of outcomes and impact, social business entrepreneurs should be conscious of the potential political impact of their work, the kind of impact highlighted by Kreutzer and Mauksch in this volume, for example. Success may involve the transformation of the systems that create or allow social problems to exist. Existing ways of thinking about the problems may shift. While Lawrence et al. (2012) derive this challenge from the work of social innovators, we believe it applies especially well to the social business-focused subset of those: the nature of this work is inherently political. “Social systems, even those that underpin significant and obvious social problems, are always tied to entrenched interests and distributions of advantage and disadvantage.” The recent troubles that Prof. Yunus has experienced in Bangladesh, with the government’s successful effort to force Yunus off of the board of the Grameen Bank, is most likely an example of Dhaka’s reaction to the changes the bank has brought to that country, exceeding the work of its own government in addressing social ills (Schneiderman 2011; also, see Rashid 2012 for a study of Grameen and politics in Bangladesh). Indeed, the work of the social business entrepreneur can expose “injustice and inequity in ways that can force the redistribution of privilege.” Thus those engaged in this work have to be “both creative problem solvers and skilled politicians – overcoming resistance from residential communities, government agencies, political factions, and corporate actors...” (Lawrence et al. 2012, p. 321). As scholars begin to study social business in more depth now that there are more exemplars to examine, we must begin to measure these various aspects of impact – social, cultural, political – a key reason we adopt an interdisciplinary approach in this book.

## Conclusion

Social business as a model and as an academic field of study is intimately intertwined with areas such as social entrepreneurship and socially responsible businesses, nonprofit management, and global economic development. As articulated by Muhammad Yunus, however, the non-loss, non-dividend model is unique and intended as a “third way” between traditional business and charity. Because the specific Yunus model is relatively new, there have been few studies of the concept’s application. Now that a number of social businesses have been in operation for several years, the field is open for comparison of these cases, as well as a consideration of the issues that have surfaced.

The California Institute for Social Business (CISB) in collaboration with Professor Muhammad Yunus is the first program of its kind in the United States to grant an interdisciplinary undergraduate degree in social business and to involve academia in research on the understudied academic field of social business. This book is one of the first comprehensive collections of theory and research on the emerging field. The diverse group of authors comes from around the world (United States, Germany, Vietnam, Saudi Arabia, Italy, Spain, and Bangladesh) and from various disciplinary backgrounds (Geography, Business, Education, Political Science, Economics, etc.). As noted above, the book examines theoretical foundations and features several case studies of social businesses around the world. Next, there are chapters focused on practice – state of the art assessment of the issues that arise in the planning, marketing, and evaluation of social businesses. That section is followed by two chapters on critical views of the concept, its application, and its evaluation. A concluding piece looks back at what we have learned and sets an agenda for future work.

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## Chapter 2

# Mission, Finance, and Innovation: The Similarities and Differences Between Social Entrepreneurship and Social Business

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### Introduction

“Whether you can observe a thing or not depends on the theory which you use. It is the theory which decides what can be observed.” This famous dictum by Albert Einstein (1926) quoted in Salam (2005, p. 99) can inspire a fresh look at social entrepreneurship and social business as a fertile domain for management research. We agree that the study of social entrepreneurship and social business offers an exciting field for management scholarship in general (Mair and Martí 2006). However, as Einstein points out, what we are able to observe in a given field not only depends on the phenomena themselves but even more so on the clarity of the theoretical tools and lenses that help us to carve reality into pieces.

Following Einstein in this regard, definitions matter for the study of social entrepreneurship and social business. Definitions are necessary theoretical lenses to organize our research fields as well as to identify and compare distinguishable phenomena. In the dynamic evolution of social entrepreneurship and social business research over the past decade, management scholars have therefore put substantial effort into elaborating and sharpening our definitional tools (see, for example, Dacin et al. 2010, pp. 39–41, who provide an overview of 39 different definitions of social entrepreneurship).

However, while there are many attempts to define either social entrepreneurship (e.g. the prominent approaches by Dees 1998; Dees and Anderson 2006; Defourney and Nyssens 2010) or social business (e.g. Wilson and Post 2011; Yunus 2007; Yunus and Weber 2010), the boundaries and overlaps of both phenomena often

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remain vague or contested – thus rendering any comparative empirical or conceptual learning more difficult. To resolve these imprecisions, we believe it is essential to take a step back and clearly define the “boundaries” between the two empirical phenomena so that advances in research are possible. A case in point is the comparison between research results, which is only possible if clear systemizations are available.

Against this background, the purpose of this article is to develop a definitional perspective on social entrepreneurship and social business that allows highlighting important differences and similarities between these two phenomena. More specifically, we propose to distinguish three dimensions: mission, origin of finance, and degree of innovation. We use these dimensions to describe two simple “pure forms” of social entrepreneurship and social business. A pivotal similarity of these two ideal types lies in their shared social mission focus. Differences between social entrepreneurship and social business may ensue, however, in how this social mission is achieved. While social business weds the mission with a specific finance approach, we suggest using social entrepreneurship as a concept that focuses on the combination of the social mission with innovation.

Our definitional framework thus does not aim to define what social entrepreneurship or social business “really is”. Instead of following such an “essentialist” definitional approach, as criticized by Popper (1944), we propose a more constructivist approach that asks whether a definition is fruitful in order to come to interesting observations.

Our argument proceeds in the following four steps.

First, to discuss the social mission as a common denominator of social business and social entrepreneurship, we compare three alternative approaches to determine what is meant by “social” and propose a definition that can be fruitfully operationalized for management research.

Second, we introduce the financial and the innovation dimension of our definitional perspective and use them to delineate ideal types of social business and social entrepreneurship. Combining both dimensions then serves to derive a two-by-two matrix that illustrates when social entrepreneurship and social business overlap and when they differ. For illustrative reasons, we provide anecdotal examples.

While our framework is useful to distinguish social entrepreneurship and social business in their ideal forms, the dichotomy of the dimensions does not reflect the variety and hybridity of social businesses and social entrepreneurial ventures in reality. Thus, in a third step, we discuss the “shades of gray” of all three dimensions, social, finance, and innovation and suggest that multi-dimensional hybridity is not the exception but rather the empirical rule. We then demonstrate how our framework can be used to map different hybrid types of social ventures on a social entrepreneurship and business landscape.

In a fourth step, we discuss implications for both social entrepreneurship and social business research as well as for management and entrepreneurship research in general.

The chapter closes with some concluding remarks.



## The Shared Mission Focus of Social Ventures

The first dimension of our definitional framework looks at the objective function of an organization or venture. It has been argued that compared to non-social ventures, social ventures share a “primacy of social benefit” (Martin and Osberg 2007, p. 35). However, there is a continuous and controversial debate about what the “social” in social entrepreneurship or social business means and whether it differs from traditional ventures (e.g. Tan et al. 2005). While some researchers suggest that all businesses achieve some social objective, either directly or indirectly through their contribution to employment or tax payment (e.g. Mair 2006), others argue that some organizations such as social enterprises and businesses differ from traditional businesses in their mission and motives (e.g. Austin et al. 2006; Hockerts 2006; Murphy and Coombes 2008; Weerawardena and Mort 2006). As both social entrepreneurship and social business pursue a social mission, we do not use this dimension to distinguish between these two. Yet, the question remains as to how these social ventures can be defined to distinguish them from supposedly non-social ventures.

We suggest that there is no “right” definition of what is social. In fact, depending on where a researcher’s interests focus, different definitional angles on the social dimension are possible and fruitful. We propose that there are at least three possible paths to determine the “social”: a normative, a pragmatic, and a formally descriptive approach. In the following, we briefly introduce each of these approaches and explain why we see the formally descriptive approach as the most fruitful for guiding empirical and conceptual management research.

According to the normative approach, what is “social” ultimately boils down to an ethical question that requires a normative theory to be answered. What we perceive as socially desirable depends on normative value judgments. To justify such value judgments, however, requires an ethical theory. Only if an ethical theory specifies what is socially desirable, we can assess a “social” venture’s mission and action with a clear ethical yardstick. One such ethical perspective might be, for instance, a utilitarian perspective that assesses a social mission in terms of its objective to maximize social utility (Bentham 2009; Mill 1998). A different ethical perspective would be Amartya Sen’s (1999) capability approach that does not look at the aggregate utility of society but focuses on what individuals are able to do (e.g. in terms of their ability to live to old age, be healthy, engage in education, economic transaction or political participation). The capability approach provides an ethical perspective that Ziegler (2010) uses to clarify how the “social” in social entrepreneurship and social business can be defined. Seen from this perspective, an entrepreneurial venture can qualify as social if its activities aim at improving human capabilities (cf. also Yujuico 2008), i.e. if they improve human abilities with regard to education, health, income or political participation.

A normative approach, thus, interprets the social dimension in terms of an ethical theory to define the normative criteria of what is socially desirable. Given the “fact of reasonable pluralism” (Rawls 1993, p. 144), however, modern society

no longer shares a universally agreed upon ethical theory. In fact, ethicists debate a plurality of ethical perspectives including utilitarianism, communitarianism, deontology, consequentialism, discourse ethics, virtue ethics or the capability approach. Since each ethical theory offers a specific normative perspective, they can also differ in what they perceive as “socially” desirable. For example, a venture that relocates people from their village to build a hydroelectric power point might be assessed as socially desirable from a utilitarian perspective, if the project increases the overall happiness in society. A capability perspective, in contrast, might criticize the same project if the venture reduces fundamental capabilities of the relocated people such as their ability to live long, healthy lives, and to engage in political participation.

Using a normative perspective, the meaning of the “social” dimension consequently depends on the particular ethical theory at hand. While such a discussion is a fruitful field for the domain of ethics, highlighting the potential for an interesting ethical debate about competing ethical interpretations of “social”, it is less suitable for management research. Management scholars who seek to analyze social ventures empirically and to theorize these phenomena conceptually require an operationalizable definition that can be used inter-subjectively. As a normative definition is not practical for this purpose, we suggest that another approach is needed to allow for empirical, conceptual, and model-based research of social ventures in the field of management.

According to the pragmatic approach, what is “social” can be defined pragmatically in terms of an apparent empirical consensus as to what is socially desirable. The Millennium Development Goals (MDGs) of the United Nations, for example, call among other goals for the eradication of poverty. If there is a widely accepted consensus that this goal is something “social” and if we commonly perceive a venture to work towards that goal as a “social” venture, then all ventures that aim to eradicate poverty would be defined as “social”.

The pragmatic approach thus also interprets the social dimension as a normative category but draws on the empirical consensus to define what is normatively desired. One advantage of such a perspective is that it helps to simplify a complex discussion. If, for example, Muhammad Yunus’ Grameen bank is widely considered to be a poster case for social business, then authors discussing this case do not need to worry about defining its boundaries. The pragmatic approach therefore provides a useful reduction of complexity when focusing on uncontroversial cases characterized by an empirical consensus of what is socially desirable. Yet, given Rawls’ (1993) “fact of reasonable pluralism”, there are many instances in which this kind of empirical consensus is absent such as in the case of different value systems across nations, religions, or generations. For example, while some may perceive a venture that seeks to advance inclusion and gender equality in the work place as highly desirable, others might oppose it, preferring a more traditional role of women, and thus perceive this venture as “unsocial”. The pragmatic approach is therefore less useful for deriving generalizable definitions. Management scholars

interested in examining, comparing, and theorizing multiple and diverse cases therefore need a definition of what is social that does not depend on a case-specific empirical consensus.

In light of the shortcomings of the aforementioned two definitions for the specific research interests of (comparative) empirical and conceptual management research, we suggest a third perspective, the formally descriptive approach. This third approach refrains from searching for a general definition of what is socially desirable, either in terms of a universal ethical theory or in terms of empirical consensus. Instead of importing a normative criterion of the “social” from the organization’s outside (e.g. from an ethical theory or from empirical consensus), we suggest looking at the organization’s inside. Following this formally descriptive approach, researchers can define a social venture based on the primacy of a mission that is not financially motivated and independent of what the ethical or empirical content of this “social” mission is—be it the inclusion of disabled people, the reduction of carbon-emissions, or the proliferation of certain values or ideologies. To operationalize this idea, researchers can test to what extent a venture follows a financial objective (profit-maximization) and to what extent it follows a non-financial or not-for-profit mission.

The formally descriptive approach allows researchers to be flexible in defining “social” depending on their value system context. Thus, this approach does not interpret the “social” dimension as a normative or even normatively superior quality of a venture but as a descriptive feature. The formal criterion to define a “pure” social mission focus would thus be given if an organization has a strictly non-financial objective function and uses economic resources exclusively to achieve a non-financial organizational goal such as with nonprofit organizations. In contrast, a for-profit organization seeking to maximize nothing but purely financial profit would accordingly not qualify as a social venture.

One advantage of such a formal operationalization is that it can be used across competing normative theories and across diverse empirical contexts. In fact, it allows analyzing highly diverse phenomena through the same lens. Take, for example, the case of the Islamist Hamas in the Gaza strip. This organization has a very entrepreneurial business model that mobilizes economic resources to pursue the non-financial goal of providing welfare services to the community and of pursuing the organization’s ideological values. From a normative or pragmatic perspective, many observers would point out that Hamas is a terrorist organization and can therefore hardly qualify as a social venture. Yet, from a management perspective Hamas might face issues such as goal alignment, strategy formation, resource acquisition, managing multiple institutional logics, etc. that make it an interesting extreme case for the study of mission-driven ventures. In this situation, our formal approach allows analyzing Hamas and comparing it with other mission-driven organizations.

Table 2.1 summarizes our comparison of the normative, the pragmatic, and the formal approach to define what is “social” about a social venture. The key

**Table 2.1** The social mission

| Definitional approach   | Normative                                    | Pragmatic   | Formal (ex negativo)   |
|-------------------------|--|---|--|
| What is 'social' is ... | ... to be defined in terms of ethical theory | ... what is commonly agreed to be social                                  | ... what is not driven by the financial imperatives of economic activities |
| Reference point         | External theoretical perspective             | Broader societal empirical consensus                                      | Internal objective function of organization                                |
| Heuristic advantage     | Fruitful for ethical discourse               | Fruitful for selected case-based analysis that leaves out broader context | Fruitful for comparative empirical research and conceptual theorizing      |

difference between the normative and pragmatic definition on the one hand and the formal definition on the other hand is that the latter refrains from making a normative qualification of the research object. It does not assume that a “social” venture is per se to be considered ethically superior or morally valuable. Instead, the formal approach defines a mission-driven organization *ex negativo*: a venture is a social venture to the extent that it does not use its economic activities for economic gain but mission-driven for not-for-profit objectives – no matter what these not-for-profit objectives are.

A formal definition of “social ventures” allows focusing on how ventures try to define, achieve, and maintain non-economic ends through entrepreneurial and managerial means. This question points to many phenomena that are of general interest for management scholarship such as a venture’s need to manage multiple institutional logics (Thornton and Ocasio 2008), to interact with different stakeholders (Freeman 1984), or to maintain legitimacy (Suchmann 1995). Having a formal definition of the ideal type of a social venture thus provides a tool to guide conceptual and empirical research.

## Social Business Versus Social Entrepreneurship

In the previous section, we discussed the social mission as a common denominator of social businesses and social entrepreneurship. This section looks at the question of how we can usefully conceptualize the difference between these two phenomena. We proceed in two steps: First, we introduce the finance and innovation dimensions to define the base concept of social business and social entrepreneurship respectively. Second, we use these two dimensions for a two-by-two matrix depicting when social entrepreneurship and social business overlap and when they differ.

## The Dimension “Origin of Finance”

Social entrepreneurship and social businesses can be distinguished based on how they are financed. We choose this distinguishing factor based on the widely accepted three-sector model, consisting of the public sector (government and agencies), the private sector (private business firms), and civil society (non-governmental and nonprofit organizations) (e.g. Weisbrod 1977). Each sector relies on different financing: While civil society organizations use donations and grants, the public sector uses taxes and private sector organizations generate income through the production and sale of goods and services in markets.

As social businesses operate in the realm of the private sector, they need to be financed through self-generated income and must not accept donations or grants. In contrast, social entrepreneurship may operate in a financially self-sustainable way but it does not have to. This definitional focus resonates with current literature on social business. Its probably most well-known representative – Muhammad Yunus – describes social business as businesses with a social mission at their core that are financially self-sustainable (Yunus and Weber 2010; Yunus 2007).

For the purpose of our definitional approach, we can thus define the origin-of-finance dimension as a spectrum marked by the two extremes of pure business financing (market income only) on the one hand and purely non-business income (grants, donations, etc. but no market income.) on the other. The ideal type of a social business then weds a pure social mission (non-financial objectives) with pure business financing (financially self-sustainable through market income only). Any other venture that follows a social mission, yet that does not completely rely on market income but also uses non-market financial inputs (e.g. donations) would thus not qualify as a (pure) social business.

## Dimension “Degree of Innovation”

The by far most widely accepted – and, more importantly, for our analytical purposes most fruitful – element to define entrepreneurship is innovation (e.g. Drucker 2006; Lumpkin and Dess 1996). This prominent focus on innovation in the entrepreneurship literature goes back to the conceptual foundations laid by Schumpeter (1911). In his seminal work, Schumpeter brought forward the notion that innovation is what defines the “entrepreneurial function”. For Schumpeter (1942), entrepreneurial innovation is the key trigger for the economic process of “creative destruction”. In his understanding, innovation encompasses new products, new services, new means of production, access to new procurement sources, and entering new markets. Innovation is thus characterized by the formation of new means, new ends, or new means-ends relationships (Casson 1982; Shane and Venkataraman 2000; Eckhardt and Shane 2003).

This innovation-based notion of entrepreneurship is not confined to the pursuit of profits in capitalist markets (Baumol 1990, 2010). Given the formal definition of innovation as the purposeful recombination of existing resources (Schumpeter 1934), such innovative recombinations are possible in all kinds of social spheres ranging from policy entrepreneurship (Mintrom 2000) to cultural entrepreneurship and the third sector.

Not surprisingly, defining the entrepreneurship dimension in terms of innovation is also a predominant feature in the literature on social entrepreneurship (e.g. Alvord et al. 2003; Austin et al. 2006; Dees 1998; Martin and Osberg 2007; Weerawardena and Mort 2006; Zahra et al. 2009). Dees and Anderson (2006) explicitly introduce the very concept of a “Social Innovation School” to refer to a widespread perspective that defines social entrepreneurship with a specific focus on innovation. While innovativeness is a core feature of (social) entrepreneurship, the means of financing are less relevant.

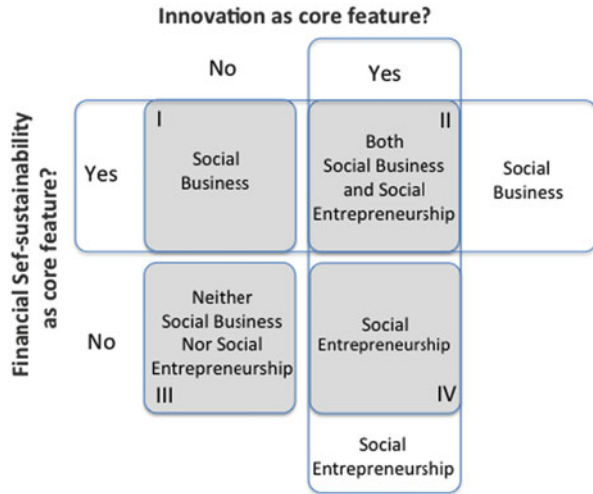
Against this background, we are closely in line with much of the literature when suggesting innovation as a key dimension to define the concept of social entrepreneurship. Just as in the case of the business dimension, we can define the innovation dimension as a spectrum marked by the two ends of “purely innovative” leading to a new equilibrium (to be discussed below) on the one hand and “no innovation at all” on the other hand. The ideal type of “social entrepreneurship” then weds a pure social mission (non-financial objectives) with a high degree of innovation in its pursuit of this mission. Other ventures that follow a social mission but simply do more of the same in a non-innovative, repetitive, static way would thus not qualify as (pure) social entrepreneurship.

## **A Two-by-Two Matrix to Distinguish Social Business and Social Entrepreneurship**

Using our definitional approach, both social business and social entrepreneurship are two-dimensional constructs, yet focusing on different two dimensions: While the social business idea weds the social mission dimension with the origin-of-finance dimension, the concept of social entrepreneurship combines the social mission with the innovation dimension.

Having identified the origin-of-finance and the degree-of-innovation dimension as two separate and independent dimensions, this section now combines both dimensions in order to discuss how the phenomena of social business and social entrepreneurship may, but need not overlap. For reasons of simplicity, we start by differentiating the two dimensions in a dichotomous way, i.e. financial self-sustainability and innovativeness of a venture can be either yes or no. Figure 2.1 visualizes the distinctions and overlaps between social entrepreneurship and social business in a two-by-two matrix.

**Fig. 2.1** Matrix to distinguish social entrepreneurship and social business



As Fig. 2.1 illustrates, social entrepreneurship and social business are two separate phenomena that partially overlap in case a venture is both innovative and financially self-sustainable (Box II). The Grameen Bank in the time of its inception is an example. Offering microcredits to poor people was extremely innovative and a new-to-the world service provision. While credits are hundreds of years old, offering them through credit rings in very small amounts to the poor was a new means directed towards the eradication of poverty (Yunus 2003). Moreover, Grameen Bank purely relied on generating income by delivering this service and thus was acting as an entrepreneurial social business.

In contrast, Boxes I and IV depict cases where social business and social entrepreneurship differ. Box I describes cases of social businesses that generate their entire income through market interactions but do so in a well-established way – thus with no significant degree of innovation. A case in point would be the Grameen Bank today. As a social business, the Grameen Bank still follows a social mission and finances its operations fully through market income. However, while this approach was radically new and innovative when the Grameen Bank started, it is by now an established approach that has been routinized both within Grameen Bank as well as in hundreds of other microfinance institutions. Running a microcredit organization like Grameen Bank today would thus not present a case of innovative social entrepreneurship but still qualify as a social business.

Another example is a privately run nonprofit (e.g. faith-based) kindergarten. While a nonprofit kindergarten may follow a social mission (looking after children with a faith-based grounding) and generates its income through the daycare payments of the parents (market-income), the idea of a kindergarten is not new anymore. When social entrepreneurs such as Maria Montessori or Friedrich Wilhelm Fröbel first opened kindergartens in the 19th and early 20th, it was something unheard of before. At that time, giving your children to a stranger who

is not part of your family to look after them was revolutionary. Running a kindergarten was therefore something very innovative (Box II). Yet, over time, this idea has become a well-established part of modern life and would today hardly be considered innovative, thus moving a self-financed mission-oriented kindergarten from Box II into Box I. Note how time dynamic transforms an entrepreneurial innovation into an established business approach in both examples.

Box IV represents pure social entrepreneurship, i.e., organizations that use innovation to fulfill their social mission, yet are not financially self-sustainable. A well-known example is the case of Ashoka Fellow and social entrepreneur Jimmy Wales who founded Wikipedia. Wikipedia is a highly entrepreneurial and innovative solution to provide democratic access to the vast knowledge of humankind. Yet, as it systematically draws on donations it does not qualify as a social business. Note again the potential time dynamics. If Wikipedia decided to develop a business model that creates market income (e.g. through selling a “Wikipedia App” or by placing advertisements), Wikipedia could become a social business and move from Box IV to Box II. Since Wikipedia wants to safeguard its independence, it has so far purposefully chosen to rely on a donation-based solution.

Figure 2.1 also shows that there are social organizations that neither qualify as social business nor as social entrepreneurship (Box III). Examples are social welfare organizations such as charities that operate donation-based and deliver elementary services in a proven manner such as the Salvation Army, Amnesty International or community soup kitchens.

To summarize, this section has extracted two definitional dimensions (origin of finance and degree of innovation) from the literature on business and entrepreneurship. We then used these two dimensions to derive a two-by-two matrix to illustrate that social entrepreneurship and social business are not mutually exclusive but may overlap. Moreover, we showed that the location of a specific organization in this matrix can change over time.

## The Idea of Hybridity

In the previous two sections, we introduced the social, the origin-of-finance, and the degree-of-innovation dimension to define pure types of social business and social entrepreneurship, distinguish them, and relate them to each other. Empirical reality, however, is rarely populated with ideal types of organizations. In this section we therefore elaborate on the idea that each dimension is not reduced to two binary values but actually describes a continuous spectrum between two ideal end points. The space of combinations between these pure types allows us to account for the phenomenon of multi-dimensional hybridity, which is a mix of ideal types. By challenging the strictly binary dichotomy in each dimension, we suggest that hybrid organizations are rather the rule than the exception and give various illustrative examples.



## Mission Hybrids

When defining “social” using a formally descriptive approach, we implicitly assumed that mission and economic objectives are located on a continuum with purely mission-driven organizations and purely profit-maximizing organizations being the extremes. Both ideal cases, however, seem to be rare phenomena in real life.

To begin with, take the case of organizations purely driven by no other objective than profit-maximization. One constructed example that comes close to such an ideal type might be a hedge fund that trades highly abstract derivatives in financial markets in which all trading decisions are based on financial indicators only, where trading is anonymous, competition is intense, and traders act under enormous performance pressure and little discretionary leeway. Yet, only under such extreme conditions might we observe a pure profit-maximization behavior that does not try to achieve any other goals including social or environmental objectives.

The moment that we relax these strict conditions, however, and allow, for example, that trading is not anonymous, that organizations (and managers) have a reputation at stake, that companies (and managers) have an identity that flows from their history, their mission statement, and their social embeddedness, or that stakeholders such as employees, investors, and customers care about other aspects than just financial pay-offs, then multiple non-monetary “social” aspects will influence organizational goals – either as part of the corporate objective function (something to be maximized) or as relevant constraints for profit-maximization (a condition under which profits can then be sought).

The assumption that organizations are pure financial profit-maximizers thus hinges on idealized conditions that are useful for formal economic modeling but hardly accurate to describe empirical reality. In fact, various scholars have pointed out that there is an empirical trend towards the increasing hybridization of for-profit ventures. With regard to modern markets, Stehr et al. (2006) refer to “the moralization of the markets” as a process in which non-financial, moral expectations play an increasingly important role for business operations. With regard to the level of organizations, the rise of the Corporate Social Responsibility (CSR) agenda, the Triple Bottom Line (Elkington 1997), or ideas such as Shared Value (Porter and Kramer 2011) reflect that corporations (need to) integrate social and environmental objectives into their business operations. Here, the supposedly clear line between pure for-profit firms and ventures with a social mission is increasingly blurred. Take the example of the United States-based supermarket chain Whole Foods that does not only emphasize environmental and social issues in their purchasing, production, and delivery of products (Alsop 2007). The company also pledges to give a significant share of its net profits to community projects, thereby incorporating elements of the pure social business type (use of market income for social purposes). Whole Foods is thus a social hybrid organization that, interestingly, ranks among the most profitable companies in its sector (Mackey 2006).

On the other end of the spectrum, the idea of a pure social venture – in our terms, a venture that does not pursue any financial profit-objective or self-interests – seems more representative of real-life examples. After all, there are specific legal forms for nonprofit organizations that explicitly exclude that such a social venture issues profits or dividends to its owners or managers. Similarly, Muhammad Yunus' (2007) social business concept not only stipulates that dividends must not be issued directly but also excludes any indirect form of profit distribution such as above-market wages for managers. Yunus' (2007) social business idea therefore explicitly argues that a social business must pay its managers nothing but the normal market wage (Sattar 2012). Yet, obviously, it is far from clear what constitutes “the normal market wage” for a particular manager. This example shows that even in a highly regulated nonprofit legal form, the organization and its managers always enjoy certain discretionary freedoms in their decisions. As a consequence, it would be, again, a highly idealized assumption that managers in a nonprofit venture never ever wish to pursue any kind of “profit” interest such as a vested self-interest in keeping their job, in working in a nice office, or in having a big financial budget. This is why truly pure social ventures might be hard to find in the real world.

Given the relevance of goal hybridity, the past years have seen the advent of new organizational and legal forms. A prominent example for such a social hybrid blueprint is the newly instated US legal form L3C (low-profit Limited Liability Company). L3C organizations are for-profit companies that serve a social mission while maximizing profits within certain constraints (Battilana et al. 2012). This legal form can be interpreted as a response to the increasing demands of organizations that are social hybrids to be able to access both nonprofit and for-profit forms of funding.

## Financial Hybrids

To distinguish social entrepreneurship from social business in terms of financing, we argued that social businesses need to be financed through self-generated market income and must not accept donations or grants, while social entrepreneurship may accept non-market income as well.

However, while the distinction between market income and non-market income seems straightforward at first sight, it is less clear-cut upon closer inspection. A simple thought experiment comparing two scenarios may suffice to illustrate this point. In the first scenario, a coffee company sells conventional coffee but cooperates with a nonprofit organization that aims to improve the living conditions for poor coffee farmers. A buyer who wants to consume ethically might buy a cup of coffee for \$4 and then give another \$1 as a donation to the nonprofit organization. In the second scenario, the coffee company offers a fair-trade coffee product and has its own program to assist poor coffee farmers. If a coffee now costs \$5 with \$1 being the premium for the social service provided to the farmers, then nothing has changed for the consumer or for the farmer. While the legal difference between

sales income and donations still remains clear, the difference might be fuzzier for the actors involved in the transaction. This is not only true for consumers who “donate” a price premium in their purchasing (second scenario) but also for employees who are willing to work for a social business for a lesser wage than in other firms or for social investors who are willing to accept lower interests.

Even if we distinguish market income and donations strictly in legal terms, then financial hybridity is an important phenomenon as many organizations actually use multiple funding sources and thus mix market and non-market dependent income (e.g. Hoffman et al. 2012; Millar 2012). In his book *Enterprising Nonprofits*, Dees (2001) points out that nonprofits (increasingly?) use market income to supplement their charitable income. One such example is Oxfam. Oxfam operates as a conglomerate of almost 20 organizations that try to fight poverty. In many countries, Oxfam also operates shops which sell second-hand clothing, books, DVDs, or other household appliances. These shops serve the purpose of generating market income for the Oxfam charities, thereby eventually reducing the risk of only depending on donations.

While some ventures permanently rely on multiple sources of income, sources of funding may also be transitory and change over time. The Monitor Study of Social Entrepreneurship (GEM 2011) has found that the majority of social businesses need decades to reach financial self-sustainability. As a consequence, they use other forms of funding including crowd funding, government grants, philanthropic investments, or donations in their early stages of operation.

This, however, is not only the case in young social businesses. Rather, new businesses that operate in areas highly desired by governments or foundations – e.g. green-tech or pharmaceuticals – often receive public funding in their early development stages despite the fact that they operate as for-profit market-oriented businesses. Furthermore, for-profit companies sometimes establish corporate foundations or separate nonprofit legal forms that allow the company to collect donations. These examples show that both social and non-social ventures may use a hybrid mix of funding sources.

## Innovation Hybrids

To distinguish innovative from non- or less innovative activities, different classifications of innovation have been suggested in the literature such as incremental versus radical, new-to-the-firm versus new-to-the-world, architectural versus modular (Henderson and Clark 1990), or disruptive versus non-disruptive (Christensen 1997) innovations. However, the classification of a specific innovation in any of the above categories highly depends on the context and has to be determined by researchers on a case-by-case basis.

For example, Dialogue Social Enterprises, a German-based social business, aims to de-stigmatize disability, particularly visual impairment. It operates exhibitions, restaurants, and seminars in pitch darkness thereby making the seeing disabled and

the blind guides the abled. In order to scale its social mission, Dialogue Social Enterprises uses social franchising to scale (Volery and Hackl 2010). While opening a new franchise outlet is innovative for the franchisee (i.e., new-to-the-firm) and for the region, it is not new to the world, as other outlets already exist in several countries.

As illustrated in the kindergarten and Grameen examples in the previous section, the degree of innovation can change over time. Ideas can move from being disruptive innovations to merely being incremental innovations or not innovative any more. Moreover, some organizations are partially innovative and partially not. They have, for example two projects, one new and innovative and the other “old” and established as in the case of the Grameen Group. The Grameen Group consists of well-established and mature businesses such as Grameen Bank but also includes younger ventures such as the Grameen Danone joint venture that produces Shakti doi, an affordable fortified yogurt that can help prevent malnutrition among the poor. If taken as the unit of analysis, the Grameen Group would thus be an innovation hybrid.

In sum, it is difficult to determine the degree of innovation as it depends on at least three contextual factors: type of innovation, unit of analysis and temporal scope.

## Contributions and Implications for Future Research

We believe that our definitional approach has at least four implications for future research.

1. We introduced an analytical approach to distinguish social entrepreneurship and social business. By so doing, we offered a perspective to fruitfully conceptualize when both phenomena overlap and when they differ. We thus brought forward a possible solution to the continuous debate about differences between the two phenomena (e.g. Dees and Anderson 2006; Defourney and Nyssens 2010). Moreover, our approach does not provide yet another definition of which many are already available (e.g. Dacin et al. 2010), rather it offers a framework for analytical systematization. Against this background, we look forward to more cooperative work between social business and social entrepreneurship scholars. In addition, we invite researchers to build upon our definitional approach to generate a more fine-grained understanding of the antecedents, boundary conditions, and the temporal interlinkage between both phenomena.
2. We suggest that future research will benefit from investigating multi-dimensional hybridity more closely in order to better understand how financial, innovation, and social hybrids function because most forms of social entrepreneurship and social business actually are hybrid. Considering hybridity regarding both the similarities and differences of social entrepreneurship and social business will be important: How does an organization deal (a) with potential

conflicts on the dimension of the social mission and (b) with different sources on the origin-of-finance dimension and variations on the degrees-of-innovation dimension?

- (a) Dealing with hybridity on the social mission dimension can lead to conflicts (e.g. Kreutzer and Jager 2011; Moss et al. 2010). Research thus needs to develop theories and empirical studies that shed light on potential areas of conflict and their prevention or resolution. Scholars have already begun to investigate how organizations can respond to conflicting institutional logics (Pache and Santos 2010), how new organizational types allow the sustainable management of multiple institutional logics (Battilana and Dorado 2010), or how social entrepreneurs deal with leadership challenges using paradox theory (Smith et al. 2012). Our framework also suggests that more research on organizations with continuous mixed logics or paradoxes is needed. This becomes particularly important if we assume that goal hybridity is a not the exception but rather a widespread reality.
  - (b) Considering the sources of funding and the degree of innovation, how does an organization deal with different and potentially varying financial sources and varying degrees of innovation and how do these affect management practices? Future research might thus look into how an organization deals with receiving philanthropic funding and market income simultaneously. Does this affect its operation of, e.g., its marketing, strategizing, or service provision, and if so why and how? In terms of innovation hybridity, research could look more into how an organization deals with changes in its degree of innovation moving from being very innovative to less innovative or vice versa. As the newness of an innovation fades away over time, longitudinal studies might dive deeper into the temporal dynamics of the innovation dimension. Moreover, research on organizations that are both innovative and not may generate valuable insights.
3. We believe that our three-dimensional definitional framework can be helpful for empirical scholars wishing to construct and to analyze broader samples in the fields of social business and entrepreneurship. In our chapter, we have limited our discussion of the respective dimensions to a dichotomous yes or no and a continuum approach, respectively. However, future research could benefit from using the spectra to develop scales that, in turn, help to create more accurate samples and to analyze and classify diverse data samples.
  4. Additionally, we argue that our framework helps to construct theoretical samples between organizations that might usually not be studied in the same context by emphasizing the similarities rather than differences between organizations. Take the example of social businesses and for-profit businesses operating in the same industry or based on the same organizing principles. Existing studies usually do not investigate both types of businesses simultaneously and consider both types of business as being different. However, if we alter the distinguishing dimension “social” from a dichotomous to a continuous perspective, the differences between both types of businesses blur and they be seen as quite similar in

some aspects. For example, when Dr. G. Venkataswamy founded Aravind Eyecare Hospital, he strongly relied on imitating the highly efficient machine organization principles used by McDonalds (Rangan and Thulasiraj 2007). Thus, from an organizational perspective, Aravind Eyecare Hospital and McDonalds are very similar. Researchers studying social entrepreneurship and social business could thus benefit from studying similarities between seemingly different forms of organizations.

## Concluding Remarks

Social business and social entrepreneurship offer an exciting field for empirical and conceptual management research. Yet, while there are many attempts to define either social entrepreneurship or social business, the boundaries and overlap of both phenomena often remain vague or contested – thus rendering empirical or conceptual learning more difficult. We propose a three-dimensional definitional framework to define, to distinguish, and to relate social business and social entrepreneurship. Our framework interprets both concepts as the two-dimensional combination of a pure social mission with either pure financial self-sustainability (social business) or a pure innovation focus (social entrepreneurship). Since the finance and innovation perspective are distinct, yet independent dimensions, we derive and illustrate four cases of how social business and social entrepreneurship may but need not overlap. Challenging the assumption that each dimension is confined to two dichotomous values, we then interpret each dimension as a full continuum and introduce the idea of mission, finance, and innovation hybridity.

In sum, our three-dimensional definitional framework offers at least three contributions. First, our framework allows defining social business and social entrepreneurship as two approaches that are distinct, yet that need not be mutually exclusive. Second, we highlight three organizational dimensions that can be of value for structuring management research also outside the realm of social entrepreneurship and business. Third, we use our constructed ideal types to conjecture that in empirical reality most if not all organizations – not only social entrepreneurship or social business – display multi-dimensional hybridity.

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## **Part II**

# **Case Studies**

# Chapter 3

## The Holistic Social Business Movement in Caldas (HSBM), Colombia

Martin Loeffler

### Why Caldas, Colombia? The Beginning. . .

When explaining the Grameen Caldas story to an audience interested in social business, one of the most common questions that people ask is: “Why Colombia and why Caldas?” While Caldas usually is an unknown place in most people’s mind-map of the world, its main export product is world famous – Colombian coffee. CAFE DE COLOMBIA is the name that is given to the 100 % Arabica coffee produced in the coffee regions of Colombia, bounded between latitude 1° to 11° 15 west longitude 72° to 78° and specific ranges of altitude that may exceed 2,000 m above sea level (<http://www.federaciondecafeteros.org/particulares/en/>). Its particular quality arises from the unique combination of several factors related to the latitude and altitude of the land of coffee in Colombia, its soils, the botanical origin of the species and varieties of coffee produced, its climate characterized by the double passage of the Intertropical Convergence Zone, the changing topography, light, favorable range of temperatures, adequate quantity and distribution of rainfall during the year, and common cultural cultivation and processing practices.

Few drinks in the world have become so popular and highly prized as a cup of premium Colombian coffee, and Juan Valdez has become one of the best-known and global brands for high quality coffee. More than 560 families produce this coffee in almost 600 municipalities in 20 departments of Colombia (<http://www.federaciondecafeteros.org/particulares/en/>). Caldas is one major player among these 20 departments and one of the few where coffee can even be harvested twice as opposed to just once per year. Due to its special landscape, beauty and culture, it was even declared a cultural world heritage site by UNESCO in 2011, and is increasing its popularity for national and international tourists.

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One may ask why a region so rich in culture and natural resources needs a regional development approach through social business. The answer is its lack of balance. Despite all the wealth originating from the region's fertile soils, the distribution of wealth in Caldas is extremely unequal. In fact, with a GINI index of 0.61,<sup>1</sup> it is one of the most unequal regions in the country and, if Caldas was considered a separate country and compared to other countries, it would be among the top ten most unequal countries in the world ([CIA World Factbook](#)). As a consequence, few people are very wealthy, and a significant portion of the population still lives in poverty.

Looking for a solution to the social issue of poverty, extreme poverty and inequality, the government of Caldas reached out to Prof. Yunus during the microcredit summit in Cartagena in 2009 to ask for his advice. Explaining that Caldas was suffering from 70 % poverty, 25 % extreme poverty and a series of unsuccessful social initiatives, it was their hope that Prof. Yunus would have an idea about how to tackle these issues in a sustainable way.

The solution that Prof. Yunus offered became what is called today the Holistic Social Business Movement of Caldas, the first in Latin America, now one of the world's most important hubs for social business creation. The basic idea was simple: start an organization that combines the income generating effects of a Grameen microfinance organization with a social business incubation fund that promotes and supports the creation of social businesses, tackling the region's most pressing issues. Combining these two powerful development tools, the Holistic Social Business Movement would, on one hand, provide access to collateral free loans, so called microcredits, to poor women in Caldas to help start a small business that generates income for them and their families. In addition to that, the HSBM would create a social business incubation fund that would help social entrepreneurs create businesses that tackle other poverty related issues such as lack of appropriate nutrition, education, healthcare or housing – all that under the umbrella of a newly formed local Grameen organization that should run in a financially self-sustainable manner. This legal entity in Colombia became Grameen Caldas.

Agreeing with the concept, the government of Caldas pledged \$16 million to invest into the program. Nine million dollars should be invested into the microfinance organization to create six Grameen microfinance branches, one for each of the six sub-regions in Caldas. Seven million dollars would be invested into the social business fund located in Manizales, the capital of Caldas.

For various reasons that will be addressed later in this chapter, the investment of the government never came through so that the plan to create the microfinance organization has not materialized yet. As a consequence, this chapter focuses entirely on the social business incubation center and fund that is currently

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<sup>1</sup> The Gini index describes the inequality of (mostly wealth) distribution. A Gini coefficient of zero expresses perfect equality, where all values are the same (for example, where everyone has an exactly equal income). A Gini coefficient of one (100 on the percentile scale) expresses maximal inequality among values (for example where only one person has all the income). Source: Grupopara la reduccion de la pobreza/government of Caldas/2010.

operational and that as of July 2013 has initiated, created, or is in the process of creating six social businesses in Caldas, Colombia and one in Costa Rica.

## **What Was Our Implementation Plan and Investment Strategy?**

How do you start a social business movement in an unknown country, without any local contacts, no understanding of the culture, the people and their issues, the legal situation, and even very limited staff resources who actually speak the language?

This was the task of the Grameen Creative Lab in Wiesbaden, Germany, which was led by Hans Reitz, a German national, serial entrepreneur and close confidant and creative advisor of Prof. Yunus. Being a very young start-up company and social business itself, the first thing to do was to secure adequate financing for the Grameen Creative Lab to be able to do the job. So a consulting contract was put in place between The Grameen Creative Lab and the government of Caldas represented by Inficaldas, the government's bank, to "design the architecture and build the foundation" of the Holistic Social Business Movement of Caldas. We can imagine this process to be like constructing a building where the holistic social business movement went through several construction phases:

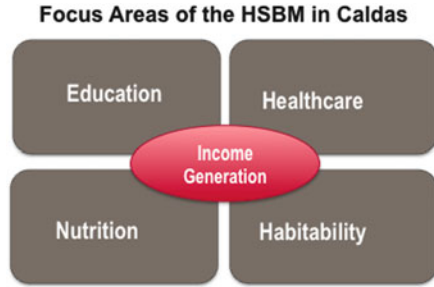
1. The design of the architecture that defines and structures how the operation will work. This includes defining the social business fund investment strategy and processes.
2. Designing and building the (to a large extent legal) foundation to make sure that these public and private funds are invested in a way that is fully in line with any local regulations.
3. The actual "construction of the house" in which the legal entity is created and operationalized. This includes the deposit of the agreed-upon investment amount into the fund to cover initial operational expenses and to have some anchor investment to be used for initial social business creations and to attract additional capital.

### ***The Architecture***

The purpose of the Holistic Social Business Movement was clear: reduce and ultimately eliminate poverty in Caldas in a financially sustainable manner through the creation, expansion and replication of social businesses.

Based on some analysis that had already been performed by the Caldas government's poverty reduction task force called "El grupo para la reduccion de la pobreza de Caldas," we identified five key levers on which to focus: Income Generation, Education, Healthcare, Nutrition and Housing (Fig. 3.1). Microfinance mainly

**Fig. 3.1** Focus areas



targets the creation of income generation opportunities for the poor. While social businesses can also generate income for vulnerable populations, the concept additionally focuses on tackling other symptoms and causes of poverty in Caldas. Education, healthcare, nutrition and housing all have a direct link to a person's current or future ability to generate income, and can be either an obstacle to income generation or an enabler for people to lift themselves out of poverty. So the Grameen Caldas social business fund would invest in social businesses that create opportunities, or that remove obstacles in all five areas.

In order to make best use of the government funds to be invested into the HSBM, the Grameen team, at that point still a project team working under the umbrella of the Grameen Creative Lab, performed an analysis to understand the symptoms and causes of poverty within these focus areas. Working with a network of universities, government entities, non-profits and other local experts, one project team member was assigned to each of the four topics and developed a poverty reduction investment strategy for his or her area. This happened in four steps:

1. Determination and ideally quantification of the "symptoms of poverty". In the area of nutrition for example, a low height to age ratio (a child is too small based on her/his age) is a measurable symptom for malnutrition of children that translates into a lack of bodily growth. This describes the visible consequence of malnutrition, but does not explain its specific cause. Understanding the symptoms of poverty, i.e. how poverty presents itself, was an important first step to understand what we were actually trying to achieve. This initial analysis would also help define concrete and measurable objectives for the poverty reduction strategy later in the process. The analysis included direct poverty indicators like the amount of people classified as "SISBEN 1" (extremely poor as defined by the Colombian social security system), or more indirect measures like the number of school drop-outs that will have a longer term impact on the region's poverty situation.
2. Identification of the causes for these symptoms. Once the most important symptoms of poverty had been identified, each topic owner went on to identify the causes for these symptoms. When talking about a low height to age ratio that is likely to stem from inadequate nutrition, each subject matter expert now

needed to determine what actual nutritional deficiency caused this lack of growth. Sometimes there is a chain of symptoms and causes that needs to be understood. For example a lack of growth can be caused by anemia, which in turn can be caused by a lack of iron and zinc in the food that is consumed by the impacted individuals. That in turn can be caused by a lack of access to highly nutritious food or just by cultural eating habits that inhibit the ingestion of these necessary micronutrients. The point of this exercise was to get to the root causes of the problem and to make those the essence of the social businesses in which to invest. That way we make sure that the funds to be invested into social business are actually used to get to the causes of poverty in Caldas.

3. Prioritization of the causes to identify the low hanging fruit: having generated a long list of causes for poverty in Caldas, the teams then needed to prioritize in order to identify where the fund should ideally invest first in order to maximize its impact and generate more social value per dollar invested. Based on a series of criteria from how many symptoms the cause impacted and how significantly to how likely there could be a social business solution to the problem, each team prioritized their causes to understand where they would invest first. Creating this knowledge is not just important to gain a better understanding of the poverty situation in Caldas but also has some very practical applications: if for example at some point the fund would create a social business plan contest with a group of students or other potential future entrepreneurs in order to generate social business ideas, the fund could now use these insights to design the business plan competition around the most important causes of poverty in Caldas and thus direct this creativity at the most impactful topics.
4. Find existing solutions to the most important causes of social problems: Social issues are often similar in several countries and it is likely that someone has already tried to solve most of the social issues. Successful attempts are usually well known and documented. These already existing solutions don't necessarily have to be a social business at this point. It can be a non-profit entity that has found a way to treat a certain social issue or a social enterprise, or even a pure for-profit business. The important take-away here is that often there is no need to reinvent the wheel. Consequently, as a fourth step, each subject matter expert performed some research to see if there are already solutions out there that could be converted into social businesses and brought to Caldas.

For example, consider one of Caldas' important social issues: lack of access to affordable, high quality healthcare. Looking for a low-cost healthcare solution, the team found a medical doctor called Jorge Gronda in Argentina who had already come up with and implemented a solution to the problem. Having resolved the issue for more than 40,000 patients via the so-called Sistema SER in Argentina, he became an Ashoka fellow and his work publicly known, and thus a potential replication model for Grameen Caldas. Working directly with him to take advantage of his long-term experience with his business model, the Grameen team in Caldas adapted and replicated the model in Caldas, and locally created a social business called Bive (<http://www.bive.co/en>).

This “architecture” portion of the HSBM defined into what specific social issues we would invest to maximize the social value created for each dollar invested into the program. Next we had to focus on realizing the program from a legal and operational perspective.

### ***The Legal and Social Foundation***

While the definition of the legal structure was a critical and highly complex element of the implementation of the HSBM, it is also quite specific to working with a regional Colombian government. Hence, this chapter will only touch the surface of this project phase and highlight a few critical elements and insights that apply to a broader range of geographical areas.

Designing the legal foundation represented a significant challenge for the team in Caldas – how can Grameen Caldas, an independent and at least partially private organization, accept, receive and redistribute public money and invest into potentially high risk private social business start-ups without allowing any political influence or government control on the investment decisions? Further, this had to be done in an environment where due to a multitude of past public corruption scandals and the resulting public distrust, all relevant stakeholders, especially the government officials, have to be extremely cautious in order to avoid personal legal repercussions. As a consequence, the Grameen team in Caldas went through a long period of designing the legal framework and negotiating contracts with the government. The result was a highly complex structure with a multitude of stakeholders – all with a different level of interest and willingness to engage in the topic. Finally, Grameen Caldas never actually signed the \$16 million deal that was initially agreed upon by Prof. Yunus and the governor of Caldas at the time. Funds were not secured and available as planned, some key stakeholders in the process did not respond to the governor’s demands as promised, and, with the removal of the governor himself from office due to allegations of corruption in the second half of 2011, the whole idea of a HSBM in Caldas lost its political support and the necessary funds to turn the designed architecture into reality. Without the availability of the government’s funds, the starting position for Grameen Caldas as a social business incubator fund changed completely. The HSBM of Caldas went from a well-financed, large-scale government initiative to a much smaller, private organization, which would now intend to build the movement from the bottom up.

A few lessons learned from this failure to secure the necessary start-up funds for the HSBM are outlined below. However, despite the unfavorable starting situation, the HSBM still became a reality and the purpose and approach of the fund remained intact – just the amount and source of start-up investment would be very different than initially planned.



### ***The Construction: The Inner Workings of the Fund***

Grameen Caldas as a social business incubation center and fund set out to create social businesses that tackle the causes of poverty in Caldas in a way that they maximize the social value created per dollar (or in this case Colombian peso) spent. The question arises of what is needed for the creation of social businesses? There are five core ingredients:

1. A social issue to tackle – and there are plenty of those as listed in the root-cause analysis of poverty in Caldas as performed during the design of the architecture of the program;
2. A good social business idea to tackle the issue in a financially sustainable way;
3. A social business “entrepreneur” or entrepreneur team to execute on the creation of this business;
4. Start-up funds to finance the development and launch of the business; and ideally. . .
5. An environment that helps the entrepreneur and team to increase the odds of a successful social business launch.

While these five elements may seem to have a logical sequence to them, they really do not at all. A business idea can be developed and only later is it apparent that it is a great means to solve a social problem. A business idea can be created and then assigned to a potential entrepreneur, or the idea is generated by the entrepreneur him or herself. And a fund can have substantial financial means and then look for businesses in which to invest, or a business plan is developed that then looks for investors. But independent of which element comes first, it was the job of the team in Caldas to bring these five elements together.

As described above, the analysis provided insights with regards to the social issues on which to focus. But what are good ways to find social business ideas and people that actually turn them into reality? Many evenings with the Grameen team in Colombia were filled with philosophical discussions about what makes an entrepreneur. Do entrepreneurs have to come up with their own idea or can they just adopt somebody else’s idea? As a fund and incubation center, can you actually “hire” an entrepreneur? And does an entrepreneur have to invest in or own the business, or can he or she work exclusively with third party funds?

My personal take on this is that everything is possible. Grameen Caldas had three sources of social business creations:

1. We as Grameen Caldas came up with a social business idea, developed it for a while with our own resources and then matched it to the appropriate leader – either with Grameen Caldas remaining the owner of the business, or handing it over to the respective entrepreneur or investor. We did this mainly in an effort to create some initial lighthouse social business projects that would help us demonstrate that social business can work in Caldas, and thus spread the social business concept in Caldas and Colombia.

2. We as the Grameen incubator fund were approached by entrepreneurs to provide incubation services and funding for an idea that they had generated. This is the much more desirable approach and long term goal for a social business fund – to attract motivated social business entrepreneurs with their ideas to then help them get the ideas off the ground or further develop them. A stronger sense of ownership, less effort for the fund, and often an already more developed idea with some initial experience are the key advantages of this approach.
3. We worked with large-scale multinational companies that approached us with the request to help them start a social business as part of their corporate social responsibility program. In this case the corporation was the entrepreneur and investor at the same time with us playing a consulting role accompanying the development of business plans with varying degrees of involvement from the Grameen Caldas side (from owning the whole process to just playing an advisory role).

All three approaches can work well or fail with the most determining factor being the quality of the entrepreneur or the entrepreneurial team and their commitment to the cause. We usually tried to make sure to put in place a team, as opposed to just one individual entrepreneur. These two entrepreneurs would complement each other with one person being a business administration specialist and the other person a subject matter expert in the area of expertise of the business. In our nutrition social business called Vitalius for example, we hired an entrepreneurial team of one business specialist as the CEO with a nutritional engineer as the COO. A medical doctor led our healthcare social business with a business specialist as his partner.

Once the business idea and a team to realize it are in place, the detailed business planning and implementation effort can start. But for a long-term and fully dedicated entrepreneur team, the provision of start-up capital to cover the basic living expenses of the entrepreneurs and other operational expenses is necessary. As described above, the original idea of the HSBM in Caldas in cooperation with the government was based on the assumption that Grameen Caldas would have a significant amount of government funds to invest into social business start-ups. Based on the new situation, we needed to find separate investors for the three social businesses that we had in the pipeline and that were ready to receive investment funds. So in a national and international fundraising effort with large scale corporations, NGOs, and other potential donors or investors, finally Ecopetrol, Colombia's largest oil company and major provider of CSR funds in the country, signed a contract with Grameen Caldas and some other players to invest in our three social businesses via our social business fund. The goal was to provide them with the necessary capital to get started, survive for the first year of operation, and reach certain operational goals that the entrepreneurs presented during their investor pitch. Happy with the outcome of their first round of financing they invested a second time into expansion capital to expand outside of the initial region of Caldas. At the same time, a social venture capital firm showed interest in two of the three

social businesses and, after performing an onsite due diligence, decided to invest into the social businesses as well.

## **The Role of Grameen Caldas in the Development of These Social Businesses**

Grameen Caldas as a social business fund and incubation center provided the social business entrepreneurs with a series of services that were targeted at increasing their success rate. At the same time it worked as a controller and auditor for the social business investors, making sure that money was managed and accounted for correctly and that the relevant reporting requirements were fulfilled.

There are many services that can help the entrepreneurs be more successful. Starting with providing office space in which the entrepreneurs can work and exchange ideas with the Grameen incubation center staff and other social business entrepreneurs, other services include fundraising support, organization of volunteer resources (students, retired executives, etc.), strategic and operational consulting through the Grameen Caldas social business consultants, access to the Grameen global network and even service outsourcing such as accounting services or public relations. Grameen Caldas also provides training on topics such as media presence or investor pitch preparation. Working closely with the entrepreneurs on a regular basis, where businesses and incubation center help each other, creates an ecosystem in which these social businesses can thrive.

## **How Can We Actually Finance These Support Services?**

Not having received any funding or donations, Grameen Caldas itself needed to be financially sustainable. However, small start-up companies like our social businesses and their entrepreneurs usually do not have funds or generate any revenue that would allow them to pay for the services rendered by the incubation center – at least not initially. The earlier stage a business is in, the longer it usually takes until they are able to financially support the incubation center in return for its services, and of course the higher the risk of failure. Thus, it is often difficult for very early stage social or even traditional businesses to find adequate funding. Since no social businesses existed at the beginning in Caldas when Grameen first started, there was no choice but to start with an idea and go through the entire process of social business design and planning, setting up a pilot, finding funding, and finally launching the business. To make the incubation center financially sustainable at least in the long term, it was our expectation that at some point the so called “incubees”, i.e. the social businesses that received our incubation services, would start paying for them. But even once the business received funding or started to

have sales, their ability to pay for services from an incubation center like Grameen Caldas remained quite limited. Some revenue was generated, but only after a rather long and initially free incubation period that would not allow the recouping of the investments made – the incubation center operated at a significant loss.

Dropping our work with social business entrepreneurs was not an option. But how can this type of ecosystem be financially sustainable? And in reality, for true financial sustainability of a fund, the income cannot only cover the operational cost of a fund, but it also needs to compensate for any failed social business that does not manage to pay back the initial investment amount into the fund. We needed to find other revenue streams to make this work; we developed several projects that would actually generate the necessary income:

1. Second round funding incubation fees and interest: As mentioned above, the ability and willingness to pay for incubation services was limited, but it was also clear that at mid-term they needed to cover at least some of the cost they generated. While during the first year and first round of financing we did not charge any service fee, we insisted to include incubation service fees into the business plan and an investor pitch for the second round financing. So services like the usage of office space, accounting services, volunteer recruiting and all other tangible service offerings generated a contractually agreed service fee to at least cover costs. In addition, independent of the cost of capital for Grameen Caldas, we started to charge interest on the loans that we provided – lower than market rate, but high enough to generate some additional revenue to help cover operating costs or to contribute to the compensation of losses from defaulting businesses.
2. Social Business Fund Management fees: We also started to charge our investors a 4–6 % annual fund management fee. When receiving funds for example from Ecopetrol, 96 % of the money would actually enter the fund to be invested into social businesses and 4 % were used to cover operational expenses. With the growth of our assets under management, it was the plan to make this a significant pillar of revenue that should lead the whole fund operation towards and beyond the break-even point. Once target size has been reached, a fund management fee of 5 % should cover an annual operations budget of \$500–600,000. So the target fund size would have to reach at least \$10–12 million to be able to run sustainably. In a longer term business model, the fund receives significant revenue from the monthly interest payments from the social businesses, plus the fund management fees from the investors, which should suffice to cover the fund's and incubation center's operational expenses, and the cost of attrition, i.e. loan defaults within the fund's portfolio of social businesses. This is the target revenue model for the HSBM and Grameen Caldas.
3. Joint Venture Consulting for large companies: While fundraising and investor search efforts started as soon as it became clear that government funds would not be available to support the HSBM of Caldas, the social business fund of Caldas was still very far from reaching the necessary size to reach its break even point. It needed to generate additional income while creating social value in Caldas and

Colombia. The well-known Danone social business that produces and sells fortified yoghurt in Bangladesh to fight the problem of malnourished children is the first and most famous example of a Joint Venture contract between Grameen and a large multinational company. Replicating this model of working with large corporations to create a social business as part of their CSR strategy was another main objective of the team in Caldas. This type of cooperation offers some significant advantages:

- (a) The entrepreneur, in this case the large corporation, at the same time is the investor and brings all the necessary capital to the table – one significant problem solved.
- (b) The initial investment size will usually be bigger for a joint venture style social business, creating more social impact and more national and international visibility of the social business projects into which we invest.
- (c) Large corporations will often engage close to their company's core competency and thus bring a wealth of technical and market knowledge to the table. This makes the business design and planning effort more efficient and increases the probability of success of the newly formed social business.
- (d) Once the business is up and running, the company has a strong interest in communicating its launch and hopefully subsequent success stories of how they managed to resolve a social issue, turning these types of initiatives into "lighthouse projects" that will attract and motivate additional companies and individual entrepreneurs to create other social businesses.

Having heard about the social business concept either through us in Colombia, through Prof. Yunus' travels and social business communication efforts around the world or via the Grameen Creative Lab's large scale social business events like the Global Social Business Summit, companies interested in the concept approached us to talk about how to create a social business. In most cases the relationship with a large corporation was initiated with a so-called social business lab. This is a social business workshop that explains the concept of social business, its origins and best practices and that applies that knowledge in a creative group work session with 15–20 managers of the interested corporation. It generates a good understanding of the social business concept and often leads to the next step of setting up a longer-term project to design the social business model, write the business plan, do a feasibility study, start a pilot, take the final investment decision (usually with the board of directors) and finally launch the business.

While the company could do all this on its own, they often require some sort of consulting services to help them through all the steps towards creating the social business. This is where the Grameen team in Caldas came in. Starting with a social business lab with Alpina, the largest dairy producer in Colombia, and a resulting social business consulting project, Alpina created a fortified baby food product that they subsequently started to produce and sell in Colombia in June 2013. In February 2012, again after an initial social business lab, Florida Ice and Farm, a market leading and fully implemented triple bottom line food and beverage company in

Costa Rica, started another consulting project with Grameen Caldas. The result: a social business joint venture to produce and sell three fortified, low-cost food and beverage products to fight the deficiency of iron, zinc and important vitamins in Costa Rica and other parts of Central America. It was through this project that Grameen Caldas was actually able to keep going once the government funds had failed to materialize.

The most important project, however, from a consulting perspective, was Grameen Caldas' work with McCain, the world's largest frozen potato company – according to the company, one in three French fries in the world comes from their factories. Starting with a multi-day workshop with a significant part of the company's top management team onsite in Colombia, the team set out to understand Caldas' social issues, especially in the rural areas, and then to see how a potato-related social business could help create income opportunities, and improve living conditions in the rural poor areas of Caldas and other parts of the country. This was a significant effort with a five-person Grameen Caldas consulting team working partially full, partially part time for more than 8 months on the design, evaluation and planning of this social business model. The idea was simple – teach best practice potato production (and other crops) to the farmers in the highlands of Colombia that currently still produce potatoes in a very inefficient manner. This would allow them to more than double the yield of their current potato production and reach decent income levels for them and their families. In addition to the educational component, the social business would take the role of a “fair middle man” that buys the potatoes and other vegetables from the farmers and then sells them to McCain themselves, and to other customers at a normal market price, using the margin to finance the operation of this so called “cultivation center of excellence”. With the investment decision taken by the board and the McCain family that owns the business, the social business was officially launched under the name of “Campo Vivo” (Living Countryside) in Bogota in November of 2013.

These joint venture creations with large-scale international corporations allowed Grameen Caldas to survive financially and grow its operations. The revenue generated through the higher margin consulting projects cross-subsidized the loss-generating incubation services for individual social business entrepreneurs. The volatility of these projects is difficult to manage for a small organization like Grameen Caldas as phases with high capacity demand that generate a good revenue stream are followed by low activity and revenue phases, making it hard to plan and sustain just based on Joint Venture consulting projects. But with an increasing number of social business creations and the growth of Grameen Caldas' assets under management and the related revenue from management fees, this incubator fund should be able to continue to grow and strive and remain this important driver of the holistic social business movement of Caldas.

## Lessons Learned

Starting a Holistic Social Business Movement without the necessary start-up capital is a difficult task. Thus, losing the promised government funds put the existence of the whole HSBM at risk. While of course we cannot tell whether the following points would have secured a positive outcome of the relationship between Grameen and the government of Caldas, they would surely have increased the probability of success.

1. Manage your stakeholders and keep it simple: Just like in any relationship, success mostly depends on the partners that form the relationship. Selecting one's partners well is an essential prerequisite for success. This is true on several levels – on the organizational or institutional level, i.e. on the contracting organization and on the personal level – who is representing the organization in the process of contracting. This may seem easy on the surface but it can become very complex, resulting in a lack of transparency and inclusion of those people who are actually key to the process.

In the case of Caldas, the governor in office at the time was the initiator and public face of the partnership with Grameen. However, the mastermind and day-to-day contact person behind this initiative was a consultant that was leading the so-called Grupo para la reduccion de la pobreza de Caldas (Group to reduce poverty in Caldas), who just served as an advisor to the governor. While seemingly very important, he neither had the authority nor the obligation to officially sign any contractual agreements. Also, for political reasons, it was not the government of Caldas itself that actually had the funds to invest but instead it was Inficaldas, the state government's second tier bank, that supposedly reports to the Governor as its president. This bank, however, according to Inficaldas' legal advisors, was not allowed to contract directly with Grameen Caldas for the \$16 million, but only via a newly created public company owned by all 27 mayors of the municipalities of Caldas and managed by the government's secretary of social development. As a consequence, the set-up of the HSBM of Caldas was not a matter of a one-on-one relationship. Instead, a multitude of entities were involved increasing the amount of involved stakeholders manifold.

This highly complex structure hid the fact that the actually important stakeholders were those people who ultimately owned the funds (Inficaldas) or were supposed to sign the contract (the secretary of social development). The assumption that the Governor had the power to decide and execute on decisions for the members of his government and the government bank's team was false. Thus, preparing most decisions for what the Caldas team considered "at the highest level" turned out to be a mistake and ultimately was one important reason for the failure to sign the contract with the government on time. Clearly understanding the political environment and each stakeholder's actual decision making power and personal interest in the project will help focus the attention on the right individuals. Keeping it simple with very clear responsibilities, direct reporting

and contractual relationships and just one dedicated decision maker that owns the budget and is deeply engaged in the process is essential for success.

2. Be 100 % transparent, involve the public and manage your brand: Creating a regional development approach like the HSBM requires a special degree of caution and transparency, especially when dealing with public funds. While reporting requirements from the government side are usually already quite demanding, they are often focused on filling out paperwork that does not necessarily generate the necessary transparency for all relevant stakeholders. Having a dedicated public relations approach to communicate with the media, community leaders, local incumbent non-profit institutions, the universities and the business community creates a much wider acceptance of the social business concept and the creation of an ecosystem that helps them grow. It needs to be the goal to become an integral part of the local society. Gathering support from various entities of all types will establish a social foundation that is based on several pillars and thus is more stable. Despite large-scale cooperation with the universities and some regular contacts with other organizations in Caldas, the HSBM was perceived to be linked directly to the government. Even before the start of the project the government of Caldas was suffering from reputational issues related to mismanagement and corruption. Over time the voices asking for political and personal consequences became louder and louder and finally in October 2011, the Governor was forced to leave office by the local government control entity 4 months before the official end of his term for suspicions of corruption. Due to the Grameen team's close association with the government, the team itself was target of the public's suspicion for corruption activities culminating in an editorial comment in the local newspaper called "Grameen – una idea muy pobre" (a very poor idea). Since the government had spent money on a consulting contract with the Grameen Creative Lab to design the architecture but never invested the money for the actual creation of the HSBM, the money was considered lost with many believing that it just ended up in the pockets of government officials. After this incident, the team started to invest a lot more into public relationship efforts starting with the local media and even involving local citizen groups of opinion leaders to create total transparency and a wider range of supporters. While initially suspicious, it was not hard to convince the media of our good and honest intentions and the significant potential that the social business movement would have for the region. Discussions with the leading editors of all leading media agencies, newspaper interviews, participation in TV and radio talk shows managed to create an environment of positive press and place Grameen Caldas and its social businesses back in a positive light. Being extremely transparent with regard to the utilization of funds, the way that decisions are made, who the involved stakeholders are even down to opening your books to show salaries can be a great means to create the necessary trust.

Given that experience, not having established a much broader base of support and trust within the local community from the very beginning was a lost opportunity that made the HSBM in Caldas much more vulnerable to



reputational damage and loss of value of its brand, one of its most valuable assets to create trust and form essential alliances that support the HSBM.

3. Secure financing from the start and go local fast: At the time of Prof. Yunus' first encounter with the Governor of Caldas in 2009, there was no local Grameen social business entity on the ground in Colombia. So Prof. Yunus assigned the project to the Grameen Creative Lab, based in Germany, to form a team and initiate this multi-year HSBM set-up project in cooperation with the government of Caldas.

Despite it being a 2-year effort, the initial consulting contract only covered the first year and did not include the \$16 million investment money, but only the design of the architecture as described above. So the project started without the \$16 million of government investment being contractually committed, i.e. the "construction materials" for the house had not been secured from the start. As highly motivated social business entrepreneurs, the Grameen team in Caldas ignored the golden rule of Grameen Trust in Bangladesh which states that they only start any sort of work in a new country once the funding is completely secured up to the point of the planned break-even point. That is certainly the best practice way to work. Running a microfinance or social business incubator fund is complex and requires the management's and staff's complete attention. Running out of the necessary funds to run the company and constantly having to search for money distracts from the mission and makes it much more difficult to succeed. Having a solid business plan with longer-term start-up funding secured, for example, for the first 4 years of operation provides the opportunity to fully focus on social business creation that in the long run tell a success story that then will automatically attract expansion funding.

Another significant lesson of the HSBM in Caldas is that money does not exist until it has been received and is visible on an account. After establishing the legal framework and working towards the signature of a contract to receive the \$16 million by the newly created legal entity in Colombia (Grameen Caldas), it turned out that the \$16 million were actually not available to be invested – the funds simply did not exist when it became time to sign the contract. Four million dollars were finally found and supposed to be made available but, after a few delays and the corruption scandal leading to the dismissal of the Governor from his office, it never came to the actual transfer of the money to Grameen Caldas. Money needs to be in the bank before the start of a large-scale project like an HSBM, or it needs to be considered non-existent.

In summary, securing the initially promised funds by receiving them on the fund's bank account, establishing the legal foundation through the creation of a local entity with local leadership early on in the process, keeping it simple and transparent, and having a dedicated stakeholder management strategy in place from the start will significantly increase the probability of success when creating a HSBM.

## Conclusion

Since Prof. Yunus' visit to Colombia in 2009 and the subsequent creation of the Holistic Social Business Movement of Caldas, the efforts to establish a social business ecosystem in Colombia have gone through many ups and downs. Starting with a \$16 million promise in 2009, the available funds were suddenly reduced to \$4 million, requiring a total redesign of the movement's architecture. Ready to sign and get at least this smaller version of the HSBM started, for various reasons none of this money ever entered the social business fund of Grameen Caldas. The consulting contract of the Grameen Creative Lab finally ended at the end of 2011 with no funding to continue the implementation of the HSBM in Caldas. Almost the entire Grameen team left due to the lack of resources, leaving behind a great plan to create a holistic social business movement in Caldas, the rented and furnished Grameen house that served as office and living space for the team, three promising social business ideas (one of them with a part-time entrepreneurial team in place), and a formally created but non-operational legal entity called Grameen Caldas with minimal start-up funds of approximately 7,000 dollars.

But throughout the year 2012, starting with a small consulting contract for Florida Ice and Farm in Costa Rica that allowed Grameen Caldas "to keep the lights on," things started to come together. Ecopetrol decided to invest into our three social businesses, which allowed us to pay salaries and hire entrepreneurial teams. With the start of the McCain social business consulting project, more significant revenue came and Grameen Caldas built a larger team with dedicated resources for the provision of shared services like accounting, social impact measurement, internal and external communication and fundraising, university and volunteering partnerships, and other incubation services. At the end of 2012, Grameen Caldas closed its first year with 28 people, including Grameen Caldas staff and the incubated entrepreneur teams, working on social business in their office space in Manizales, and a significant year-end surplus, plus several other interesting projects in the pipeline. With the three large scale joint ventures of Alpina, Florida Ice and Farm and McCain ready to be launched in 2013, and our three social businesses that are already operational and impacting thousands of Colombians and growing with second round financing in the area of nutrition (Vitalius: <http://vitalius.com.co/>), healthcare (Bive: <http://www.bive.co/>), and housing (Ruralive: <http://www.ruralive.com/>), it has great potential to make a difference in Caldas and other parts of Colombia. While facing new challenges in the year 2013 and being far from having arrived in a safe haven and stable financial situation, there is reason to hope that these initial seeds planted inside this social business ecosystem are just the beginning and will grow and multiply across the country to create additional Holistic Social Business Movements as sustainable, social business based regional development approaches. With Caldas being one of the world's first, the idea of holistic social business movements is quickly spreading around the globe and other social business funds have been or are being created by large companies like Danone, universities like the Kyushu University in Japan or

the California Institute for Social Business at the CSU Channel Islands (USA) or by a Germany based company called YSB (Yunus Social Business) Global Initiatives that has already set up funds in Haiti, Albania, Brazil, Tunisia and other countries and is now merging with Grameen Caldas to make it part of their global network of social business incubator funds; all with the same goal to, as Prof. Yunus describes it, put poverty into poverty museums.

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# Chapter 4

## Social Business and Student Financial Aid

Gary A. Berg

### Introduction

In this chapter, alternative models for providing the financing of education are explored. The broader context of public, private, for-profit, and non-traditional funding models for higher education is analyzed. How might traditional forms of financial aid be augmented to meet the pressure of reduced funding and increased demand to serve a broader social-economic class? The need for alternative forms of financial aid is considered in the context of recent trends and practices, especially in America. How can financial aid be re-envisioned in light of social business theory and practice to assist traditionally underserved populations globally?

Over the past three decades, it has become clear that American taxpayers are unwilling to fund public higher education fully; they see it, in many cases, as a private benefit for “other people’s children” (Berg 2010). At the same time, the definitional line separating private from public institutions is evermore blurred, given the public support received by independents in the forms of financial aid, tax exemptions and research grants. Looking internationally, according to Fried et al. (2006), there is a “continuum of privateness” within different countries, but the overall trend mirrors that seen in America with the increased role of privates to fill gaps when demand for specific degrees outstretches public capacity. Knapp and Siegel (2009) argue that the growth of the academic marketplace is a result of the “unstable relationship between democracy and capitalism.”

In the United States, while federal financial aid in the form of loans increased greatly at the end of the twentieth century, the percentage of students from upper-income families taking advantage of loans increased 21 % in the 1990s, and at the same time, the rate remained flat for low-income students (Wei et al. 2004). American higher education needs to find sustainable economic models to confront

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the challenges in serving those most in need and provide an authentic avenue to the American Dream. In this chapter the alternative structure of social business-related models of financial aid are considered which might provide direction to better serve low-income students.

## **Private, Public, and New Education Models in America**

The history of American higher education reveals an evolving consideration of the degree to which universities are a public or private good. Although there are a complex variety of institutional types in American higher education with government, nonprofit, and for-profit organizational status, the distinctions that are commonly made and assumed are not as clear as they seem. In fact, up until the Civil War, all colleges in America were quasi-government to some degree. Whitehead (1973) notes that between 1776 and 1876 few would have considered a distinction between public and private – all were some form of partly public institutions. Harvard University was created and funded through a public charter, and along with other prominent institutions, such as Yale, regularly made appeals for government funding of various kinds. Both Dartmouth and Yale were the land grant universities for their states when funding came from the Morrill Act. In Yale's case, it developed a technical college which eventually separated becoming the University of Connecticut. Public universities initially had a connotation of non-denominational or civil, not government, control.

Rose-Ackerman (1986) argues that nonprofits arose initially in capitalist systems because of the “contract failure” between for-profit organizations and society. Donations to universities can be seen as an inability of the system to provide adequate financial aid, because banks have been unwilling on their own to fund individual students based on future earnings estimates when they lack other collateral. Nonprofit organizations become more prevalent when government fails to step into the gap to satisfy demands of certain subgroups in society. Nonprofits are often viewed in the research literature as optimal organizations for certain kinds of services, such as those provided by universities.

The current environment for American higher education, in many ways, resembles what confronted nonprofit charities and government welfare programs in the 1980s, which led to what is commonly referred to as “social entrepreneurship,” generally defined as an activity or organization with social values and aims employing in some form business concepts and tools. Dees (2001), a leading scholar in the field of social entrepreneurship, defines key elements of the field as adopting a mission to create and sustain social value; pursuing new opportunities to serve that mission; engaging in a process of continuous innovation; acting boldly without being limited by resources; and exhibiting heightened accountability. Unlike social business, which is clearly circumscribed by its for-profit status and lack of return to investors, social entrepreneurship incorporates many forms and degrees of business technique utilization.

In contemporary times, while state appropriations continue to decline relative to other sources of revenue, questions arise surrounding the potential implications of privatization in higher education. Scholars have wrestled to understand how public and private organizations differ from one another in terms of efficiency and equity. For well over a decade and a half, the related notion of an entrepreneurial university has been floated in various forms by leading scholars in higher education. Burton Clark's book, *Creating Entrepreneurial Universities: Organizational Pathways of Transformation* (2001), describes the government as an "unreliable patron," causing an "asymmetry between environmental demand and institutional capacity to respond." After considering European models arising out of funding challenges similar to the ones now experienced in the United States, he advocated that universities take chances and experiment with new models designed to produce much-needed discretionary funds, which would then be reinvested creating further innovation.

## **Income-Contingent Loans and Human Capital Contracts**

Johnstone in *Financing Higher Education Worldwide: Who Pays? Who Should Pay?* (2010) argues that Yale's plan for tuition postponement in the 1970s was the first American experiment with income-contingent financial aid, with a built-in obligation to repay a certain percent of student earnings over time. Duke followed Yale with a similar plan. Internationally, income-contingent loans were adopted in various forms in Australia and New Zealand, and have spread internationally to countries such as the United Kingdom. The general approach of income-contingent loans is that students receive a government subsidy based on lifetime earnings as opposed to current means-testing. In 1989, Australia inaugurated the Higher Education Contribution Scheme (HECS), which increased revenue to universities without loss of overall enrollment (Johnstone 2010). Although initially some in Australia argued against the income-contingent loans because they feared it would exclude deserving students from low-income families, over the years of implementation there is little evidence in support of this position (Chapman 1997). One important part of the HECS is that the state collects on loans through its tax system, leading to very low default rates.

One of the strongest arguments for so called Human Capital Contracts (HCCs) is that they are equally accessible to all independent of background. "In particular, these instruments should have a special appeal to those that display risk adverse behavior towards investments in education and also do not have the resources to invest directly. Students from low-income backgrounds fit this description and are the ones who gain most from this alternative to finance their education. Thus, HCCs and HCOs contribute decisively to create equal access to education" (Chapman, p. 162). Lleras (2004) sees the need for income-contingent loans as coming about because of those instances when students end up with limited incomes after graduation, yet saddled with loans at high interest rates. He describes the notion

of Social Value Added investors: “By allowing a transfer of risk between students and investors, the welfare of students and investors who wish to transfer or take on risk is enhanced. As ICRS make education a less risky proposition, individuals are motivated to pursue additional studies, ultimately reducing under-investment in education” (p. 72). However, some scholars (Douglass et al. 2009) argue that government funding reduction has hurt such programs in the United Kingdom and Australia, and only minor impact is seen on student participation rates.

In America, Income-contingent loans were a regular campaign topic for Bill Clinton in 1992, and while President he succeeded in making this an optional feature of the student loan system. The College Cost Reduction and Access Act (CCRAA) passed in 2007 allows for income-contingent loan repayment if a student demonstrates financial hardship. This plan is currently available only for Federal Direct Loans. The amount paid each month is the lower of the following two formulas: 20 % of monthly discretionary income (defined as the adjusted gross income minus the federal poverty line based on family size and state) or the amount one would have repaid under a standard 12-year plan multiplied by an income percentage factor determined on the basis of income and marital status (Federal Student Aid 2012). Although thus far a small part of the overall financial aid activity in America, President Obama, during the 2012 campaign, pushed for more extensive use of income-continent loans. His “Pay as You Earn” proposal caps monthly federal student loan repayment at 10 % of monthly discretionary income (Student Loan Reform 2012).

Special examples of social businesses created to provide educational scholarships and loans begin with the Grameen Foundation Scholarship Program. One program that the Grameen Foundation supports is the Grameen Shikkha (“Shikkha” means education in Bengali), a nonprofit organization founded by Muhammad Yunus in Bangladesh. This program offers scholarships from elementary to university level for poor children. Each scholarship amount is \$1,600. The scholarships are disbursed at a monthly rate of approximately 4–8 dollars and continue for the duration of 5 years. Once a student finishes school, the monthly disbursements help support the education of another student as funds continue to be generated from the interest income received from the initial donation. One hundred dollars from the \$1,600 donation is kept by Grameen Foundation for the management of the scholarship program (Grameen Foundation Scholarship Program 2012).

## **Case Study: Lumni**

### *History*

Lumni was founded on the belief that there is “a better way to help students pay for their education” (Lumni 2012). The organization’s history started in 2002 when founders Felipe Vergara and Miguel Palacios launched Lumni Chile and began

financing students who commit a fixed percent of their income in a human capital contact format. Lumni then expanded to Colombia, Mexico, and in 2009, to the United States. The focus in America is on supplementing student financial aid. In other countries, for instance Columbia, Lumni provides one of the only alternatives, and therefore provides the bulk of the financing for those students.

### ***Business Model***

Instead of a standard student loan where students have to pay back the amount owed plus interest, at Lumni students sign contracts to pay a fixed percentage of their paychecks for a set period of time. This substantially lowers the risk for students if their education doesn't benefit them directly with increased income. The overall program is designed so that the average student will pay about the equivalent of 8 % interest rate if fully employed. If students have a low-paying job or can't find work, the payments are reduced or forgiven altogether. The loans are not designed to cover the entire tuition, but to fill the gap in funding remaining that occurs for low-income students after all other sources have been tapped. Importantly, no co-signer is required for participation.

For each loan applicant, Lumni states that it forecasts the individual student's future income and aligns student selection and contract pricing with investors' objectives for financial and social return. Other variables that are taken into account to define financing conditions for each student include expected time to graduation, likelihood of employment, and probability of default. Lumni receives fees for designing and managing funds (Inter-American Development Bank 2011).

It is very important to the Lumni model that the agreements with students are considered "contracts" not "loans". According to Caetano et al. (2011), loan aversion is a significant barrier to the target population of income-contingent loans. Palacios (2012, November 30, personal communication) points out that there is a very long western tradition of aversion to debt: Aristotle wrote that it was immoral for individuals to enter into binding contracts with an obligation to pay more than received; debt is also historically linked to slavery. Palacios and associates in recent research (Caetano et al. 2011) found that if you change the name of a "loan" to a "contract" students are more receptive.

In terms of the functioning model of Lumni, Palacios (2012, November 30, personal communication, ) argues that the contractual instrument has to transfer risk away from the student. If not, then the instrument is not well suited for financing education—because it is a very risky investment. While some degrees (medicine, law) have a relatively low risk, most college majors are relatively risky, and require a substantial investment. The risk for the student involves not only the amount of the loan, but the sacrifice of the student in the form of reduced or suspended income. The overall strategy is to take the risk away from the student, and create something that is able to attract the capital for investment.



## ***Performance***

Lumni reports that it has funded over 2,000 students across the Americas (Lumni, Our Story 2012). Default rates are less than 1 %. Project beneficiaries include females (53 %) and first-generation college students (63 %) (Inter-American Development Bank 2011).

## ***Challenges***

According to co-founder Palacios in a 2003 paper, human capital contracts present three general challenges: the capacity to accurately understand information from the individual; the possibility of not accurately determining which are future high or low earners; and the potential larger negative impact in the labor market by dis-incentivizing the pursuit of higher wage occupations (Palacios 2003). He makes a distinction between human capital contracts and income-contingent loans, which have a built-in fee or interest that protects against the potential of inaccurately predicting future earnings.

Bornstein (2011) claims that Lumni is limited in the types of degree paths funded, focusing heavily on applied fields such as teaching, healthcare, and social work. He claims that Lumni won't issue a contract if it believes a student is pursuing a career path that is unlikely to lead to employment. Additionally, the loan is only partial and not designed to fund large amounts relative to potential earnings. Furthermore, Bornstein notes that a buy-out option may be needed for students who want out of loans that appear to disadvantage them.

In an interview with the author, Palacios reflected that he had at the beginning assumed the biggest challenges would be operational or financial, but that the most persistent issues have been legal, especially in drafting different contracts to fit the various countries in which they operate. On a more positive note, Palacios said that he was somewhat surprised by the high repayment rates. Palacios also spoke about challenges with growing the company to scale, with now over 3,500 students. He sees the need for reaching a large scale as imperative for long-term success (Palacios, 2012, November 30, personal communication).

## ***Strategies***

One centrally unique feature of Lumni is in not requiring co-signers because of the belief that such a requirement effectively shuts out a substantial part of the population – precisely those who most need the financing. Palacios argues that any financing that asks for co-signers is not working for the ones who need it most – contracts with co-signers are only a partial solution. However, the no co-signer

approach has created a significant challenge for Lumni, because it increases the overall risk of the contract.

Lumni operates both for-profit and nonprofit funds. The founders felt that there were two different types of people drawn to financing education. Some, Palacios terms “social value investors,” are committed to the social issue and will simply give money as in a charity. On the other hand, there are large institutional investors whose responsibilities do not allow them to give the money away. They need an investment that has an appropriate return. Palacios argues that the size of the financial need for education cannot be met by charity alone, and thus the necessity of tapping into the investment market. He sees the growth coming through increased for-profit investors.

## *Discussion*

In his 2004 book, Palacios notes that there is an implicit redistribution of wealth in human capital contracts and that the benefits of increased equity and efficiency make them ideal for government efforts. He likens HCCs to any insurance contract, which are all redistributions of wealth to those who draw on the fund in emergencies, or when protection is needed (Palacios 2004). In the case of education, students need to be shielded from a poor return on the investment in their own education.

How does Lumni’s work intersect with government efforts, such as those in the United States? Palacios (2012, November 30, personal communication) points out a number of key differences. Overall, the government plans do not transfer enough risk away from the students to be attractive. For example, most government forms of income-contingent loans do not allow students to get rid of the government loans in bankruptcy. The second difference is that governments struggle with basing loan on the value of all of a student’s education, not just the first few years. When one prolongs the repayment period, you are helping with liquidity, but not protecting the student against the value of the education being low. Finally, governments give loans to anyone regardless of the quality of the institution they are attending, regardless of the value that the institution gives to the student. Palacios states that lending should be linked somehow to the success of studying in a particular institution. The effective way is to price contracts according to the value that students get from each institution, so that they create a natural incentive for students to go to the places that give the best value. In a broad way, Palacios claims that governments do not have the same level of resources available that the private sector can access in an effective contract. However, he does see a distinct role for government in funding the education of professionals, such as classroom teachers, which typically end with lower wages.

## Case Study: Kiva

### *History*

Kiva is based in San Francisco, California and was founded in 2005 by Matt Flannery and Jessica Jackley. Inspired by a lecture by Dr. Yunus at the Stanford Business School where Jessica worked, the couple created a business plan, and after wrestling with the question of legal status and other obstacles, decided to form a nonprofit (Flannery 2007).

The organizational philosophy was based on the following:

- People are central. The first thing you notice are faces. Money and organizations are secondary, people are primary.
- Lending is connecting. At Kiva.org, lending money is all about information exchange. In a sense, money is a type of information. Lending to someone else creates an ongoing communication between two individuals that is more binding than a donation.
- Things are always changing. Every time you load our website, it should be different. Every minute, loans are being purchased and repaid, and stories are being told about the borrowers. This can lead to a dynamic where philanthropy can actually become addictive.
- Emphasize Progress over Poverty. Business is a universal language that can appeal to people of almost every background. This can lead to partnerships rather than benefactor relationships. We appeal to people's interests, not their compassion.
- Create a Data-Rich Experience. Whenever it is possible to collect data from the field, we collect it. Over time, we will display as much information about our partners, lenders, and borrowers as possible and let the users decide where money flows (Flannery 2007).

In an intriguing history of the organization, Flannery (2007) describes the process of forming Kiva leading to nonprofit status and no interest to lenders in order to avoid SEC issues. In an interview with the author (Flannery, 2012, November 21, personal communication), Flannery described the decision as practical, not ideological. The reasons given were to better build to scale and find financing. As a business, foundations were hesitant to fund the organization. At the same time, venture capitalists felt as a proposed business it wasn't scalable to meet the ten-fold expectation of rapid growth. The optional donation feature available for nonprofit organizations is attractive because of the tax deduction allowed. Additionally, the founders learned that a nonprofit organizational status would help with avoidance of regulatory control and banking laws. Finally, nonprofit status encourages the donation of in-kind services, such as those given to Kiva by PayPal for online financial transactions.

After setting up their nonprofit, they had a fundraising challenge. The founders realized that they needed an initial infusion of cash to start the organization. When a

profile aired on television about work Kiva was doing in East Africa, a sudden influx of cash donations enabled them to jumpstart the organization.

### ***Business Model***

Flannery (2007) describes the origin for the Kiva concept as coming from the familiar child sponsorship model which has been an effective tool for pulling at heartstrings and attracting donor dollars. However, the problem with the child sponsorship model is that it has a high overhead rate. Kiva minimizes the overhead by using the internet to facilitate the lending/sponsoring while capitalizing on the ability of websites to deliver powerful photos and messages about clients. It is structured operationally to partner with existing microfinance institutions around the world (called Field Partners). These organizations have expertise in microfinance and a mission to alleviate poverty by facilitating Kiva loans on the ground locally. The 167 Field Partners know their local area and clients and do all the leg work required getting Kiva loans to the entrepreneurs posted on the Kiva.org website. Field Partners disburse loans as they are needed, up to 30 days before the loan request is posted on Kiva's website. The Field Partner collects entrepreneur stories, pictures and loan details, and uploads them to Kiva. Volunteer editors and translators review the loan requests and publish them to the Kiva.org site. Many Field Partners require mandatory savings as part of the loan cycle in order to ensure that borrowers represent a good lending risk and can build up cash reserves. Kiva's operation is funded through donations from individuals, corporations (Chevron and Visa for example), and foundations (Skoll and others). All individual donations made through the website go directly to the microloans.

Kiva Field Partners typically target impoverished or marginalized areas around the world to review loan applications and approve borrowers who demonstrate a need for a loan and a reasonable likelihood of repayment. Each borrower requesting a loan through Kiva has been reviewed and approved by a local Field Partner. Once a loan is approved by the Field Partner, the Field Partner takes a picture of the borrower, provides a description of the loan use, and posts the profile information of that borrower to Kiva for funding.

Only a portion of Kiva's loan requests are to support education at various levels. For instance, a random search of the Kiva website shows a request from a woman in the Democratic Republic of the Congo for a loan of \$5,100, a 27-year-old teacher to finish her university education, and a Nursing student from Peru who is asking for \$1,150 to help pay her university tuition.

In terms of student loans, Flannery describes them as very low interest, very long repayment, very high risk, very high impact. He further notes that student loans are heavily subsidized in America, and not available at all in many other countries. Flannery likes the idea of income-contingent loans and human capital contracts, and partners with both Lumni and Vittana (Flannery, 2012, November 21, personal communication).

## ***Performance***

To date Kiva has made \$386 million in loans in 66 countries, with most modest loans (\$400/average) and reports a repayment rate of 99 %. The majority of borrowers are women (Kiva, About Us [2012](#)).

## ***Challenges***

Kiva reports preoccupation with typical challenges that are associated with microfinance organizations, including prevention of predatory lending, fraud, and mismanagement. Additionally, some criticize Kiva for promoting the illusion of a direct relationship between a donor and a client. Although the website lists appeals by individuals for specific loans, the reality is that most of the loans have already been made or committed to in advance. Using data from Kiva, one group of researchers found that competition among NGOs has a sizable negative impact on projects' funding speed (Ly and Mason [2012](#)).

Over the course of the years, Kiva has been unable to offer interest to their user base because of United States investment regulations. Flannery ([2007](#)) noted that he wanted to be able to pay out interest to investors in order to make the relationship online more of a business rather than a charity. In an interview with the author (Flannery, 2012, November 21, personal communication), Flannery stated that he still thinks that if Kiva were able to charge interest that would be positive for the clients because it builds self-esteem, conveying that they are a business partner, and not a charity.

High interest rates charged by the microfinance institutional partners are an on-going challenge. Flannery describes the rates as "scattered," but primarily affected by operational costs. He sees small loans to the poor as low risk, because of the high pay off rate, but high cost to the financial institutions. This is a result of the difficulty in reaching the poor, which drives operational costs. Flannery points out that most Microfinance Institutions (MFI) lose money, yet at the same time charge interest rates that are too high. Going forward, Flannery expects that the growth of the overall microloan market, combined with technology such as mobile phones, will drive interest rates lower (Flannery, 2012, November 21, personal communication).

## ***Strategies***

Flannery (2012, November 21, personal communication) describes the overall goal for Kiva as trying to create the world's largest community for alleviating poverty through lending. The goal is to operate in every country and be open to everyone

who wants to apply for a loan on its site, create a business, go to school, and more broadly to change the world in a positive way. A key part of the overall strategy is to use technology effectively to reach people who have been left out.

Effectively scaling the Kiva operation has been a goal since the organization began in Uganda in 2005. In addition to the growth in numbers to over 1 million, and its spread to 65 countries, the organization has diversified its type of loans to include educational loans, a focus on green energy lending, and mobile lending. Flannery describes a new mobile lending program which will facilitate loans rapidly (3 min target) directly to individuals without an MFI through a phone (Flannery, 2012, November 21, personal communication).

## *Discussion*

Flannery defines Kiva as the first person-to-person micro-lending company, and the first online micro-lending company in the world. According to him, the essence of Kiva is humans to humans operating in an emotional mode, making high-risk, high-reward loans to individuals. Although greatly influenced by Yunus, Flannery questions the idea that institutions will make large investments that are high risk, low reward. Flannery in an interview with the author argued that people largely operate in two modes: either charity or investment, with little in between (Flannery, 2012, November 21, personal communication). On the other hand, Flannery expresses support for a new organizational type, something that retains the advantages of the nonprofit, but can also raise investor capital. Furthermore, Flannery describes learning a great deal from Dr. Yunus, going back to the first talk he heard at Stanford in 2003, lessons of entrepreneurship combined with social causes, taking risks, and experimentation.

## **Case Study: Vittana**

### *History*

Vittana was founded in 2008 by KushalChakrabarti, with the stated mission of envisioning “a world of opportunity, where educated minds and skillful hands work together to uplift the next generation, breaking the cycle of poverty” (Vittana, Our Mission 2012).

## ***Business Model***

The primary approach of Vittana is to focus on vocational education and the last years of college, and require a parent or close relative as a co-signer. According to a research and planning document, Vittana administration identifies countries with high potential impact and capacity for scale (Cain et al. 2011). Vittana does not collect any interest either for itself or for associated lenders. In order to cover the costs of developing and administering its student loan programs, Vittana's partner organizations do charge students minimal interest. While the rates vary from region to region (the range is from 4 % to 25 %), on average, partners charge a 10–15 % annual interest rate to students. The interest earned on student loans stays with microfinance partners to help them cover costs for providing the loans. Vittana funds operations through donations. All of Vittana's more than 1,600 students have co-signers. In order to reduce drop out risk and ensure manageable loan sizes, the pilot and basic stages of Vittana's product model focus on vocational education and the final 2 years of university education. As a result, the average Vittana loan is \$795 and has a term of 18 months.

## ***Performance***

Since its launch in 2009, Vittana has distributed over \$1.9 million to more than 3,000 students in 12 countries via 19 microfinance partners. It has been growing at a tenfold annual rate, and is targeting a million students by 2015 (Mistiaen 2012). While definitive employment data is not yet available for all Vittana programs, in Nicaragua, home of one of Vittana's first programs and for which probability of employment was not taken into account, 76 % of Vittana graduates found work related to their program of study; 78 % reported a positive employment change such as a promotion or raise as of August 2011 (Cain et al. 2011).

## ***Challenges***

Growth is a specific challenge identified by Vittana leadership, which is working to address this issue. Like Kiva, Vittana has a perception challenge in that a lender's money isn't technically going from individual investors to the hand of the student. Instead, it is channeled through a microfinance institution, which in fact has already dispersed the loan.

## ***Strategies***

Vittana has identified countries with high potential impact and capacity for scale in which to further expand operations. Specifically, the process has involved reviewing economic, education, and microfinance statistics in three regions: South America, Asia/MENA, and Sub-Saharan Africa. Countries were scored in nine categories; those that scored high in a majority of the nine categories and low in fewer than three were eligible for inclusion in the first tier. These include: Bolivia, India, Ghana, Mexico, Indonesia, Kenya, Peru, Jordan, Rwanda, and the Philippines. Over the course of 2011, Vittana gathered input from more than 2,500 microcredit borrowers, and students. Of responding microfinance clients: 90 % were interested in a student loan to pay for their child's higher education; 94 % were willing to co-sign a student loan for their child; 74 % knew other family or community members who would be willing to co-sign a student loan for their child; 68 % said they knew of no other place from which to borrow money for higher education; 86 % were confident that the young people in their family would feel comfortable interacting independently with an MFI (Cain et al. 2011). In response, 14 new loan products have been developed and are in the process of launch. Furthermore, in a 2011 report (Cain et al. 2011), the leadership of Vittana identified the following measures as specific strategies:

- Prove capacity for scale
- Grow demand by continuously testing products that cover more years of education
- Gather data to identify sectors with higher employment opportunities
- Identify, replicate, and share local best-practices across multiple markets
- Work with a research partner to prove impact of student loans through controlled studies (p. 15).

## ***Discussion***

Vittana provides a useful contrast to Lumni and its human capital contracts. While both aim to provide educational financing to fill in the gaps, especially available to low-income students, the methods are quite distinct. Vittana provides more of a traditional microfinance loan solution, while Lumni offers human capital contracts. An additional key difference is the requirement of co-signers for the Vittana loans, as opposed to the Lumni principle of avoiding this condition in contracts with students.



## Conclusion

One can see in these three case studies varied approaches to developing financial models for what is consistently described as the high risk and high impact activity of providing student loans. The overall aim for these three profiled organizations is to reduce the risk for students and enable access to educational funds not ordinarily available by signing agreements linked to subsequent income. Such education contracts present the extremely difficult challenge of accurately assessing the risk and potential return of the individual contracts. In order to address risk, Kiva uses field partners to qualify applicants, and Vittana requires co-signers. For Lumni and Vittana, risk is reduced by focusing on funding majors and disciplines most likely to provide a path to repayment. The cases show organizations struggling with a sustainable business model. All these organizations seem to recognize that there are two different types of people drawn to financing education: social value or charitable investors, and institutional investors concerned with a return on investment.

Additionally, it is apparent in these case studies the struggle to find the most effective organizational legal status and framework. Just as there was a blur between public and private colleges in nineteenth century America balancing individual and public good, these profiled organizations are a complex mix of business and charity. Kiva, a nonprofit funded through donations from individuals, corporations, and foundations, expresses a desire for a different kind of organizational status that would allow more flexibility. The Lumni case shows that one of the most difficult challenges it encountered was in drafting contracts to fit the various countries in which it operates. Furthermore, the cases reveal a positioning of financial aid services in relationship to the level of government support in particular countries. These organizations fill a gap between government programs limited in their effectiveness to supply income-contingent loans or human capital contracts because of the pressure to distribute funding regardless of a student's major or institution attended.

As with charities and other nonprofit organizations, we need new ways of looking at how low-income university students fund their educations. Because it is easier to serve middle-class students than low-income students, universities are naturally pulled away from helping those at the "bottom of the pyramid," as some describe the economics. In America we have three basic models for funding post-secondary education: government supported (public), private (independent), and for-profit. Only the for-profit model might be sustainable without a form of public or private "charity." Nonprofits have the capability of running for-profit ventures, but access to capital and technical skills are needed. Certainly there are many challenges and unknowns in pursuing social business or social entrepreneurial models in higher education. For instance, social businesses struggle internationally because no country appears at this time to have an appropriate legal model to accommodate the unique characteristics of social businesses. It may well be that for some institutions a mixture of models might be best: part public, nonprofit, and

social business. In writing about the dramatic post-WWII shift of colleges to serving a much broader and diverse population, Peter Drucker remarked, “No better text for a History of Entrepreneurship could be found than the creation and development of the modern university, and especially the modern American university” (Drucker 1985, p. 23). We need now to make a corresponding historic transition to more innovative organizational models in higher education to better serve low-income students. The organizations profiled in this chapter may show the way by example.

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# Chapter 5

## Disease: Social Business for a Malaria Free World – BASF Grameen Limited

Sheikh Rubaiya Sultana Munni and Kh Md Nahiduzzaman

### Context: Bangladesh

Bangladesh with a population of 147.4 million is one of the poorest countries in the world. Approximately 3.4 million people live in some 5,000 slums of its capital city, Dhaka. In 2010, the population of Dhaka city was 17.6 million, with up to 60 % living in the slums. The number of people living in slums is on the rise, al-though a tiny proportion moved out of slum conditions. Slums are heavily populated urban pockets characterized by poverty and substandard housing offering very low living conditions (Podymow et al. 2002). Most of the slums in Dhaka are situated in environmentally hazardous locations and exposed to a number of recurrent environmental challenges including water logging, floods, chronic diseases, etc. Along with other diseases, slum dwellers are living at high risk of malaria because of the worsened living environment and a lack of awareness on how to protect themselves.

Malaria is truly a disease of poverty – afflicting primarily the poor who tend to live in malaria-prone areas in poorly-constructed dwellings that offer few or no barriers against mosquitoes (UNICEF 2013). According to a WHO report, country-level burden estimates 80 % of malaria deaths occur in just 14 countries and about 80 % of cases occur in 17 countries. Together, the Democratic Republic of Congo and Nigeria alone account for over 40 % of the estimated total of malaria deaths globally (WHO 2013)

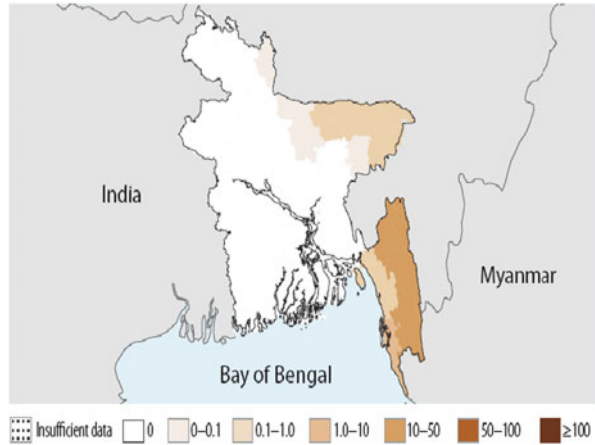
Bangladesh is one of the 109 countries listed by the World Health Organization having endemic malaria. Within Bangladesh, 13 out of a total of 64 districts are in

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**Fig. 5.1** Distribution of confirmed malaria cases (per 1,000 population) (Source: WHO report 2013)



the high endemic areas of malaria transmission, posing a severe health risk for 26.9 million inhabitants (Fig. 5.1). This is, in fact, a population larger than many African countries, which illustrates the magnitude of risk of malaria (Khan et al. 2011; Government of Bangladesh 2013). Factually, people living in slums cannot afford to use coil, spray, mosquito nets, or other simple mosquito repellents. Therefore, they can easily get infected by malaria, which eventually poses a severe health risk claiming death in frequent occasions (Volunteer for Bangladesh 2012).

Several studies suggest that sleeping under insecticide-treated nets (ITNS), a protective measure for malaria, can reduce overall child mortality by 20 %. There is empirical evidence that when ITNS are consistently and correctly used, per year the lives of 6 children for every 1,000 using the net can be saved. Prompt access to effective treatment can further reduce deaths. Intermittent preventive treatment of malaria during pregnancy can significantly reduce the proportion of low birth weight infants and maternal anemia (UNICEF 2013).

## Insecticide Treated Nets (ITNS)

Mosquito nets treated with insecticides – known as insecticide treated nets (ITNs) or bed nets – were developed in the 1980s for malaria prevention. ITNs are estimated to be twice as effective as untreated nets, and offer greater than 70 % protection compared with no net (East African community 2013). These nets are dip-treated using a synthetic pyrethroid insecticide such as deltamethrin or permethrin, which will double the protection over a non-treated net by killing and repelling mosquitoes. However, standard ITNs are not seen as a convenient, effective long-term solution to the malaria problem. As a result, the mosquito netting and pesticide industries developed long-lasting insecticidal mosquito nets (LLINs), which also use pyrethroid insecticides. There are three types of LLINs –

(1) polyester netting which has insecticide bound to the external surface of the netting fiber using a resin; (2) polyethylene which has insecticide incorporated into the fiber and (3) polypropylene which also has insecticide incorporated into the fiber. All types can be washed at least 20 times, but physical durability will vary (Public Health BASF 2012). From 2008 to 2012, UNICEF procured over 120 million nets and provided support to over 30 countries and by 2011, 110 countries worldwide had adopted the policy to provide nets to all persons at risk of malaria – “universal coverage” of which 89 of these countries have a policy of distributing them free of charge to the end users (UNICEF 2013). According to the WHO World Malaria Report 2009, 11 million people in Bangladesh are at risk of malaria. Keeping this staggering figure and risk in mind, BASF Grameen Ltd. has been created to produce long-lasting insecticidal nets that offer protection against insect-borne disease.

### **Social Business: BASF Grameen Ltd- Social Commitment with an Entrepreneurial Twist**

BASF Grameen Ltd. is a joint venture of BASF SE and Grameen Health Care trust in Bangladesh, started in 2009 following social business principles. The purpose of the company is to improve the health and business opportunities of the poor of Bangladesh (BASF Asia Pacific 2012). With its commitment to improving public health via a social business joint venture, BASF Grameen is creating value from social values. BASF is the first chemical company in the world to set up a social business with BASF Grameen Ltd. The social marketing of insecticide-treated nets is an attractive intervention for preventing childhood deaths from malaria (Hanson et al. 2003). Social business is a non-dividend company created to solve a specific social problem (Yunus Centre 2011). This has been echoed in the argument of Saori Dubourg, President of Asia Pacific, BASF, that BASF and Grameen combines BASF’s social commitment with an innovative business model to improve healthcare for the people of Bangladesh.

#### ***BASF Grameen Social Business Ltd.***

BASF Grameen Ltd. formed in 2009. It is a social business joint venture between BASF SE and Grameen Health Care Trust where BASF SE owns 99.5 % and Grameen Health Care Trust owns 0.5 % (author interview with Rahman, 2013, May 15, personal communication). Grameen Fashion and Fabrics Limited (GFFL), a textile based industry, is the manufacturer of LLIN under brand name Interceptor, utilizing BASF’s technology (Yunus Centre 2012). As specified in the social business agreement, BASF Grameen Ltd. is the only authorized organization

which can buy LLIN from GFFL and distribute the product through different sister concerns and other dealers in Bangladesh.

### ***Partners in BASF Grameen Ltd.***

#### **BASF SE**

BASF is the world's leading chemical company with a portfolio ranging from chemicals, plastics, performance products and crop protection products to oil and gas. It combines a long history of economic success, social responsibility and environmental protection. Products and system solutions of BASF contribute to conserving resources, ensuring healthy food and nutrition and helping to improve the quality of life. BASF aims to create chemistry for a sustainable future for the world's citizens and this is where the common denominators lie between BASF and the core functions of Grameen Health Care Trust (BASF 2013).

#### **Grameen Healthcare Trust**

Grameen Healthcare Trust (GHT) is a non-profit organization established under the Trust Act (1882) of Bangladesh and founded by Nobel Laureate Professor Muhammad Yunus. It was established with the goal of developing a health sector in Bangladesh to fulfill the unmet need for health care services, especially for low-income people. GHT not only involves itself in building up health institutions, but supports other institutions working in the health sector. It is also dedicated to organizing national and international supports to undertake various health programs in Bangladesh (Yunus Centre 2012). With this broader outlook, GHT found BASF as the key partner in forming BASF Grameen social business aiming to prevent malaria in Bangladesh.

#### **Grameen Fabrics and Fashions Limited**

Grameen Fabrics and Fashions Limited (GFFL) is a social business company established with a view to setting up a textile-based industry at Social Business Industrial Park, Sarabo of Kashimpur in Gazipur, Bangladesh. The company comprises two basic units – one unit is to produce goods to encounter specific social problems and its solutions. The other is dedicated for export-oriented production in order to generate local employment and earn foreign revenues (BASF 2013). BASF Grameen Ltd. took advantage of the existing infrastructure, experience and expertise of GFFL by building a partnership agreement. With the inception of such partnership, BASF Grameen reduced a lot of efforts which, in turn, helped them focus more on the core of the LLIN production process such as cost

competitiveness and affordability, sales and marketing strategy to reach the poorest of the poor, and research and development. GFFL also found BASF Grameen Ltd. to be an important partner in improving the quality of production while keeping prices low to allow the poor to afford the product. Therefore, this collaboration brought a win-win situation for both of the problem-driven social business companies. Under the social business principles, both of these companies share the costs of production and marketing and are run under the core social business dogma – no loss, no profit.

### ***Bangladesh's First Long Lasting Impregnated Net (LLIN) and Current Operation***

BASF Grameen Ltd. can now source from a local production plant located in Social Business Industrial Park in Sarabo, Bangladesh. The plant owned by GFFL was inaugurated on March 23, 2012. It manufactures LLIN under the brand name InterceptorA. BASF Grameen Ltd. is also in charge of sharing its successful global marketing experiences with the local marketing partners, as well as providing the technical assistance and financial supports under joint venture agreement (BASF 2013). The LLIN is a unique high performance mosquito net that contains Fendozin textile auxiliary, a new finishing product that binds the potent BASF insecticide Fendona in a special coating to the fibers of the net (Interceptor Technical Information Bulletin 2006) The fendona is slowly released and rapidly knocks down, kills or repels mosquitoes as they come in contact with the net (Public Health BASF 2012). An LLIN that requires no re-treatment is an effective tool against malaria transmission. It helps reduce insect-borne diseases such as malaria and dengue and is able to kill mosquitoes carrying insect-borne diseases. It is safe for human beings, even for a newborn baby. It has already been proved to remain effective against mosquitoes for several years. The nets can retain their properties for up to 20 washes, equivalent to minimum 3 years usage, depending on local conditions (Gunasekaran et al. 2009). The durability of the LLIN and associated cost might be a concern for the poor population, an issue addressed below. However, while working to create successfully a malaria free world, BASF Grameen Ltd. has been advancing their social venture not only to improve the health of the poor but also create business opportunities for them.

According to Habibur Rahman, Senior Manager, Crop protection and LLIN business, interviewed for this chapter, GFFL is currently producing 3,000 nets per day and it is expected to rise to 9,000 pieces by the end of 2013 (Rahman, 2013, May 15, personal communication). At this initial phase, so far around 60,000 pieces of nets have been manufactured although not all have been sold yet. Because the marketing and distribution programs are up and running, it is expected that within a month or two all commodities will be sold to the targeted populations (Rahman,



2013, May 15, personal communication). BASF Grameen Ltd. has plans to resume production after selling out the first stock.

BASF Grameen Ltd. distributes the product through sister concerns of Grameen Bank called Grameen Distribution Limited and a business organization named Quazi Enterprises Limited. According to A.Q.M. Abdullah Al Munsur, marketing executive of Quazi Enterprises Limited, currently these two dealers are in charge of marketing LLIN. These dealers have around 200–300 local distributors all over Bangladesh of which Quazi Enterprises Ltd. alone has 270 distributors (author interview with Rahman, 2013, May 15, personal communication; Munsur, 2013, June 12, personal communication). Some of these distributors are even located in very remote areas of Bangladesh such as Moheshkhali, and about 30–35 are serving Chittagong district which is known to be the most vulnerable malaria prone area of the country (Munsur, 2013, June 12, personal communication). In order to maintain an equitable and even distribution, these dealers have a large number of workers at the field level. Figure 5.2 attempts to provide a schematic idea on the marketing mechanism of LLIN. Although the geographical distribution of the product is currently confined to Bangladesh only, in the near future the company plans to expand the market to other countries in the south.

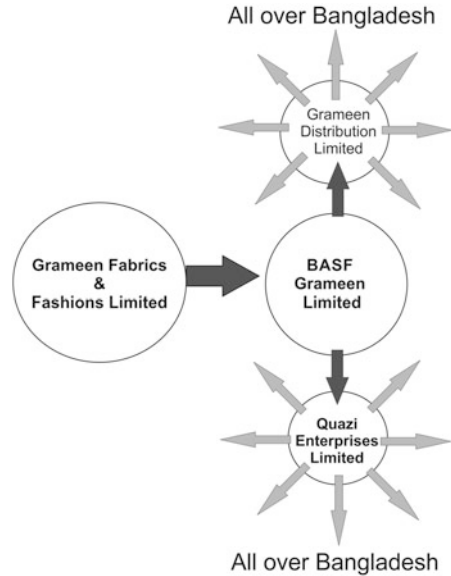
### *Production Cost and Affordability*

One of the key issues for a social business making products for low income markets is to achieve a balance between the cost of production and the price that can be charged to the poor. On the average, the wholesale price of the LLIN is approximately 450 BDT (US\$5.77<sup>1</sup>) for smaller size (L7 ft × W4 ft × H6 ft) nets and 500 BDT (US\$6.41) for the bigger size (L7 ft × W5 ft × H6 ft). However, in the retail purchase the consumers need to add 200–250 BDT (US\$2.57–3.21) on top of the average wholesale price. In an interview with the authors, Mr. Munsur, the marketing executive for Quazi Enterprises Ltd., shared that the market price for different size of nets is not quite affordable to the poor. Usually, an ordinary mosquito net costs 400 BDT (US\$5.14), whereas the LLIN costs almost double that. Having interviewed some of the personnel of BASF Grameen Ltd., we found that the apparent higher cost is attributed to initial set up cost of the production units, as well as the low number of consumers due to the limited geographical coverage. However, BASF Grameen Ltd. has been exerting continuous effort to maximize the geographical distribution of LLIN by lowering the price, so the LLIN becomes affordable for those poor and the most vulnerable people who need it. It is expected that the cost will go down as the production coverage increases. Also, research is underway to enhance the durability of the LLIN to more than 4 years so

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<sup>1</sup> 1 US\$ = 77.98 BDT.

**Fig. 5.2** Marketing scheme of LLIN in Bangladesh (Source: Adapted from Rahman (2013, May 15, personal communication) and Munsur (2013, June 12, personal communication))



that the average unit cost becomes competitive when compared with the ordinary mosquito nets in the market.

A study at Tanzanian villages shows that only 9.3 % of the population uses mosquito nets. On the contrary, when the nets were given for free, over 90 % population became interested in using them and brought them for re-treatment several years later (Maxwell et al. 2006; Mulligan et al. 2008). Although the free-of-cost net is not part of the social business dogma, this study suggests that people start to realize the utility and necessity of any product when they are given proper orientation (Noor et al. 2007; Schellenberg et al. 2001). It is also true that the longer the useful life of the LLIN, the cheaper it is to use – even if the initial purchase price is higher (WHO 2007).

## ***Challenges***

Apart from the apparent high cost of LLIN, there are other reasons for the nets not being popular yet in Bangladesh. Since the LLIN was introduced very recently, people are not widely informed about the product yet. Moreover, the poor people are not much aware about malaria in general as a disease and its consequences although they are the constant victims. Hence, it is very hard to encourage them to use LLIN. Also, one of the salespersons commented negatively about the packaging system of the net. Traditionally the consumers in Bangladesh decide to purchase products after proper investigation (e.g., seeing, touching, smelling etc.). However, the LLIN packaging system does not offer that kind of flexible option to the

potential buyers. Another problem lies with the design of the net. The LLIN is little bit different from the design of an ordinary net. Therefore, the users feel uncomfortable while fixing with the bed (Munsur, 2013, June 12, personal communication). Although minor, these cultural issues must need to be taken into account in order to make LLIN familiar and popular among the target groups. Finally, BASF Grameen Ltd. does not seem to have sufficient manpower at the top level, with only three officials from BASF serving for BASF Grameen Ltd. (Rahman, 2013, May 15, personal communication). This seems one of the challenges that the social business company needs to address to satisfy the objectives set for this joint venture.

## Concluding Thoughts

Health hazards from malaria and dengue are serious concerns in the developing countries. It is hoped that BASF Grameen Ltd. will be able to make a significant contribution to fight mosquito-borne diseases with its innovative product, LLIN. However, the initiatives are at the very initial stage of its operation in Bangladesh. It will need a while more to assess the proven effectiveness LLIN in reducing the incidents of malaria among the poor population. The success of the project will be noted when the target group is informed, aware, and receives the full benefits of using LLIN. Nevertheless, LLIN has been proven to offer effective protection against mosquitoes for several years in other parts of the world.

The production of LLIN in Bangladesh is still in the infant stage. Therefore, more initiatives will be required to raise awareness about mosquito-borne diseases and encourage the potential malaria victims to use LLIN. Operationally, BASF Grameen Ltd. should engage more trained people at the grassroots level who supposedly would have adequate understanding of the cultural norms of doing business. Moreover, the design of LLIN should adapt the local practice of how ordinary mosquito nets are fixed and used by the target populations.

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# Chapter 6

## Grameen Shakti Social Business: A Vanguard Model for Rural Energy Service

Nancy Wimmer

### The Mission

When Thomas Edison demonstrated electric light in 1879, American cities were already industrialized and ready to become major markets for electricity. Bangladesh at that time was an undeveloped, agrarian society and its villages were shrouded in darkness after nightfall. A hundred years later, electric lights were burning in homes and factories in the entire United States, but little had changed in rural Bangladesh where villagers had only kerosene lamps, candles and the light of the moon to push back the darkness at night. In 1995, only 9 % of the rural households were connected to the grid and the rest had little chance of gaining access in future (Benchikh and Benallou 1996). The grid expanded so slowly to remote villages that most young people in rural Bangladesh would not enjoy the benefit of electricity in their lifetime. But in that same year a story began to unfold that would change life in thousands of villages. A small group of people began experimenting with how to bring solar electricity to rural Bangladesh and in 1996 started its first rural renewable energy service company, Grameen Shakti, which literally translates to rural energy.

The small group of engineers and energy experts exploring alternatives to grid electricity was an initiative of the Grameen Bank, which by 1994 had over two million borrowers in 34,000 villages, half of the total villages in Bangladesh. The time was right. Twenty years of Grameen Bank experience had demonstrated that the rural poor can successfully start small businesses with access to microcredit, but many of these businesses needed electricity to prosper. To support home businesses, the bank introduced housing loans to provide a safe dry space to work the year round. Still the problem of working by the dim light of an open flame after dusk remained. Grameen Shakti was founded to solve this problem.

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Were money alone the solution, villagers in Bangladesh would not have had to wait until the twenty-first century for solar power. But money alone creates neither entrepreneurs, nor trust, nor innovation, which are the prerequisites for progress in rural business. Shakti was founded as an entrepreneurial company to create a market for solar technology for a rural clientele while finding ways to improve its customers' income, health and quality of life. This meant doing business with customers who lack bank accounts, telephones and insurance against illness, floods and storms. It meant training young engineers to set up branches in remote and undeveloped areas, and learning the business from scratch in the villages. Shakti's success would depend on finding solutions to problems money alone can't solve. Its assets would be the motivated staff of engineers it had yet to assemble, and its mission to bring affordable solar electricity and a better life to the people in rural Bangladesh. This chapter tells that story. The primary data used here refer to the author's interviews with Grameen Shakti managers, staff, customers, and suppliers in addition to the Grameen Shakti internal reports and research documents cited in *Green Energy for a Billion Poor* (Wimmer 2012).

## **Background: Rural Bangladesh**

In many parts of the world, village means houses clustered around a center like a market or fountain. In medieval Europe people lived in towns surrounded by protective walls. In Bangladesh, villages consist of scattered homesteads and small hamlets perched on slightly elevated plots of land that become islands in the rainy season, when almost half the country is flooded. Regions where the land lies lower than the plains turn into huge lakes, forcing villagers to travel by boat 7 months of the year. Bangladesh lies in the delta of three giant rivers: the Brahmaputra, the Ganges, and the Meghna. The delta is huge because almost all water running off the highest mountain range on earth has to pass through it. "Without the Himalayas, Bangladesh would not exist," writes Van Schendel (2010), "in a sense, Bangladesh is the Himalayas, flattened out." On their long journey to the Bay of Bengal the heavy flow of these rivers deposits thick layers of fertile silt along the way, forming hundreds of islands as they devour others and wash them away. "The river erodes one bank and builds another. That's the play of the river," says a Bangladeshi proverb. The delta is thus a continually shifting landscape. Villages are scattered and houses often are widely dispersed.

This geography is fundamental to understanding village society in Bangladesh because it has shaped how people organize their lives as much as it has shaped rural politics. People in Bangladesh live in an environment where the land is constantly changing, where villagers often move elsewhere and rebuild their houses. As a result, Bangladesh villages are not tightly organized communities under a single village head. Instead, they are dominated by continually shifting alliances of leaders. In the Chittagong Hill Tracts, high above the delta on the eastern border to India and Myanmar (Burma), you will find village associations or samities. Here,

tribal people have their own dialects, traditions, farming methods, and dress, all of which is very different from the Bangladeshi farmers of the alluvial river plains.

Anyone seeking to understand the rural population has had to find ways of dealing with flexible patterns of life on the delta. Not that rulers haven't tried. The division of Bangladesh into administrative units by the British continues to this day, even though succeeding generations have moved their homesteads and the land itself has constantly shifted due to rivers. But in the minds of the rural people, village means more than an administrative unit. "A village is a mental entity. It is very difficult for an outsider to define a village," explains Akbar Ali Khan in *Discovery of Bangladesh* (2001). "Only the inhabitants of a village have a clear perception of what village is their own." To some people, village means living in the midst of fields, as opposed to a town. It sometimes means the Jamat, the households served by a mosque. But for most people in rural Bangladesh, village means the immediate neighborhood bound together by the mosque, by marriage ties, and by recognition of village leaders who are invited to give advice and settle disputes.

All of the above – the ecology of the delta, cultural differences, village hierarchies, religion – figures into the formula for the making of a Shakti branch in rural Bangladesh. And although Shakti developed procedures for managing a village branch and training its staff, there is no standard template for understanding the subtleties of village society. This explains why a branch manager first trains a local technician when setting up a new branch. But more than anything, this explains why branch managers live, work and train in the villages and not at the head office in Dhaka. By 2012, Shakti employed 11,500 staff, but only 92 worked in Dhaka (Grameen Shakti, quoted in Wimmer 2012). Rural business can only be learned and practiced in the villages.

## Opportunity as Grameen Sees It

Opportunity has been described as open doors that only appear to be closed. But Edison came closest to describing the Shakti experience when he observed that opportunity is missed by most people because it is dressed in overalls and looks like work. Shakti's business was guided by hard work and how to survive in a tough rural environment. But doors were open.

According to 1995 statistics, the total population of Bangladesh was 119.7 million, 80 % of whom lived in rural areas. The total photovoltaic (PV) power installed on a project basis by the government was only 100 kW, and most of the systems were no longer working. Although 21 % of the villages had grid access, the total number of dispersed rural households connected to the grid was a mere 9 %, and only 10 villages were electrified by mini-grid and diesel generators. Kerosene lanterns, candles, and flashlights served for lighting, dry cells for radio and radio cassette, and 12 V car batteries for television (Benchikh and Benallou 1996). Car batteries were expensive to transport and maintain in rural areas. A battery's charge

cycle was 10 days, its charging cost 20 Taka, and charging took 1 day. The average distance traveled to the charging station was 10 km. The round trip by rickshaw cost 50 Taka, during the rainy season, 100 Taka (1 US\$ = 41 Taka).

No doubt, opportunities existed in rural Bangladesh. Viewed from the perspective of a rural entrepreneurial company, there was a huge untapped market for solar power. The challenge was to solve the problems that stifle market growth so village people could benefit. Solar systems could provide village households with electricity and eliminate the expense of candles and recharging the battery. But this was an expensive solution for the rural population. For the 13,000 Taka (US\$317) a 17 W solar home system cost in 1996, villagers could have bought more than 3,000 candles. Many of the rural poor earned little more than that in half a year. A Grameen Bank loan averaged US\$100 to start a small business, not enough for its borrowers to become Shakti customers. True, there was no competition for Shakti in rural Bangladesh, but there was no market either.

During its first years, Shakti experienced all the growing pains of a young company. It had to train every single member of its staff. But it met the challenge by hiring young engineers to manage its branches, master the technology, train technicians and win the trust of village customers. They learned what rural people needed electricity for most, about their frustrations with kerosene lanterns, and what they would be willing to pay for. The pioneering engineers motivated village leaders, businessmen and teachers to become Shakti's first customers and so demonstrated solar power by influential users; they installed solar lamps in busy village markets for amazed shopkeepers and their customers to experience first-hand. Progress was slow, but branch engineers persevered. Villagers were excited about solar powered light and the ripple effect continued to spread and gain momentum as Shakti innovated ways to reduce the cost of solar home systems.

An unforeseen opportunity opened up with the introduction of mobile phones in rural Bangladesh. The Grameen Bank made the phones affordable by giving loans to its borrowers to set up village phone shops and sell the calls for a fee. This in turn created increased income and purchasing power, and the demand for mobile phones quickly spread to off-grid villages. Shakti took advantage of the opportunity and made solar powered mobile chargers available in 2000. But it wasn't until it had set up its own mobile charger production and brought down the cost, that rural demand skyrocketed. Mobile chargers are now a standard component of every solar home system Shakti installs. The doors are wide open.

## **The Business Model**

When Grameen Shakti set out to pioneer renewable energy services in rural Bangladesh, development experts inside and outside Bangladesh were skeptical it could succeed. They argued that Grameen had not yet done enough research, that income generation with solar systems might be the Grameen way of doing business, but that it was idealistic when compared to the harsh realities of the rural energy



market. A market-based approach in a poor developing country? Out of the question. In a sense the critics were right. Solar systems that produce several Kilowatts of power in industrialized countries can serve telecom base stations, clinics and schools. Shakti's customers were farmers, fishermen, small businesses and private households. Seventeen to forty Watts solar systems supplied them with enough power to feed a few lamps, radios, black and white TVs and tools for a few hours a day.

Since international companies were ready to supply Shakti with the solar panels and batteries, technology was the least of Shakti's problems. Shakti's managers had to figure out how to explain an unfamiliar technology that cost its customers more than 3 months food for their families. They had to set up a network of village branches, staff a new company and master a new technology. Above all, Shakti had to devise a financing scheme to make its products affordable. These are the realities in the rural energy market.

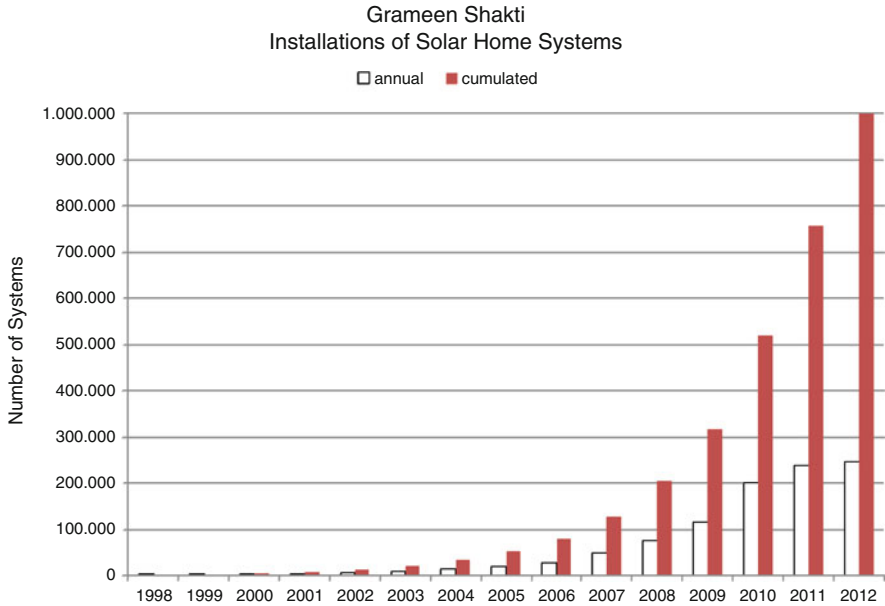
What critics didn't understand was the power of innovation to open up opportunities in an undeveloped market. Shakti was eager to find unconventional solutions which differ from the conventional wisdom of business in the United States and Europe. And it did. Its entrepreneurial approach was bottom-up, trial and error, open to new information and experiences and learning directly from its future customers.

When Muhammad Yunus, founder of the Grameen Bank, heard critics predict Shakti couldn't succeed, he countered with what people had said back in 1976 when he began giving tiny loans to the poor. "They told me the poor can't pay back; you'll have to subsidize the loans. They said the same thing again in 1984 when the bank introduced housing loans. But the critics were wrong. The poor paid back their loans. So why should it be impossible to provide solar electricity to village people who desperately need it? We must show it can be done. Otherwise no one will believe it."

Grameen Shakti grew its business straight from these experiences. This took time and couldn't be rushed in the beginning as the statistics below indicate. And still, Shakti grew to become the largest off-grid solar company in the world. By the end of 2012 – 16 years after launching Grameen Shakti – five million villagers were enjoying the benefits of solar electricity. How Shakti achieved its social impact deserves a closer look (Fig. 6.1).

## **Products to Benefit the Customer**

Shakti found that a decentralized power supply is best suited to serve dispersed rural households and therefore made solar home systems the focus of its renewable energy business. Solar home system technology is sophisticated, but the installation of the solar panel, battery, and charge controller is essentially plug and play, and its basic maintenance is quickly mastered. It is also a cheaper and simpler alternative to biogas plants, which require a larger investment and up to four cows or a poultry



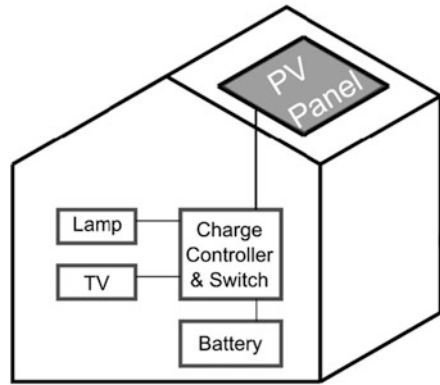
**Fig. 6.1** Grameen Shakti installations of solar home systems (Source: Grameen Shakti Internal Status Report 2012, quoted in Wimmer 2012)

farm. So for Shakti, it made sense to first build its business on solar-powered systems for direct electric current (DC) appliances (Fig. 6.2).

Although the system architecture is simple, it took years of field experience to refine it. System components had to be optimized in terms of reliability, availability, usability and cost. Shakti had to develop the expertise to assess the quality of batteries, expertise which is hard to come by in a start-up company. It also learned that its village customers wouldn't accept no-name manufacturers of solar panels, and that big-name manufacturers wouldn't accept exotic orders for low-wattage panels. Shakti's small team of engineers and technicians had to learn a lot. In the beginning they had the support of solar suppliers for training and technical assistance, which gave them time for door-to-door marketing and getting to know village customers. But it didn't take long for Shakti to realize that this would demand 90 % of its time and efforts.

As important as Grameen Bank's support was at the start, microcredit was an altogether different business than marketing a technical product. Village people understood loans, but not solar power. They were aware of their need for electricity, but thought it could only come from the grid. Renewable sources of power were exotic. Shakti thus first focused on how people could benefit from solar power and learned that children's studies at night were a top priority for mothers. Shakti probed further and heard from a sawmill owner about how dangerous it was to work after dark, from an electrician about the problems with a kerosene cooker to

**Fig. 6.2** Main components of a solar home system (SHS) (Source: Wimmer 2012)



heat up his soldering iron, and – best of all – about how a grocery shop owner and a carpenter earned extra money on the side by renting solar lamps to neighbors.

When Shakti discovered what best suited one villager’s needs, it tried it on a few dozen people, then a few hundred, and then fine-tuned the process until it ran smoothly. As a pioneer in an unexplored market, Shakti focused on creating a product people enjoy – something that piques their curiosity and creates excitement in the village when talking about it: “The solar lamps are so bright, that my children can do their lessons while I do needlework”, exclaimed mothers. “I have doubled my daily income by working after dusk,” boasted a sawmill owner. Prof. Yunus had designed microcredit the same way and later described the process (2010): “If your work has a positive impact on five to ten people, you have invented a seed. Now you can plant it a million times.”

## Taking Every Chance to Generate Income

If villagers were to enjoy the benefits of solar electricity, Shakti would have to find ways for its customers to generate more income as owners of a solar system. It began by taking advantage of the long tradition of small village businesses. Shopkeepers, artisans, and food vendors literally abound in rural Bangladesh. Petty trading, boat rental, tea stalls, restaurants, and bicycle repair shops provide a major source of village income.

Branch engineers first identified businesses which could increase their profit by working longer hours with the benefit of electric light, such as grocery shops, pharmacies, barbers, tailors, carpenters, and repair shops. They sat down with each of these potential customers and calculated how much extra income they could earn per month by extending their working hours with solar-powered light, and then how many months it would take them to pay for the solar system. The engineers took care to specify the solar system to serve the individual needs of each business and discussed with every customer how many lamps and outlets were

necessary. Increased income was a winning argument for the owners of small businesses, and branch engineers made sure their investment in solar systems paid off.

Word of mouth turned out to be more effective than any advertising campaign, and the good news that small businesses could improve their profits with solar power spread quickly throughout village communities – so quickly that soon locals approached Shakti with surprisingly good ideas. A food vendor with his grocery cart provides an example. He wanted a small solar panel to power a lamp and cassette player as he drove his cart through the villages. “When people hear popular Bangla songs they all gather around my cart to enjoy the music,” he told the branch engineer. “They buy tea and sweets. With bright solar light and music I can sell food until midnight.”

How resourceful rural people are can surprise even branch engineers who work with them every day. They were learning that with increased profit, even a traveling food vendor could afford a small solar panel. “It was all his idea,” they admitted. “He came to the Shakti office and presented us with his business plan on how he could attract more customers and earn more money. All we did was calculate that he could afford a 25 W solar system for 310 Taka a month and still make a profit.”

Another surprise was in store for branch engineers when they learned how much profit a village tailor could earn before the Eid-ul-Fitr holiday. This is a major religious festival, characterized by alms-giving, prayer, feasting, and gifts, and it is tradition for family members to return to their villages to celebrate. The problem for a village tailor is that in the few weeks before Eid-ul-Fitr, he is literally besieged with orders for saris, shirts, trousers, and dresses, since entire families want to celebrate in holiday attire. A tailor can hire helpers, but he can’t do any intricate stitching with only dim kerosene lighting after dark. Shakti engineers calculated that one tailor with two assistants and 4 h extended working time per day, could earn in the 6 weeks before the Eid festival what he would normally earn in 5 months. With a profit like this, engineers told the tailor, he could repay his solar system in only 2 years and enjoy maintenance for 3. This made sense and convinced the tailor to invest in a 36 W solar home system with three lamps.

The ability to resourcefully improve village livelihoods became a hallmark of Shakti in its early years, and management seized every chance to translate good ideas into more income. In 1997, the Grameen Bank launched Grameen Telecom and the village phone program to generate income for its borrowers as mobile phone operators. Shakti extended the phone business to off-grid villages by offering solar-powered mobile phone chargers. By 2000, village telephone operators were earning up to 5,000 Taka a month providing phone services, a business so profitable that soon many non-Grameen borrowers followed suit. This dramatically increased demand for solar electricity. “We have customers who buy solar systems just to do business charging mobile phones,” branch engineers told the head office. “Income comes first. The lamps are secondary.”

Still one major problem persisted: many businesses were too small to generate enough profit to afford a solar home system, even with additional working hours. Shakti began experimenting with a micro-utility model in village bazaars whereby

one shopkeeper buys a solar system and then shares the electricity it produces with neighboring shops on a fee-for-service basis. This gives the owner of the solar system the advantage of added income and provides his neighbors cheap access to solar electricity.

Mr. Haque, for example, runs a small grocery shop at a village market, earns about 5,000 Taka a month and owns a 50 W solar system. He can afford the solar system that cost five times more than what he earns in a month, because he earns money using it. In addition to selling groceries at the market, he is a small-scale energy service provider, a micro-utility, serving a clientele of three. His solar system powers four lamps, but he uses only one to light his shop. He rents the other three lamps to his neighbors, shop owners like himself. All four benefit from solar electricity: Mr. Haque from the monthly rental fees and Shakti's easy credit terms.

Shakti provides training, financing, and technology to more than 20,000 micro-utility entrepreneurs. Everyone benefits. Shakti reaches low-income villagers like Mr. Haque, who otherwise could not afford a solar system. And the company learns about a new sector of the market from its resourceful customers.

## Helping Customers Thrive

If rural people understand how solar electricity can improve their income and standard of living, Shakti has business. Still, the high upfront cost of a solar system was a burden for villagers. Not everyone ran a business. Rural families, fishermen, teachers, needed financial help. At the start, Shakti offered a 6 month repayment period which it later managed to extend to 1 year, but the monthly installments were still large for a rural clientele. To make solar systems affordable, Shakti had to create a financing model which allowed its customers a few years to repay in small installments. This wouldn't be easy. As a newly founded company, Shakti lacked resources and would have to take the risk of borrowing money in order to finance its customers' loans for solar systems. To take the risk of entering the credit field was therefore a major issue for Shakti, but it also understood the advantages of customer financing. While collecting the monthly installments for the solar systems, engineers also checked and maintained the systems. They listened to what problems the customers might have, advised them, and provided whatever help was needed. Branch staff also used these opportunities to talk to their customers' friends and neighbors and to relate with the villagers.

Despite the advantages of being close to the market, however, the credit business is unpredictable in undeveloped rural areas. Clients suffer from floods, poor health and business failure. Credit schemes for villagers must be flexible. What credit burdens could Shakti's customers shoulder?

Since the company was a borrower itself, it depended on prompt repayment and estimated at first that the solar home system could be repaid within a year and a half. But Shakti soon found out it would have to double the repayment period to make

**Table 6.1** Shakti customer financing

| Option | Down payment                            | Repayment period (months) | Service charge flat rate (%) |
|--------|---|---------------------------|------------------------------|
| 1      | 15 %                                    | 36                        | 6                            |
| 2      | 25 %                                    | 24                        | 4                            |
| 3      | 100 % cash payment with<br>4 % discount |                           |                              |

solar systems affordable for most of its customers. Table 6.1 describes Shakti's customer financing scheme in 2001, when customer savings on kerosene averaged about 65 Taka per month (1 l of kerosene cost about 16 Taka). By 2013 kerosene prices had soared to 56 Taka per liter, which saved customers about 224 Taka per month.

Shakti's customer financing coupled with savings and increased income through longer working hours and rental fees made an expensive technology affordable to even low-income fishermen, shop owners and food vendors. All customers benefit as owners of a paid-up solar system still today as kerosene and battery prices continue to rise. But Shakti's work wasn't done yet. Its easy credit terms have indeed changed things for the better, but the challenge remains: how to do business with the many poor who can't yet afford a solar system. There is no simple answer to this question, but Shakti has learned that in the long run, its business is determined by village society; the healthier the rural community, the better the business, the more people benefit.

## Village Energy Entrepreneurs

In 2005, Shakti began preparation for moving all production to the villages and by 2010 had set up 45 technology centers to produce and repair solar home system accessories. The centers are managed by women engineers, who – like their male colleagues – live, work and train in rural communities. Of importance here is how these technology centers function as incubators for a further innovation: women energy entrepreneurs. Young Aysha, for example was trained at a Grameen Shakti technology center to become an energy entrepreneur. She earns an income producing and repairing solar accessories, is self-employed and receives ongoing support from the technology centers for her business. Neighbors now bring Aysha solar lamps for minor repairs instead of contacting the Shakti branch. The technology center's women engineers supervise Aysha's work and do quality control. Aysha dropped out of school in the 8th grade, had no vocational training and no source of income, but is now able to contribute on average Taka 5,000 per month to her family's income. This is as much as her father earns delivering ice to the shipping port in Khulna and a substantial increase in monthly income for a poor family.

Aysha's story is becoming the story of hundreds of women energy entrepreneurs. They fill an exciting chapter in *Green Energy for a Billion Poor* (Wimmer 2012) because the village technology centers are evolving into solar manufacturing hubs. But what we hear over and over again is that renewable energy technologies like solar home systems are expensive and the rural people are too poor, too unskilled or too difficult to serve. With over five million villagers enjoying solar electricity and Shakti technicians installing 1,000 solar systems a day, Shakti demonstrates how outdated and out of touch this line of thinking is. No one can work miracles in a traditional rural society, but entrepreneurial companies like Shakti are proving we can do far better than business as usual.

## Conclusion

By November 2012, Grameen Shakti had installed one million solar home systems in 50,000 villages – two-thirds of the total villages in Bangladesh (Grameen Shakti Internal Status Report 2012, quoted in Wimmer 2012). Its success as a social business demonstrates more than anything else why a company must make money to grow, but with a broader goal in mind than maximizing its profits. Shakti seeks to maximize its social impact. It began by making solar power affordable for its rural clientele, trained local technicians and village entrepreneurs for increased income, and later extended its business to biogas plants and improved cook stoves for healthier, smoke-free kitchens. With every new product, Shakti seeks to improve its customers' income, health and standard of living.

From the beginning, Shakti followed a market-based approach with a tight budget and a sharp focus on becoming sustainable. It utilized its first major funding to reach financial break-even by extending its customers' loan repayment period and succeeded 1 year ahead of schedule. By 2000 Shakti was covering its operating costs, servicing its loans on time and generating an economic surplus which it reinvested in its social business.

Shakti built its business to last. It took 16 years to install a total of one million solar systems in village homes and businesses. Shakti now aims to reach a second million solar installations in the next 4 years. For this reason the company continues to invest in its village technology centers which will be at the front of the company's organizational development in the future. Local production and expertise will bring down the cost of products and services and lay the foundation for growth for a market that will absorb millions of solar systems, cooking stoves and biogas plants.

The success of the technology centers, however, will depend largely on women engineers for managing production and for the task of turning young village women into independent energy entrepreneurs. Shakti rewards the women engineers with salaries equivalent to their male colleagues and generous benefits. But this is no exception. Shakti provides all of its 11,500 employees with market wage and their families with generous benefits. In a social business, Shakti's committed managers

and staff are its most valuable assets. “At the end of the day,” observed a Shakti manager, “you have to ask who your business is for. When I set up one of Shakti’s first branches as a young engineer back in 1997, I sensed the huge impact solar electricity would make on village life. I worked hard because I wanted to see this happen in my country. Now we’ve installed one million solar systems. Nobody has ever done this before for the rural people.”

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# Chapter 7

## Information Technology: Marriage Between IT and Social Business – Grameen Intel Social Business Ltd.

Kh Md Nahiduzzaman and Sheikh Rubaiya Sultana Munni

### Introduction

Grameen Intel Social Business Ltd. (GISB) is one of the offspring of the current social business movements led by the Grameen family of organizations. Ironically, IT used to be thought of as a tool for communication and its advancement for all but the poor populations (Nahiduzzaman and Aldosary 2012). Therefore, the GISB initiative is found to be one of the pioneering efforts to combine the merits of IT with the poverty reduction programs in the geographically disadvantaged areas of third world countries. Within this humane business initiative, the core focuses are addressing (i) lower agricultural productivity of the farmers who in the process of business transition become marginal, and (ii) the ill health of pregnant mothers and their newborn infants. Diminishing agricultural productivity, high infant mortality, and deteriorating maternal health in the third world are among the key driving forces for GISB in which the following programs are under operation: (i) mrittikā, (ii) ankur, (iii) shumata, and (iv) dolna. This chapter looks critically at these social business initiatives aiming to understand the real (or potential) advantages brought by GISB to enrich the financial capacities and knowledge of the poor.

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## **Mrittikā**

Mrittikā is a joint venture between Grameen Intel Social Business Ltd. and eKutir Social Business which is a social enterprise based in Orissa, India (eKutir 2013; USAID 2012). It is designed as a soil nutrient analysis and recommendation software (BroTecs 2013) aiming to enable farmers to receive tailored input requirements for their fields. Rural entrepreneurs offer soil testing services to the farmers and use mrittikā to analyze the results to recommend the farmers on the selection of fertilizers for achieving cost effective and optimum productivity (BroTecs 2013). Crops and soil macro nutrients requirements vary regionally. Mrittikā software allows region-specific parameters to be configured prior to deployment (Grameen Intel Social Business Ltd. 2013a).

Based on the type of crop, soil type, size of land, planting season, and irrigation access, mrittikā recommends specific fertilizers and application amounts, along with the information on proper application procedures. In addition to the types of fertilizer recommended, mrittikā also recommends to farmers where they can purchase the required fertilizers, per unit (kilogram) cost, and the total cost for the amount of fertilizer suggested for their land parcels (MDI 2013). If the entrepreneur has a printer, they can also print out a detailed soil analysis report that includes information on the pH level, organic carbon, and other key chemical levels, as well as the fertilizer requirements for their plot broken out by fertilizer type and quantity (USAID 2012). According to Grameen Intel Social Business Ltd. (2013a), essentially mrittikā aims to:

- Bring expert advisory services of crop and soil based nutrient selection to the doorstep of the farmers;
- Maximize the productivity and improve the quality of the harvest;
- Simplify selection and make the fertilizer sources available to the farmers; and
- Enable farmers to save money by reducing wastage and harmful effects from using excess fertilizer.

## ***Hardware Requirements***

These days most of the farmers have access to mobile phones for daily communication. Taking this fact into consideration, mrittikā has also developed a mobile phone-based online/offline platform that can be accessed 24 h a day. Moreover, the computer specifications for mrittikā are also very minimal, requiring a process speed of 1.6 GHZ, 512 MB of RAM, and 2 GB hard disk with only 10 MB free space (see Fig. 7.1).

| Hardware Compatibility |  |
|------------------------|--|
| Name of the Product:   | mrityikā   |
| Version:               | 2.0, 2.0.1   |
| CPU:                   | Intel® Atom™ N270 processor 1.6GHz GHz or equivalent   |
| RAM:                   | 512MB  |
| Hard Disk Space:       | 2 GB or more (10 MB free space)  |
| Connectivity           | 10/100 MB Ethernet, IEEE 802.11b/g (WiFi), Internet Connectivity with 64Kbps speed                           |
| Supported OS:          | Windows XP SP2, Windows Vista, Windows 7 (32-bit)<br><br>Java Runtime Environment (JRE), Skype (for support) |

Fig. 7.1 Hardware compatibility of Mrityikā (Source: Grameen Intel Social Business Ltd. 2013)

### *How Does Mrityikā Work?*

The entire process starts with the farmers who are actually involved in the cultivation process and hence, have the firsthand experience of manifold problems and challenges associated in different steps of regular farming. At the very initial step, farmers provide essential information such as the name of the crop they would like to cultivate, land information, soil type, season, etc. to the local entrepreneur who does the soil test for them and inputs nutrient details in mrityikā. Upon receiving this input information, mrityikā using e-Agro CMS server recommends the following information (outputs) to the entrepreneur to be conveyed to the local farmers for their purchase: fertilizer type and quantity during crop cycle, local fertilizer supplier(s), price of fertilizer, etc. (see Fig. 7.2 for the entire process). Moreover, farmers receive a detailed report containing soil nutrient information that makes them educated about the types of crop selection along with their varieties.

As far as social business principles go, mrityikā charges a minimal amount for the soil test and recommendations – 80 BDT (US\$1.03) for soil tests and 100 BDT (\$1.29) for fertilizer recommendation. This is not supposed to not put any financial burden on the farmers and contrarily, helps enhance the crop productivity which, in turn, maximizes the monetary profit. Garudachar (2010) suggests the contributions of mrityikā in the major steps of the farming cycle where typically the farmers need to be equipped with various capabilities and right amount of market information (Fig. 7.3).

Contrarily, most of the farmers, with their primitive experiential knowledge, are scientifically incapable of managing the following steps that might help them attain a profitable annual transaction:

1. Assessing the state of the soil;

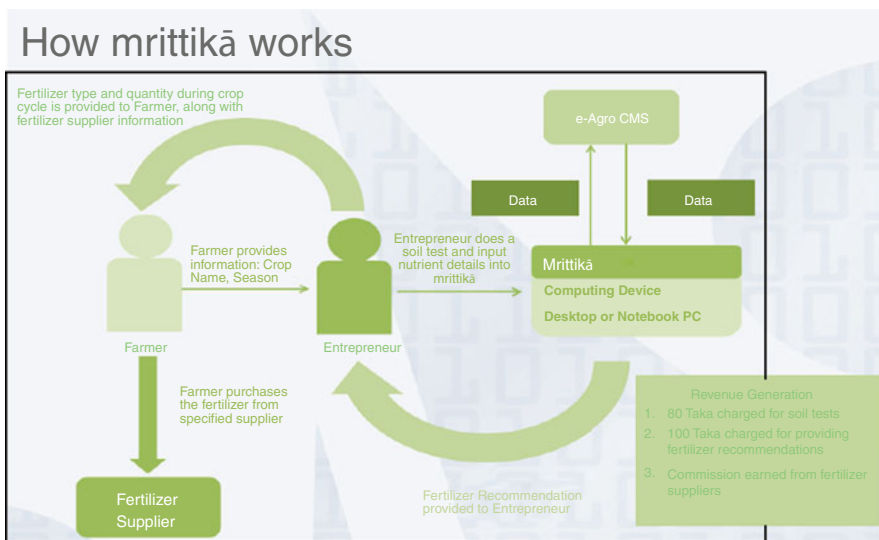


Fig. 7.2 The working process for Mrittikā (Source: Grameen Intel Social Business Ltd. 2013)

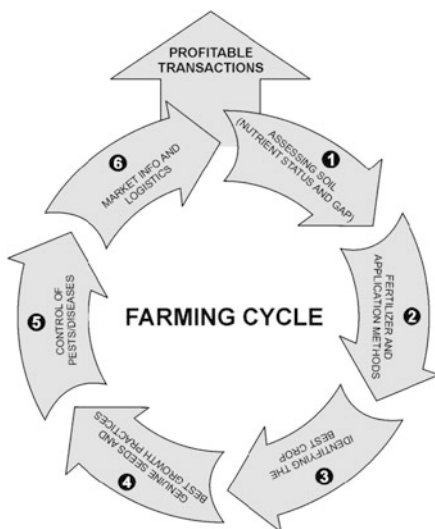


Fig. 7.3 Typical farming cycle (Source: Garudachar 2010, p. 2)

2. The soil nutrient status and gaps;
3. The choice of fertilizer supplements and application methods & supplier contacts;
4. Identifying the best crop (that suits the soil, geo climatic zone and market saleability), sources for genuine seeds, and best growth practices;

5. The issues of managing/control of pests/diseases;
6. Timely access to suitably tailored finance to seed the crop cycle and fund his input and working capital;
7. Accessing multiple market information, logistics and transactions

However, the above is an over simplified list of tasks that a farmer needs to undertake and undergo loads of hassles – running around from pillar to post, with little knowledge of how long each cycle would entail, uncertain about costs and unsure whether his effort would ever bear fruit and compensate for his efforts (Garudachar 2010).

### *Impact of Mrittikā on Indian Communities*

The primary geographical coverage of mrittikā is currently in eastern India, with plans to scale across India and into Southeast Asia. This has also been embarked upon as a pilot case in Bangladesh (USAID 2012). Mrittikā as a social entrepreneurial intervention is emerging in India as a great replicable engine for growth and development, providing additional livelihood opportunities and employment with potential to impact the overall farming sector (farmers, suppliers of seeds, fertilizer, chemicals, organic products; academia, research, organized retail, wholesale merchants and markets, microfinance, equipment leasing etc.), at a macro level. Figure 7.4 partly explains the impact of mrittikā on the cultivation, showing how it has been impacting to achieve higher productivity. It indicates the application of mrittikā on different varieties of crops and their comparative production before and after the soil test using mrittikā. However, it might be too early to take these facts for granted; we require a medium to long-term assessment, especially in the area of cost effectiveness.

Garudachar (2010) theoretically specifies the potential impacts of mrittikā on the following branches:

- Despite the limited geographical context, the resultant rural prosperity and job creation has created enough impact to curb the forced rural-urban migration caused by the contemporary unviable farming system;
- Information and communication technology (ICT) in conventional cultivation brings much value to farmer as well as suppliers (e.g., supply of genuine seeds and fertilizers by connecting the consumer to the producer), end-marketers (better terms for farmer, market aggregator and consumer) and financiers (bringing capital, credit and insurance to the village); and
- Optimal utilization of hitherto underused knowledge resources, skills and dissemination of best practices to the large multitude of poor farmers will potentially result in maximization of crop productivity, hence, uplifting the economic status of the marginal farmers and potentially bringing them out of poverty.

**Fig. 7.4** Agriculture production impact due to mrittikā (Source: BroTecs 2013)



### *Impact on Bangladeshi Communities*

In order for testing the strength of the software, Grameen Intel Social Business Ltd. has initiated Project Harvest in different locations in Bangladesh as a pilot for analyzing the effectiveness of the software when used in the field level. Initially, in 2011 a portion of land from farmers in Kushtia, Bogura, Netrokona and Dhaka were used, with the software generating fertilizer recommendations for each farmer's land. They are currently working with about 10 entrepreneurs who until now have served approximately 5,000 farmers. In 2012, Potuakhali was added in the pilot list of project to enhance the productivity of a particular crop locally known as 'Tiamon'. At the beginning of 2013, mrittikā expanded to Rangpur where the focus was to raise awareness on the right application of fertilizer for enhanced productivity of a special lintel locally called 'Mughdal' (Grameen Intel Social Business Ltd. 2013a).

### *Business Model*

Mrittikā is licensed to local entrepreneurs, with licensing fees going to support ongoing development and operations. Entrepreneurs who want to use mrittikā pay a one-time licensing fee of approximately US\$10 and US\$12 for an annual web hosting fee. It is up to each entrepreneur to set their own fee structure for services provided to farmers using mrittikā. However, Grameen Intel Social Business Ltd. holds a supervisory role in monitoring the fee and actual affordability to the local

farmers. Generally, farmers accessing the service pay a small fee that is determined by each individual local entrepreneur (Grameen Intel Social Business Ltd. 2013a).

### ***Impacts of the Program on Crop Productivity***

Most of the farmers in Bangladesh do not have enough knowledge regarding applying the correct fertilizers for their land. They also do not know the nutrient levels in their soil and end up applying inadequate proportions of fertilizers, which eventually leads to poor harvests (Grameen Intel Social Business Ltd. 2013a). Mrittikā has addressed this issue in the view of finding a feasible solution for it. However, since it is a relatively new application, it is still too early to identify the impact mrittikā will have on the yields and incomes of farmers accessing its services, or how viable a business option it will be for local entrepreneurs. A few ongoing pilot studies have found that mrittikā has proven beneficial for the farmers. For example, mrittikā helped Mohammad Alam, a wheat farmer from Kushtia, achieve 47 % greater harvests and 15 % decline in cultivation expenses. Raju, Belayet and Alam were other farmers whose crop harvests were greater than previous years (Grameen Intel Social Business Ltd. 2013a). It is indicative that mrittikā does have the potential to reduce waste from inappropriate or overapplication of inputs, and to lead to improved yields and income for farmers who apply the recommendations they receive.

### **Ankur**

Ankur is a seed selection and recommendation application. Rural entrepreneurs use ankur to help farmers with better seed selection to achieve increased productivity. This application analyzes the season and farmer's land condition and prescribes the best seed (Grameen Intel Social Business Ltd. 2013b). It has been developed in partnership with Grameen Intel Social Business. However, the actual operation of ankur has not been started yet (author interview with Kader, 2013, April 29, personal communication). Ankur has been developed to address this issue, by assessing the nutrient content in the land, along with region and crop type, to recommend the best seeds for the specific crop to the farmer and increase the productivity of his land (Grameen Intel Social Business Ltd. 2013e). According to an interview with the Project Manager Fahim Kader (2013, April 29, personal communication), ankur includes the following features, which look promising since a majority of the farmers suffer from right selection of seeds:

- Enabling ease of selection and procurement of quality seeds from reliable sources;
- Avoiding mistakes and guesswork in seed selection and use; and

- Maximizing seed germination for better productivity.

In a nutshell, ankur is designed to offer knowledge based and customized information to the farmers on:

- Crop, soil type and season based seed selection;
- Recommended practices for seed preparation and planting; and
- Local sources of recommended seeds offering competitive prices.

### ***How Does Ankur Work?***

Like mrittikā, ankur also has more or less similar functional steps. The initiative starts from the local farmers who have the long-term experience of cultivation and hence, experiential knowledge on the problems and challenges associated in different steps of regular farming. At the outset, farmers provide necessary information (e.g., name of the crop that they would like to cultivate, land information, soil type, season, etc.) to the local entrepreneur who does the soil test for them and input nutrient details in mrittikā. After receiving this information, ankur, using the same e-Agro CMS server, suggests the detailed information (outputs) about the selection of seed along with the contact information of the local (nearest) seed supplier (see Fig. 7.5).

### ***Possible Impacts of Ankur***

Seed Selection is an important area, where farmers in developing countries are continuously struggling. Even if the farmers are able to obtain the correct nutrient levels present in their soil and apply fertilizers accordingly, crop yield will still be poor as a result of the seed of the crop not being suitable for the region and land type. Given this backdrop, ankur is of immense potential to help farmers select best seed for optimum farming. In the process, mrittikā and ankur would be complementary software packages to ensure healthy and increased crop productivity.

### **Shumata**

Shumata started in 2010 with Grameen Kallan in Manikgonj, Bangladesh in collaboration with D.Net (Development Research Network) in Netrokona. shumātā is an ante-natal care monitoring and tracking software for pregnant women. Mobile health workers, doctors at rural clinics and health administrators can use this software to identify high risk pregnancies early on for appropriate follow up and to ensure that pregnant mothers are getting regular ante-natal care. Mobile



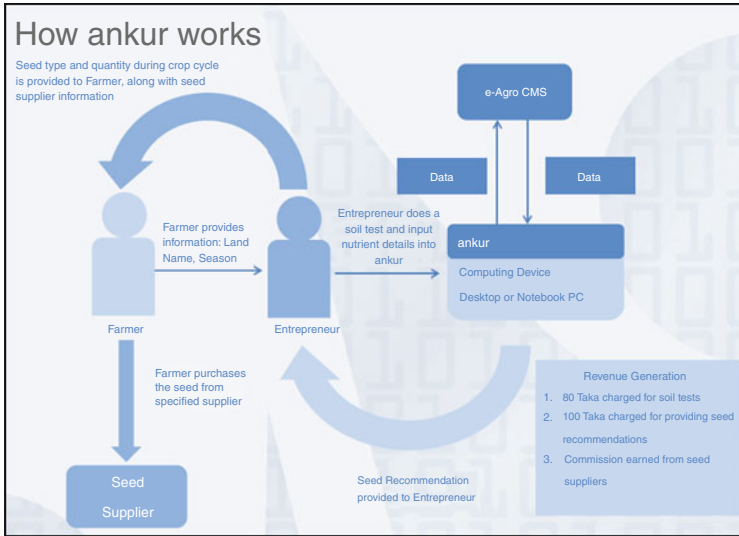


Fig. 7.5 The working process for Ankur (Source: Grameen Intel Social Business Ltd. 2013b)

healthcare workers equipped with smart-phones visit the homes of pregnant women, and using simple software tools screen them for a variety of potential high risk factors, such as young age, length of time since their last medical check-up, number of past pregnancies, C-sections and stillbirths, etc. (author interview with project officer Saqif Nayeem Khan, 2013, May 9, personal communication). The information collected is sent via the internet to clinics for analysis, and doctors can provide immediate remote feedback (see Fig. 7.6). Pregnant women who are identified as high risk are referred for follow-up diagnosis or treatment, including ongoing prenatal care at a village clinic or referrals to specialized healthcare providers at larger medical facilities.

A major issue in developing countries is the tendency of women to depend on household remedies, advice and unskilled healthcare personnel during their pregnancy. Women are still reluctant to visit healthcare clinics, to seek help from a doctor for handling major risk factors such as bleeding, diabetes, or hepatitis B during their pregnancy (Grameen Intel Social Business Ltd. 2013c). Therefore, shumata helps connect the patient to a field level doctor, who will instruct her, regarding the lifestyle she should maintain, the type of diet she should maintain as well as the different pharmaceutical supplements she should consume at the pregnancy stage. Features of shumata include the following:

- Registrations, early identification of high risk pregnancies, follow up actions;
- Monitoring ante-natal care, follow up and clinic visits of pregnant mothers;
- Monitoring the performance of rural clinic doctors and health workers;
- Tracking of high risk factors for resource and inventory allocation; and

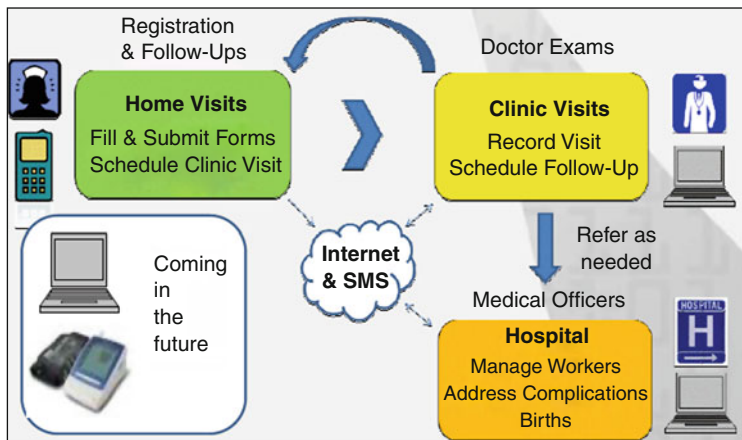


Fig. 7.6 The functional mechanism of Shumata (Source: Grameen Intel Social Business Ltd. 2013c)

- Aggregating data for customized training, education and treatment plan.

### *Geographical Coverage of Shumata*

Shumata has been deployed in the field level in Manikganj with Grameen Kalyan's health clinics located in Balia, Pakutia and Kusura of Bangladesh. Over 1,000 women have benefited from the solution, since its inception in 2010 (Khan, 2013, May 9, personal communication). It has also been deployed in Netrokona, Bangladesh with Development Research Network (D.Net) in 2012. Over 350 women in the region are connected with a field level doctor and receiving recommendations from time to time during their pregnancy. In this regard, two cases are explained here to give a perspective on how shumata has been benefiting mother's health.

### **Case Studies**

The product shumata has been a blessing to the pregnant mothers. Six hundred patients have registered for shumata over the last 9 months. The software has proven successful in helping the poor mothers to take care of themselves as well as their unborn children. Moreover, due to the relentless effort of the community health workers (CHW), the services are made available at mothers' doorsteps. It is needless to say that the poor rural people have greatly benefited from shumata. With the passage of time, shumata is beginning to make its mark. Pregnant mothers have received the attention of the community health worker at the right time. It is fascinating to learn the fact that due to this service, many lives of the mother and

the unborn child have been saved. The case below illustrates how a mother has received shumātā service and was able to save her child.<sup>1</sup>

### ***Case Study 1: Selina, Vikunia Union***

Selina is a resident of Vikunia village of Purbadhala. At 24, she has already given birth to a child and was pregnant for the second time. When she was awaiting her first child, she did not visit doctors as often as a pregnant mother should due to the fact that the doctors are far away and charge high fees. Selina, therefore, received neither proper treatment nor medication. When she gave birth, she was told that her child was disabled. Selina was pregnant for the second time. During the first 5 months of the pregnancy, she hardly visited doctors and underwent tests. It was during this time, Selina came to know about Nazma, a Grameen Intel Social Business (GISB) community health worker. Selina called Nazma to her house for measuring her weight, blood pressure and also for advice. When Nazma learned that Selina was 5 months pregnant, she immediately asked whether Selina could feel her child moving. To her utter surprise, Nazma discovered that the child wasn't moving. She immediately rang Dr. Farhana, GISB Head quarter level doctor. Dr. Farhana instructed Selina to visit the nearest doctor as soon as possible. Later that day, Nazma took Selina to Dr. Moshiur, a GISB field level doctor. He prescribed medication, told Selina to undergo an ultra-sonogram, and recommended that she visit him again in 2 weeks. Dr. Moshiur, who is also the Thana Health Officer (THO) of Purbadhala, does not charge any fee from the patients registered under shumātā. He also sends patients for shumātā, to a diagnostic center where he has a connection. From this diagnostic center, he is entitled to 40 % of the fee for each patient. But for shumātā patients, he has decided to eliminate his percentage. As a result, the patient can perform the test at a 40 % discount. The normal cost for an ultra-sonogram test is 600 BDT (US\$7.71). But due to assistance provided by Dr. Moshiur, the ultrasonogram test can be done for a reduced price of 350 BDT (US\$4.50) for the patients registered under shumātā. As a result, poor people like Selina are able to visit a doctor on regular basis and receive testing at a lower price. The patients are thereby able to bypass any critical condition if one arises. Due to the continuous effort put in by Nazma and Dr. Moshiur, Selina was able to give birth to a son. Selina has expressed her appreciation to Nazma for her help and to Dr. Moshiur for the initiative he has taken to help the poor people. Finally, she has admired shumātā for the initiative of helping pregnant mothers. She has vowed to help other pregnant mothers register for shumātā, so that they can remain in good physical shape and give birth to healthy child.

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<sup>1</sup> These cases are adapted from the Grameen Intel website. See <http://www.grameen-intel.com/news-resources/status-of-shumata-pilot-in-netrokona>. First names only are used in this adaptation.

### ***Case Study 2: Ourme, Vikunia Union***

Ourme is also a resident of Vikunia village of Purbadhala. She is just 18 years of age. She had been studying in class 9 when she was continuously disturbed by the local boys. As a result, her parents decided to stop her studies and she was married after few months. Not many days passed before she realized she was pregnant. One day, when Ourme was 6 months pregnant, she started vomiting. Her mother visited the nearest doctor who recommended two anti-vomiting pills. The very next day Ourme's mother took Ourme to the doctor in the town because she was not satisfied by the recommendation. In the town (Purbadhala), she found it very tough to get a doctor's appointment, but finally got one. After returning home, Ourme's mother came across Nazma and asked Nazma to help her daughter. Ourme was immediately registered for shumātā. Nazma visited Ourme for 2 weeks. After 2 weeks, Nazma rang Dr. Farhana and told him about Ourmi. As per Dr. Farhana's suggestion, Nazma took Ourmi to Dr. Moshiur. After examining Ourme's health, Dr. Moshiur recommended Ourmi to undergo tests and also gave her several medicines. Similar to Selina (Case 1), Dr. Moshiur did not charge any fee for the visit and the tests were carried out at a 40 % discount. Ourmi visited Dr. Moshiur every 2 weeks to access her pregnancy condition. Ourmi gave birth to a child; both the mother and her son were in perfect condition after delivery. Both Ourmi and her mother have been overwhelmingly happy and pleased with the service received from both Nazma and Dr. Moshiur. They were also full of admiration for shumātā, claiming it to be a noble effort to help the rural people.

### **Dolna**

Dolnā, also known as vaccine tracker, has not been started yet although the design of the program has been completed. It is a vaccine scheduling and tracking software for newborns and infants. Mobile health workers, doctors at rural clinics and health administrators can use this software to ensure that newborns and infants are given all their required immunizations and vaccinations on time (Grameen Intel Social Business Ltd., 2013d). The salient features of dolna include:

- Registering infant and generating immunization schedules;
- Generating “due lists” for vaccines to be administered for clinics and mobile health workers;
- Tracking overdue vaccines and clinic-wise coverage;
- Tracking individual infant vaccination history with built-in automatic SMS reminders; and
- Tracking height and weight history of infants.

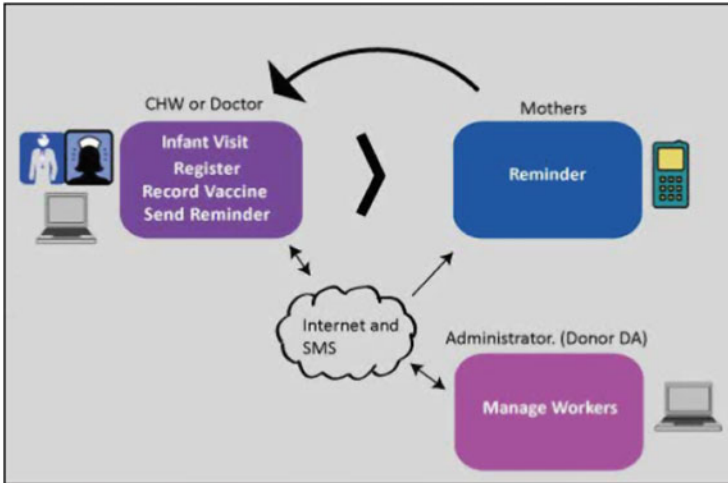


Fig. 7.7 The functional mechanism of Dolna (Source: Grameen Intel Social Business Ltd. 2013d)

### *How Does Dolnā Work?*

Mobile health workers, doctors at rural clinics and health administrators can use this software to identify the health condition of the newborn infants. Mobile healthcare workers equipped with smart-phones visit the homes of infants, and using simple software tools, screen them for a variety of potential high risk factors such as malnutrition, diseases, lack of sanitation, food, etc. (Khan, 2013, May 9, personal communication). The information collected is sent via the Internet to clinics for analysis, and doctors can provide immediate remote feedback (see Fig. 7.7). Infants are being monitored for their essential vaccinations. Those who are identified as suffering from different diseases are referred for follow-up diagnosis or treatment or referrals to specialized healthcare providers at larger medical facilities. The mothers are sent regular messages (SMS) on the dates for next vaccination, health check-up, etc. through their mobile phones.

### **Concluding Thoughts**

All these initiatives are either at the initial phases or just have finalized the conceptual design and are ready to be implemented sometime soon. Irrespective of the status, stage of design or implementation, all of these social businesses possess an immense potential that has already been exemplified in a few success stories of the individuals. A second critical issue is associated with geographical dissemination of the operations and benefits of these social businesses. At what pace and percentage of the poor population will be taken under the coverage of

these social businesses are amongst the important issues. Moreover, the impacts of these social businesses on, for example, increasing crop productivity, reducing infant mortality, improving mother's health, etc. still remains to be seen in the long run. Also, these initiatives need to be operated in cooperation and collaboration with the existing government run/funded similar programs throughout the country. Therefore, how such cooperation might take place would be a concern for future planning.

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# Chapter 8

## Social Business City: Lessons from Wiesbaden

Antonio Francisco Jiménez Jiménez

### Introduction to the Concept of “Social Business City”

The current financial downturn in markets around the world, comparable only to the Great Depression that started in 1929, has triggered a global increase in economic and social inequalities. The concept of social business (SB), which was first presented in 2007 in Nobel Peace Prize recipient Muhammad Yunus’ book *Creating a World Without Poverty*, could not have been introduced at a better time. Since then, innumerable activities, events, projects, and businesses have been organized around the concept. In addition, social business has also been manifest at all different levels of governmental administration. For instance, it has been supported by supranational organizations such as the European Union, which has created a plan to fund social businesses and improve their legal status in the region. At the national level, the government of Albania has started a program to stimulate the development of SB in the country. Regionally, the Holistic Social Business Movement of Caldas, in Colombia, has been set up to re-build the region’s economy. However, it seems it has been at the municipal level where the concept has found the most favorable conditions for development, given the number of cities that have joined the social business movement in the short period of time since the idea was first presented.

Cities have traditionally offered a wealth of services and economic opportunities to their citizens and have attracted the aspirations and dreams of many individuals. The world population is increasingly concentrated in urban areas – cities have become the preferred habitat for 51 % of the population on Earth (Population Reference Bureau 2013). This high population density is one reason the current economic recession is affecting urban areas most severely. Cities are starting to face new challenges and social problems never seen before: cuts in social programs like

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health care, education, and work benefits, a general decrease in family incomes, an increase in unemployment (especially for vulnerable groups, such as women, immigrants, and youth), pollution, crime, and the list goes on and on. The institutionalization of social business in cities has emerged as a sensible approach to help alleviate these problems in today's urban areas. Under the patronage of Professor Yunus, the concept of the social business city is quickly expanding around the world. The term "social business city" was first coined in 2010 to reference an initiative started in the city of Wiesbaden, Germany, by a network of socially active stakeholders (including city officials, the local university, the media, the city's community foundation, the third sector, and local social businesses) in order to promote the establishment of social businesses in the city as a way to address its most pressing social issues. A year later, the Japanese city of Fukuoka signed a similar agreement with Prof. Yunus, and in 2012, Pistoia was declared the "First Social Business City in Italy." Wiesbaden, Fukuoka, and Pistoia, the three officially recognized social business cities to date, have established their own unique and diverse organizational structures based on their particular social problems, needs, and objectives. However, regardless of their differences they share certain characteristics that have allowed them to obtain the equivalent status of social business cities. Taking these commonalities into account, a social business city can be defined as an organized and officially recognized network of public and private institutions, associations, businesses, and other entities established within the geographical limits of a city whose shared objective is to promote social justice through the concept of social business.

Other cities around the world, such as Vienna, Mönchengladbach, Luxembourg and Milan in Europe, Hong Kong in Asia, and Ventura, California in the United States, have shown interest in this new business model, although they have not yet been officially established as social business cities. For these and other cities worldwide that may be exploring the option of adopting this model, as well as for anyone interested in the social business city paradigm, the city of Wiesbaden provides an ideal frame of reference, given its already established trajectory and its privileged position as the first social business city in the world. The current chapter provides a descriptive and analytical account of the Wiesbaden initiative as a case study.

## **Wiesbaden: A Case Study**

### ***The Context: Socioeconomics of Wiesbaden***

Wiesbaden, capital city of the State of Hesse in southwest Germany, has an approximate population of 276,000 (Office of Strategic Management, Urban Research, and Statistics of Wiesbaden 2012). Although probably better known for its thermal baths, its geographical proximity to Frankfurt – Germany's financial hub



and one of the top ten global cities according to the Global Power City Index 2011 report Hirota & Miwa (2011) – has provided this city with ample opportunities for economic growth. In fact, Wiesbaden enjoys one of the highest GDPs per capita in Germany and is one of the wealthiest urban areas in the country (Office of Strategic Management, Urban Research, and Statistics of Wiesbaden 2010a).

Nevertheless, this prosperity is not equally shared among all of the inhabitants of the city of Wiesbaden, which is currently facing its own pressing social problems. The following is a partial list of some of the existing social issues in Wiesbaden, as described by The Grameen Creative Lab (2011):

- More than 10,000 children live below the German poverty line or are dependent on welfare payments.
- Mothers and families struggle with a lack of day care and part-time job opportunities. Only 20 % of children in Wiesbaden have access to nursery schools. Kindergarten capacities are insufficient and lack over 1,000 spots.
- A large share of the population has a migrant background (31.5 %). Only one in ten achieve qualification for higher education (compared to 43 % for those without a migrant background). Migrant unemployment is higher than in any other city in the region.
- Young people suffer from unemployment rates that are 2 % above the Western German average. In 2010, youth unemployment increased to 11.2 %.
- Social problems are concentrated in a few city districts with rising crime and unemployment rates.

The existence of these important social needs in the midst of the economic well-being of the area provided ideal conditions for the implementation of the social business model. Frequent visits by Prof. Yunus to the region culminated with a commitment from some important groups in the city to create a network that would make Wiesbaden the first social business city in the world.

### ***Social Business City Network Wiesbaden***

Currently, the network is comprised of six partners. The Lord Mayor of Wiesbaden, representing the city of Wiesbaden, provides political support. The EBS Business School plays the role of incubator and academic advisor. The local newspaper, Wiesbadener Kurier, is the media partner. Berufswege für Frauen offers consulting for women interested in social business through microcredits. The Wiesbaden Foundation (Die Wiesbaden Stiftung) is the financial advisor and provides support in finding financial partners. Lastly, The Grameen Creative Lab procures development efforts, consulting, and coordination. The six members of the network share a common vision and mission expressed in the following terms:

The vision: Wiesbaden will become a global hub that shows how many social problems can be solved by designing social business.

The mission: We connect citizens, initiatives and companies of Wiesbaden and enable them to solve social problems and create sustainable social impact through social business. We encourage social business entrepreneurship through education, financing structures, physical infrastructure and knowledge transfer (Grameen Creative Lab 2011, p. 19).

The network is based on the idea that village-like structures, dense networks, and close collaboration provide the breeding ground for social businesses (Hall 1998), as urban creativity is only possible through the collaboration of many local stakeholders (from civil society, politics, and economy) that share the same strategies and goals (Liebmann and Robischon 2003). The next sections describe in detail each of the six stakeholders that form this network, together with the specific role that each of them plays in this collective venture.

### ***The Leading Force: The Grameen Creative Lab***

The Grameen Creative Lab (GCL) was born in 2009 – the result of the creative collaboration between Circ-responsibility, a corporate responsibility consulting company in Germany, and the Yunus Centre in Bangladesh, led by Prof. Yunus – with the objective of fighting poverty and spreading the concept of social business, not only in Europe, but on other continents as well. Conceived as a social business itself, GCL obtains its revenue by providing consulting services to companies and institutions interested in learning about or creating a social business. For example, GCL played a key role in the establishment of a joint venture between Grameen and the German company BASF in order to improve the health of the people of Bangladesh by selling long lasting insecticidal nets and multi-micronutrient sachets at a price affordable to the poor (Grameen Creative Lab 2013).

The Grameen Creative Lab's contribution to the social business city network in Wiesbaden is manifold. It has been the leading force in this citywide initiative by identifying the involvement of the different stakeholders that take part in the network. It has maintained a leadership position by arranging numerous events that spread the concept of social business in Wiesbaden. For instance, GCL organizes frequent visits by Prof. Yunus to the city to raise local and national awareness. It also offers social business labs on a regular basis at their partner university, the EBS Business School, in which they explain the concept and encourage the creation of social business ideas. In addition, it promotes the establishment of actual social businesses in the city, such as Variomondo®, Perfect Day®, Lalaland, and Fasan restaurant, which are fully described below. Another initiative sponsored by GCL includes the so-called knitting days, for which a number of volunteers knit colorful covers to embellish urban fixtures, such as street lamps, traffic lights, trash bins, and sign posts. All of the activities and events that take place in the city represent a continuous reminder to the people of Wiesbaden of the city's commitment to the concept of social business.

### ***The Public Face: The City of Wiesbaden***

The Lord Mayor of Wiesbaden, political patron of the project, has taken a personal interest in the concept of social business, as it is a model that addresses some of the current social problems the city faces. With serious socioeconomic disparities manifested in its population, especially with regards to access to job opportunities for immigrants, youth, and women, the city's involvement in the social business initiative represents a creative attempt by government officials to close this inequality gap. The city of Wiesbaden's involvement in the social business city network legitimizes and institutionalizes the project, lending public support to a mostly private initiative. The municipal government's role was made official when members of city council passed a proclamation declaring that the city of Wiesbaden would be officially committed to the concept of social business.

The city has promoted the idea of SB in different ways. For example, it has provided logistics, information and infrastructure for a number of activities, including the German Social Business Forum, conferences by Prof. Yunus, and a meeting of mayors from the region to discuss the concept of social business (Office of Strategic Management, Urban Research, and Statistics 2010b). The city has made efforts to educate their officials on the concept of social business by providing training to their city council members through The Grameen Creative Lab. It also showed commitment to spreading the idea of social businesses outside its borders in May 2011 when it hosted a delegation from Luxembourg that aimed to learn about the different social business activities conducted in Wiesbaden.

Another important contribution has been to secure grant money for the establishment of a fund – managed by another member of the network, Berufswege für Frauen, whose purpose and operations will be described below – providing microcredits to social businesswomen. This strategic investment has the ultimate objective of obtaining real examples of small social businesses that are successful and can serve as models that could be emulated by others. For the city, this is a necessary first step to illustrate for potential investors the benefits of this new kind of business, which in turn would facilitate future investments. The next section reviews the activities of Berufswege für Frauen and their role in the social business city network.

### ***The Live Example: Berufswege für Frauen***

Berufswege für Frauen (Bwff), or Career Paths for Women in its English translation, is an organization that seeks to improve women's lives by empowering them and providing resources for their professional development. In operation since 1988, the facilities of Bwff receive yearly around 2,300 women aiming to progress in their jobs, create jobs, or find jobs that are new and secure (Berufswege für Frauen 2012). Its activities revolve around four main projects, namely:

- Provide seminars and career coaching to improve women's chances to obtain a job or a career path.
- Offer consulting and assistance to women who are planning to start up a new business.
- Assist and inform migrant women for an easier integration into the German job market.
- Supply personal coaching and microfinance opportunities for social business-women (Berufswege für Frauen 2013a).

Inspired by Prof. Yunus' work on microcredits in Bangladesh (Yunus and Jolis 2003), this last project – referred to as Social Business Women, or more commonly, “Gold Coins” – is the branch of BwFF that was specifically built around the idea of promoting social business in Wiesbaden, through the establishment in 2010 of a 3-year microcredit pilot program. Each business funded through this program must either solve a social problem or enable women in precarious financial situations to become financially independent. With the funds provided generously by Foundation Flughafen Rhein/Main and the city of Wiesbaden, BwFF obtained a total of 100,000 euros for microloans, which allowed the financing of approximately ten start-up businesses (Berufswege für Frauen 2013b). Due to the specific legal and financial regulations in Germany, BwFF had to obtain a special authorization from the national bank in order to engage in the deposit and credit business.

Credits average between 5,000 and 8,000 euros per project – sufficient to help small start-ups. The terms of the credit are more favorable than standard bank credit products. There is a maximum of 10 years for the re-payment of the loan, with a fixed 6.5 % interest rate and no penalty for early payment. During the first 2 years, credit recipients do not have to make payments towards the principal and may instead pay only the interest in order to minimize financial hardship during the implementation phase of the business. That means that borrowers pay only around 55 euros monthly during the initial 2 years and between 100 and 200 euros monthly after that. Another special feature of the program is that 20 % of the loan amount must be invested in personal growth and entrepreneurial thinking and action. For a period of 3 years after the implementation of the business, BwFF provides personalized modules, which include regular individual coaching, participation in an evaluated mentor program, attendance at appropriate workshops (e.g., customer acquisition and retention), and professional networking.

This social business pilot project has yielded important results. For instance, some of the women who have received microloans have already successfully established their own businesses. Some examples include the opening in Wiesbaden of a dance studio and a store that sells jewelry, accessories, and art made in Mexico, mostly by underprivileged women. The impact of BwFF's social business project has extended beyond the city borders, and similar organizations for women in other cities and regions are already working with BwFF to establish social business microcredit funds in their areas. Berufswege für Frauen is making an important impact on the lives of socially marginalized women and their families in Wiesbaden by integrating them into the local economy. This impact was recognized nationally

in 2011, when Bwff was awarded a German Diversity Prize in the category of Innovative Diversity Project.

### ***The Think Tank: EBS Business School***

EBS Universität für Wirtschaft und Recht, or EBS University for Economy and Law in its English translation, is a private university located in the city of Wiesbaden. With a small student population (around 1,500 undergraduates, 170 exchange students, and 170 doctoral candidates) and the largest business and management faculty body in Germany, students receive extraordinarily individualized attention. The business branch of the University, the EBS Business School, is ranked one of the best business schools in Germany (EBS Universität 2013a) and requires all students to complete an integrated study abroad program. The EBS Business School offers a bachelor's degree, as well as masters, MBA, and doctoral programs. Under its Department of Strategy, Organization and Leadership, Prof. Yunus founded the Danone Endowed Chair of Social Business in 2010 with the goal to “discover, preserve and disseminate knowledge in Social Business that is equally rigorous and relevant and thereby create positive impact for students, academics, executives and society” (EBS Universität 2013b).

Under the leadership of Dr. Karin Kreutzer and Dr. Andreas Heinecke, the Danone Endowed Chair of Social Business has become an incubator of ideas on the topic of social business through course offerings, original research, and co-curricular activities. EBS offers multiple courses with a strong focus on social business, including undergraduate level courses such as Business and Society, in which students explore business models with a social mission, including the social business model. At the graduate level, students can take Social Business and Social Entrepreneurship, which incorporates guest lectures, case studies, and an innovative 3-week consulting challenge, for which students have to develop a business solution to a specific social problem.

The Danone Endowed Chair of Social Business also espouses an active research agenda, which deals with the study of organizations that create a social or environmental impact in an entrepreneurial way. The focus is on two research projects that study (a) social business models in the German-speaking countries and how social businesses adapt their model to changing environments, and (b) the negotiation of organizational identity in pluralistic organizations such as social businesses. Several doctoral students are writing dissertations that deal directly or indirectly with social business, and a number of publications have emerged from the creative research synergy cultivated at EBS (Heinecke et al. 2011; Lurtz 2012; Mauksch et al. 2011; Mauksch 2012a), including a series of short essays, titled Danone Social Business Insights, that focus on social business issues (Kreutzer 2012a, b; Mauksch 2012b; Ruede 2012)

Other activities sponsored by the Danone Endowed Chair of Social Business include the Social Business Salon, a lecture series in which invited guests discuss

different topics related to social business in a small, informal setting. In addition, the EBS Business School partners on a regular basis with The Grameen Creative Lab to offer students and the general public workshops that promote the concept of social business and foster the emergence of new business ideas. These workshops and the different activities that take place in Wiesbaden are normally reported on and advertised in the local newspaper, the *Wiesbadener Kurier*, the media partner of the social business city network.

### ***The Messenger: Wiesbadener Kurier***

The *Wiesbadener Kurier* is the local newspaper in the city, with a daily circulation of approximately 53,000 copies and a strong online presence. It plays an important role in the social business city network by spreading the word of SB in the area. A general search of the online version of the newspaper yields a result of 66 articles dealing directly or indirectly with the concept of social business from 2010 to 2012, which exemplifies the strong commitment of the newspaper to the social business initiative.

It is common for the *Wiesbadener Kurier* to report on different social business initiatives, in Wiesbaden and beyond, usually including an explanation of the principles of SB. Take for example this headline from the November 21, 2012 issue: “Wiesbaden plays an important role in the Social Business movement” (Schröder 2012). The accompanying photo, taken during the 2012 Global Social Business Summit, captured Prof. Yunus together with Queen Sofia of Spain and Dominique Dauster, one of the main promoters of social business in the city, showing support for the urban knitting project conducted in Wiesbaden. This same project also made the headlines of the newspaper on their October 30, 2012 issue (“Urban Knitting: knitted objects to decorate downtown”) reporting on a knitting party to make colorful covers for urban infrastructure, such as trash bins, sign posts, etc. in order to raise awareness about social business (Kania 2012). They have also reported on International Social Business Day (June 28, 2012) and how the microcredit program developed and managed by Berufswege für Frauen will be extended to other parts of the country (Schwiddessen 2012).

The *Wiesbadener Kurier*'s contribution to the social business city network is fundamental to the education of citizens about the social business activities that take place in the city, both by private and public organizations. It is of particular importance to the network, as it raises awareness in the population about the social problems that the city faces on a regular basis, while at the same time fostering a sense of belonging, ownership and pride in the city's initiative. Moreover, by increasing publicity of the concept, the newspaper sparks interest among members of civil society to engage in social business practices. This interest is further enhanced and promoted by the last organization in this social business city network, the Wiesbaden Stiftung, whose contribution is detailed below.

### ***The Community Partner: The Wiesbaden Foundation***

The Wiesbaden Stiftung (the Wiesbaden Foundation, in English) is a community-based foundation that is both financially and politically independent and whose main objective is the improvement of living conditions in Wiesbaden through the support of a series of projects in a variety of areas such as history, science, research, education, art, sports, environment, youth, and culture (Die Wiesbaden Stiftung 2013). The foundation can legally accept tax-deductible contributions from individuals, organizations, and public authorities. The interest generated by these funds is used to sponsor activities and projects or to increase the capital of the foundation, while the equity itself remains intact (Kokonova et al. 2011).

One of these activities has been the organization of a school competition, the Leonardo School Awards, which calls for teams of students to develop project ideas in categories like economy, theater, music, media, art, design, technology, and social causes. In 2011, three social business projects were submitted including “a youth consultancy for social business initiatives, a social business run by pupils for a limited amount, and a song dedicated to Prof. Yunus’ idea of microfinance” (Kokonova et al. 2011, p. 13). The concept of social business is proliferating in schools thanks to the initiative of the Wiesbaden Foundation and the next Leonardo School Awards cycle in 2013 may include a separate social business category.

The importance of this program notwithstanding, the original role of the Wiesbaden Foundation was to provide the necessary legal and financial infrastructure for the creation of a social business fund that would promote the development of SB projects in the city – one of the main pillars of the social business city initiative. At the time of writing, this fund had not yet been established due to difficulty finding sponsors, partly because of the recentness of the initiative and the current scarcity of concrete and measurable examples that demonstrate the positive social impact of this kind of business in the socioeconomic structure of Wiesbaden. As a result, the microcredit program managed by Berufswege für Frauen and funded by the city of Wiesbaden and the Wiesbaden Foundation has become a crucial component of the initiative, as it is expected to provide specific examples of successful social business ventures in the city. Although still in the pilot phase, the BwFF’s Social Business Women project is currently planning to build on the recognition garnered by winning the 2011 German Diversity Prize and expand their microloan model to other regions in Germany. These important milestones, together with the already successful establishment of small businesses by underprivileged women thanks to the BwFF’s microcredits, suggest a positive outlook for the establishment of a social business fund for the city of Wiesbaden.

## ***Social Businesses in Wiesbaden***

The BwfF's Social Business Women project is not the only successful social business venture in the city. This section provides a brief summary of some of these other businesses, as they represent innovative examples born from the creative synergy generated in the city of Wiesbaden around the concept of social business.

### **Variomondo®**

Variomondo® is a social business internet-based shopping portal where customers can buy products that are produced, transported, and traded according to the criteria of social and ecological business. Their products include gifts, sustainably-designed furniture, children's toys, eco-fashion clothes, organic and fair-trade food products, natural cosmetics, and office supplies that are environmentally friendly. The social benefits of buying products at this shopping portal are numerous. For instance, some of the products are entirely produced from recycled material, or are 100 % compostable. Other products follow fair-trade standards, improving workers' lives with fair salaries and good working conditions while protecting the environment at the same time. Their furniture is manufactured with local and sustainable woods. Their textiles are free from harmful substances, produced with a dying process that does not pollute the environment. Some of their wooden toys for children are produced in workshops by people with disabilities. Their eco-clothing uses 100 % organic cotton. Their cosmetics are not tested on animals and do not contain artificial colors or preservatives. In one way or another, each of the many products offered on Variomondo's® website generates a social profit.

Although it is locally based in Wiesbaden, Variomondo® can ship its products anywhere in Germany and Austria. Its business model is an excellent example of Prof. Yunus' concept of social business (2010, p. 3), and its website ([www.variomondo.com](http://www.variomondo.com)) dedicates a section to describe how the company follows Yunus' seven principles (Variomondo 2013). With the objective of providing products that have a social and/or an ecological benefit, Variomondo® is a Type I social business that is not based on profit maximization and has no outside investors other than the owner and founder of the company. In Variomondo®, customers in Germany and Austria now have a portal where they can shop confidently knowing that their money will generate a social and environmental profit.

### **Perfect Day®**

Perfect Day® is a coffee house that also provides fresh products, such as sandwiches, pastries, fruit, yoghurt, juices, etc. Perfect Day® opened its first store in Wiesbaden in 2004 and since then, the success of the company has allowed it to



open two other stores at the Frankfurt airport. Although the company was not established as a social business per se, their modus operandi is very much aligned with the philosophy of SB, looking for ways to have a positive social impact both locally and globally.

Probably its most important selling point is the origin of the coffee served at Perfect Day®, which is supplied by the social business “Natural Shakti”, a company that grows 100 % certified organic coffee in the mountain rainforests of the Southern Indian regions of Kerala and Tamil Nadu. The coffee, harvested by hand, grows without the use of chemical fertilizers. In addition, the company has a direct social impact in the region as it provides fair working conditions to the workers at the farm and it contributes to reforestation efforts in India. Moreover, some of Natural Shakti’s profits are used to support a local school. The Perfect Day® and Natural Shakti tandem is a perfect example of business symbiosis: one could not exist without the other. Perfect Day® offers Natural Shakti the financial resources to operate their business and have a social impact in India, while Natural Shakti provides Perfect Day® with a high quality product that has become the core of their business and a key to their success.

Perfect Day® also demonstrates a commitment to solving social problems at the local level. The company hires workers who are traditionally less employable, such as older workers, immigrants, and underprivileged women. The Wiesbaden downtown store also has a lounge area on the second floor that is available to the local community for free – a comfortable space for those who are looking to relax, read, get together with friends, etc., without needing to buy any of the products sold at the store. Lastly, the coffee house is heavily involved with the Wiesbaden social business city initiative and hosts several activities to raise awareness about the concept, such as knitting get-togethers and workshops (for the urban knitting project explained above), and “chewing gum paintings”, a way to creatively transform old grey chewing gum stains on the sidewalk into beautiful small works of art. Since it is cheaper to paint chewing gum than to remove it, this is both a creative and economic initiative to beautify the city.

## **Lalaland**

Lalaland is a retail store for children’s clothing in downtown Wiesbaden. The store’s goal is to build a community and provide a place of interaction between mothers, fathers, grandparents, friends, etc. Its profit is derived from the sale of clothes, toys, and other products for babies and children. These products are manufactured in fair conditions by workers who earn decent wages in Kenya, Bangladesh, and other developing countries. Additionally, it frequently has affordably-priced activities for pregnant women, new parents and families, including wellness days with massages and yoga for pregnant women, professional photography of the baby bump, arts and crafts workshops, fitness classes for parents and children, and more.

All profits are reinvested into the business to support an increasing number of families by further expanding their services to the community. For instance, the store offers shelf space that allows mothers to sell their own handmade products. There is a room where parents can turn their hobbies into income-generating activities by teaching courses in pottery, creative design, yoga, etc. There is an area for diapering and breast-feeding children available to all women in the city of Wiesbaden. There is a designated room where families can organize parties for children, providing a fun and comfortable environment that underprivileged families may not find in their own homes.

### **Other Social Business Ventures**

In addition to the aforementioned social businesses, a few other ventures have emerged that in many ways espouse the ideals of SB and contribute to the social business city network in Wiesbaden. The popular Fasan restaurant, for instance, serves Afghan food in a downtown locale opened in part as the result of a microloan. The owners are very involved with the local Afghan community and they actively promote the social business city network initiatives like the urban knitting and gum painting projects.

Another of these ventures can be found on the outskirts of the city. Schloss Freudenberg is a mansion that was built at the turn of the twentieth century as a private residence. Today it houses over 80 interactive work stations that bring children and adults alike in close contact with nature and their environment in order to explore “how the eye sees, the ear hears, the nose smells, the skin senses, the fingers touch, the feet (under)stand, the hands (be)hold, the brain thinks, the lungs breathe, the blood pulsates, [and] the body vibrates” (Ku 2013). Revenue obtained from admissions is used to maintain the facilities and expand the interaction stations in order to provide the children of Wiesbaden (who tend to be exceptionally savvy with technology but often disconnected from nature) with a unique cultural center in which they can discover themselves and their surroundings. One of the most popular experiences that Schloss Freudenberg offers is Der Dunkelbar, the dark bar, where visitors can enjoy their food and drinks in complete darkness. This concept was inspired by another SB venture in the city of Frankfurt, Dialogue in the Dark, the purpose of which is to raise awareness about the blind by leading visitors through different settings (a busy street, a park, a market, a café, etc.) in the dark. Visitors are encouraged to experience the world using their other senses in order to better understand the perspective of the blind, as well as other disabled and disadvantaged groups. In this way, the exhibit aims to encourage the social inclusion of these groups in mainstream society. Financed by the admission tickets, the Dialogue in the Dark experience has grown and is now operating in multiple countries, providing job opportunities to thousands of blind people around the world. The founder and creator of this socially responsible exhibit, entrepreneur Andreas Heinecke, is also an Honorary Professor of Social Business as part of the Danone Endowed Chair of Social Business at the EBS Business School.

## Other Social Business Cities

The earnest efforts of different social actors in Wiesbaden have combined to produce an ideal venue for socially conscious development, allowing the concept of social business to take root, grow strong and flourish, reaching deeper and deeper into the hearts of the citizens of this city. The compelling social impact produced in Wiesbaden as a result of the city's commitment to social business has served as an inspiration to other cities worldwide that see in this concept a real possibility to address the social problems in their own communities. The seeds of social business are quickly dispersing around the world and their sprouts are beginning to surface. Fukuoka (in Japan), Pistoia (in Italy), Mönchengladbach (in Germany), and Vienna (in Austria), are just a few notable examples of other cities adopting Prof. Yunus' ideas to tackle their own unique social issues.

### *Fukuoka, Japan*

The sixth largest city in Japan, Fukuoka is located on the north shore of the island of Kyushu. Unlike the Wiesbaden model, where there are players from very different constituencies in the city (local government, newspaper, university, community, etc.), the current Fukuoka social business landscape is quite centralized around Kyushu University.

In March 2010, a branch of The Grameen Creative Lab was opened at the University in collaboration with the Yunus Centre in order to promote the concept of social business in Fukuoka and Japan. It consists of researchers from different departments, including engineering, medicine, agriculture, and economics, who work in collaboration with the Grameen companies, NPOs, NGOs, other universities, and governments (Ahmed et al. 2011). Its key activities are distributed among four main pillars, namely, research around the concept of social business, development of curricular material and programs for students, support of social business ideas so that they can materialize in concrete endeavors, and the organization of social business workshops and symposia to spread the concept of social business.

Immediately after the foundation of the Kyushu University branch of the GCL, the Grameen Technology Lab was established as a consortium of Japanese technology companies with the aim of conducting research on how technology can help solve social problems in Japan and the rest of the world using the principles of social business. Since its inception, Grameen Technology Lab has explored numerous technological innovations that use technology to the advantage of the poor and the underprivileged. Examples of these innovations include the following: (a) an internet based portal and social information platform ([www.gramweb.com](http://www.gramweb.com)) where each village in Bangladesh has its own web space to connect with other villages in the country; (b) a multifunctional electronic card, or ePassbook, that maintains the financial records of micro-finance borrowers; and (c) a portable clinic for rural

areas, which consists of different diagnostic tools and a communication interface that transfers the gathered data to a doctor (Ahmed et al. 2011). The Grameen Technology Lab continues its research, utilizing the resources and technology available in Japan to find solutions to social problems globally.

In July 2011, during the First Social Business Forum in Asia, the mayor of Fukuoka signed an official declaration announcing the city's commitment to promoting social business, thus becoming the second Social Business City in the world. Since then, Kyushu University has seen a number of new developments including the opening of a building called "Grameen House" for social business research and teaching, as well as the foundation of the Yunus & Shiiki Social Business Research Center (SBRC), which was established to study, research, and promote social business. The vision of the SBRC is "to produce skilled social architects, build partnership with related organizations in the world, [and] create replicable social business models to combat the global issues (poverty, health, environment, energy, education, natural disaster crisis, etc.)" (Yunus & Shiiki Social Business Research Center 2013). In addition to the promotion of education and research on social business models, the organization of events, and the creation of partnerships (with universities, industries, governments, NGOs, etc.), the SBRC also has the important mission of archiving social business study materials online and on paper in the Grameen Creative House, in order to make them accessible to all.

The announcement in July 2012 of the creation of a US\$20 million Social Business Fund by Miki Watanabe, CEO and Chairman of multinational restaurant chain Watami, ensures the continuity of the social business concept in Japan. With such an investment, the social business movement will not only maintain the momentum gained over the past few years, but will be propelled forward. Indeed, the investment is likely to stimulate various stakeholders and impel new initiatives that could help address a number of social issues, both in Japan (such as recovering from recent natural disasters) and beyond.

### ***Pistoia, Italy***

Pistoia is located in the Italian region of Tuscany, about 30 km from Florence. The social business city initiative in this city differs from Wiesbaden and Fukuoka in that it has been introduced as a 3 year project developed by a single entity, the Yunus Social Business Centre University of Florence (YSBCUF). This research and consultancy laboratory was founded in 2011 as part of the University of Florence in direct collaboration with Prof. Yunus and accredited by the Yunus Centre in Dhaka. The YSBCUF was created with the objective of promoting social business in the Tuscan region, in Italy and in other countries. It provides support to private and public entities interested in the development of social business ventures at all the stages of the process – from the creation of a business plan to its implementation and the assessment of the social impact of the business. With its

operation center in Pistoia, the YSBCUF has been established as a social business itself, with all revenues generated from its operations reinvested toward spreading the concept of social business.

As part of its initiative to promote social business in the region, YSBCUF has developed a 3-year program titled “Pistoia, First Social Business City in Italy” in collaboration with the Fondazione Cassa di Risparmio di Pistoia e Pescia (Savings Bank of Pistoia and Pescia Foundation) and the non-profit Fondazione Un Raggio di Luce Onlus (Ray of Light Foundation). The program, officially inaugurated in July 2012, targets the citizens, students, entrepreneurs, and public administration in Pistoia and aims at promoting the concept of social business as a model capable of addressing civic needs as well as social and environmental issues in the region, such as youth unemployment, assistance to the elderly, and protection of the environment. Program activities include training and workshops for students, grants for international students in the area (to import and export social business ideas), consulting services for entrepreneurs, technical and financial assistance for the foundation of social enterprises, activities for the involvement of third sector organizations, and public events and initiatives for the citizens of Pistoia (YSBCUF 2012). The program also includes an allocation of 300,000 euros to establish three start-up social businesses in the region.

Also, the Social Business City program comprises an important open research project whose objective is the analysis of the current situation of the third sector and the existing social business activities in the region. The research involves approximately 200 local organizations of volunteers, associations of social promotion, and social cooperatives. Collecting data through a questionnaire, researchers seek to analyze the role of these organizations in the region, including the services they offer, the social needs they respond to, and their social impact. Most importantly, the research seeks to discover whether these organizations could potentially become financially independent by following a social business model to solve the social or environmental issues on which they focus. All this information will become part of an open-access database for researchers and scientific partners interested in contributing to the development of a theoretical framework for the project.

Although the Pistoia Social Business City program officially concludes in 2014, the kinds of activities that YSBCUF and its collaborators are developing seek to create long-lasting effects in the region by cultivating (in collaboration with the community, the public institutions, private partners, entrepreneurs, etc.) an environment conducive to the sustained and sustainable growth of social business. Of particular interest is the idea of partnering with third sector organizations to study the feasibility of adopting the financial model of a social business. This becomes especially important in times of national and global economic hardship, since these types of organizations depend largely on external financing (through governmental support or private donations) that can be reduced suddenly or stopped completely, jeopardizing the survival of these organizations and their services. Transformation of these organizations into social businesses would allow them to become self-

sustainable and continue providing solutions to local social problems despite shifts in external funding streams.

## Discussion

While the social business concept is relatively new, its potential to address the world's most pressing social and environmental issues has already caught the attention of many, including small businesses, large corporations, entrepreneurs, educational institutions, public organizations, and governments. At the international, national, and even regional levels, the concept of social business is generally received with excitement, yet concrete efforts to implement SB models remain tenuous. By contrast, the promotion and development of the concept at the municipal level seems to be a successful model. This section discusses the role that cities can have in the social business movement, as well as the benefits and the challenges of implementing such an approach.

Humanity today faces an extraordinary number of important social, economic, and environmental problems. Many of these, like climate change, pollution, international terrorism, energy consumption, and the spread of epidemics demand a global commitment for action. Although there are transnational and supranational organizations that take up these issues (e.g., the United Nations, the European Union, the G8, The International Energy Agency, etc.), the degree of engagement of each individual country varies greatly and it becomes extremely difficult, if not impossible, to reach decisions at a global level. An excellent example of this is the Kyoto Protocol. This international attempt in 1997 to reduce the emissions of greenhouse gases has resulted in a number of countries with no intention of ratifying the agreement, such as the United States, others that have renounced it altogether, such as Canada, and others with no binding targets, such as Russia. The specific interests and agendas of each of the member nations led to an ineffective agreement with limited influence that is incapable of obtaining real, tangible results.

This situation leaves the responsibility of dealing with such global issues with governments already overburdened by the innumerable challenges their nations face within their own borders. In addition to maintaining and running the necessary political, economic, military, and administrative infrastructure, national governments encounter a series of social issues that can jeopardize the basic welfare of their constituencies, including unemployment, social inequality, access to housing, healthcare, education, domestic violence, pollution, racism, youth issues, poverty, and crime, among many others. Countries often fall short of meeting these social demands, particularly in moments of recession and economic instability. Traditionally, organizations that form part of the third sector have complemented government efforts to address social problems. However, the current financial crisis has highlighted the fragility of this sector, since their services and operations are frequently subsidized by public allocations, grants, and donations – funding sources that have been significantly reduced in recent years. Social business offers a more

sustainable alternative that, together with the work of governments and non-profits, can more effectively meet the needs of today's society.

Creating a social business that operates at the national level could prove to be an extremely tall order, since the concept of SB itself is such a recent development and concrete examples of its implementation remain scarce. Prof. Yunus' suggestion is to start small because, "a simple business is easier to run, and a pilot project will yield insights and experience that can help you refine and improve your business plan" (Yunus 2010, p. 92). The novelty of the concept implies that the development of a social business will not follow a pre-established route and also suggests that finding a model that works, that is sustainable, and that addresses a social problem requires time, experimentation, and flexibility.

Thus, the city offers the perfect incubator for the creation of start-up social businesses. The concentration of customers is large enough to make a profit from the services or products provided, yet a company would be small enough for the business plan and design to be easily adjusted and fine-tuned as needed. As the company generates financial and social gain, the profit is reinvested into the business, increasing the size of the company and its social value. Ultimately, some social businesses would become large enough to meet the social needs of not only the city, but also the region and beyond. A good example of this is the Social Business Women Project by the aforementioned association *Berufswege für Frauen*, which, following the success of the initial pilot project in the city of Wiesbaden, is already in the planning stages of implementing the same model in other cities in Germany, thereby scattering the seeds of social business across the German landscape.

According to the old African proverb, it takes a village to raise a child. This may also be true when it comes to starting and maintaining a successful social business. The continuous interaction of citizens in the common spaces of urban areas results in the formation of strong ties, as members share their experiences, goals, dreams, opportunities, etc. These ties become essential to the social business, which is based on selflessness and sympathy to others. A social business is born out of the enthusiasm of a few individuals faced with the prospect of solving a social problem that affects less privileged members of the community. At the same time, its success largely depends on the engagement of the rest of the community, that is, investors and buyers, who must believe in the project, goal, products and services. In many ways, it is a business for the community, by the community. Social business involves everyone, and the city provides the ideal setting and conditions for its realization.

This sense of community engagement is tangible in the three officially recognized social business cities discussed in this paper, Wiesbaden, Fukuoka, and Pistoia, which, having already established a model that works well in urban areas, are now reaping the benefits. Incidentally, these three cities happen to be located in three of the most developed countries in the world, but does this mean that the concept of the social business city is limited to or works best in industrialized nations? Absolutely not. The social business model can be applied to any circumstance where there is a social problem, although the approach may differ depending

on the types of social problems being addressed as well as their scale. For instance, in developing countries one of the most prevalent social issues is access to clean water (a problem addressed in Bangladesh by Grameen Veolia Water), while in developed countries the issue of equal access to job opportunities for women is of greater concern (addressed by *Berufswege für Frauen* in Germany). The German city of Mönchengladbach has helped fight malnutrition by providing school children in some underprivileged areas of the city with nutritious meals (Eickstädt, 2011), while in Bangladesh, Grameen Danone has been able to offer affordable yogurt fortified with nutrients to thousands of children. Although the scope of the problem is different – in the former case affecting a minority of the population, and in the latter, a majority – both businesses are providing solutions to the same core problem.

Although many would like to see a more equitable distribution of wealth among nations, current economic realities mean that today, the type and extent of resources available in developed countries make it much easier to create social businesses, especially for individual entrepreneurs and small companies, for a number of reasons. Although the scale of social problems in wealthier cities is smaller, access to start-up and development funds is larger. Another factor in relation to the three current social business cities is that they all count on university partners (EBS School of Business in Wiesbaden, Kyushu University in Fukuoka, and University of Florence in Pistoia) that educate students about the concept while promoting the incubation and implementation of social business ideas. Naturally, it is more likely for these students to implement their business plans at a local level, since they are most familiar with their surrounding social and economic environment.

Still, the implementation of social businesses in wealthier areas can incorporate certain strategies that would extend their social impact beyond the borders of the city. One of these strategies is the selling of products or services that are manufactured or prepared in a less developed area or country, provided that in doing so, the business exerts a positive social impact in the region of origin. This impact could be, for example, the employment of disadvantaged workers who receive fair wages, benefits, and working conditions while the production is carried out in a way that is sustainable for the environment. This is the model followed by some of the aforementioned examples such as Perfect Day® and Lalaland.

Another possible strategy is cross-subsidization – the practice of charging higher prices to some customers who can afford it in order to subsidize lower prices for another group who cannot. This is the business model followed, for instance, by Cure Thalassaemia, an organization in India that seeks to cure the genetic blood disorder thalassaemia through bone marrow transplants. For every four paying patients, they are able to subsidize almost completely the cost of the operation for a poor thalassaemia patient.

Of course, the impact of setting an example for sustainable, socially conscious business practices is not to be overlooked. This is indeed the case for the Wiesbaden Social Business City initiative, the success of which has crossed borders and served as an inspiration to other cities that have implemented, or are thinking of implementing similar models. There are myriad ways, therefore, in which forward



thinking cities in the developed world can have a positive and far-reaching social impact while at the same time addressing their own local issues. Without a doubt, there are many lessons to be learned from the efforts and accomplishments of social business proponents and in particular from the Wiesbaden initiative itself. Nevertheless, these important accomplishments have not come without challenges. The following section discusses some of these challenges, together with other issues that cities worldwide could encounter in the process of establishing similar social business city initiatives.

## Challenges and Other Considerations

One of the main challenges that the city of Wiesbaden's initiative has confronted has been the creation of a social business fund. The establishment of such a fund was an important part of the initial conversations, as it would provide the necessary capital for the start-up of a number of social business projects in the city. The primary obstacle for launching a social business fund in the city has been investors' reticence in financing such an enterprise due to the novelty of the idea and the current lack of demonstrable examples that can show both financial sustainability and social profit. Fortunately, an initial fund was created by the city of Wiesbaden in conjunction with the Wiesbaden Foundation and used to start *Berufswege für Frauen's* Social Business Women project. The outcomes of this pilot project and other privately-financed small social businesses that have started in the city could possibly determine the level of future investment for other initiatives. Wiesbaden's status as the first social business city entails pioneering many different aspects of the social business field; ideally the Wiesbaden example will give other cities the confidence to establish social business funds without having first to demonstrate the validity of the concept.

Another challenge social business cities may face is related to assessment. Each social business should include in its business operation a plan for assessing the social impact of the enterprise. Unlike traditional business models, in which the success (or failure) of a company is easily quantifiable in terms of money and economic profit, measures of "social profit" for social businesses are harder to grasp. The measurement of the social benefit obtained will necessarily depend on the type of social problem that each specific business is addressing. The business plan should clearly state the method of evaluating their social impact in a measurable way, though this is often easier said than done. Some issues, like youth unemployment and reforestation can be measured in a straightforward fashion, but others, like domestic violence and racial prejudice cannot. This is where traditional and social businesses differ, since social businesses must develop an assessment strategy that contains quantifiable measurements to show investors the "social" return of their economic investment, and prove that their money translated into social gain. This aspect is critical not only for the continuation of the company, but also for the expansion of the social business model throughout the world, given

the current need to show concrete evidence of the effectiveness of this still new concept.

Introducing Prof. Yunus' revolutionary new formula of marrying social enterprise with a traditional business model in today's society is a very important first step. Equally essential is the institutionalization and popularization of the concept so that it becomes solidified in the popular consciousness as a sound alternative to doing business as usual. In order to achieve this status, those involved in SB must maintain the synergy of all stakeholders and increase the visibility of the social business movement to the public, both in the city and globally. The city of Wiesbaden is doing an extraordinary job on both fronts through a multitude of social events that engage the local community, including frequent social business labs, conferences, publications, and other initiatives.

This type of publicity and promotion for the social business movement is dependent upon that very same synergy – continuous interaction and collaboration among the different organizations that form part of the social business city network in Wiesbaden. For instance, The Grameen Creative Lab organizes workshops at EBS University, which are announced in the *Wiesbadener Kurier*. Or the city and the Wiesbaden Foundation collaborate with Berufswege für Frauen to initiate a microcredit lending program for social businesswomen. All six official actors of the network share the common goal of promoting and expanding the concept of social business in the city through the development of individual and partnered activities. However, to this day there is no official Memorandum of Understanding or any other type of formal agreement that would clearly establish a formalized strategy with a set of objectives, and a description of the role and responsibilities of each party. The initiative also lacks a governing body that would meet on a regular basis to make decisions on how to better meet the network's goals. The already significant accomplishments of the Wiesbaden social business initiative would likely be amplified and strengthened with the institutionalization of a formal structure that would guide the network's activities, creating an even stronger synergy in the city, and guaranteeing the continuity of the network.

## Conclusion

The concept of social business has sparked a movement that is quickly spreading around the globe, gaining more followers and advocates every day. There is a multiplicity of activities, events, and initiatives worldwide that is revolutionizing the way we think about both business and the third sector. Numerous social business ventures have been started, university courses and programs have been developed, and social business funds have been launched in different parts of the world. The prospect of solidifying these efforts by establishing social business cities around the world looks very promising, based on the early successes reported in Wiesbaden, Fukuoka, and Pistoia. The concept of the social business city is one that deserves close attention and scrutiny as it has the potential, with the appropriate

implementation and support, to greatly reduce social inequalities and alleviate many problems in urban areas. The city of Wiesbaden has been a pioneer in this area, breaking new ground and providing a model for the implementation of similar initiatives in cities around the world. Although no single template can perfectly fit the particular infrastructure, economic configuration, and social needs of every city, the Wiesbaden experience has provided some lessons that could be valuable to other cities when exploring similar initiatives to implement in their own urban areas. The following are ten of those important lessons:

1. A network: A city-wide initiative cannot be achieved by a sole individual or constituency. It is a project that involves many players in the city. Optimally, it will include the city, the community, the third sector, educational institutions, media, investors, entrepreneurs, and any other group interested in helping to implement the concept in the city.
2. A hub: It becomes necessary to establish a centralized hub or center for the promotion and development of the concept of social business in the city. This hub organizes activities to spread the seed of SB in the community and becomes a point of reference and a one-stop-shop for anyone interested in knowing more or developing a social business. In Wiesbaden and Fukuoka this role is played by Grameen Creative Lab and in Pistoia by the Yunus Social Business Centre University of Florence.
3. A structure: The efforts of the various stakeholders can be better coordinated by a formalized agreement among the members of the city network that establishes not only common goals, but also the individual roles of each of the signing constituencies. It could include by-laws, rules, regulations, membership, and any other important information that would be appropriate to achieve the network's mission. A structure would also include a committee or a governing body that would strengthen the relationship among constituencies, oversee the network's activities and initiatives, and measure its social impact.
4. The city: No Social Business City can be established without the official support and patronage of the city and its government representatives. This support should be made official in some kind of document (e.g., declaration, resolution, or policy) or event, with a widely publicized announcement to the citizens and the media.
5. Communication: In an endeavor such as this, the sharing of information and knowledge is a key component to the success of the project. Internally, each organization should keep the others abreast of its own activities and events. This helps foster a community of experience and knowledge. Equally important is external communication with the general public in order to create a public face and engage the local community with the initiatives of the network. This is achieved partly through collaboration with local newspapers, but more importantly through a strong digital presence, including frequently updated websites and active participation in social media (e.g. Facebook, Twitter, etc.).
6. Social business fund: Although not indispensable, the creation of a social business fund greatly enhances the community's engagement with the concept.

Obtaining investors is undoubtedly the biggest obstacle that social business entrepreneurs face. A social business fund would be a great stimulus, catalyzing the establishment of social businesses in the city.

7. Incubator: Prof. Yunus believes in the creative power of every human being. What is needed is the appropriate environment for this creativity to flourish. Universities and other educational institutions are the ideal breeding ground for social business ideas. A social business city would significantly benefit from establishing partnerships with this kind of institutions, as it is likely to result in a more socially responsible education for the next generation of business entrepreneurs, as well as an atmosphere that provides opportunities and resources for students to find creative solutions to the social problems of their communities.
8. Social businesses: A social business city without functioning social businesses would be an oxymoron. The idea of a social business city is to ameliorate the social problems faced by its community through the efforts of actual social businesses. Although the creation of an adequate infrastructure that fosters a climate for social business in the city is an important and necessary first step, the achievements of the project will ultimately be determined by the actual establishment of successful social businesses in the area and their social impact in the community.
9. Social impact: Assessment of the social profit that social businesses create is vital for the success and continuity of the concept. Measurable and concrete evidence of the positive effects on the community must be provided. Without proper evaluation, the validity and productivity of the businesses (and the city initiative) will be questioned.
10. Do it with joy! The last of Prof. Yunus' Seven Principles of social business (Yunus 2010, p. 3) also becomes relevant in this context. Embarking on an initiative such as this one must bring gratification and happiness to the individuals involved in its realization, who must always keep in mind that the ultimate goal of the time and effort dedicated to the endeavor is the creation of a better and more socially just world for ourselves and for future generations.

These ten important lessons have come to light thanks to the hard work and commitment of a large number of individuals who believe in creating social justice for everyone. Each city is unique in its constitution and its social needs and these lessons may or may not be relevant in other urban contexts. However, these ten items can be regarded as a starting point for conversations during the planning phases of similar projects. In each particular case, the city will have to start by identifying the social issues they want to address with this model, followed by a strategic plan that may contain all or some of the above points. Given the current economic climate, the increase in social disparity, and the deterioration of the quality of life for many people around the world, the social business city model appears an attractive and promising option for city officials to consider. Hopefully, other cities will soon follow the path paved by Wiesbaden, Fukuoka, and Pistoia by

implementing similar initiatives that will improve the lives of citizens and create a better world for everyone.

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# Chapter 9

## The Mystery of Small Social Business Ownership by the Poor: Creative Solutions Based on the Poor's Potential

Nghia Chi Nguyen

### Introduction

In recent years, there have been an increasing number of efforts combining business approaches with poverty alleviation. The diversity of business types implies various methods for tackling poverty due to their business goals, and scales.

The goal of complete poverty alleviation does not allow any possibly effective solution to be neglected just because of its small scale or the poverty of its players, since there is no universal panacea for poverty issues. Beneath the surface of poverty are endogenous efforts in which the poor try to generate creative solutions to their problems. Despite their probable small scales, their effects are undeniable.

To answer the question of how business solutions can help alleviate poverty, business types with various scales or goals must be evaluated objectively for both effects and limitations. In an effort to address that need, the paper is constructed as follows. It first discusses limitations in the business types with economic goals both large and small in scale. Then, the author conducts an explorative case study of creative solutions by the poor. The following section discusses the implications from studying small social business cases of poor people and offers lessons for better approaches to poverty alleviation.

### Business with Economic and Social Goals

According to their respective goals and scales, four types of businesses and their approaches to poverty issues are given as follows (Table 9.1):

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**Table 9.1** Business types in their approaches to poverty

|      |                   | Scale  |                                |
|------|-------------------|--------|--------------------------------|
|      |                   | Large  | Medium, small, and micro-sized |
| Goal | Economic benefits | Type A | Type B                         |
|      | Social benefits   | Type C | Type D                         |

### ***Type A: A Few Doubts on the Absolute Role of Large Enterprises in Poverty Alleviation***

Discussion on the role of business in poverty alleviation in recent years has become heated by the debate about whether targeting the poor as customers, clients (Prahalad 2005; Prahalad and Hammond 2002), or to raising the poor's incomes (Karnani 2007, 2009, 2010, 2011). The nature of a problem implies "a specific situation or a set of related situations" that requires effective responses so that a person can function well in his/her environment (D'zurilla and Goldfried 1971). In this sense, poverty does not merely mean any single issue, for example, unmet needs or unemployment. Such other issues as social exclusion, low income, etc. may also be included as long as they construct problematic situations surrounding the poor. Therefore, meeting unmet needs of poor people does not guarantee that poverty can be solved completely (Nguyen 2012). Furthermore, looking for possible commercialization solutions while targeting poor people creates possible obstacles because only unmet needs that have promising market sizes are targeted, leaving issues with low possibilities of commercialization neglected.

On the other hand, those arguments that put the focus on the income-generating side of poor people and highlight the importance of large enterprises with high productivity in creating jobs on a large scale (for example, Karnani 2011) cast a doubt on their absolute effectiveness.

First, the purpose of enterprises establishing factories must be recognized. This activity includes hiring a large number of workers; however, its purpose is not the creation of jobs for poor people. Rather, jobs are created for poor people as a result of enterprises investing in that area to take advantage of cheap labor, abundant resources, or other business advantages for the activities of the enterprises. A survey of 300 foreign direct investments in three of the biggest cities in Vietnam (Ha Noi, Ho Chi Minh, and Danang City) found that the key factors influencing the attractiveness of foreign direct investment, in order of importance, are public utilities, preferential policies and support from the local and central governments, and cost advantages (Toan 2010). Certainly, job creation is not the primary goal but a byproduct. This still leaves potential obstacles in dealing with poverty issues.

Second, the image of large enterprises with large-scale production and modern technology creating jobs for poor people is quite beautiful; however, it inadvertently creates gaps and even competition within communities of poor people. The results from the above-mentioned survey implied that it is quite difficult for rural or



remote areas with a high proportion of poor people to attract investment due to limitations of public utilities. As a result, thousands of poor people migrate from rural areas to urban areas with the hope of finding jobs with stable wages in large factories with large-scale production and modern technology in export processing zones or industrial parks. However, most of them live in apartments around the industrial parks with a very small amount of space per person. Living conditions (electricity, water, sanitation, etc.), security, and the quality of the environment are low. Under these conditions, it is difficult for employees to work without anxiety, which affects work quality and the reproduction of labor power.<sup>1</sup> Working in large enterprises with large-scale production does not necessarily mean that poor people can rise above poverty. Working in these enterprises can enable poor people to increase their incomes, perhaps higher than they otherwise could in rural areas. However, living expenses in urban areas are also higher; therefore, the increased income cannot help poor employees save much. Furthermore, the primary purpose is the success of the enterprises, not job creation. This may lead enterprises to change locations when there is a better investment environment or a change in the existing one.

### ***Type B: Micro and Small Enterprises as Important Sources of Employment***

Micro, small, and medium-sized enterprises have been acknowledged as a major source of employment and livelihood in developing countries for a long time. House-to-house baseline surveys in African countries (such as Botswana, Kenya, Malawi, Swaziland, and Zimbabwe) and Latin America (the Dominican Republic) revealed that the proportion of households whose family members operated a micro or small enterprise was approximately 20 % in Botswana, and over 40 % in Malawi and Kenya (Liedholm 2002). Small and medium enterprises in Uganda contributed to creating goods and services valued in USD as \$1,363,733 million, accounting for 58 % of the total value, jobs for over 2 million people, and representing 56 % of the employment size (Tshabomwe-Kazooba 2010).

Micro and small enterprises, including one-person enterprises, are an indispensable source of generating employment opportunities for the poor in developing countries. The International Labor Organization (ILO) focused on the availability of work as the central key to poverty reduction when they launched The Small

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<sup>1</sup> There are about 1.6 million employees working in 260 industrial parks and 15 economic zones in Vietnam. Seventy percent of them come from outside areas, such as rural villages, and are living in small apartments with poor living conditions and an average space of about 2–3 m<sup>2</sup> per person. In order to deal with inadequate living conditions and ensure rehabilitation, a seminar on “Problems of labor and living conditions of workers in industrial parks and economic zones” was held in May 2011 by the Ministry of Planning and Investment to evaluate policies related to improving lives of workers and to propose solutions.

Enterprise Program. This initiative aims to create more jobs through the development of small enterprises in collaboration with governments, social partners, the private sector, and individuals. Therefore, it is inadequate to highlight only the role of large enterprises and deny the contribution of micro and small enterprises in creating employment opportunities for the poor.

The approach of MSEs partially results from purposeful avoidance of large enterprises in creating opportunities for employment for poor people. For example, the Decree No.81/CP dated November 23rd, 1995 was passed by the Vietnamese government to establish a quota law requiring all businesses to hire disabled people as 3 % of the workforce in order to create opportunities for employment. Otherwise, the businesses have to pay for each unfilled position, and payments would go into the compensation employment fund for disabled people to support vocational training, employment, and entrepreneurship among this group. It is the failure of large enterprises in dealing with the employment issues of disabled people that has led the government to stipulate preferential policies, such as tax exemption, preferential access to land, etc., to enterprises that have more than 51 % disabled people in the workforce. These companies are referred to as enterprises of people with disabilities. There are over 400 manufacturing facilities and business enterprises of people with disabilities in Vietnam, creating stable jobs for 15,000 workers with disabilities.

Large enterprises with profit-maximizing goals still have certain limitations and raise doubts about becoming one of the most powerful forces in addressing poverty issues. Meanwhile, the approach of medium, small and micro-sized enterprises, especially models established and operated by the poor, serves as a major source of employment for poor people as a result. However, the dynamics of the formation and operation of these models has not been explored much in existing literature. The basis of these models is various and dynamic activities aimed to deal with not only the matter of job creation but also the diversity of the poverty issues.

### ***Type C and D: Yunus Social Business***

Professor Yunus has described two types of social businesses (Yunus 2007). The first type refers to companies owned by investors who seek social benefits rather than financial rewards from their investments. These companies aim to deal with poverty issues in a self-sustaining way, in which they can cover their costs through the sales of goods or services to the poor, but no dividend is allowed. The second type refers to profit-maximizing companies that belong to the poor and distribute profits to them.

The Type I social business is usually referred to with the seven principles developed by Professor Yunus to promote social business. Type 1 has received much attention and has led to an increase in the number of companies that have carried out or are preparing for social businesses aiming to provide food, health care, or worthwhile goods to the poor. Recently, there have been many cases of big

companies setting up social businesses oriented towards poverty reduction in developing countries, such as Grameen Danone Foods Ltd., Grameen Veolia Water Ltd., etc.

Type II has been popularized by the success of Grameen Bank, a social business with 94 % of the shares owned by over eight million poor people. Grameen Bank is widely considered to be a giant in the social business world.

However, there are still few studies on medium, small, and micro social businesses in Type II. This chapter focuses on small social business operated by the poor. This topic cannot be neglected since the know-how or methods of dealing with poverty issues can, in some way, bring about good lessons on how to start a small social business, how to motivate the poor to run social businesses, and how to come up with creative solutions to social issues.

## Case Studies

The two cases were studied based on information obtained from several rounds of semi-structured interviews with Mr. Le Duc Hien, Chairman of The Association of Interdependent Arising of Persons with Disabilities and Mr. Tien Minh, Director of Tien Minh Blind Massage Service, and several collections of fieldwork at the two organizations since 2007. Regular email exchanges with Mr. Le Duc Hien and telephone interviews with Mr. Tien Minh also served as a useful source of information. To ensure the validity of study, further data were also collected through documents and archival records supplied by the two interviewees and news on the two organizations.

### *Massage Service by Blind People*

According to Vietnam National Institute of Ophthalmology, there were about 2 million people with low vision in Vietnam in 2007,<sup>2</sup> only 15 % of whom have stable jobs or work as apprentices. Furthermore, among the 300-odd jobs in the system of schools and centers run by the Ministry of Education and Training and the Ministry of Labor, War Invalids and Social Affairs, the number of training jobs for people with low vision is even lower (Phan 2011). Because most of the training jobs

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<sup>2</sup>Low vision does not mean completely blind but refers to one who “has impairment of visual functioning even after treatment and/or standard refractive correction, and has a visual acuity of less than 6/18 to light perception, or a visual field of less than 10° from the point of fixation, but who uses, or is potentially able to use, vision for the planning and/or execution of a task” (World Health Organization 1992) less than 6/18 to light perception, or a visual field of less than 10° from the point of fixation, but who uses, or is potentially able to use, vision for the planning and/or execution of a task” (World Health Organization 1992).

for people with low vision are simple ones, the income from these jobs is not very high. On the other hand, although they are trained, the average income is only about 300,000–500,000 VND per month (\$1 is equal to 21,000 VND).

Those who cannot find a job or are insufficiently trained usually choose to sell lottery tickets to make a living. Due to the restriction in their vision or eyesight, blind people are often deceived by unscrupulous individuals; they receive counterfeit money and some people change their lottery tickets with invalid ones. Tien Minh Blind Massage Service is a business established by Mr. Tien Minh, a blind person, to employ blind people and provide massage services to the public.

Like many other blind people, Tien Minh had to go through many challenges when he started this job. Blind workers still bear the brunt of prejudices and the misunderstanding of the society, viewing massage services to not be a job suitable for blind people. Mr. Minh repeated a common reaction: “What the hell can he do if he is blind?” or “the blinds do this job? No, no, I don’t want them to do anything for me,” were the responses of some customers after they paid for massage services, entered the room, and realized that the masseurs were blind. Most of them left right away.

However, in terms of technique, although the blind people are unable to see, if trained methodically, they can capture and understand acupuncture points, body parts, and perform the massage tasks well. Even those who do not have a prejudice against the blind hold a misunderstanding about the massage service being offered by the blind. They feel pity for the blind so they do not want to use their services. This compassion unintentionally hampers the earning prospects of blind masseurs. “If everyone has a thought like that, we will be more piteous. Rather than feeling pity for us like that, it would be better if the customers come to our place and use our service often because we all need to work to earn a living. We try our best to take away customers’ stress and make health better,” a masseur commented.

Working as masseurs is difficult for blind people, establishing a company for other blind people who are similarly affected is much harder. Normally, luxury furniture and large spacious shops attract customers; however, Mr. Minh could not afford these. He bought furniture at reasonable prices, a small rental place with a small amount of capital and loan from friends. It was risky but he decided to face the challenge within his capabilities.

Lack of capital did not allow Mr. Minh to employ blind masseurs with professional skills, since the new shop was unlikely to attract many customers. Further, the company could not employ a large number of masseurs due to its small size, so the average number of employees is ten. Food, accommodation, and vocational trainings are provided to new employees. In the massage businesses run by blind people, every massage shop has specific skills and techniques. Thus, Mr. Minh sometimes goes to other shops to learn good techniques in order to improve the service quality. Gradually, customers become loyal after trying, using, and acknowledging the service here.

Normally, in companies with abundant resources, sanitation workers, receptionists or hall staff are hired. Patience and hard work overcome these limitations. There is no sanitation worker or receptionist, but Mr. Minh’s wife, a person with no

disability, helps with these tasks in order to save costs and generate more dividends for employees. Mr. Minh also guides customers from the entrance to massage beds. In the past, when there were fewer customers, skilled employees tended to move to other companies since they were afraid that they could not live on the low income. However, Mr. Minh showed patience in taking in unskilled employees and providing training. Once the customer inflow stabilized, the company requested its employees to comply with rules aimed at improving work attitude and ethics. Hence, the company can acquire a considerable number of professional and ethical blind masseurs.

At present, there are 11 (8 men and 3 women) blind masseurs working in this company. The monthly income varies according to professional skills. The service fee is 60,000 VND (about US\$2.85) for one-time service for male customers and 55,000 VND (about \$2.61) for female customers. The masseur receives 18,000 VND for each service and tips from customers. Sometimes, the tip is much higher than the salary, ranging from 50,000 to 200,000 VND. If an employee can deliver 100 massages in a month, he/she can earn about 1,800,000 VND or more, while normally the number is about 150 or 160 and the income from the tips can be double. Therefore, a good masseur can save about 4,000,000–5,000,000 VND per month (about \$190–238) after deducting living expenses.

In the many jobs available for the blind, providing massage services is much easier to pick up and enables the blind to earn a stable income. “This job is much more peaceful because we can work in safe environments; we do not have to wander around to sell the lottery tickets and be deceived by bad people. Furthermore, the job makes us feel proud of helping our customers recover their health, being helpful to the community, and earning our own money for living,” a blind masseur commented.

### ***Mutual Aid Tontine***

The Association of Interdependent Arising of Persons with Disabilities is an organization established and run by people with disabilities in Dong Nai Prefecture, Vietnam in order to overcome their weakness, deal with poverty problems themselves and enjoy good lives with the desire of overcoming the fate and integrating fully into society. It was established as a self-help organization for PWDs operating on the principle of voluntary self-funding to cover expenses. With the efforts of those people who are “disabled but not wasted,” the Association has provided many practical benefits to the disabled inside and outside of the Association through operational models of education promotion, vocational training, career consultancy, job introduction, vocational guidance, production and trade. Members are encouraged to operate home-based businesses, which include sales of groceries, haircuts, makeup, horticultural products, processed cashew nuts, beaded and embroidered handiwork, as well as animal breeds, clock and electronics repairs, and various products or services from small trades.

Mutual aid tontine is one of the activities of the Association. A “mutual aid tontine group” is organized as a form of voluntary savings or capital contributions between the members. This is a self-help group using a microfinance model in which members put together their savings in order to make a mutual fund, which is then used as a loan for members to borrow to begin an independent life, or to solve problems in their production activities, and create small businesses.

With the encouragement, support, and administrative management of the Association’s Executive Committee, the group was established to enable its members to help each other spiritually and financially through the creation of opportunities for disabled people to rise in life, become self-sufficient and financially strong, stabilize their families and economic situations, escape poverty, and aim to become rich.

There are three groups, each of which is set up to function as an independent unit in the collective (self-governing, self-determined, self-admitted, and self-dismissed). Only 10–12 members and an elected leader and vice-leader have been allowed to form a group; leaders’ terms have been established to coincide with the tontine’s cycle. The group is built and run based on three collective powers:

- Mental power: members discuss and present the best ideas, solutions;
- Human power: the large number of people with disabilities;
- Financial power: many small savings make a big fund.

Each tontine group has been authorized to set its own rules about required time and financial commitments for each cycle or term. For example, each member contributes 100,000–200,000 VND/month. The amount depends on each team, has to be at least 50,000 VND, and is not allowed to be big in order to prevent any difference between teams. Monetary contributions from individual members are for the benefit of the entire group and are restricted to one million VND at a time, and the tontine’s cycle was limited to 1 year (standard). A group operating under periodical rotation requires that its members turn in the prescribed monetary contribution to attend the “mutual aid tontine group” meeting at the home of the registered member by obtaining an agreement from the collective during the previous session. The money is then used as a loan for members to borrow to begin an independent life, or to solve problems in their production activities. One member with enough money can join more than one team to share comments, experiences and advice.

In order to borrow money, the member must show reasons and explain the plan to use the money. In addition, two other members in that team must become guarantors. Members in each team gather once a month. Members in the team learn about the situation of the member who wants to borrow the money, evaluate and give advice on the project. Below are some examples about the activities of the mutual aid tontine (Table 9.2).

All group members, including the two guarantors, agree to assume responsibility if an individual member makes a mistake. The team leader is designated to reconcile problems and hold meetings, if necessary, to resolve issues in the spirit of solidarity, equality, and mutual benefit.

**Table 9.2** Examples of the activities of the mutual aid tontine

| Project   | The tontine group  |   |                        |
|---|--|---|------------------------|
|   | Visit and study the situation  | Discuss, exchange ideas, activate experience, knowledge | Give the best solution |
| A member wants to borrow 2,500,000 VND to dig a well for water for his/her production activity. | The gathered amount of the team: 10 persons x 100,000 = 1 million VND<br>The member can gather 700,000 VND from family<br>Then, the Association will guarantee the debt of 800,000 VND to the well-digging service so that the problem can be solved soon. |   |                        |
| A member wants to borrow a small amount of money to buy 2 pigs for breeding activity.           | Some other members who have experienced raising pigs advise not to begin this activity at this time because the pigs can get disease easily. Furthermore, they give advice about ways of protecting the livestock's from such diseases.                    |   |                        |
| A member wants to buy a mobile phone.   | Everyone agrees that this is not a suitable plan.  |   |                        |

Operating tontine funds is built on the basis of equality with love, requiring an emotional rather than costly material investment. Furthermore, they are based on solidarity and the collective contribution of many people, with requirements for receipt of monetary contributions prior to participation in group activities and forfeiture of voting rights and access to valuable business information by individuals who fail to contribute. In other words, separation from the community's activities is designated as a consequence for lack of cooperation.

The Association has succeeded in organizing mutual aid tontine groups and has guided members to borrow money to start their own home businesses, such as opening their own grocery or clock stores, working as barbers, gardeners, or livestock breeders, or processing cashew nuts.

Both of the two cases fit the model of the type II social business, which are established and run by poor people. Activities by poor people in these models are not merely aimed at profit-maximizing, but instead dealing with issues surrounding them in order to lead a good life.

## Discussion and Lessons

### *Developing the Right Image of Poor People*

Lively discussion on poverty reduction resembles a number of doctors attempting to diagnose a disease, but not realizing that there is a variety of diseases causing an

unhealthy state. Thus a variety of treatment methods would be needed corresponding to each disease, reminding doctors that there is no universal panacea for all diseases. One important point in considering solutions to poverty is the need to maintain an accurate assessment of poverty, or, more specifically, the image of the poor. The very first and most important step in any solution to poverty is to understand poor people correctly.

Recent discussions have highlighted the negative traits of the poor. This includes giving examples that the poor drink alcohol, or making statements based on psychological studies such as, “Compared to wealthier people, poor people feel more powerless, depressed, and anxious, and believe that they have less control, mastery, and choice” (Karnani 2009). However, this cannot be seen as an accurate portrayal of all poor people. Research such as the theory of human problem solving proposes that it is only when someone defines a problem and comes to an awareness of problems on their own that they are motivated to solve them (Priestley et al. 1978).

The specific execution of these desires may lie in the creation of micro or small enterprises by the poor. These enterprises have a primary goal of job creation for the poor themselves, unlike normal or large enterprises, where jobs are created as a result of profit-maximizing goals. Therefore, Karnani’s statement, “most have no paid staff, own few assets, and operate at too small a scale to achieve efficiencies, and so make very meager earnings. In other words, most microenterprises are small and many fail,” (Karnani 2007) is not an acceptable reason to deny or neglect the approach of poor people. Rather, this raises problems to solve in the approach to creating business opportunities for the poor. Though the poor are described as those who have few assets such as limited financial capacity and technology, they are actually the holders of many other unknown, potential, or intangible assets such as knowledge, understanding, experience of poverty, etc.

Realized in the two given cases are the poor’s endless efforts to deal with surrounding issues in order to have the lives they desire. In the case of massage service, the solutions include mastering the massage techniques with patience, persistence and delivering the massage service with high focus in order to overcome difficulties caused by sight loss; managing to create and sustain a good working environment for blind people; educating blind masseurs’ work attitudes, etc. In the second example, the solutions are not completely oriented towards profit-maximizing but instead towards creating opportunities for disabled people to become self-dependent based on mutual help. The solutions are not merely helping the poor create and sustain one-person enterprises or self-employment businesses, but instead thoroughly resolving surrounding problematic situations. For example, not just any member in need of money can borrow money from the mutual aid tontine, but instead whether the money will be used properly and effectively is usually checked. In addition, good advice on using the money and running the businesses is given by other members in the group based on their experience. To state it in another way, the shared goal is neither merely becoming entrepreneurs nor maximizing profits, but problem-solving. Problem-solving refers to a set of efforts or behaviors directed to making the situations no longer problematic (Nguyen 2012).



### ***The Importance of Small Social Businesses Operated by the Poor***

The diversity of the issues implies that the problems that poor people face are not merely job opportunities. For example, a mega-survey by the World Bank of more than 60,000 poor men and women from 60 countries showed that it is the lack of assets and capabilities that restricts the poor's freedom to live the lives they value (Narayan and Petesch 2002). Ten assets and capabilities described by poor people are (1) Material assets, (2) Bodily health (3) Bodily integrity, (4) Emotional integrity, (5) Respect and dignity, (6) Social belonging, (7) Cultural identity, (8) Imagination, information, and education, (9) Organizational capacity, (10) Political representation and accountability.

Accordingly, the nature of solving poverty issues is not merely about creating jobs. Considering the two cases above, poor people face problems such as lack of material assets or bodily health. In the first case, though it is impossible to treat blindness as an important asset for poor people, the focus on the massage service is based on patience, hard work, concentration, which together with their rising aspirations helps compensate for the vision disability.

In the second case, though capital is a replaceable asset, the small amount cannot help poor people deal with financial problems in their small businesses. Lack of knowledge and experience is also an obstacle in the success of their businesses. Creating solutions based on the collective power of their assets and capabilities helps the poor access a fund made from the small capital of members and a bond made by cobbling together useful experiences to be referenced when dealing with difficulties in daily business activities.

Beneath the surface of businesses by the poor are creative problem-solving activities, which generate creative solutions to problems arising from the limitations or complete lack of assets and capabilities. Alternatively, these solutions are created on the basis of developing other assets and capabilities in order to compensate for the missing ones, or in activating the collective strength of limited ones.

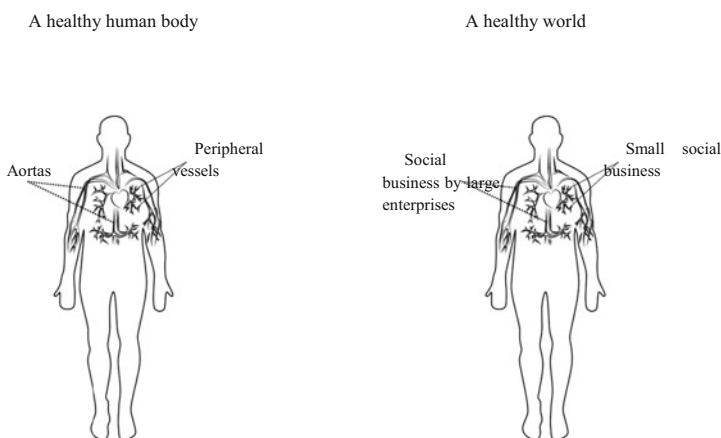
The importance of social business can be understood through the metaphor of the human body.<sup>3</sup> As commonly understood, the human body is nourished by blood in a circulatory system, with oxygenated blood pumped by the heart from the left ventricle flowing through organs and muscles. Blood releases oxygen and carries carbon dioxide in micro-blood vessels. Then the blood goes back to the heart through veins from the right atrium to the right ventricle before being pumped through the lungs where the respiratory organ takes in oxygen and releases carbon dioxide. Blood travels from the lungs to the heart from the left atrium to the left ventricle to complete a circulatory blood flow. Therefore, the condition for a healthy body is to have blood circulated to all parts of the body through not only aortas but even the peripheral vessels. If blood is only pumped to a certain body part

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<sup>3</sup>The author would like to thank Mr. Sakan Yanagidaira, President of Group Dynamics Institute, Inc., for helpful discussions on the metaphor.

**Table 9.3** Similarity between blood for human body and social business

| Blood for human body  | Social business as solutions to social problems  |
|---|--|
| Sufficient blood needs to be pumped continuously to all parts of the human body in order to keep the body healthy | Social business creates solutions to social problems in order to create a healthy world or a world without poverty   |
| Aortas play an important role in pumping the blood  | Social business by investors seeking social benefits contributes to poverty alleviation through various methods of dealing with poverty issues   |
| Those places that are not supplied with blood will result in tissue ischemia and necrosis                         | Limitations in current approaches together with the diversity and complexity of poverty make it hard to get rid of all poverty problems, leaving many problems unsolved and the poor stuck in the tyranny of poverty |
| In order to reach all the necessary places, blood needs to be pumped further by peripheral vessels                | Social business by poor people embedded in the context of poverty helps generate solutions to unsolved problems  |



**Fig. 9.1** The metaphor of small social business (Illustration by Bui Ngoc)

and stops there, this will result in a peripheral embolism, causing tissue ischemia and necrosis of that body part.

Social business shares this point of similarity with human body (Table 9.3). Social business as solutions to social problems is similar to the role of blood to human body (Fig. 9.1). Therefore, social businesses should be spread widely by not only large companies but also medium, small, and micro ones in order to address various social problems.

### ***Important Players in Solving Social Problems***

Despite the various social problems and geographical differences, there are similarities in social problems between the developing countries and the developed ones. For example, earthquakes used to be considered a characteristic problem of Japan; however, reconstructing and activating the disaster areas are not the problems of only Japan, since some other countries such as China or Haiti have faced great earthquakes in recent years.

There are many cases of people from outside becoming the main players in reconstruction activities. However, these cases clearly have limitations, which ignore the issues of how the victims become aware of the problems they are facing and how to discover and solve problems in their contexts. For example, many victims receive subsidies and unemployment insurance, which has become a safety net. However, the fact that their willingness to work has gradually decreased, and they have almost lost the desire to try and create jobs and earn a living by themselves, has become a serious problem in disaster areas. There are also many cases of failure to have the victims take part in production activities in order to generate income. The reason lies in the fact that victims are afraid that joining income generation activities will lead to losing the subsidiary aids, though the aids originally aimed to support them to become independent.

If the provided funds stop or companies leave the region, reconstruction activities will end there. Therefore, unless the victims can stand up for themselves and become main players, reconstruction and activation of disaster areas cannot be achieved in the true sense. Moreover, previous instances show that regions which faced major disasters declined due to the fact that the victims in those regions did not engage proactively and not because of social conditions.

### ***New Partnerships for Solving Social Problems***

In recent years, business has gradually been redefining its interaction with poor people “from a secondary activity to one integral to business growth and profitability” (Rangan et al. 2007) by converting poverty into business opportunities (Prahalad 2005; Prahalad and Hammond 2002), placing them in supply and distribution chains for good materials and market access (Prahalad 2005; Rangan et al. 2007). However, complete alleviation of poverty issues cannot be achieved unless the goal of social benefits is included in business activities. The viewpoint of merely searching for new markets or economic benefits drives business to consider the size of the market or possible commercialization solutions, which limits the business itself in discovering, exploring, and solving social issues. Especially, business tends to neglect needs or issues for which market sizes are not so promising and this induces poor people to solve their own problems.

Generating creative solutions based on developing other assets and capabilities to compensate for the lack of resources or activating the collective strength of limited resources are among innovative solutions of the poor to deal with issues in the state of limited assets. However, hiding under this creativity are certain limitations, in terms of scaling due to the limited assets of poor people. On the other hand, it is poor people that understand what the problematic situations or the gaps between what is real and what is desired are. In other words, besides creative solutions based on potential resources, the poor play an important role in discovering what poverty problems are, and the involvement of the poor in problem-solving is inevitable. This is not only true for the poor in developing countries, but also true for those who are facing the social issues in other contexts. Therefore, it is necessary to create partnerships between poor people or people who are stuck in social problems and nonprofit organizations, even conventional business enterprises trying to assume their proper social responsibilities in discovering problems, starting, sustaining and scaling social business. Especially, for conventional business enterprises, this is a new way of implementing social responsibility activities more effectively and sustainably.

## Conclusion

Large enterprises with abundant resources cannot become key players in dealing with poverty issues completely unless they go beyond their goals of seeking economic benefits. Though social business is a promising approach, the diversity of social problems calls for various types of social business, which are operated not only by large enterprises and but also by poor people. Furthermore, it is not reasonable to deny the role of poor people in solving poverty issues by arguments that criticize limited assets or capabilities. Creative solutions by the poor in struggling against their problems show that innovative ways of developing other assets and capabilities in order to compensate for missing ones, or activating the collective strength of limited ones can become effective methods of solving issues surrounding the poor. It also implies that awareness of the poverty issues and commitment of the poor people are sufficient for any approach to poverty alleviation.

The approach of the poor people is an alarm to awaken practitioners, policymakers, and researchers on poverty reduction to focus on poor people – an emerging force, which is a dramatically important poverty reduction approach. Furthermore, the small scale should be captured as the reason for the neglect of this approach with the direction to guide further research on how to scale these activities for better contribution to poverty alleviation.

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**Part III**  
**Practice: Lessons Learned About Designing**  
**Social Businesses**

# Chapter 10

## Social Business Planning: Management and Financial Issues

Maria Ballesteros-Sola

### Initial Challenge: Understanding the Context

Social business, as an under construction research field, is suffering some of the same illnesses that the social entrepreneurial field endured in the early days, back in the 1980s, before it became “mainstream” in both the media and the academic world. There is even an ongoing discussion, mostly among business practitioners, about the meaning of the word “social” in social business.

On one side of the meaning spectrum, and mostly for US-based technology and marketing professionals, the term “social business” is seen as an evolution of their social media strategies and tactics, an organizational approach that leverages available interconnected technologies to facilitate the inbound and outbound conversations among all of the corporation’s stakeholders. For example, the multinational technology and consulting corporation IBM (NYSE: IBM) has been using the phrase social business to describe its portfolio of products and services that provide its clients with a competitive edge, driving cost savings and increasing revenues (IBM, Social Business 2013). The US-based software company Salesforce.com (NYSE: CRM) started to use the phrase “social enterprise” to de-scribe its offering and tried to trademark it in different countries in 2012. As a reaction, Social Enterprise, the UK national body for social enterprise, launched the campaign “Not In Our Name” to raise awareness and halt the process. A letter was sent to Salesforce.com’s CEO asking him to stop their trademark efforts. Professor Yunus was one of the signees (Social Enterprise UK 2013). Alternatively, there is another extended understanding of the phrase social business among academics and social practitioners. Social business is described as a for-profit business with a higher purpose, where maximization of shareholder’s profits is not seen as the primary goal. On the contrary, it is a for-profit enterprise that seeks to simultaneously meet

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profit goals and social and environmental goals that reflect the values of its owners (Russo 2010). Elkington and Hartigna use the phrase Social Business Ventures to describe for-profit entities focused on social missions including in this category Whole Foods (NASDAQ: WFM), the world's leading retailer of natural and organic foods (Elkington and Hartigan 2008).

In 2011, the European Commission launched their Social Business Initiative. Interestingly, they used the phrases social enterprise and social business interchangeably. Within the context of this initiative, social business is defined as “an undertaking: Whose primary objective is to achieve social impact rather than generating profit for owners and shareholders [...]” (European Commission 2011). The term social business is also used to describe hybrid organizations that are at the inter-section of markets and civil society (Jäger 2010).

For followers of Yunus' teachings, the phrase social business is clear in its theoretical approach, as a social business “is designed exclusively to deliver social benefit, there is not thought of creating profit for any investor” (Yunus 2010). Kerstin Humberg's work embodies one of the documented efforts to establish a social business taxonomy and isolate the concept from other overlapping concepts such as Corporate Social Responsibility (CSR), Bottom of the Pyramid (BOP), nonprofits, cooperatives and social enterprise (Humberg 2011). She establishes a distinction between a general social business definition and a Grameen social business. The key attributes that separate a Grameen social business from other overlapping concepts are fundamentally: its social mission, its business identity vs. nonprofit, as well as the voluntarily relinquishment by investors of any financial return on their investment, except for the principal amount. Yunus summarizes the concept as a “non-loss, non-dividend” organization that follows the seven principles” (see Chap. 1 in this volume) (Yunus 2010).

In this chapter, I use the term “Yunus” to qualify the social business that follows Yunus' principles. However, even with this narrower definition, I find a heterogeneous landscape with a broad spectrum of business models, organizational frameworks, geographical locations and different grades of development. The lack of publicly available information, and the dynamic nature of businesses, complicate the analysis and comparison of business models across geographies, industries and platforms. In an attempt to further organize our research, I have developed my own Yunus Social Business taxonomy:

1. Yunus social business entrepreneurs: a subset of the well-known social entrepreneur (Humberg 2011), the Yunus entrepreneur has become in touch with Yunus' writings and the seven principles described. Like other social entrepreneurs, they are determined to achieve a long-term goal that is deeply meaningful to them (Bornstein 2007). The reason for their venture is to address a social issue and they aim to create a sustainable business as a means to that end (Yunus 2010). Active examples are Eugenio La Mesa and Pietro Sodani and their organization Cure Thalassaemia, Marcus Feix, founder of Variomondo-Shopping for a Better World® an online fair trade shopping portal headquartered in Germany, or Fionn Dobbin and Andris Rubins, co-founders of Mammu, a fashion company that works with mothers in need in Latvia.



2. Medium to large social businesses backed by private investors and venture capital firms, such as Centro Medico Santagostino in Milan (Italy) funded by venture capital firm Oltre Venture and a number of private socially conscious investors.

3. Traditional corporations with Grameen social business initiatives: Existing for-profit multinational corporations (MNCs), enter into a joint venture with Grameen to start and develop a new Yunus Social Business project, many of them in Bangladesh. Some of the most well-known initiatives are: Grameen Danone Food Ltd, Grameen Veolia, Grameen Uniqlo, Grameen Otto, Grameen Intel or StarShea Ltd. (Ghana) between German software company SAP and Grameen Ghana.

4. Grameen driven social business: This last type of Yunus social business encompasses those organizations, more than 25 now created and developed under the Grameen family umbrella in Bangladesh. Inspired by a simple idea, Yunus has created in his home country a business around different social and economic problems. “Whenever I wanted to deal with a social or economic problem, I tried to solve the problem by creating a business around it” (Yunus 2010). This was the promise for Grameen Bank, considered now the mother of all social businesses. Many of them were established as nonprofit entities, however they are operated as a social business to the extreme that some of them, such as Grameen Shakti (Energy), have been legally transformed into one (see Chap. 6 in this volume and Wimmer 2012). Outside Bangladesh there are a significant number of Yunus driven initiatives that have already launched specific and sustainable ventures: The Holistic Social Business Movement in Caldas in Colombia, Albania and Haiti.

The following diagram illustrates the different types of Yunus social business and their relationship with the surrounding concepts both in the for-profit and nonprofit framework (Fig. 10.1).

The first two Yunus social businesses (number 1 and 2) overlap with the concept of social entrepreneurship. Yunus social businesses started by entrepreneurs share the passion of a social mission with an image of business-like discipline, innovation, and determination commonly associated with, for instance, the high-tech pioneers of Silicon Valley (Dees 1998). What differentiates them is the fact that “traditional” – if such a word can be used for such a novel entrepreneurial activity – social entrepreneurs are able to provide their investors with a financial return on their capital beyond the social impact. On the other side of the diagram we have MNCs that have incorporated their Corporate Social Responsibility (CSR) activities into their day-to-day operations with different degrees of commitment to the “shared-value” concept (Porter and Kramer 2011). The third typology of Yunus social business overlaps with this group because these are corporations such as Danone, Veolia, McCain or BASF that have embraced the concept of social business to redefine some or all of their CSR activities. In Danone’s case, their joint venture with Grameen has successfully transcended the boundaries of Bangladesh to permeate the cultural values of the organization. MNCs benefit from social business activities by using them as learning labs, as a motivation tool for employees and shareholders, and as way to improve the company’s image.

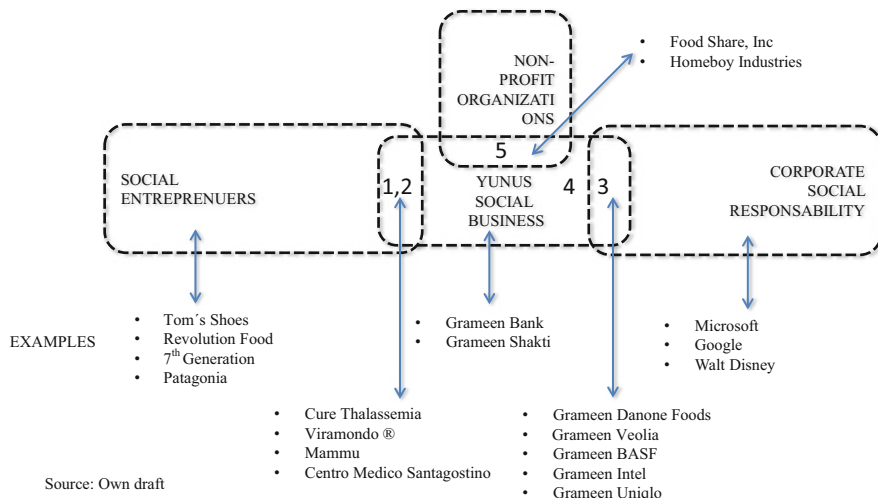


Fig. 10.1 Yunus social business landscape

The last type of social business (number 5) includes the social enterprises successfully started by nonprofit organizations in order to achieve sustainability through earned-income (Bell et al. 2010).

The next sections address the issues that these entities are encountering from a managerial and a financial perspective.

### Management Perspective: The Art of Balancing

Business management requires a fine balance between art and science. Traditional for-profit organizations have looked into the works of management thinkers such as Drucker or Porter to try to understand what accounts for success when it comes to balancing mission and performance through planning, organizing, staffing, leading/directing, controlling/monitoring and motivating. Also, nonprofit organizations often incorporate good management practice as much as in their for-profit counterparts, but nonprofits don't have the conventional "bottom line" (Drucker 1990). Jäger describes executives' practice in social business as an action of balancing within areas of tension. There is a constant balancing of "awareness of experience" and rationalizing, balancing decisions concerning motivation, leadership, resources and impact, and balance within the main tasks of mission, governance, strategy and accountability (Jäger 2010). Key management aspects and their impact within the context of social business have been analyzed.

## Mission and Goals

A mission statement is a relatively short statement that captures the primary purpose of the organization. It reflects the basic organizational values (Baker 2007) and purpose, that is, what it is trying to accomplish (Kotler and Andreasen 2007). Understandably, the mission of a social business is “per se” aiming to achieve a positive social impact that will get reflected in the organization’s values. A social mission creates natural tension (Jäger 2010) and requires constant trade-offs. A clear and concrete mission statement facilitates the subsequent goal setting and impact measurement definition. As discussed later, measuring social impact presents challenges substantially different from measuring financial results where quantitative, standardized principles and metrics are used. The more complete the initial definition of the mission and goals, the easier the later measurement of the social impact.

Yunus explains that social businesses are problem-solving businesses, therefore the problem comes first: the understanding of the issue and good and clear distinction between causes and symptoms should precede the definition of the business model (Yunus 2010).

In the case of Grameen Danone Foods Ltd., the Memorandum of Understanding (MOU) signed in March 2006 by Yunus and Franck Riboud (Danone’s CEO) established its mission as to reduce poverty by bringing health through food to children using a unique community-based business model (Yunus 2007). Grameen Shakti established its mission as to promote renewable energy technologies to the rural people to protect the environment and at the same time, improve standards of living (Wimmer 2012).

Social business entrepreneurs have a clear understanding of the primary social issue they are trying to address. For instance, Italian entrepreneur Eugenio La Mesa first became aware of the existence of thalassemia illness through his long-term friend Pietro Sodani. Thalassemia is an inherited genetic blood related disorder that creates anemia and requires repeated blood transfusions for survival. Practically eliminated in the developed world, where it is considered a “rare disease,” worldwide there are almost 300,000 living patients and 60,000 babies born every year with the disease (Thalassemia International Federation 2013). Entrepreneur La Mesa decided some years ago to put his energy into finding a solution to this life-changing disease.

Eugenio’s first social business experience is well documented in Chap. 4 of Yunus’ book, *Building Social Business*. He ran Cure2Children, an Italian organization dedicated to researching, developing and providing treatment for rare cancers and blood diseases for the children of the world (Yunus 2010). As he learned about Yunus’ teachings and foresaw the potential of a business venture to solve this social issue, he reconsidered the Cure2Children existing approach based on donations and grants. As a result Eugenio co-founded Cure Thalassemia, a social business that has established a key partnership with the Mazumdar Shaw Cancer Centre, inside the Narayana Hrudayalaya Multispecialty Hospital in Bangalore

(India), founded by Dr. Devi Shetty as the world's largest heart hospital for children. Cure Thalassemia's social business mission is to eradicate thalassemia in emerging countries, allowing patients to live thalassemia free, with no more transfusions needed. Doctor Sodani is providing free advice to thalassemia patients, and they will be performing bone marrow transplants (BMT) with a cross-subsidization approach: four-paid BMT operations will allow the business to offer a BMT operation to a qualified low-income patient.

Social businesses are by definition mission-driven companies and as such, mission becomes the most defining characteristic of what kind of organization they are, what kind of activities they engage in, confronting a number of tough questions along their overall value chain.

## Strategy and Business Models

Social business practitioners understand a business model that guarantees that the organizational sustainability must follow the mission. A business model can be defined as a blueprint for a strategy to be implemented through organizational structures, process and systems (Osterwalder and Pigneur 2010). The same way that Yunus envisioned the Grameen Bank by questioning, back in the 1970s, the Bangladeshi banking "status quo" and financial services' "modus operandi" (Yunus 2007), social business practitioners fulfill their mission by, in some cases, quietly implementing "blue ocean strategies".

Blue ocean strategies, well documented in the case of traditional profit enterprises (Kim and Mauborgne 2004), create uncontested market space through fundamental differentiation and value innovation. These organizations create new benefits and services while simultaneously reducing costs, therefore rejecting the traditionally accepted trade-off between differentiation and lower cost (Osterwalder and Pigneur 2010). Grameen Shakti is a good example of blue ocean innovation. Back in the 1990s, the lack of access to electricity and the obvious growth and development limitations for the "off-the grid" rural economies in Bangladesh were well understood. However, no commercial enterprise had ever tried to envision a solution for these millions of rural inhabitants because of the cost constraints, and therefore the lack of commercial attractiveness. Yunus and his team decided to take the risk and to start experimenting with solar energy solutions. Shakti pioneers in the mid-1990s, had to enter an unexplored market, to create and capture new demand making the competition irrelevant and to take an entrepreneurial, market-based approach to understand and master the nature of rural business. Grameen Shakti's managers understood the village's idiosyncrasy and developed a proximity business model that will be replicated by Grameen Danone (Wimmer 2012). The validity of their approach is backed up with strong quantitative and qualitative results. In December 2012, the one millionth Solar Home Systems (SHS) installed milestone was reached (Grameen Shakti 2012), becoming one the biggest non-grid programs in the world. They have also successfully extended their product lines

within the same initial mission: the improved cooking stove, the biogas and the organic fertilizer program.

Social business practitioners also transfer models proven successful in the for-profit world to the social business world. For example, the “freemium” model that many Internet-based companies have adopted, where a basic product/version or service is provided for free while a fee is charged for a more advanced version of the same product or service. A large user base receives the offering for free and never pays, while a small percentage of paying customers subsidizes the free users (Osterwalder and Pigneur 2010). Cure Thalassaemia’s co-founder, Eugenio La Mesa decided to apply the freemium model to his social business. Pietro Sodani, co-founder and scientific coordinator provides free advice to thalassaemia families via Internet and face-to-face, periodically at the Narayana Hrudayalaya Hospital in Bangalore (India). As of December 1st, 2013 more than 2,500 families from 75 countries have been helped. This creates word of mouth within the thalassaemia community and allows Cure Thalassaemia to position itself as the leading provider for that market.

Scalability and replicability are well-established defining attributes in the social entrepreneur universe. Ashoka includes them as key criteria for their rigorous Ashoka Fellows selection process (Ashoka 2013). Scalability is defined as the potential of the business model to grow and expand, impacting a large number of livelihoods, either directly via providing products or services or via positive impact along the value chain. Replicability defines the potential to spread to other geographical areas.

While no one questions the successful scale of Grameen Bank in the last 40 years, its replicability took time, with the first replication coming in 1982 and achieving global impact 20 years later (Yunus 2010). Analyzing some successful Yunus social businesses, we observe a number of barriers to the replicability of those business models outside Bangladesh, such as different scale and root cause of the social issue, the potential impact of the proposed solutions, cultural and legal barriers as well as the competitive landscape.

As a summary, in order to develop a successful social business model it is critical to achieve:

- Alignment with social mission;
- Development of a proximity model that impacts not just the consumer but the different stakeholders in the value chain;
- Cultural understanding and involvement of the local markets and communities;
- Adaptability to key trends, industry, market and macroeconomic forces creating an iterative learning business model.

## Leadership

Ambitious missions require strong leadership. The social business leaders interviewed for this chapter are accomplished social businessmen or businesswomen looking for meaning and value that transcends the financial profit line.

For the MNCs engaged in social business, a strong leadership and senior management's commitment and involvement are required. Franck Riboud, Groupe Danone's Chairman and Chief Executive Officer, was the engine behind the Grameen Danone joint venture and led the organization from idea to first yoghurt production batch in just 14 months, in a country, Bangladesh, where they had no prior experience. The involvement and buy-in of the MNC's top management is a definitive success factor. Quite often the assumptions in the initial business plan are overly optimistic, as in Danone's case, so a lack of strong support when reality calls into question these initial premises can compromise the continuity of the venture (Humberg 2011).

Social businesses risk falling into the same problem as the nonprofit world when it comes to selecting a strong leader to run the day-to-day operations. Non-profits don't have the size and budget to identify, nurture, and develop leadership within the organization. Also, they lack the time and funding to hire a qualified head-hunter, not only to hire the right candidate, but also to hire him or her in an expeditious manner. Nonprofits and social businesses also generally can't compete with for-profit firms in terms of financial remuneration. Nonprofit author Tierney suggests to invest in leadership capacity, reevaluate management compensation and explore new talent pools (Tierney 2006). The most successful social businesses today have been able to find local talent, managers that understand the local culture and social aspects, as well as the local business environment.

If leadership compensation is an issue in social businesses established by MNCs, the problem gets exacerbated for the smaller social entrepreneur. A number of the interviewed entrepreneurs were not able to pay themselves because of the lack of revenue. Others chose to forgo being paid to minimize expenses. The problem of working without pay, whether elective or involuntary, meaningfully jeopardizes the social venture's chances for sustainability and success.

Some defining characteristics of these social business heroes are:

- Passion and knowledge about the cause. Also, inspiration to drive social change absent the pure financial motivation;
- Creative thinking that challenges the status quo to devise new solutions and envision market opportunities;
- Orientation to action with little concern about how they are categorized or labeled by academics and analysts;
- Previous business experience, which brings acumen to their social business. Some successful track record in a private corporation or running a for profit enterprise.

## Legal Structures

Yunus explains that social business is not yet a recognized business category and emphasizes the need for a legal and regulatory structure (Yunus 2010). This need is seen as an important requirement for the advancement of the social business movement, but currently, all Yunus social business types need to act and operate

within the existing legal structures of the different jurisdictions where they operate, to fulfill their social goals. They cannot wait for the perfect legal structure; they need to act now, and we can observe a number of different legal structures used by social business to fulfill their social mission.

The challenge of selecting the right legal structure is contingent upon the location of the social business' headquarters of and its areas of operation. Social businesses debate between constituting their ventures as a nonprofit organization or a for-profit, either a traditional legal for-profit entity or some of the new pro-social legal frameworks that have been developed across the globe such as in Europe or in the US.

The advantages and disadvantages of different US legal structures have been well documented (Wexler 2009; Sampsel 2013) but Yunus discourages the use of the nonprofit legal structure for social business (Yunus 2010) despite its tax exemption status and obvious attractiveness to donors, based on the fact that in a nonprofit, an entrepreneur can't own the organization and lose control to the board of directors, where strategic decisions are being made. Also problematic is the strict legal scrutiny that nonprofits experience.

Some interesting legal developments are taking place in the US and Europe in relation to new legal business structures that support social missions.

## *United States*

In the United States as of June 2013, legislation to introduce a new type of corporate legal entity has already been passed and signed into law in 17 states (B-Corporation foun 2013). The Benefit Corporation also known as B Corps (B as in benefit) is considered one of the most comprehensive yet flexible legal entities devised to address the needs of entrepreneurs, investors and the public in general (Clark and Vranka 2012). Under this new legal denomination, companies must have a corporate purpose to create a materially positive impact on society and the environment, director's duties include consideration of non-financial stakeholders, besides the financial interests of the shareholders, and it includes a reporting obligation on the social and environmental activities using a recognized third party standard (Benefit Corp Information Center 2013).

B Lab, a nonprofit organization, is at the forefront of developing one of these standards. They have established a certification process by which companies can be certified as a B-Corporation. The new legal entity and the certified companies by B Lab can get confused since both are called B Corps. More than 600 companies have been certified as B-Corps, operating in different industries and with different degrees of development.

Another emerging legal structure in the US is the low profit limited liability company or L3C. Its creator, Robert Lang, calls it the "for profit with the nonprofit soul." L3C laws have been enacted in nine states as of January 2013. Like any limited liability company (LLC), L3C has the liability protection of a corporation

and the flexibility of a partnership (Americans for Community Development 2013). However, its attractiveness lays in the fact that L3C can be considered a Program Related Investment (PRI) for the purpose of attracting foundations' funds and that its branding is sending a message about the founder's social priorities.

A third alternative could be to create a hybrid structure where a nonprofit owns a for-profit. As more nonprofit organizations look for alternative sources of revenue and earned-income, they could create a separate for-profit entity run as a sustainable social business. An example is Community Action Ventura County. This California-based non-profit has been providing free weatherization services in Ventura County to low families for the last 30 years. To weatherize a house involves an initial energy efficiency assessment and a number of improvements that reduce energy consumption, creating positive savings in the house owner's utilities bills (Community Action of Ventura County 2013). They have the certified operators, the required tools as well as a solid understanding of the local community. They are now in the process of creating a separate for-profit entity that allows them to offer these weatherization services to affluent/middle class local families for a fee. A more environmentally conscious consumer and government incentives have created a ripe market for this kind of service. This for-profit will be run as a social business, with all the profits reinvested, in order to grow the business, thereby creating more much-needed local jobs.

## *European Union*

On the other side of the Atlantic, the European Union launched the Social Business Initiative in October 2011. This document reinforces in section “[Mission and Goals](#)” the need to improve the legal environment and to develop the appropriate legal forms to encourage the creation and development of social business (European Commission 2011).

Within the European Union, a number of individual sovereign countries have developed their own legal frameworks to support social business. They differ in their grade of maturity and development. For instance, the United Kingdom's legislators established a legal figure called the Community Interest Company (CIC) in 2005 (Spear 2005). CICs can be established either as companies limited by guarantee (CLG) or as companies limited by shares (CLS). However, they have to fulfill a social purpose and also have a “lock” on their assets to prevent profit distribution to members or shareholders, and to guarantee that all assets are serving a community purpose.

Social business entrepreneurs interviewed are aware of some of these new legal entities, but the reality is that they have opted for developing their legal structure under the structure that better fits their social goals in their particular legal environment. For instance, entrepreneur Eugenio La Mesa established a nonprofit in Italy, specifically what is called in Italian ONLUS, i.e. organizzazione non lucrativa di utilità sociale, as a vehicle for his Cure Thalassaemia for-profit activities in India.



In the same way small entrepreneurs adapt their legal entity to the reality of the legal system, some successful Yunus businesses have experienced a legal evolution that can be used as a model. For instance, Grameen Shakti in Bangladesh was created as a company limited by guarantee (CLG), as this was considered the best legal framework at the time of its creation back in the 1990s. As it grew and became a commercial success, Yunus realized that its legal structure didn't fit its ultimate goals, so he opted for creating a "daughter" entity called Grameen Shakti Social Business (GSSB), owned 100 % by Grameen Shakti, that agglutinate the operational activities and assets of the old company. GSSB became the operational wing of Shakti and followed the social business principles, reinvesting all profits into their operations and expansion. Again, Yunus perceived that the nonprofit status was a limitation for the development of the social business; since there is no ownership involved, this could deter potential social investors (Wimmer 2012).

## Measuring Social Impact

Measuring social impact has become one of the most challenging and urgent issues in the field. Measuring and valuing the social wealth is a major challenge among all organizations that want to go beyond the first financial line, i.e. non-profits, socially responsible corporations or "traditional" social entrepreneurs.

A comprehensive measurement approach should be able to establish three levels of social impact: the one created by the total contributions of all social businesses combined, the social impact created by each individual organization, and the social impact created by individual product lines or services offered by an individual social business (Zappalà and Lyons 2009).

The challenges associated with the measurement of social value have been largely discussed: establishing the connection between outputs and outcomes, isolating causality, long time horizons, heterogeneity of industries, sectors and regulations, subjectivity of the proxies, and of course the time and resources required that can be a burden to the already lean social business organization (Hanna 2010).

Social business practitioners are aware of the need for measurement but they raise these initial questions: what are the goals of the measuring and for whom are they being measured? A strong and reliable impact measurement framework can be used as: a road map for social practitioners and a tool for organizational development that allow them a constant improvement; a comparison tool across business models and social business organizations used by socially-minded investors; and a marketing tool to build brand awareness for all stakeholders, especially consumer and prospective employees, demonstrating commitment to the mission. In the nonprofit, corporate sustainability and social entrepreneurial fields, a number of methodologies are competing to establish themselves as "the" measurement system to monitor progress in delivering social value. This results in a fragmented reporting landscape that prevents comparability across organizations and industries.

The universe of social business is not foreign to this ongoing discussion, but since impact investors in a social business only get a social return on their financial investment, the quest for a reliable measuring system is more acute, in order to demonstrate that the social mission is accomplished.

Social business practitioners are experimenting with a number of existing methodologies. A thoughtful analysis and comparison is outside the scope of this work but I highlight the following:

1. Impact Reporting and Investment Standards (IRIS), initiative of the Global Impact Investing Network (GIIN), nonprofit dedicated to increasing the scale and effectiveness of impact investing. IRIS is a set of standardized metrics to describe the financial, environmental and social performance of an organization. The IRIS framework consists of six parts: Organization description – metric focused on the mission, operational model and location; Product description – metrics related to the organization’s offerings and target markets; Financial performance; Operational impact – metrics focused on policies, employees and environmental performance and Product impact – metrics that describe the performance and reach of the organization’s products and services (IRIS 2013).
2. Best Available Charitable Option (BACO) developed by Acumen Fund, a nonprofit with more than \$100 M in assets, dedicated to eradicating poverty by investing in social enterprises. Their approach to measuring social impact includes the use of the IRIS metrics described above; BACO, to quantify an investment’s social impact and compare it to the universe of existing charitable options for that explicit social issue; and Pulse, the web-based tool developed to gather and monitor all the relevant data (Acumen Fund 2013).
3. Social Return on Investment (SROI), a social impact measurement framework that enables the calculation of a ratio of benefit to cost (Cupitt 2009). It was initially developed by The Roberts Enterprise Development Fund (REDF), a San Francisco-based venture philanthropy organization (REDF 2013).
4. Social Impact Assessment (SIA) combines the theory of change (why the activities will lead to change?) and the Logic Model (how the activities will lead to outcomes?) to differentiate inputs (what is put into the social business), activities (what gets done), outputs (results that can be measured), outcomes (change to social system), and net impact (Kellogg 2004).
5. Yunus Social Business (YSB), a spin-off from Grameen Creative Lab, is developing a framework using the Logic Model and a set of three sources: Outcome indicators for individual social business with quarterly and annual social key performance indicators (KPIs), a stakeholders survey for impact within a social business sector, and entrepreneurial surveys with focus on the social business concept per se (Global Social Business Summit 2012).

Whichever the framework chosen to track social impact, any measurement should start with a clear definition of the social objectives.

## **Financial Perspective**

From a financial perspective, I concentrate our efforts on two fronts. I describe sources of funding currently used for social business, as well as social entrepreneur funding trends that can be relevant for social business. I continue the analysis to examine the implications that the social mission has on the financial decisions.

### ***Sources of Funding***

The approach to social business funding varies greatly depending on the required amount and the scalability of the business model. Small social business entrepreneurs are using some of the existing traditional funding vehicles: self-funded, debt-funded or equity-funded; bigger social business organizations are even tapping into government funds and supranational organizations' funding.

Social businesses are well positioned to tap into the emerging industry of social finance. Social financial institutions aim to create an impact on society, the environment or sustainable development by offering financial products and services such as loans, investments, venture capital, and microfinance (Baker and Nofsinger 2012). These authors categorize social finance into social banking, impact investment and micro-funding.

### **Social Banking (SB)**

Also called ethical or responsible banking, SB encompasses the financial institutions that operate under the principles of sustainable banking. The Global Alliance for Banking on Values summarizes those as: (1) Triple Bottom Line approach at the heart of the business model, (2) Grounded in communities, serving the real economy (as opposed to the financial economy) and enabling new business models to meet the needs of both, (3) Long term relationship with clients and direct understanding of their economic activities and the risks involved, (4) Long-term, self-sustaining and resilient to outside disruption, (5) Transparent and inclusive governance (Global Alliance for Banking on Values 2012). This alliance comprises more than 50 independent, licensed institutions with combined assets exceeding \$60 billion, in 25 countries such as Triodos Bank or Banca Popolare Etica in Europe, MiBanco in South America or New Resource Bank in the US.

### **Impact Investing**

Although the industry still has ambiguous boundaries, impact investing, a term coined by the Rockefeller Foundation in 2007, actively places capital in businesses

and funds that generate social and/or environmental good and at least return nominal principal to the investor (Monitor Institute 2009). Over the next 5–10 years, this type of investing could represent 1 % of the estimated current asset under management – about \$500 billion (ibid). Within the context of Yunus social business we highlight the following investment vehicles for “patient capital” to be able to get involved:

### **Social Business Fund Danone**

Communities SICAV, a French mutual fund created in 2007, that has raised over 70 M euros from Danone, Credit Agricole, individual investors and Danone employees (Dannone Communities 2011).

### **Yunus Social Business Incubator Fund**

YSB has established a fund that channels investment from donors and philanthropic investors into social businesses in specific targeted countries, among them Haiti and Albania. Funds will be repaid in 10 years.

Key points for the success of the social business investment funds are liquidity of the fund to allow investors to exit the fund, the measurement of the social performance, both quantitative and qualitative, and the development of successful “ad hoc” legislation. The European Union is working on the final revision of the European Social Entrepreneurship Fund (EuSEF) regulation, as part of the outputs of the Social Business Initiative from October 2011, discussed in the first section of this chapter.

### **Microfunding**

Microfunding is probably the best known of the social finance type because of Yunus and Grameen Bank’s achievements. It is out of the scope of this chapter to review microfunding’s overall impact and status. However, we highlight a recent development within the microfunding universe that has the potential to attract investors to social business: online crowdfunding. Crowdfunding is currently evolving from its philanthropic roots, i.e., funding of artistic endeavors and social causes. Crowdfunding investors have traditionally received non-financial rewards and perks using online platforms like Kickstarter.com and StartSomeGood.com. Crowdfunding is becoming a more sophisticated equity-based form of investing, where the “micro-investor” contributes to the start-up’s equity, using platforms such as crowdfunder.com in the US or Crowdcube.com in UK. In the US, the Jumpstart Our Business Startups Act (JOBS Act) was signed into law in April 2012. It allows businesses to solicit securities-based funding from any investor who seeks to receive a financial return through the purchase of equity, debt, or revenue-based

securities. Non-accredited investors (i.e., small investors), traditionally excluded from this type of investing opportunities, now have access to investing in startups and small businesses.

Unquestionably, social-minded investors and more advanced investment vehicles, such as social-impact bonds are on the rise. An investment in a pure Yunus social business will not bring mission-aligned investors any financial return beyond return of principal, and they cannot write off their “investment” as a donation. Yunus social businesses are increasingly at risk of losing investment capital based on its model of return of principal plus social impact, versus social entrepreneurs who are capable of providing not only return of principal plus social impact, but also return on capital even if only modest.

Therefore, a social business needs to develop a strong value proposition to attract investors. Given similar social missions, why would a mission-driven investor choose to invest in a Yunus social business, directly or indirectly, versus investing into a “traditional” social entrepreneur? A set of added value benefits needs to be defined: Image improvement, increased employee morale, networking opportunities, etc.

## The Challenge of Financial Sustainability

The idea of economic sustainability is intrinsic to the concept of Social Business and it is captured as one of the Seven Principles (Yunus 2010). This idea of self-sufficiency separates these mission-driven organizations from traditional non-profits. There is an ongoing discussion about social enterprise being naturally inefficient (Brooks 2008) with constant tension between net revenues and adherence to the mission, forcing managers to divide their energy between activities that raise net revenues and delivering core services that fulfill the mission. This dichotomy theoretically disappears with the social business concept, as the “non-loss” is a condition sine qua non for their existence. However, this represents a constant challenge for social business managers and entrepreneurs, as they have to balance affordable pricing for their products and services with “being environmentally conscious” (Principle 5) and offer “market-wage with better-than-standard working conditions” (Principle 6) (Yunus 2010). The premise is that the relinquishment of the financial return by the investors as well as a cost-driven approach will compensate the reduced margins.

There is a very granular casuistic when it comes to the social business’s cost analysis. Social business projects initiated by MNCs get an initial influx of funds (start-up capital) that in many cases is considered as R&D spending to acquire knowledge (Yunus 2010) in doing business at the bottom of the pyramid. However, these substantial amounts are not always included in the social business projects’ ROI. The learning-by-doing approach has also led to fast decisions that lacked the adequate financial and market data (Humberg 2011). In smaller ventures, entrepreneurs do not always compute the cost of their own time, creating misleading

margins. In an effort to keep personnel costs under control, alternative non-monetary incentives could be used such as stock options, equity or career paths or training. As job opportunities are created along the supply chain, profit margins need to be included for these intermediaries, therefore creating another pressure point in the already lean margin structure. Another recurrent finding from our interviews is that narrow margins leave no room for mistakes, forcing managers and entrepreneurs to be very detail oriented and creative in their solutions to contain both direct and indirect costs. Finally, another expense often forgotten is the one related to educational marketing activities. If the product or service introduced to low-income consumers is new, an unplanned additional investment into educational marketing may be required.

On the revenue side, when serving low-income markets, special attention must be paid to the price ceiling. As proven by the Danone case, a price increase to balance costs increase may compromise the business model (Humberg 2011). Some of the alternatives used by different social businesses are:

Cross-subsidization – by which middle class and affluent segments will pay more for the product or service as a way to keep price affordable for low-income customers. It can be implemented between different customer segments accessing the same product or service (Grameen Danone or Cure Thalassaemia) or between business units (Veolia).

Market development via e-commerce – Mammu from Latvia is exporting worldwide its designs manufactured by young mothers in need.

Product diversification and innovation – the new Shokti Pocket launched by Grameen Danone, cheaper (cost and selling price) than the original product, with the same nutritional value and an increased shelf life.

Social business practitioners explore uncharted territories creating new business models but, as they plan their ventures, they always should underestimate their income and overestimate their cost. Financials trade-offs take on a different meaning, as they have to be guided by the ultimate social mission.

## Final Remarks

As discussed in this chapter's first section, social businesses can help bridge the gap between social entrepreneurs and the most advanced forms of CSR. Social business can help small and medium enterprises (SME) and MNCs to understand that another way of designing and implementing CSR activities is possible by developing initiatives that focus on sustainability vs. charity work. Social business opens new avenues for strategic CSR and shared value creation (Humberg 2011). Social business can play a role in placing CSR at the center of corporate strategy and planning versus being a marginalized lateral activity.

On the entrepreneurial side, I have found that the entrepreneurs are in many instances completely unaware that their activities fall into any academic framework, but are instead simply "walking the walk," building action oriented and

impactful social businesses. Social business entrepreneurs, many of them with strong business acumen, are quietly and passionately proving the power of capitalism for doing good. Social business can also serve as a model for nonprofit organizations developing or creating earned-income activities in order to eliminate dependency on donations or grants.

However, the social business movement is not free of risks and challenges. Social businesses are mission-driven organizations constantly balancing the need to fulfill their mission with their need to be financially sustainable. Not having to provide financial return to the investors could give them some flexibility in their pricing structure but it can also prevent them from attracting the necessary capital for expansion and growth. The following are a list identified challenges, risks, and opportunities.

### *Challenges*

- Proving social business models deliver results in developed countries. Transferability of successful models from Bangladesh to other regions and the concomitant political, legal, economic, cultural and technological challenges of each individual country;
- Addressing poverty's root causes vs. temporary palliative approaches;
- Attracting investor capital without the promise of return on investment;
- Designing the best legal structure to avoid mission drift;
- Hiring the right leader and management team.

### *Risks*

- Dilution of the social business concept into the overall social entrepreneur movement;
- Limited scalability from diminished investor expectations, resulting in "insular solutions";
- MNCs and their investors' tendency to prioritize short-term results over long term results.
- Succession of Yunus as a charismatic leader – the social business movement needs a new generation of leaders;

### *Opportunities*

- Tapping into the emerging impact investment and philanthropic ventures that understand that charity money has only one life;

- Utilizing new legal entities;
- Leveraging consumer trends toward more responsible consumption;
- Developing a “low cost” approach to offerings in both developed and underdeveloped countries;
- Bridging the gap with corporate partners, nonprofit and government.

At the end of my analysis, the strongest attribute that I observe in social business as a concept is its unifying character. Social businesses have proven to be a successful model in and of themselves; they also represent an enormous opportunity to provide a framework to channel the earned income initiatives developed by nonprofits, as well as to develop sustainable CSR activities within the traditional for-profit organizations. Finally, social business allows government and public entities to redesign their approach to sustainable rural and urban development.

Bornstein, in his seminal book about social entrepreneurs, *How to Change the World*, described one of Bill Drayton’s biggest accomplishments as the innumerable number of conversations his work has provoked about social entrepreneurship. These conversations have changed the narrative across the globe, about how we approach social changes (Bornstein 2007). As the globe continues to shrink thanks to revolutionary technologies such as the Internet, and fellow-citizens grow closer and with a deeper understanding and awareness of the human condition universally, Yunus’s question, and the question that drives social business entrepreneurs into action, is more urgent and relevant than ever: “What is the purpose of us being here, because we are here for a very short time, [ . . . ] I should do something that I feel good about it, so what is it that you want to do?” (To Catch a Dollar 2013).

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# Chapter 11

## Social Business Marketing Mix

Zarjina T. Khalil and Mehdi Hussain

### Bottom of Pyramid Market

Emerging markets and emerging market countries have been in the forefront of international business research and discussions over the last few years (Nonis 2011). This increased attention, contrary to the previous low priority, can be accounted for since they are home to 85 % of the world's population and have the potential of becoming significant buyers of goods and services (Lee et al. 2011). As growth picked up in emerging markets and slowed down in advanced economies during the recessionary period, firms everywhere have had to rethink their global strategies (Ramamurti 2012).

One of the common characteristics of these emerging markets is the huge population. This low-income segment (previously ignored for inability to pay) is now commonly referred to as the Bottom of Pyramid (BOP) market and is viewed as a potential fortune as a business opportunity, due to its sheer volume. Typically this market is defined as the four billion people of the world who survive with less than US\$2 per day (Prahalad 2006). Although the BOP has limited purchasing power, it does not mean they do not have the desire to buy and use products. It is up to companies to make products that can be availed by this population. Also, grouping this four billion people as a homogenous segment is not plausible because even within their limited incomes, they are kaleidoscopic in terms of culture, ethnicity, literacy, capabilities and needs (Prahalad 2012). The poor live in both urban and rural settings and their plights are also destined to be different. Seventy percent of the BOP in India lives in rural areas whereas in Brazil, most of the BOP lives in urban slums (Prahalad 2012). In Bangladesh, many of the poor migrants coming to cities for employment in informal sectors like domestic housework and construction and are not documented (Khalil and Kabir 2013).

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Apart from the potential sales volume, these markets are also the breeding grounds of innovation. They no longer borrow innovations from developed countries, but give rise to reverse innovations, which means, contribute to the development of innovations which can be carried back to developed countries (Govindarajan and Ramamurti 2011). In these countries, innovations are generally not radical breakthroughs but involve developing novel solutions to local problems by combining existing knowledge and technologies and local resources, leading to the development of new business models (Govindarajan et al. 2011).

Although these innovations may seem to follow the usual standardization-adaptation mode used in international businesses, they delve much deeper. Tapping this market results in creating products, services and business models that can eradicate social problems and lead to inclusive growth (Sarkar 2011). Since social business aims to develop solutions to social problems by customizing products for lower income segments, it is imperative to develop a marketing mix more closely aligned with the BOP segment, but with the motive of contributing to social welfare.

## Background of Social Business

In a much admired and debated speech given at the World Economic Forum in Davos in January 2008, Bill Gates mentioned that many of the world's biggest problems cannot be solved by corporate philanthropy, but require "creative capitalism" (Koehn 2008). According to Gates, creative capitalism is "an approach where governments, businesses, and nonprofits work together to stretch the needs of the market forces so that more people can make a profit, or gain recognition, doing work that eases the world's inequalities. At the same time, one must also remember that capitalism has an inherent capacity to evolve and is incredibly versatile, which have been its major sources of robustness and success (Lagace 2002).

The number of people living in poverty at the bottom of the pyramid versus the relative handful at the peak represents what is potentially the most explosive socio-economic challenge facing the world (Emmons 2007). Successful businesses can turn this challenge into an opportunity. The single serving concept has enabled people to get a fraction of the product at a fraction of the price (Hammond and Prahalad 2004). However, this 'profiting for the poor' has also been criticized by citizen-action publics as unethical and hence companies have to work collaboratively with NGOs and governments and report on their social value creation (Silverthorne 2007). Aneel Karnani states that BOP initiatives actually exploit the poor and lure them into buying products like shampoo and television, whereas that money could have been used in a more fruitful purpose like nutrition or education (Karnani 2007). Such criticisms are effectively addressed by an alternative kind of business: social business.

Going a step beyond selling to the bottom of the pyramid is Yunus' concept of social business, a non-loss, non-dividend company which aims to achieve a social,

ethical or environmental goal while being self-sufficient (Yunus 2007). Businesses that want to enter into such markets as a social business need to find ways to create social and economic value. They could do this either by creating a product which has direct social impact, like cheap multivitamins to fight malnutrition, or they could function as a business with profit maximization where the profits are reinvested in a trust for the underprivileged. A social business is indeed a business and running one requires all standard business practices. This chapter aims to look at a plausible marketing mix for social business.

## Marketing Mix

The concept of marketing mix was introduced by Neil Borden in 1964, and the term “mix” referred to a blend of different elements useful in pursuing a certain market response (Borden 1964). Over the years, many elements were added and proposed, but it was only McCarthy’s four Ps proposed in 1960 that survived and became the dominant design (Walterschoot and Bulte 1992). The four Ps are Product, Price, Place and Promotion. Due to its ease of remembrance, it has become the most often used description of the marketing mix, both in marketing literature and practice (Walterschoot and Bulte 1992). At the core of the marketing mix lie the needs of the consumer.

However, in the rapidly changing global marketplace, it became necessary to question the validity of the four Ps since it was from the perspective of the marketer, and today’s consumer owns the marketplace because of access to information and technology along with a varied choice of products (Schultz 1999). Lauterborn came up with his transitional model of the four Ps described as the four Cs. The four Cs, Customer solution, Cost, Convenience, and Communication, aim to define product as not merely what the seller wants to sell, but the solution it provides to the customer. In terms of price, the model aims to look at cost of the customer, including the opportunity, time, and energy costs. For place or distribution decisions, value is not only derived from making the product merely available, but through adding convenience to the customers. As for the last P, promotion, the focus is not just a monologue of what the company offers but a dialogue between the company and the customer, which is termed communication (Lauterborn 1990). Lauterborn justifies his four Cs and depicts the shift of power from producer to consumer. However, his proposition is applicable for an informed consumer, with access to technology and the ability to make an educated choice. This informed choice is a result of what the customer views as a value (Table 11.1).

When talking about the base of the pyramid, the profile of a customer is very different from the one depicted by Lauterborn. It is not difficult to find the consumers in this segment because they exist in billions. However, they do not have the readily available financial means or the necessary information to be able to make an informed choice. For this segment, McCarthy’s market controlled four Ps model is not suitable simply because the segment does not have the resources to

**Table 11.1** 4 Ps and the corresponding 4 Cs (as described by Lauterborn)

| McCarthy model | Lauterborn model  |
|----------------|-------------------|
| 4 Ps           | 4 Cs              |
| Product        | Customer solution |
| Price          | Cost              |
| Place          | Convenience       |
| Promotion      | Communication     |

purchase the product. At the same time, if we look at the four Cs model developed by Lauterborn, it starts with the customer solution. Due to the kind of lifestyle led by the people at the bottom of the pyramid, they themselves often cannot identify their problems and hence are unlikely to look for a solution. With regards to pricing, one of the biggest challenges faced by organizations is ensuring that their products and services are affordable (Anderson and Markides 2007). Henceforth, companies need to first focus on minimizing product costs rather than decreasing other costs. Communication, which is essentially a dialogue, would be hard to achieve with this segment, since they themselves are unaware of their problems and needs. Thus, companies should not expect immediate feedback, but rather aim to invest in long run awareness programs.

Companies aiming to serve the BOP markets should not be focusing on short term returns, since in many BOP ventures, the true profit driver lies in volume rather than profit margin. Despite having a substantial market living below the poverty line, the poor are often inaccessible to marketers. This can happen for various reasons. First, they generally inhabit areas with poor infrastructure and connectivity. This accounts for the difficulty in physically reaching out to them (Silverthorne 2007). On the other hand, it is common knowledge that the world's poor are living in countries where the government is either incapable of improving their conditions and many times, are not empathetic to changing the conditions. These countries represent themselves as beggars to the world, but the aid and donations do not actually end up helping the poor, instead often fattening the bank balances of corrupt governments and their counterparts (Lodge 2002). At the same time companies also have to realize that poor people are not well informed to make choices and many times, they act against their own will. However, they are likely to suffer from greater consequences for a wrong choice (Karnani 2009). For these reasons, BOP ventures may not reach high scales at the pace of their mainstream counterparts (Silverthorne 2007). Therefore, a high focus on immediate return may prove to be myopic for such ventures.

In deciding a mix for the BOP markets, the four As, as proposed by Andersen and Markides (2007) should be considered: acceptable, affordable, accessible and awareness. In terms of product, one needs to evaluate whether or not the product solves the problem, and going beyond that, whether the target markets accept the product. There are numerous examples of BOP ventures coming up with innovative, problem solving products that have failed due to non-acceptability by the target market. For instance, analyzing the Grameen Danone social business, it is apparent that value chain partners, especially distributors, at one point gave up

distributing the yogurt. Another crucial thing to consider is making the product affordable. It is obvious that such businesses are directed towards the poor, and designing and pricing products out of their reach is surely not going to help sustain the business.

Distribution channels in developing countries are often fragmented and non-existent and basic distribution can become a challenge (Anderson and Markides 2007). Therefore, it is not only about just having a place to sell the product but goes beyond to make that place accessible in order to make the product available. The initial set up is more crucial than customer convenience. In terms of promotion, companies need to be prepared to divert from the traditional hierarchy of effects model and plan for a long term awareness phase. This is because BOP customers are not often reached by traditional means. Also, since they are unaware of their own problems, without clear understanding of their problem and solution, they are less likely to respond. For example, research in Indonesia showed that anemic workers did not buy iron fortified fish sauce (fish sauce being part of their regular diet) because it is not clear to them that the additional productivity gained through better health would translate into higher earnings, since a well-nourished worker is more productive (Banerjee and Duflo 2011).

## Social Business Marketing Mix

The fundamental difference between a mainstream business and a social business is that a social business primarily aims to solve a social problem rather than seeking profit maximization. The dividends are reinvested into the business for future growth, scalability and sustainability. It is more cause-driven than profit-driven, with the potential to act as a change agent to the world (Yunus et al. 2010). Social business theory is similar to Social entrepreneurship, which is defined as a social-value creating activity that can occur across the government, non-profit or business sectors, with the primary drive of creating social value rather than personal or shareholder wealth (Silverthorne 2008). The marketing mix for a purely social business needs to be modified.

For a conventional business, the core idea behind designing the product or service is the customer's needs and wants. However, for a social business, this goes beyond the individual customer or the target market. There is an inherent need to solving a social problem. A popular example of a social business is the much talked about joint venture between Grameen Bank and the French Food company Danone Group, as discussed in Chap. 12 of this volume. For Danone, the return from this business is not the profit, but rather how many children could be rescued from malnourishment. Social businesses need to clearly define their objective whereas in generic businesses, financial profit is an implied indicator of the objective (Yunus et al. 2010). For a social business, the four Ps should actually be replaced by the four Ss and due to its holistic nature, it should be encompassed by a fifth S – self-satisfaction (Fig. 11.1).

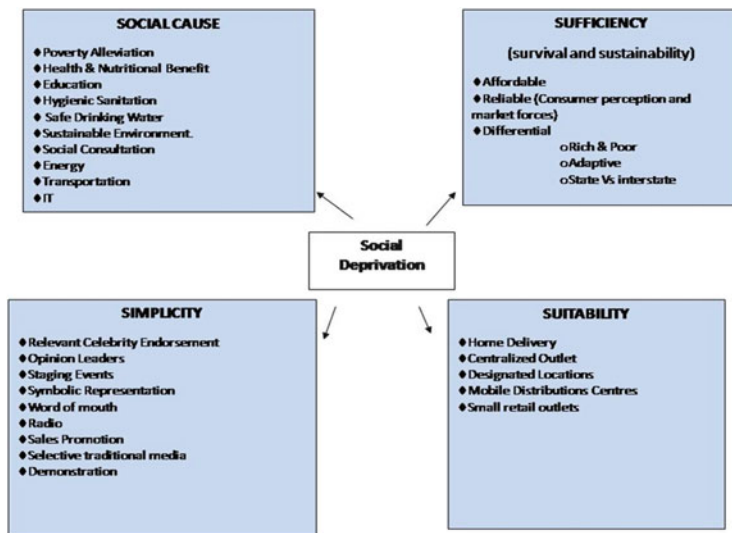


Fig. 11.1 A proposed marketing mix for social business

### *Product Is Social Cause*

For a social business, a product is not merely a product that customers would want to buy or accept to meet their daily needs. The product needs to serve a social cause and identification of a relevant social cause is imperative. The nature or dimension of the cause can range from health and nutrition to education, sanitation, as well as environmental issues. However, the product or service needs to have significant impact not just on individual customers but on the larger society. This would again define the core purpose of the business, which, as already mentioned, is cause-driven not profit-driven.

### *Price Is Sufficiency*

Designing the pricing scheme for a social business is a tricky matter, like conventional business models. For conventional businesses, the sole reason why price is considered a challenge is because it is the only revenue generating P in the mix (Kotler and Armstrong 2009). However, for a social business, price would be a key determinant in the acceptability and affordability of the product. At the same time, as already mentioned, since the business is not focusing on maximizing profit, prices need to match the offered value and be enough for sustaining the business in the long run. Companies need to strike a balance between earning enough returns to be put back into the business and at the same time, be affordable to the target



market. Here the businessperson should charge the optimum level for the businesses' survival and sustainability. Therefore, in the marketing mix for social business, price should be termed as "sufficiency." The elements of sufficiency are explained below.

**Affordable:** Companies should charge as little as possible to make the product affordable in order to reach the world's lowest income group.

**Reliable:** The charged price should be reliable in terms of consumer perception.

Reliability is a big challenge for social business. Price signals quality as a traditional marketing concept, but a social business needs to charge lower prices to serve the overall mission of eradicating poverty. It is advisable for social businesses to design a basic product rather than adding multiple features. Also, similar businesses may join together to come up with cheap solutions to a social problem (e.g., to solve housing problems, partnerships between a steel manufacturer, a brick manufacturer, an energy supplier, and a cement and sand manufacturer can be devised).

**Differential:** Price might be charged differently to different customers. A social business may be a "double barrel business" where the main objective of the business is to meet the social problem of the bottom of the pyramid (focusing much on core benefit rather than actual product or augmented product), and also make a good amount of profit from the upper and upper middle class (focusing on all three levels of the market). So, to bring in a sufficient amount to run the business, the first barrel is charged a lower price and the second barrel is charged a higher price. Grameen Danone started selling its yogurt selling at a price of 6 Taka for the mass of poor people, but it charged higher prices to reach the urban and metropolitan city customers to make the business sustainable as well as achieve the main objective.

**Adaptive:** Price should be adaptive. If a company enters a small market in terms of geographic area (Bangladesh), in every village/region the price should remain the same for the poor people. But, if the company plans to enter in a big market (India), the price may vary from village to village, from one state to another depending on the overall economic situation of the village or state.

### ***Place Is Suitable***

As already mentioned, accessing the population at the base of the pyramid is a Herculean task faced by businesses. Typically, lack of infrastructure and transport network is a major hindrance in reaching out to this segment. Therefore, the distribution network and supply chain management for any social business needs to be designed in a manner that is most suitable to the specific market being served. Although social business is a relatively new concept, it can be hoped that successful models can be scaled both in terms of volume as well as replication. However, the suitability of the distribution network will be a key determinant of the scalability of

the model. Depending on the market being served (customers, geographic location and available infrastructure), companies should be ready to permutate and combine the ideal mixture of distribution, ranging from home delivery to centralized distribution networks to even a mobile distribution network.

### ***Promotion Based on Simplicity***

For people at the Bottom of the Pyramid and those with social deprivations, mental access is another hindrance. This obstacle needs to be changed through effective communication. Since most of the target markets are unaware of their own problems, they need to be made aware about the problem as well as how a product or service can actually solve the problem in an affordable way. This implies that communication to this segment comprises of a lot of information and awareness building efforts. At the same time, for conventional businesses, advertising is all about “thinking out of the box.” There are catchy taglines, flashy graphics, and abstract images all to capture the customer’s attention and break through ad clutter. Interactive gaming sites, online polls and animated websites make the customer easily engaged with the message and in this way forms the dialogue, making it a two way process. However, for a social business, the message has to be simple and brief. This is because the target market is generally poor and deprived. They are more likely to process messages that are relevant to them and hence need to be designed as such. At the same time, the choice of media is also bound to be different. Local elements need to be considered, like the common local media, spokesperson or opinion leader as well as the access to traditional media. Since price and affordability are key issues, it is important to highlight the key benefit of the product along with the price.

### ***One Additional ‘S’ for Social Business: Self Satisfaction***

Professor Yunus explicitly ended his Seven Principles of Social Business with, “work with joy.” This implies that unless entrepreneurs are not passionate enough to think of new models or challenge their conventional practices for a social cause, it is not going to be possible for them to contemplate such practices. Professor Yunus also states that social business is about making complete sacrifice of financial reward from business and that it is about total delinking from the old framework of business. Since a social cause supersedes profit making in such a model, we believe all activities and actors in this model need to be guided by self-satisfaction at each and every stage. It is this self-satisfaction that would keep them going. Research also shows that in general, happier people are more likely to indulge in charitable behavior (Anik et al. 2009) and hence, can be presumed to be more selfless. Therefore, we believe that encompassing the four Ss as described

in terms of the four Ps, the additional S-Self Satisfaction completes the marketing mix for a social business. This additional 'S' should encompass and play a significant role in each of the elements of this new marketing mix.

In order to clarify the concept of social business marketing mix, we identified three small social businesses in Bangladesh and highlight how their marketing activities relate to the proposed social business marketing mix. It may be noted that all the three businesses being described were started by entrepreneurs for philanthropic reasons, since they wanted to contribute to the society, which implies that the fifth 'S,' Self-Satisfaction, is the underlying reason for the business itself.

### **BotolBati (Bottle Light)**

BotolBati, which in Bangla means 'Light in a Bottle,' is the brainchild of Sajid Iqbal, an Environmental Management student of North South University. He was inspired by a video on YouTube of Liter of Light Philippines. It is actually a very simple technology of using a 2 liters plastic bottle for day time lighting purpose. One bottle light gives out an equivalent of 55 W bulb on an average, without any electric input. The bottle is placed in a way to refract sunlight into the household. Sajid tried the same method in one slum house in Bangladesh and later participated in a social business competition with his project. He won the competition and started a pilot project with the winning fund. The idea attracted international attention and was offered a global partnership by Liter of Lights Switzerland. This led to the launching of the organization called CHANGE whose first project is the BotolBati project. Later on, with the help of Liter of Light Switzerland, the project received funding from the German Development Cooperation (GIZ), who agreed to fund a 5 month project of 300 bottle installations. Currently, the project has installed more than 150 bottles in Mirpur Bawnia Badh area (Shafa, 2013, July 4, personal communication) (Fig. 11.2).

### ***Product Catering to a Social Cause***

The need of light is universal and through civilizations, mankind has been trying to utilize the sources of light for living. BotolBati primarily serves the need for light. However, it is different in its approach and addresses several social issues which make it a sought after social venture. The social causes it addresses are:

1. Reduction in CO<sub>2</sub> emissions: Generally, people in slum areas use a 60–100 W electric bulb all day as their houses are too congested and sunlight does not reach inside. By using bottle lights, they can avoid using an electric bulb for at least 10 hours on a sunny day. Hence this will reduce the CO<sub>2</sub> emissions when bottle lights are installed in large scale, not only locally but nationally.

**Fig. 11.2** A lady staring at an installed bottle light in a dark slum room



2. Economically beneficial for the poor people: The use of bottle lights reduces the use of electric bulbs, which means poor people will have to buy fewer bulbs, thereby cutting down their costs. On the other hand during summer, Bangladesh faces lot of scarcity in power supply so load shedding increases. During load shedding the slum-dwellers use candles or lanterns even during the day, but with bottle lights installed, they have to buy fewer candles or lanterns, which allow them to save money. They will also have to pay less for electric bills as they are not using light bulbs during the day.
3. Reduction of misuse of electricity: Large scale use of bottle lights automatically reduces the need for electric bulbs, thereby saving electricity and will reduce pressure on urban areas which need more electricity.
4. Creating employment: The project trains local people and hires them to install bottle lights. This creates employment in the local area and supports some of the poor families financially.

### ***Price Ensuring Sufficiency***

Since it is a new project and being partly funded by GIZ, the price is significantly subsidized. The strategy is to gradually increase the price. Initially, they aim to start off with a low price so that people are willing to buy the product and once they are familiar with its advantages, they would be interested in making future purchases and also recommend the product to others. Since the population is poor and illiterate, this trial is very important for them so that they may personally observe the key benefit of the product. As the demand increases, the willingness to pay is also likely to increase. Initially, the company distributed leaflets clearly mentioning that for 2 months the bottle batis will be installed for a subsidized price of Tk. 30 (USD 0.40). After the first 2 months, price was increased to Tk. 60 (USD 0.70) and still people are interested to buy, since they have clearly observed the

**Fig. 11.3** A promotional brochure of BotolBati



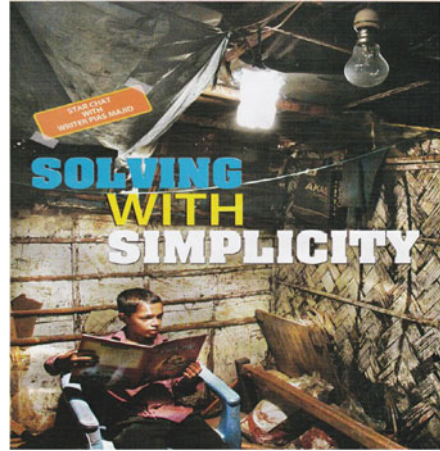
benefit and also know that they will not have to buy a bottle at least in the next one year. They are also given free maintenance within that price.

The project directors have estimated that the production and installation cost is nearly Tk. 200 (US\$2.50) so pricing goal is to take it to Tk. 210- Tk. 220 (\$2.75) per bottle. Once this price can be charged, the organization will be able to run on its own without outside funding (Fig. 11.3).

***Place Decisions Based on Suitability***

So far, the organization has sold 170 bottle lights. Since the product is new and unique, it needed some detailed explanation to get the attention of the target market. Also, since the product requires special installation (needs to be done by a trained person), the most appropriate or suitable distribution strategy was door to door selling. Unlike usual products, this product was actually unheard of and required practical demonstration of the key benefit. Therefore, the organization decided to

**Fig. 11.4** A student studying under BotolBati



go for a large centrally located slum in Dhaka, where the main purpose of the product could be demonstrated and would also be viewed by a large number of the target market.

With increased visibility of its key advantage, demand started increasing and people started asking about how they could get the product. Initially, the organization distributed leaflets with their contact numbers and product information and its advantages. Interested people called the employees who were trained in installing bottle lights and asked him to install the light at their house. Since the employee is also a local person of the same slum area, it is easier for him to communicate and go to the houses the next day to install the light. Now people either get the installation contact from their neighbors who already installed the product or the leaflets that are distributed. Local contact and interaction is crucial for this distribution strategy (Fig. 11.4).

### ***Promotion Based on Simplicity***

The first step in connecting with the audience was to give the product a very simple name, “Bottle Bati” as the water bottle lights up like a light. In Bangla, bottle is botol and light is bati and the slum people can easily understand the concept that it is a bottle light. During the door to door visits, the organization ensures the use of local language by local people in the team. The benefits are clearly explained with simple calculations, showing how money can be saved by installing a BotolBati and making a onetime payment. Demonstrations are made to show how they can escape darkness during daytime and reduce their costs in electric bill and bulb purchase. Initially, it was difficult to establish trust as they would not even want to believe that a bottle can provide light by refracting sunlight. The idea was considered peculiar and they did not want to waste money on such unrealistic things. However, when

the locals managed to convince few people to install the lights for free, the neighbors started to show interest and gradually the concept started spreading in that area. Acceptance for the product increased along with demand and willingness to pay for the product.

As already mentioned, poor people are extra sensitive about accepting new products, particularly products which seem “foreign” to them. Hence, it was very important to keep the message simple, clear and easy to understand, rather than using scientific explanations. Of course the explanations backed by the easily visible advantage due to the free installations actually helped to push the product forward.

The long term goal of the BotolBati project is to expand this social business to a national level. Once most of the slums of Dhaka city are covered, the expansion will move to rural areas. Large scale installation of the bottle light will reduce carbon-dioxide emissions, misuse of electricity and create employment and involvement of the grassroots population. It will also ensure proper daytime lighting for the off grid areas and slum areas. Already the organization has partnered with reputed organizations like BRAC, International School Dhaka, JAAGO Foundation, South Asian Youth Society (SAYS), Young Entrepreneurs Society (YES) Alumni Association and Earth Club of North South University and received international attention and collaboration within a year. With this experience and further exposure, this simple technology can be replicated to other parts of the world as well.

## **Punoh**

Keeping the philosophy of social business intact, Punoh is a very new social venture which aims to solve several social problems. It is a very interesting and unique business model. The founders of Punoh including the CEO and most of Punoh’s directors are CEOs of other successful business enterprises – ranging from hospitality through advertising to the IT sector. Most are also involved with other social causes and charitable works. This unique dual experience has helped Punoh to develop from an initial concept to what it is today. It is an online platform of selling rarely used/unused clothes at cheaper prices to customers. A social cause is usually understood to be an activity that benefits the hardcore, poorest section of society. Punoh’s social causes stretch across both ends of society. At one end, Punoh is trying to address the needs of the poor, those who are struggling hard to make a living. At the other end it benefits the affluent section of society. It also helps address the needs of the middle classes (Hasan, 2013, June 26, personal communication).

### ***Product (Service) Catering to a Social Cause***

There are two ways in which Punoh addresses the needs of the poor; it works with other individuals and organizations to support the development of small-scale income generating projects or educational projects that benefit poorest communities. Punoh provides training opportunities and work experience for young women (in particular) from needy backgrounds so that they can eventually become freelance entrepreneurs. These women, who are at least high school graduates, are trained in two disciplines, marketing and technology. Punoh empowers these women with a Tablet PC and Internet connectivity so that they can carry out their work. These women move within the social circles that they are familiar with, selling Punoh's merchandise and earning a living.

Punoh also addresses the needs of the middle classes. This group tends to be aspirational, yet has limited funds. Bangladeshis, like those in other developing countries, are aware of status symbols and social background. For instance, young women wish to have access to a full range of clothing and accessories, like their wealthier counterparts, in order to attend universities, go to job interviews, attend social functions and network in relation to their career. But they are unable to afford the newest items available in shops and boutiques. By making such quality items affordable at a low tag value, Punoh helps this group to climb the social ladder and helps break down social barriers (Fig.11.5).

Punoh also benefits affluent members of the society, and in doing so helps the economy. In Bangladesh, this section of society is highly fashion conscious and also socially interactive. This section (especially the women) spends a significant amount of money in buying trendy and fashionable clothing and accessories, often from high-end designers and exclusive boutiques. Members of this group also exchange gifts in various religious, cultural and social festivals and functions. In reality, most of the clothing and accessories that they purchase is used very rarely, or remains completely unused for a variety of reasons. Their problem is practical – these items occupy space in their homes. By using the Punoh platform, these women can sell items of their choice. They are likely to use the money that they raise to purchase new outfits, putting money back in circulation and supporting Bangladesh's economy. Thus, from Punoh's perspective, selling unwanted rarely used or unused items releases funds currently "locked away" in the cupboard. Finally, Punoh is also helping to support the environment, which can also be said to have social benefit - by making best use of clothes and accessories (and the resources that have gone into these) that would otherwise have stayed under-used or unused.



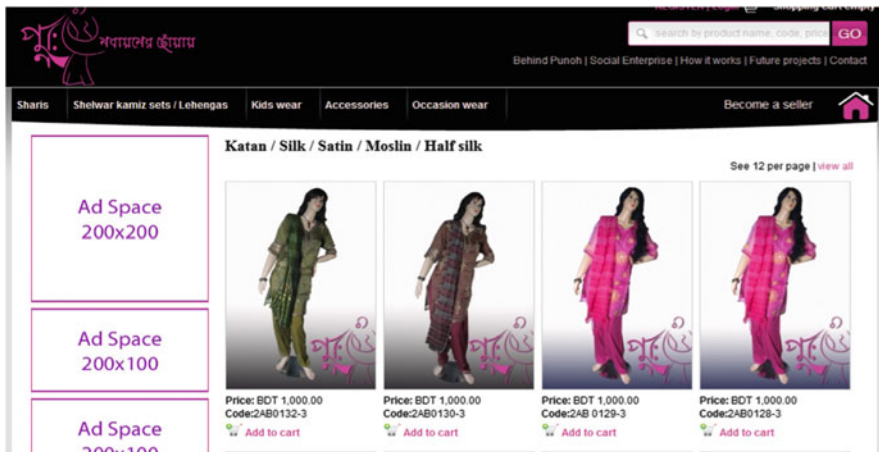


Fig. 11.5 The simple Punoh web interface

### Price Ensuring Sufficiency

Since Punoh is not manufacturing any product but rather acting as an intermediary, it does not dictate the price of items for sale; the price is set by the seller at his/her discretion. However, upon request, Punoh suggests a price, taking into account the buying power of its target customers. Efforts are made to ensure that all items, including new items, are on sale at lower prices than those for equivalent new items in shops and boutiques. This ensures that the buyer is always “getting a bargain” by purchasing from Punoh. Usually the sellers are also not too strict with the pricing, because basically they are giving away items which were uselessly hoarded in their cupboards. Punoh’s running costs are relatively low, largely comprising of web hosting fees, nominal rent paid at its outlet, public transport and staff costs. Punoh has an advantage over other businesses in that it does not need to outlay money for the purchase of stock. Usually, 70 % of the sale price of items goes to the vendor while Punoh retains the remaining 30 %. A portion of the latter is fed back into Punoh for Punoh’s operation and the rest supports Punoh staff in becoming freelance entrepreneurs. By providing items at low cost, Punoh meets the needs of its target audience and the sales made to this audience that will make the business self-sustainable.

Although Punoh is charging minimal prices for its products, it is aware of the fact that many people may have some degree of skepticism about buying used items online. Therefore they offer multiple payment options like credit cards, BKash (Bank Transfer) as well as Payment on Delivery. This may seem like a lot of options for a start-up social business to manage, but the management believes that the business model for social businesses is no different than that for other businesses except for the outcome. While traditional businesses are targeted towards personal wealth, Punoh is targeted towards social goals. Therefore they are trying to reach

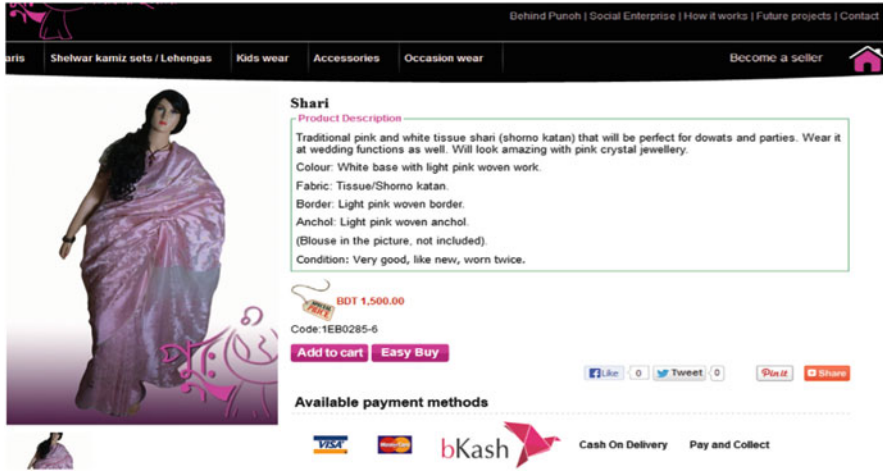


Fig. 11.6 Payment options in Punoh website

their social goals through minimal price, but would want to provide the same level of service to their customers. This is particularly important as many members of the target audience are unfamiliar with (or nervous about) e-commerce (Fig. 11.6).

### *Place Decisions Based on Suitability*

Since Punoh is an intermediate platform, it has three distinct activities with regards to distribution:

1. Collection of goods from the seller (or donor)
2. Photographing, cataloguing and processing goods so that they can be uploaded to the website and also made available at the Punoh outlet.
3. Selling of goods (mainly online).

At present, Punoh employs two full-time staff members and several part-time members and their typical activity is as follows:

- The seller contacts Punoh through the website, social media or by phone; people can also choose to register as a seller on the website ([www.Punoh.com](http://www.Punoh.com)) by downloading the material collection form.
- The seller arranges a collection time and venue with Punoh. A Punoh representative goes to the location to collect goods. There, they carry out the first quality check, verifying that the item meets Punoh's quality standards. (On some occasions, sellers can also send items to Punoh's delivery center.)

- The Punoh team receives the goods at Punoh, and rechecks the quality and sends the item to photography and for registration in the web portal. The item is then available online.
- Buyers see the product online. They either put the product in the shopping cart or choose an “easy buy” option which allows them to talk directly to Punoh to arrange payment and delivery.
- After completing the buying process, customers wait for a call from Punoh’s representative to set a time for delivery.
- Goods are delivered accordingly.

Currently Punoh collects items from Dhaka only, though as the business grows it has plans of further expansion with possible hubs in places such as Sylhet and Chittagong. It also has a small number of representatives abroad who collect items on its behalf.

### ***Promotion Based on Simplicity***

Since Punoh is serving multiple markets, it has different strategies to reach out to the different segments. For the customers who buy from Punoh, it is still working on building awareness, since Punoh is still very young. They use a mixed media strategy ranging from using the web and social media to using traditional marketing tools such as posters, brochures, calendars and flyers. They have also received favorable press coverage to date (both in print and on TV) and continues to pursue this avenue. At present, Punoh is also working on ideas like opening Punoh stalls in fairs and events, to increase visibility and garner positive word-of-mouth since the concept is new and unfamiliar in Bangladesh.

As for the beneficiaries, women who want to be freelance entrepreneurs, they are encouraged to approach Punoh. At present the company is using its large contact base to spread the word. As more and more people receive benefits, it is expected that more women would seek help. The management believes that women are keen to have an opportunity to make a difference. For example, one woman employed at Punoh outlet had a degree, but still found it difficult to start a career. Punoh provided her with the IT skills necessary to handle registering and cataloguing items on the website and now she manages much of the day-to-day activity of the outlet. Expanding the business will help Punoh train and empower more such women.

Since the founders are established entrepreneurs with years of experience, they also have a strong network of personal connections. This helps them acquire volunteers for some of their promotional activities like writers, models, and young photographers, who are willing to help the organization for philanthropic reasons. It also gives them valuable work experience which is helpful for their future careers. The Punoh team, its CEO and directors, do not take any wages.

## **Dynamic Water Purifiers**

The Dynamic Group is a diversified business portfolio of medical, travel, hospitality and consultation services. One of their key identities is that of an established Defense Contractor. The Chief Executive Officer is an ex-military officer who has enormous experience in both the military and the private sector. This connection has earned them the opportunity to supply water purifiers to the Bangladesh Army. This is a for-profit business and as a registered vendor of the United Nations with experience of providing water filtration products worldwide, it did not take them long to establish themselves as one of the strongest contenders for this category.

At present, their water purifiers are also the price leaders in the category, since their price is Tk. 0.13 per litre as opposed to the competitors whose lowest price is Tk. 1.50. They follow a market penetration pricing to capture the market. Whilst working in remote areas and setting up water purifiers, the company recognized the need of pure water of the refugee camps in Cox's Bazar and the slums of Dhaka city. Since then, the company has tried to set up a social business to help this segment with pure drinking water.

### ***Product Serving a Social Cause***

The social cause that Dynamic Group is trying to address through this venture is access to safe drinking water for underprivileged men, women and children in refugee camps of remote areas and slums of Dhaka. Their product is a well-designed water tank called the R-2000 which is to supply 2,000 l of purified water.

### ***Price Ensuring Sufficiency***

Dynamic Group started this social venture at the end of 2012 purely out of philanthropic motives. Since their mainstream businesses are for profit, they decided to use part of the profit to help people have free access to drinking water. Therefore, at present, they are not charging any price for this product. The sustainability is ensured since the business with the Army is growing and they would like to focus on further expansion of the main business so they can support this program. The company is aware that a social business is not to be dependent on charity. Therefore, their current free supply is more to induce trial since encouraging people to get pure water even for free is difficult (Ahmed, 2013, June 30, personal communication).

The company partnered with an international water purifying company based in Malaysia called Ufilta and they are the local sole distributor of Ufilta products in Bangladesh. The products are supplied to Bangladesh Army, Border Guard and Police. The profit generated from selling to the clients is used it to finance the water plant establishment in Cox's Bazaar and the slums of Dhaka city. Therefore, it can be said that they are charging differential prices as they make profit from the main business and use the money to subsidize (currently free) for the social business. As the social business is not self-sustainable yet, they partner with big corporations to fund the water filtration projects which will ultimately not be required after 2015, after which they wish to charge prices to ensure the sustainability. The company is confident on charging low and affordable prices, since they are already cost leaders in their category.

### ***Place Decisions Based on Suitability***

The company has been fortunate to establish a good network with international organizations like UNHCR and UNICEF and the Bangladesh Government, and therefore has access to many remote areas and sites. Its partnership with the said organizations enhances its credibility. Since through this social venture they are targeting underprivileged individuals, located in remote and difficult to reach areas, this network adds to the accessibility factor. Safe drinking water is a major issue in Bangladesh with lack of proper knowledge of hygiene, arsenic contamination and the possible health hazards associated with them. From its experience, the company has seen that poor people think water is a natural resource and they tend to collect it from the natural source, like lakes, rivers, ponds and tube wells. Although this purified water was given for free, since it was limited, people were unwilling to wait and preferred alternative sources. Therefore, the personnel had to work together with other NGO staff to build awareness of safe drinking water and the possible health hazards of unsafe water.

### ***Promotion Based on Simplicity***

At present, since they are providing the water for free, their main promotional objective is to try and change the target market's behavior and encourage the adoption of pure water. This is being done through personal visits and counseling to simply demonstrate the key benefits of drinking safe water. With time and more usage, they believe this change is bound to come and that is when the people will be willing to pay for the water, although prices will be minimal.

## Conclusion

The three cases reveal three distinct social business models. Each one is serving a social cause pertaining to different needs. Whilst the Dynamic water purifiers are able to provide pure drinking water, an essential product for survival, BotolBati is solving the problem of access to daytime light in dingy slum areas at minimal cost with the much bigger impact of saving electricity. Punoh, on the other hand, is aiming to cater towards the “esteem” needs of middle class working women, by selling rarely used quality outfits at rock-bottom prices. In doing so, they are also helping channel a lot of unused items in wardrobes towards a more productive use.

In terms of pricing, all the three businesses are aware of the economic sensitivity of their target markets and are therefore in the process of building sustainability through low prices. Dynamic purifiers are currently selling their bottles for free as they first want to get people into the habit of drinking pure water through free trials. BotolBati launched with very low prices as they were able to subsidize their bottle lights with their international funding. At present, they have in mind the price they want to set in order for the business to be sustainable. They are gradually increasing the prices, and fortunately, the adoption of the lights has been consistent, as more and more people could clearly see the benefits. As for Punoh, the price is set to a very minimum as Punoh has very low set up costs. They set prices just enough to cover their operating expenses. In terms of distribution, again the businesses have different strategies since they are aiming at different target segments. At present, their coverage is limited since all three of them are relatively new businesses, less than 2 years old. Punoh has a strong web presence for delivery and uses this to communicate with both its customers and suppliers. The website is simple and easy to navigate, and most of the transactions can be done online. This also helps to keep costs down. However, the water purifiers and the bottle lights both require direct marketing. Dynamic sells water purifiers to refugee camps in the Hill Tracts, which is an area that is difficult to access. With its international network and partnership with UN organizations, it is still trying to reach the market and make them aware about the importance of pure drinking water. Similarly, since bottle lights were an unusual product, the project managers still have to directly access the locations (slums) and use the local people to explain the benefits of the product and eventually install the product. With time, all the businesses aim to move to other geographic regions to scale up their social impact.

Since all the three businesses are relatively new, they are still working on building awareness. However, as opposed to traditional business, they have to raise awareness not of their brands or products but also of how exactly the products are going to make the lives of the target customers better. This is because poor people by nature are apprehensive to accept new products, especially when they are unclear about its direct impact on their lives (Malhotra and Mangrulkar 2001). Therefore, the companies are going for direct marketing, personal selling, counseling sessions and practical demonstrations to establish their functional benefit in the customers’ mind. Hence, the companies are clearly adhering to the 4Ss proposed in

the modified marketing mix, offering a product for a greater social impact, charging prices just sufficient sustain the business, designing channels only suitable for the limited markets and promoting the offerings simply on the basis of functionality and behavior change. They also highlight the fact that all of them have been initialized for philanthropic motives because each of the founders felt the pressing need to contribute to the society in a sustainable manner.

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**Part IV**  
**Critical Perspectives**

# Chapter 12

## Social Business and Poverty Alleviation: Lessons from Grameen Danone and Grameen Veolia

Kerstin Humberg and Boris Braun

### Introduction

Nobel Peace Laureate Muhammad Yunus holds a clear-cut view on modern capitalism: it has fostered global economic growth, generated technological innovation, and created a great deal of wealth, but has left out a significant proportion of the world's population so far (Yunus 2007a, b). Every other person on earth still lives on less than 2 dollars per day in spite of more than 60 years of continuous economic growth. Almost 1.4 billion people live in extreme poverty on less than US\$1.25 a day. This material poverty is usually accompanied by a lack of access to basic healthcare, education, or political participation. Against this background, Theo Rauch, a German development expert, has made a deflating case summarized as: "From Basic Needs to Millennium Development Goals: Four Decades of Poverty Reduction in Science and Praxis, But No Progress" (Rauch 2007, p. 1; own translation). Though provocative in nature, this judgment reflects a growing consensus: international development efforts and financial aid amounting to more than US\$1.8 trillion since 1950 notwithstanding, there has been little progress in reducing mass poverty in developing countries so far (OECD 2009).

Positive trends towards the Millennium Development Goals (MDGs) in countries like Bangladesh are, in fact, compromised by global challenges such as environmental degradation and the loss of habitat due to climate change or volatile food prices in the light of global economic turbulence. People in poverty are regarded to be particularly vulnerable to these challenges (Bohle et al. 1993; Braun and Aßheuer 2011; Rahman et al. 2007). Thus, absolute poverty in the global South is not only considered as an injustice in itself (Sobhan 2010); poverty and destitution are also regarded as root causes for crime, corruption, and war

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(Nuscheler 2008). Poverty reduction, therefore, remains a matter of particular importance for development experts, politicians, and academics alike.

The definition of poverty is a matter of controversy (Shaffer 2009; Spicker 2007). The World Bank still draws upon material poverty lines in order to describe absolute poverty, but the work of Amartya Sen (1999) has significantly contributed to a more complex understanding of poverty as a lack of capabilities to sustain people's livelihoods. In the context of this chapter, poverty is defined as a mass phenomenon characterized by people's deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education, and information. It describes a condition that depends not only on income, but also on human capabilities, access to assets (both material and social resources), and economic opportunities (Spicker 2007; United Nations 1995).

Various conceptual approaches towards poverty reduction in developing countries have been given a trial during the last six decades. Proponents of macroeconomic growth strategies have contended with advocates of basic needs approaches. Direct community interventions have been accompanied by an emphasis on structural reforms and good governance. Today, development experts actively call for multidimensional mitigation strategies in response to the complex web of social, economic, political, and environmental causes and effects poverty is bringing about (Nuscheler 2008; Rauch 2009; Scholz 2004).

## **From Micro-credit to Social Business**

As noted in Grove and Berg's introduction to this volume, the ideas of Prof. Yunus and the Grameen Bank have strongly influenced the way of thinking in the banking, development, and non-profit sectors – promoting the idea that entrepreneurialism, rather than charity, is the way to overcome mass poverty (Prasso 2007). Yunus' social business concept received international attention in 2006 when the Grameen Group launched its first consciously designed social business joint venture in partnership with Group Danone, a multinational food company from France. The purpose of the joint venture called Grameen Danone Foods Ltd. was to fight malnutrition among children in rural Bangladesh by providing fortified yoghurt at an affordable price. According to Yunus' principles, the social business venture has to generate enough profits to be self-sustainable, but neither Grameen nor Danone are supposed to gain any financial profit. The company's shareholders are allowed to recoup their initial investment capital, but any additional surplus has to be reinvested for the company's expansion and creation of new opportunities for the welfare of its poor target beneficiaries (Grameen Group and Danone Asia Pte Ltd. 2006; Yunus 2010).

## **Towards a New Market-Based Poverty Reduction Strategy?**

Social business companies as envisioned by Yunus are designed and operated as any other business enterprise, but with the shareholder profit maximization principle replaced by a social mission. The Bangladeshi economist describes social business as a “new kind of business introduced in the market place with the objective of making a difference in the world” (Yunus 2006a, p. 4). While Yunus refers to social business, other economists such as Coimbatore K. Prahalad (2006), Allen L. Hammond et al. (2007), and Ted London (2009) argue that so-called “business at the base of the pyramid” (BOP) was the way to create value for the poor. The United Nations Development Program (UNDP 2008) has joined the call for “inclusive markets” by evoking new strategies for doing business with the poor. Catchwords referring to market-based poverty reduction approaches or business solutions to global poverty are in fact highly en vogue. Their meaning is often arguable. The same applies to the social business concept. For the evaluation of the concept’s theoretical importance and practical feasibility as a new market-based approach to poverty reduction, the analysis of Yunus’ joint ventures’ operational economics and social outcomes is considered essential.

What can Yunus’ social business approach actually contribute to poverty reduction? Based on theoretical and practical insights generated during the course of 3 years of research, this chapter addresses three questions. First, what is the extant theoretical background that might be brought to bear to evaluate social business and its contribution to poverty alleviation? The second question, what are practical lessons learned from the field, is addressed with a cross-case study analysis of two Grameen social business joint ventures in Bangladesh. The proposed answer to the third question (What are the implications in terms of opportunities, limitations, and risks?) draws on insights generated through more than 30 expert interviews in Bangladesh in combination with own considerations and findings.

### **Theoretical Background**

The theoretical and conceptual examination of Yunus’ concept in academic literature has only just begun (Hackenberg and Empter 2011). Three lines of theoretical examination seem to emerge. One links Yunus’ considerations to those of former political economists, namely Adam Smith (Ahmed 2011; Donaldson et al. 2011; Skinner 2011; Struthers 2011). The second relates Yunus’ macroeconomic vision to the broader idea of a social or human market economy (Alt and Spiegel 2009; Spiegel 2011), and the third stream discusses social business in the light of “business and society” relationships (Hackenberg and Empter 2011; Menascé and Dalsace 2011).

Definitions usually follow Yunus in describing social business as a subset of social enterprise or market-based approaches to address societal challenges.

Depending on authors' academic backgrounds, research papers have covered only specific aspects of the phenomenon so far, e.g., the legal framework in the US (Dougherty 2009; Rose 2007; Taylor 2010) or the phenomenon's prevalence in Germany (Kuhlemann 2010; Mauksch et al. 2011). Up until recently (Humberg 2011), there was no cross-disciplinary framework structuring the research field. We have only just begun to see external in-depth analysis of Grameen's social business joint ventures and policy implications (Humberg 2011 and this book).

In line with the more general review of research on entrepreneurship in emerging economies compiled by Bruton et al. (2008), Humberg's (2011) literature review indicates that there is also little empirical research dealing with social entrepreneurship in developing countries available yet. This holds especially true for the analysis of outcomes affecting the lives of the poor. Moreover, the place-based context within which social business companies operate has been largely omitted within the given body of literature. Against this background and recognizing a significant research gap concerning the operational experience, business strategies, and outcomes of social enterprises in poverty contexts, the empirical research summarized in this chapter had a strong focus on practical lessons learned from Grameen social business joint ventures in rural Bangladesh.

## **What Is Social Business? A Taxonomy**

As noted in previous chapters, the term "social business" has been used in various ways. Yunus promotes social business as a new kind of social purpose business in the market place that addresses human challenges in a self-sustaining way and he distinguishes between Type I and Type II social businesses (Yunus 2007a, 2010). Crucial in Yunus' terms is to define social business as excluding the pursuit of individual profit by a company's founders and shareholding investors. Yunus basically turns the deliberate abdication of personal financial gain by those who invest their time and/or capital into a clear line of demarcation between a "social" and any other for-profit business. Yunus is, however, not a socialist – quite the opposite. He rather believes in the power of the free market with profit-maximizing companies as an integral part of it. Yunus' call for social business is rather a plea for social entrepreneurship and an argument for the efficient use of philanthropic resources in contrast with the conventional charity approach. Ultimately, the objective is to develop new business models that create added value for those individuals that have previously been excluded from the market (Humberg 2011, pp. 244–245).

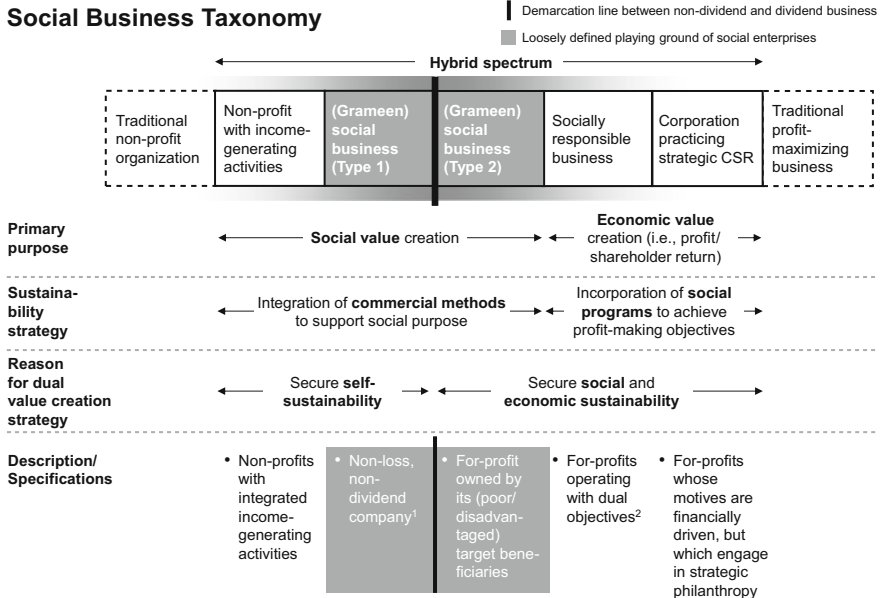
From an academic perspective, Yunus' social business concept combines a macroeconomic claim with micro-level implementation. Essentially promoting a new type of cause rather than profit-driven business, the concept implies a critique of shareholder-value-driven capitalism. Yunus essentially argues that the failure of capitalism to address basic human needs (commonly regarded as market failures) was, in fact, due to a conceptualization failure in economic theory, not least due to a

misinterpretation of Adam Smith (Yunus 2008). Though tying in with the theoretical propositions of various political economists such as Joseph Schumpeter, Alfred Marshall, or Amartya Sen (e.g., when it comes to the human dimension in economics or the role of entrepreneurs in society), Yunus was the first to outline the full structure of social business as a concept and to pioneer the creation of companies according to his principles.

Despite the active involvement of multinational corporations (MNCs) in early social business experiments, Yunus' idea is not the same as corporate social responsibility (CSR). While CSR is a concept referring to the order and conduct of conventional for-profit business geared to the principles of the shareholder value concept (Friedman 2007; Hopkins 2008; Porter and Kramer 2006; Weber 2008), Yunus' concept is geared to a new type of business that rather complies with the principles of the stakeholder concept (Donaldson and Preston 1995; Freeman et al. 2004; Friedman and Miles 2006). From a corporate management perspective however, social business epitomizes the idea of strategic CSR and shared value creation as promoted by Porter and Kramer (2011). Both Grameen Danone and Grameen Veolia exemplify how a social business investment of less than \$1 million can, in fact, foster product innovation and yield first-hand market insights. Not for nothing has Grameen Veolia been called a "social R&D" initiative by Veolia Water's top management.

When considering this type of corporate initiative in a developing country or emerging market, there is also some overlap with the so-called base of the pyramid (BOP) approach (Prahalad 2006; Hart 2007). However, in (Grameen) social businesses, profits are considered as a means to an end, whereas BOP proponents regard profits as an end in themselves. Furthermore, it should be noted that (Grameen) social business companies do not necessarily operate at the base of the economic pyramid or in poverty contexts. Quite the opposite: non-profit corporations in Europe or the U.S. (e.g., in the form of Catholic hospitals or universities) actually represent an interesting precursor of Yunus' idea in the developed world. Yet there is an important difference between these organizations and Yunus' model: it is the "absence of stock or other indicia of ownership that give their owners a simultaneous share in both profits and control" (Hansmann 1986, p. 59). According to Hansmann (ibid.) and Frumkin (2002), what traditional non-profit organizations (NPOs) and non-profit corporations have in common is that they are barred from distributing net earnings to individuals who exercise control over the organization, such as members, directors, or trustees.

In social business, the situation is slightly different: even though investors abdicate from personal financial gain, they can get back their initial investment and remain the company's shareholders with legal ownership rights that include control over the company. (Grameen) social business, thus, combines features of profit-maximizing companies and nonprofits while delinking ownership from personal financial gain. Beyond these formal differences, there is another feature that differentiates Yunus' model from traditional nonprofit corporations such as hospitals or universities. It's the notion of "social entrepreneurship" as conceptualized by authors such as Bornstein (2007), Dees (2001), or Nicholls (2008). In the light of



<sup>1</sup> Based on a profitable business model  
<sup>2</sup> Making profits for shareholders and contributing to a broader social good  
 Source: Own draft; inspired by Alter 2007

**Fig. 12.1** Social business taxonomy

mass poverty, Yunus’ social business companies naturally strive for scale, expansion, and replication.

From an organizational perspective, both types of (Grameen) social businesses ultimately belong to a hybrid spectrum lying at the intersection of traditional non-profits and profit-maximizing business. Tying in with Kim Alter’s (2007) typology, they can be classified as a sub-category of social enterprises. This means that all (Grameen) social business companies would be social enterprises, but not all social enterprises are (Grameen) social businesses. Only those social purpose companies that are either “non-loss, non-dividend” or owned by its poor or rather disadvantaged target beneficiaries comply with Yunus’ principles.

Though illustrated as separate types in Fig. 12.1, the following definition aims to cover both types of (Grameen) social business: a Grameen social business is a social purpose company consciously designed to generate social benefits in a commercially viable way through its offer and/or business system. What makes this emerging type of business distinctive is the conscious abdication from distributing profits to its founders and shareholding investors, respectively, beyond the return of their original investment in order to maximize the company’s social and environmental value creation potential. The bottom line is to operate without incurring losses while serving the company’s mission.

Defining Yunus’ idea as “Grameen” social business is proposed for two reasons. The first argument is academic. For research purposes, the concept has to be clearly

defined. Without the “Grameen” amendment, social business will always mean different things to different people and, thus, involve misconceptions. The second is a practical or rather pragmatic cause. Social business as a term is too broad to claim any proprietary right. Yunus’ concept certainly contributes to the debate on the role of business in society, but a fundamental question remains unacknowledged: what makes a business social? A social mission or cause combined with founders’ and investors’ abdication from personal financial gain does not guarantee any desired social impact. How “social” a business turns out to be rather depends on its livelihood context and net impact. Against this background and with reference to Amartya Sen’s capability approach (2001), a second definition is, therefore, proposed for the universal social business term: a social business is a business that contributes to human development by enlarging people’s choice in an economically, environmentally, and socially sustainable way. Its norms and standards are context-specific and result from societal negotiation.

## Field Research Methodology

An exploratory case study approach was chosen for the field research. According to Yin (2009, p. 18), a case study can be defined as “an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life contexts, especially when the boundaries between phenomenon and context are not clearly evident.” While experiments deliberately divorce a phenomenon from its context, focusing on selected variables, the case study method takes contextual conditions purposely into account in order to understand the social phenomenon in depth (Stake 1995). Prior to our field research, little information was available about social business in Bangladesh. Neither the total number nor the characteristics of respective companies were clear. However, the selection of the first case was straightforward: Grameen Danone Foods Ltd. was the first multinational joint venture consciously designed according to Yunus’ principles and, thus, represented a revelatory case previously inaccessible to scientific investigation (Bryman and Bell 2007). Due to the fact that Grameen Danone was also the most advanced venture time-wise, it was also likely to be the case yielding the most data and insights. The selection of the second case (Grameen Veolia Water Ltd.) followed a replication logic similar to that used in multiple experiments (Yin 2009). The second case was, thus, selected based on its similarity and presumption of similar results.



## Brief Case Description

Grameen Danone was launched in July 2006 as a private limited company in Bangladesh. The company was set up as a 50/50 joint venture between Grameen Group and Group Danone Asia Pte Ltd., a subsidiary of the multinational food producer Group Danone. Grameen Danone's stated mission was to reduce poverty by a unique proximity business model that brings daily healthy nutrition to the low-income strata of the population. More specifically, Grameen Danone aims to alleviate malnutrition among needy children by selling fortified yoghurt at an affordable price. Grameen Danone's first plant is located in Betgari, a village on the outskirts of Bogra City, about 140 miles northwest of Dhaka. Grameen Danone's scope of business covers the manufacturing, packaging, marketing, sales, and distribution of fermented fresh dairy products under the brand name Shokti+. Additional core activities are linked to social marketing (i.e., educating consumers about their nutritional needs and health topics) and setting up a rural sales and distribution system. Grameen Danone has adjusted the company's entire value chain to its social mission and rural business environment. The company involves local communities in all parts of its value chain: in spring 2011, around 280 small-scale farmers were acting as direct suppliers of raw milk, around 30 residents were employed within the factory (in quality control, maintenance, and production), and around 175 local women were engaged as sales ladies in daily rural distribution (door-to-door sales). In order to maintain the flavor, texture, and acid content of the yoghurt in the absence of a functioning cold chain, Grameen Danone emphasizes a quick turnaround (48 h) from factory to consumer.

Grameen Veolia represents Yunus' second social business joint venture with a multinational corporation from France. In March 2008, Grameen Healthcare Ltd., a Grameen Bank subsidiary, joined forces with Veolia Water, the water division of Veolia Environment and a global leader in water services. The objective was to provide rural communities with potable water for their basic needs at "very affordable" rates (GVW 2009, p. 148). The company's mission is to construct and operate several water treatment plants in areas where groundwater is contaminated by arsenic at levels that make it a health hazard. Operational since April 2009, Grameen Veolia's water plant is located in Goalmari Union, a rural spot around 32 miles southeast of Dhaka. As of spring 2010, the company's business scope covers the chemical treatment of surface water and its delivery through a network of pipes in a radius of around 2 km around the plant. Water distribution is organized through 11 public tap points and a growing number of community and house connections. The tap points are operated by so-called water dealers, Grameen Bank borrowers who act as micro-entrepreneurs.

Both companies are striving towards a non-loss operation, with all profits to be reinvested for further expansion and improvement (Type I). Table 12.1 illustrates their similarities. Only a few differences could be identified prior to the fieldwork. Although few in number, these differences provided significant links for a cross-case analysis of their performance: what, if anything, did the second case learn from

**Table 12.1** Grameen Danone and Grameen Veolia at a glance

|              |                     | Grameen Danone  | Grameen Veolia |
|--------------|---------------------|---|----------------|
| Similarities | Organization        | Joint venture between Grameen Group and multinational corporation from France     |                |
|              | Primary mission     | Health improvement  |                |
|              | Initial investment  | Less than \$US1 million each  |                |
|              | Business model      | Non-loss, non-dividend (Grameen type I)<br>Cost-driven                            |                |
|              | Value proposition   | Provision of a product that satisfies a basic human need at an “affordable price” |                |
|              | Plant location      | Rural Bangladesh  |                |
|              | Competition         | Availability of substitutes   |                |
| Differences  | Tenure <sup>a</sup> | 35 months   | 11 months      |
|              | Product             | Fortified yoghurt   | Pure water     |
|              |                     | For children  | For all        |
|              | Job creation        | Packaged  | Unpackaged     |
|              |                     | Part of the social mission  | By-product     |

<sup>a</sup>At the time the field research was conducted

the first one? To what extent could challenges in business operation be explained by product differences, and how do the two initiatives differ in their livelihood outcomes? Finding answers to questions such as these facilitated the exploration of start-up related and product-specific business challenges and business-model-related contrasts in terms of livelihood outcomes for the poor.

The case study analysis comprised of two components: first, a business component evaluated the ventures’ performance against their own business objectives. This was done in order to reveal major challenges in business operation and mitigation strategies as well as factors and conditions critical to the initiatives’ commercial viability. The second was a social component that investigated the ventures’ performance against their own social objectives based on a comprehensive appraisal of livelihood outcomes. The goal was to understand who exactly is affected by the joint ventures’ activities and how these changes contribute to poverty reduction. While the business component took advantage of business research methods such as business model and financial analysis (Bryman and Bell 2007; Osterwalder 2004; Osterwalder et al. 2005), the second component was informed by the sustainable livelihoods approach (Chambers and Conway 1992; Chambers 1995; Krantz 2001; Scoones 1998, 2009). In conjunction, both frameworks facilitated insights into the nature and dynamics of the two social business models and respective livelihood outcomes.

The sustainable livelihoods approach represents an analytical concept made up of multiple and, sometimes, contested elements. However, with reference to Chambers and Conway (1992) as well as Scoones (1998), sustainable livelihoods are defined here as follows: a livelihood comprises the possession of human capabilities, assets (including both material and social resources), and (economic)

activities required for a means of living. A livelihood is sustainable when it can cope with and recover from long-term stresses and sudden shocks and maintain or enhance capabilities and assets, while not undermining the natural resource base and foreclosing options for other groups.

Primary data was collected between January and March 2009 and November 2009 and April 2010. Empirical research activities involved the review of internal and external data, nine focus group discussions (FGD) with Grameen Danone's and Grameen Veolia's primary stakeholder groups on site, direct observations, and about 80 semi-structured interviews with key informants from Grameen Danone, Grameen Veolia, the Grameen Group, Group Danone, Danone Communities, Veolia Water, and development experts. For a comprehensive account of the analytical framework and the field research design see Humberg (2011, pp. 99–127).

## Insights Derived from the Field Research

Both Grameen Danone and Grameen Veolia have fallen short of their own business objectives (Table 12.2), but their previous learning curves are reassuring with respect to their future commercial viability. Though they were still loss-making in their second and fourth year of business operation, respectively, both ventures have reached production levels that allow for first gross profits. During their start-up phase both companies have been confronted with a similar set of challenges: low demand (“pull”) in their rural target markets, channel issues in rural marketing and sales (“push”), and high operating costs (Table 12.3). In the absence of established sales and distribution channels, both companies are having difficulties in accessing the poor, especially extreme poor consumers who lack sufficient cash income.

From the very beginning, the limited purchasing power of low-income consumers in rural areas has been functioning as a price ceiling, limiting Grameen Danone's and Grameen Veolia's flexibility in pricing. In order to ensure their products' affordability, both companies have tried to keep their initial price point as low as possible. Otherwise social-mission-related pressure points going beyond typical BOP market constraints such as poor energy supply and lack of retail infrastructure have been of minor relevance. The initial focus on one-product-fits-all solutions in rural sales has, however, proven to be counterproductive. Therefore, both companies decided to diversify their product portfolio and to expand to urban markets in order to boost their plants' capacity utilization and allow for economies of scale (Table 12.3). The fact that both companies managed to advance their business models and build their organizational capabilities suggests that most of the previous obstacles to commercial viability have been primarily start-up and BOP-market-related rather than social mission inherent (Humberg 2011, pp. 224–234).

What about the ventures' livelihood outcomes? By and large, the positive outcomes (Table 12.4) outweigh negative concomitants, and the few downsides that could be identified in the case of Grameen Danone seem to be manageable. Through the introduction of a new pouch product, the amount of plastic waste could be

**Table 12.2** Comparison of business performance against own objectives<sup>a</sup>

| Grameen Danone  | Grameen Veolia  |
|---|---|
| Primary business objective (non-loss operation) not met yet   |   |
| Investors expected to achieve a first positive operating result after two years (in 2008), but the venture is still loss-making | The local team describes the business development since production start in April 2009 as “disappointing”<br>The venture is still loss-making |
| First positive gross margin achieved during the final quarter of 2010 (after less than four years)                              | The first plant has reached a production level that should allow for a first positive gross margin (after approx. one year)                   |
| Break-even expected for 2012 or 2013 (after 5 years)  | Break-even expected for 2014 (after 5 years)  |
| Due to lack of profits, repayment of initial investment amount not possible yet   |   |
| Reinvestment of additional surplus remains a distant prospect   |   |

<sup>a</sup>Similarities shaded

reduced in the case of Grameen Danone. The new Managing Director has already considered the introduction of lunch packs and health insurance for sales ladies in response to their physical strains. On the positive side, Grameen Danone certainly outranges Grameen Veolia with respect to job creation potential and additional income opportunities. However, considering suppliers’, employees’, and distributors’ income potential in comparison to local poverty lines, our findings indicate that Grameen Danone’s business model may contribute to sales ladies’ and micro-farmers’ income and food security but does not (yet) actually lift them out of poverty. For most of Grameen Veolia’s water dealers, their potential income is worth a cup of tea per day. Only those water dealers who serve middle men can earn about 50 Taka (68 US cents) per day which is still less than the minimum income potential for Grameen Danone’s sales ladies.

How significant in terms of scale, growth, and replication potential are the two social business joint ventures from a poverty perspective? Due to their pilot project character, both ventures are still limited in scale: Grameen Danone currently reaches approximately 60,000 people or an estimated 0.04 % of Bangladesh’s total population with one yoghurt per day, while Grameen Veolia could serve a maximum of 28,000 people with 5 l of water per day under full capacity. Grameen Danone has increased the company’s production capacity in Bogra District, but considering the company’s local proximity approach, replication will be more important in the long run. Reasonable replication, however, requires a proof of concept – both in terms of commercial viability as well as social impact, ideally based on a comprehensive cost-benefit analysis in comparison to alternative interventions in order to prove that the current business model is actually the most efficient with respect to its goal.

Most critical is the fact that both companies have not yet fully established their desired health impact. Nutrition and water experts from the International Centre for Diarrhea Disease Research in Bangladesh (ICDDR, B) attest high-quality standards

**Table 12.3** Major challenges in business operation and mitigation strategies<sup>a</sup>

|   | <b>Grameen Danone</b>   | <b>Grameen Veolia</b>  |
|---|---|--|
| <b>Challenges in business operation</b> | Low demand (“pull”) in virtual target market  |  |
|   | Mainly due to consumers’ lack of nutrition concept and price issues                     | Mainly due to consumers’ lack of awareness about water-borne health risks and direct competition with free substitutes |
|   | Channel issues in rural marketing and sales (“push”)                                    |  |
|   | Lack of basic retail infrastructure required to maintain a cold chain                   | High transaction costs for consumers related to public tap point system  |
|   | Sociocultural issues retarding set-up of sales-lady network                             | Diverging customer segments and demands respectively   |
|   | High operating costs  |  |
|   | Mainly product-related  | Mainly overhead-related  |
|   | Direct (social) marketing   |  |
|   | Rural “mini-events”   | Door-to-door campaigns   |
|   | Branding (TV ads)   | Posters and songs  |
| <b>Prevalent mitigation strategies</b>  | Diversification   |  |
|   | Products: Introducing different cup sizes and tastes plus pouch product for rural sales | Products: Entering jar business (water sales in bigger containers to institutional buyers)                             |
|   | Channels: Additional sales through corner stores  | Channels: House and community connections in rural sales   |
|   | Extension of rural selling area and urban expansion                                     |  |
|   | Outlook: Price reduction in rural sales through cross-subsidization                     |  |
|   | Rationalization of rural sales and distribution (e.g., through rickshaw-van system)     |  |
|   | Conventional branding   |  |
|   | New strategic partnerships (e.g., with ESSEC Business School)                           |  |

<sup>a</sup>Similarities shaded

and, if consumed regularly, both products should be effective. But will customers consume the products regularly enough in order to allow for children’s improved nutritional status or people’s reduced arsenic levels? Grameen Danone’s Shakti Doi needs to be consumed at least twice per week, whereas Grameen Veolia’s water requires a daily discipline. Both interventions, thus, require a change in the target customers’ mindsets and consumption patterns. Considerations such as these already point to some of the initiatives’ constraints. Based on both theoretical considerations and empirical insights, a number of general opportunities, limitations, and risks have thus been identified with respect to poverty reduction through (Grameen) social business in Bangladesh. These aspects will be further discussed in the following sections.

**Table 12.4** Positive livelihood outcomes and trends<sup>a</sup>

| <b>Grameen Danone</b>   | <b>Grameen Veolia</b>  |
|---|--|
| Consumers' improved access  |  |
| Crucial micronutrients  | Arsenic-free water   |
| New employment and income opportunities   |  |
| More than 500 in Bogra District (incl. ~ 70 permanent jobs in production, marketing and sales and ~ 50 jobs in business-related services) | For 3 local men in production, 11 local women in water sales, and 2 middle men in distribution |
| Reduced socioeconomic vulnerability   |  |
| Income security for around 175 sales ladies and 230 micro-farmers   | Less exposure to arsenic poisoning (112 households)  |
| Reduction in farmers' transaction costs   |  |
| Personal empowerment  |  |
| External recognition and personal learnings (sales ladies)  | External recognition (residents)   |
| Growing health awareness/knowledge  |  |
| Concerning nutrition (sales ladies and consumers)   | About arsenic-related health risks and water-borne diseases (water dealers and consumers)      |
| Consumers' (perceived) health benefits  |  |
| Children showing better appetite/growing stronger   | Reduced frequency of colds/less coughing   |
| Rise in social capital  |  |
| Residents   | Water dealers  |
| Farmers   | Residents (in particular)  |
| Sales ladies  |  |
| Rising land value and improved communication infrastructure in residential area   |  |
| Preservation of groundwater resources   |  |

<sup>a</sup>Similarities shaded

## Opportunities

Contemplating (Grameen) social business as a new market-based approach to poverty reduction reveals the concept's mobilizing character. Yunus' joint ventures have mobilized private sector resources ranging from financial capital to technical expertise and management know-how in favor of the poor (Humberg 2011, pp. 84–88). Evidence from the first pilot projects suggest that the joint creation of business solutions geared to poor consumers' needs also triggers a new kind of mindset. In a social business initiative, both NGOs and the private sector are forced to regard "the poor" as active market participants – for example, as employees who can add to value creation or consumers who are ready to pay if they get value for money at an affordable price.

Grameen Danone and Grameen Veolia exemplify how (Grameen) social business can facilitate the transfer of knowledge and technology to Bangladesh.

Offering fortified yoghurt and treated river water, the two companies contribute to poor consumers' access to beneficial products and services – essentially enlarging their choice. Integrating the poor into value chains that did not exist before also involves new income and employment opportunities. However, to what extent this happens in terms of jobs and income potential ultimately depends on the type of business model. Creating social benefits through a company's business system or ownership structure (Yunus' social business Type II) seems to pledge greater income potential for the poor than Type I social business companies that are primarily geared to serving poor consumers' needs. Representing the Type I approach, Grameen Danone and Grameen Veolia nevertheless illustrate how social business activities contribute to market creation and human development through their local value creation and consumer education.

The case study findings suggest that initiatives such as Grameen Danone and Grameen Veolia also directly contribute to poverty reduction through the provision of access to economic resources (such as insulated bags or yoghurt stock) as well as products and services for poor consumers' basic needs such as safe water and nutrition. Upon activating stakeholders' capabilities (e.g., in terms of better health and productivity) and contributing to rural development, they strive for inclusive growth from the bottom-up. In contrast to macroeconomic top-down strategies, (Grameen) social business, thus, rather corresponds with pro-poor growth concepts or strategies for the facilitation of small-scale business cycles as promoted in the 1970s and early 1980s (Rauch and Redder 1987).

Despite this bottom-up approach Yunus' social business idea allows for a new inflow of foreign capital, while at the same time contributing to capital accumulation within Bangladesh, because the non-dividend policy for Type I companies effectively prevents foreign shareholders from extracting profits after they have recovered their initial investment. The same principle also marks an important difference in contrast to the BOP approach: shareholder's abdication from dividends relieves a social business (Type I) from making "extra profits" for the company's owners. In principle, this allows for lower initial price points for the products or services offered.

Overall, the case studies and expert interviews conducted in Bangladesh suggest that self-sustainable business solutions are specifically promising in two regards: commercial viability (if achieved) relieves executives from fundraising and donor-dependency. But sufficient profit also allows successful initiatives to scale up their business and replicate their solution. A growing number of self-sustainable initiatives could, furthermore, involve a signaling effect towards profit-maximizing companies as well as traditional nonprofits, promoting the idea of cross-sector collaboration and social entrepreneurship while mitigating charity mentality. Finally, it should be noted that the opportunities identified are not necessarily limited to the poor. Especially the case of Grameen Danone suggests that Yunus' social business concept involves huge potential for multinational corporations in terms of grass-roots innovation, shared value creation, and strategic CSR. This is, however, not risk-free, as will be discussed after a brief review of limitations.

## Limitations

The opportunities outlined above reflect a sort of best-case scenario. Reality shows that the creation of commercially viable social purpose ventures is complicated. The case studies clearly illustrate how challenging it is to find the right balance between a social mission, environmental sustainability, and commercial viability (for a more detailed account of the case studies see Humberg 2011, pp. 224–243). In social business, a plant's location is not necessarily the consequence of optimal production factors and market conditions – quite the opposite. Social business development, thus, requires not only private sector capital and technical know-how but also time for learning and experimentation. Capital and know-how may, in fact, facilitate technical solutions to social challenges, but a major challenge still remains: whether charity or business – changing consumer behavior in line with a social objective takes time, especially when a product or service requires regular consumption. How to ensure target beneficiaries' regular purchase if they lack both the required awareness and purchasing power? The empirical findings suggest that marketing becomes particularly tricky if a company's offer doesn't involve immediately tangible but instead long-term (health) benefits.

When comparing Grameen Danone and Grameen Veolia with success cases such as the Grameen Bank or Grameen Phone in terms of scale, profitability, and reach, a major difference attracts attention. While the latter two managed to reduce consumers' previous (transaction) costs through innovations in service delivery (e.g., lower interest rates for micro-credits or reduced transaction costs through direct access to market information via mobile phones), Grameen Danone's and Grameen Veolia's products first of all involve "extra" costs for the poor: 2.5–3 Taka (3–4 US cents) per 10 l of water that was previously consumed free of cost or 5–12 Taka (7–17 US cents depending on container size) for a packaged nutrition product that did not exist before. The case study findings suggest: Though regular consumption may pay off in the long run (e.g., in terms of better health, increased productivity, and less health-related expenditure), the short-term calculation rather speaks against regular purchase. Moreover it should be noted that a social business company may reduce target beneficiaries' vulnerability (e.g., by providing better health or growing social capital), but not lift them out of poverty, unless the business involves significant income opportunities for the poor.

Overall, the number of scalable and replicable business models that prove Yunus' social business concept is still limited. Considering the extra financial and management support Grameen Danone and Grameen Veolia receive from Group Danone and Veolia Water, it is also questionable whether and how their business models may be replicable by a third party that is not a multinational corporation with concomitant resources (both intellectual and financial capital) to offer. In the absence of a favorable regulatory framework, access to seed capital for individual entrepreneurs, and external management support, it is also a moot question whether Yunus' high-profile joint ventures will foster a new wave of social entrepreneurship in Bangladesh. Yunus' strict non-dividend policy limits financing options primarily



to corporate and philanthropic funds for the time being. Social entrepreneurs without substantial equity fear that this may limit their growth potential in the long run.

The next challenge is a particularly critical one: social impact assessment tends to be resource-intensive and complicated, not only due to potential time lags between interventions and impact (as is the case with Grameen Danone's and Grameen Veolia's health initiatives), but also due to the absence of universal social reporting standards. As noted in the Introduction to this volume and in Ballesteros-Sola's chapter, there are many extant measures of social impact and little agreement on which are the optimal schemes. On the other hand, the two case studies illustrate how multifaceted livelihood outcomes can turn out to be. Theoretically, all positive and negative outcomes should be considered in order to obviate unintended side effects and gauge a venture's net return on social investment. In comparison with alternative options, a certain social business model could be inefficient. Though comprehensive social impact assessments (covering all stakeholder groups) seem to be unrealistic in practice, the abdication of regular monitoring and evaluation involves the risk that negative side effects remain arcane.

Finally, it should be noted that Type I social business ventures such as Grameen Danone and Grameen Veolia might contribute to achieving the UN's Millennium Development Goals (MDGs) – five out of eight goals actually relate to education and health – but do not address national or global causes of poverty such as those related to national income distribution or legal voids, the world trade system, or climate change. They also remain insular solutions unless they become scalable and replicable. In addition, social business also does not compensate for charity when quick disaster relief is required or target beneficiaries are unable to engage in a business because of their age, health status, or mental disabilities.

## Risks

Though socially motivated, Yunus' concept is certainly not immune to negative outcomes. The case study findings suggest that acute cost pressure might involve an adverse effect on secondary objectives such as environmental sustainability or wage levels. In order to save operating costs, Grameen Danone decided, for example, against biodegradable yoghurt cups, and the yoghurts' plastic packaging is now contaminating the local environment. Not all potential side effects or threats are that obvious. Going forward, exploitative business practices for the sake of commercial viability, safety risks for employees, health risks for consumers, or job losses for local competitors might become public only on intentional investigation. In the case of Grameen Danone and Grameen Veolia, no indication for market distortions could be revealed, but some of the developing social business companies may involve direct competition with local producers. What if, for example, a multinational social business joint venture engaged in the marketing and sales of

treated mosquito nets fails after having pushed local mosquito net producers out of business?

The ongoing micro-credit crisis and debate about for-profit providers such as SKS Microfinance in India or Compartamos in Mexico point to another risk: once a social entrepreneur has succeeded in developing a viable social business model like Yunus did with the Grameen Bank, the model is open to replication; either by non-profit organizations that employ the model to generate income for their non-commercial activities as has been the case with microfinance, or by profit-maximizing entrepreneurs in search of personal financial gain. While the first sort of replication may contribute to increased commercialization within the social or development sector, the second turns Yunus' concept upside down with potentially negative consequences for the poor. What if going forward a growing number of previously free resources, such as water, were commercialized?

As long as Grameen is involved, Yunus and the Grameen Group might be held accountable for social business operations and outcomes, but what about independent initiatives? In the absence of a clear regulatory framework, anyone could claim to run a social business, simply for marketing purposes or cost-effective R&D. Even those who start with noble objectives are not immune to a mission drift. While cost pressure might lead to a change in target customers (e.g., from the rural poor to the affluent urban), owners of profitable social business companies might suddenly feel the lure of financial gain. Both cases investigated have, in fact, pointed to a trade-off between profitability and affordability. Faced with this trade-off, Grameen Danone and Grameen Veolia are trying to secure their commercial viability through product diversification and urban expansion. Sales to more affluent (urban) customers at a higher price aim to help generate profits to subsidize less affluent market segments. However, in their quest for commercial viability, (Grameen) social businesses run the risk of leaving out the extreme poor.

## Conclusions and Perspectives

What do the empirical findings imply for the concept's practical implementation going forward? How to exhaust the opportunities, overcome limitations, and address potential risks? First of all, there is a need for a comprehensive proof of concept. Not in itself, since the Grameen Bank has already exemplified that social entrepreneurship at the BOP can originate self-sustainable business models for a social cause. The Grameen Bank even combines Yunus' two social business types – a pro-poor service with poor people's ownership. But for Yunus' social business concept to flourish there is a need for additional business models that prove to be commercially viable and significant in terms of scalability and replication potential. Small-scale solutions certainly have their place in development, but they will not meet the concept's claim with respect to poverty reduction. If taken seriously, social business calls for experimentation, innovation, growth, expansion, replication, and systemic change. But who is ultimately willing to take financial risks for

personal satisfaction in response to social impact? (Grameen) social business companies are exposed to the same liability of newness as profit-maximizing start-ups. Initial losses are, thus, a matter of course and in joint ventures with multinational corporations, additional start-up challenges may arise from quick top-down approaches and governance issues resulting from complex organizational structures.

Who combines the capabilities and resources to develop new social business models from the bottom up? Our empirical findings indicate that multinational corporations without previous experience in poverty contexts tend to underestimate the extra commitment and market intelligence needed to overcome typical BOP market constraints ranging from a lack of basic retail and communication infrastructure to consumers' lack of education, health awareness, and limited purchasing power. Whether MNC or private (social) entrepreneur, major challenges in business operation relate to market development and setting up effective sales and distribution channels. Additional obstacles to commercial viability are found in the (poor) target beneficiaries' livelihood context and strategies that are largely unknown, due to a lack of transparent market information and cultural insights for previously untapped markets. Both cases actually exemplify how sociocultural norms or rather traditions (e.g., "rice is a food priority"; "water has to be for free"; "women should stay close to their home") have undermined prevalent sales and distribution strategies (Humberg 2011, p. 274).

Going forward, further cross-sector partnerships between Bangladeshi non-governmental organizations (NGOs) and multinational corporations may help to pool resources and capabilities, combining local networks and poverty insights with technical expertise and business know-how. Being considered as one of the "next eleven" emerging markets (Lawson et al. 2007), Bangladesh is certainly of interest to MNCs and potential development partners are there: CARE Bangladesh already collaborates with several companies in triple bottom-line activities and BRAC, the world's largest NGO, comes with a very similar entrepreneurial mindset and rural network to the Grameen Group.

In order to raise awareness of Yunus' concept among local graduates, the Yunus Centre in Dhaka established a social business plan competition in 2010. Implementation of social business programs or chairs at reputable universities in Bangladesh could support this concern. The present-day scenario suggests, however, that within Bangladesh the idea of double or triple bottom-line businesses may find a greater following. This is for two reasons: first, a growing number of organizations (including BRAC, the Bangladesh Enterprise Institute, and the South Asian Impact Investment Exchange) are jointly popularizing the blended value idea. Second, the risk of failure and personal loss is considered too high which may also prevent NGOs from starting social business experiments. While the complete abdication of financial gain might be irrelevant for the owner or CEO of a multinational corporation, a primarily philanthropic motivation is considered rather unlikely for ambitious local graduates or entrepreneurs in Bangladesh.

What if (Grameen) social business, then, remains the playing ground of MNCs? Though their technical know-how and capital is certainly valuable, the cooperation

with profit-maximizing companies entails potential conflicts of interest, for example, when hidden financial motives or corporate strategy come into play. How to prevent the abuse of the concept as a cheap market entry strategy? How to prevent exploitative business practices for the sake of commercial viability or the suppression of local competitors? Partnerships with local development agencies and the stronger involvement of individual social entrepreneurs could help to mitigate these risks, but provide no guarantee. Due to a lack of generalities for social business efforts and practical experiences, the commercial or philanthropic misuse (either purposely or ignorantly) of the term and concept seems to be a realistic concern. Who defines social norms and standards in a given context? To what extent can educational efforts as part of a social marketing strategy be legitimized?

More elaborated guidelines and standards (e.g., driven by the Grameen Group) would definitely facilitate a more consistent application of the social business term and concept. Introducing a seal of approval for companies that follow Yunus' principles could help to establish norms and standards for acceptable missions, working conditions, and environmental sustainability. But for this to happen, reporting standards and rating agencies need to be put in place. Specifying Yunus' concept by adding a "Grameen" to the broader social business term, as suggested earlier, could be a first step towards differentiation.

If (Grameen) social business is to exploit the competitive advantage of its non-dividend policy, allowing the company to offer lower prices than BOP companies that have to account for shareholder profit, it could establish its role in serving those who remain excluded by conventional BOP initiatives. Both Grameen Phone and the Grameen Bank have exemplified this sort of frontier market development. But in the end, monitoring and evaluation will make or break the concept. If "social" business companies cannot establish a positive net impact, they may actually waste resources.

What about the concept's transferability into other developing countries? The general idea has already spread across the globe, but MNCs have focused their (Grameen) social business activities primarily on Bangladesh so far in order to partner with the Grameen Group. Private initiatives are, in fact, still limited in number, but Ashoka has exemplified how social entrepreneurship (as a broader concept) can take root all over the world. Though Asia is Ashoka's largest region of activity (with more than 600 fellows), South America (with more than 500 fellows) and Africa (with more than 350 fellows) are catching up (Ashoka 2009). Ashoka fellows do not necessarily comply with Yunus' principles, but generally share a similar spirit. Perspectives differ, then, as far as dividends are concerned and that is a moot point. From an academic perspective, it is too early to criticize Yunus' non-dividend policy as a limiting factor to social business. The social business market needs time to evolve and whether or not the amount of philanthropic funds available for social business will grow over time remains to be seen. What could positively affect the attractiveness of a social business investment may be the application of an effective "non-loss policy" for investors (i.e., at least inflation-adjusted repayment of capital invested). On the other hand, Yunus' "zero return" (beyond the capital invested) philosophy is definitely more concise. Our practical

viewpoint is, however, that the dividend debate partly fails to address the real issue. Enterprises that forego dividends are not automatically more social than any other company and good intentions do not necessarily produce positive results. Assessing how social a company actually is should be measured less against the mission or dividend policy and more against results achieved.

Thus, coming back to the primary research question: what contribution can Yunus' social business approach make to poverty reduction? Based on our case study findings, our proposed response is that (Grameen) social business actively promotes the idea of literally sustainable business solutions to human challenges. The concept stimulates a seminal debate about the role of business in society and opens up new avenues for cross-sector collaboration in developing countries. While the private sector brings financial capital, technical expertise, and functional business know-how (e.g., in social marketing and distribution), partnerships with research institutions allow for progress in the field of social monitoring and evaluation. If well-managed and contributing to poor consumers' purchasing power through their business set-up, (Grameen) social business companies can directly contribute to poverty reduction through growing access to economic resources, income opportunities, or beneficial products and services. Yunus' market-based bottom-up approach is certainly a model for inclusive business at the base of the economic pyramid, turning poor communities effectively from aid beneficiaries into suppliers, producers, and customers, and time-bound development programs into business solutions. It, thus, amplifies the portfolio of direct poverty reduction strategies. Yet, considering the multidimensional character of poverty, the findings are not suggestive of a panacea. (Grameen) social business rather represents a complementary approach to poverty reduction with its own set of opportunities, limitations, and risks.

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# Chapter 13

## The One and the Many Sides of Social Business: A Critical Reflection

Karin Kreutzer and Stefanie Mauksch

### Introduction

Social business has been advocated by Muhammad Yunus, founder of the Grameen Bank, and others as a concept with the potential to revolutionize capitalism and the world economy. While the concept, for the years following the granting of the Nobel Peace Prize to Yunus in 2006, has been promoted world-wide, critical voices have been surprisingly marginal. However, in 2010 microcredit banking – the formerly enthusiastically celebrated and most prominent example of social business – was bashed by the media with almost the same energy. At that time, commercially-oriented imitators of Grameen’s microcredit model were condemned for having caused suicides among Indian people unable to pay mounting debts (Bahree 2010; Polgreen and Bajaj 2010). These imitators employed the microcredit model developed by Yunus and adapted it in a way that shareholders rather than credit takers profited from the model. Yunus himself had always warned to “not cross the boundary” (Bahree 2010). According to him, no one else but the borrowers of a microfinance bank should be its owners, preventing it from going public and, hence, from loan sharks (Yunus, 2011a). Even though financial profit-oriented microcredit banks employ an approach completely different from social business, their failures also raise more general concerns about businesses targeted at “the poor”.

In this chapter, we attempt to address the critical issues that have been identified and examine them to draw a more fine-grained picture of the strengths and shortcomings of the social business concept. It is our aim to systematically account

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for challenges and to critically reflect upon them. This chapter is structured as follows; first we will summarize in four points the most important achievements of the concept; second, we will discuss four limitations of social business. Third and finally, we will point to management challenges which are crucial to long-term and sustainable success of social businesses.

### ***Social Business Fosters Positive Social Change***

Like the umbrella concept of social entrepreneurship, social business acts as catalyst of societal transformation (Alvord et al. 2004). Poverty, exclusion of minority groups, and other issues social businesses typically address are often based on structural problems of society. Therefore, to solve these problems fundamental transformation in the social-political system is needed. The empowerment of impoverished and marginalized groups is one of the transformational potentials of social businesses. This potential has already been demonstrated through the new roles blind people take in concepts such as “Dialogue in the Dark” or “Discovering Hands”. Here, the blind act as guides and mentors for people with normal vision or, respectively, as detectors of breast cancer, thereby questioning and transforming traditional perspectives on disabled people (Saerberg 2007). Similarly, social business has been portrayed as a process of “social engineering” (Zahra et al. 2009) based on Schumpeterian notions of entrepreneurs. Social businesses serve as an “engineered solution to fix a deep systemic problem” (p. 527). The probably most popular example of a “social engineer” is Yunus because he opposed prevailing practices and thereby changed deeply entrenched institutions from outside the system (Zahra et al. 2009). The economist from Bangladesh broadened the focus of the credit system from rich urban men and huge credits to poor rural women borrowing small amounts of money.

### ***Social Business Empowers Marginalized Groups***

Politically, social businesses embrace the idea of democracy (Kerlin 2006), i.e. they put emphasis on the participation of beneficiaries and a democratic management style is employed. In other words, social businesses are participatory in nature as they represent users’ or customers’ interests and further democracy at a local level (Defourny and Nyssens 2008, 2010). It is the aim of social businesses to “empower disadvantaged people and encourage them to take greater responsibility for, and control over, their lives” (Thompson et al. 2000, p. 329). In the 1980s, this was the philosophy of early social businesses: to integrate marginalized groups into the company and to offer disadvantaged workers a chance to reassess the role of work in their lives and to recover control over their own personal project (Defourny and Nyssens 2008). Today, social businesses serve beneficiaries by including them into production, service delivery, management or even as owners of the business. In that

way, beneficiaries are empowered to support themselves (Peredo and McLean 2006). The German “Regionalwert AG” is a stock company owned by citizens that enables them both to invest in sustainable development of their region and to regain control over their local food system. Here, social business “has generally come to mean a social cooperative or association formed to provide employment or specific care services in a participatory framework” (Kerlin 2010, p. 250). Often, alternative models emerge that not only combine but take profit from the convergence of money-earning business and the integration of disadvantaged groups. For example, “Specialisterne” works primarily with people affected by the Asperger syndrome (Austin et al. 2008). Not in spite of but specifically because the employees have this syndrome, the IT company benefits from their unique skills, e.g. in checking information systems, databases and other highly demanding tasks (Austin et al. 2008).

### ***Social Business Offers More Effective Solutions***

Social businesses are designed to employ entrepreneurial strategies and managerial tools to address social (or environmental) issues. Similar to the concept of social entrepreneurship, social business aims at “using the efficiency of competitive markets to improve social performance” (Goerke 2003; Zahra et al. 2009). Social business typically comprises ways to serve beneficiaries and generate profit at the same time and therefore operates in “market niches” that previously did not exist or have not been identified as such. Opportunity-seeking in traditional entrepreneurship has been mainly focused on financial profits and innovation. Before the corporate social responsibility movement emerged in the 1990s, social impact has been a marginal issue. Due to their flexibility and local embeddedness, alternative models like social business can spontaneously react on emerging needs, thereby taking the opportunities governments and traditional business failed to seize. Yunus (2009) describes that as “stumbling upon opportunities” (p. 78) or, in other words, “It can be as simple as noticing a problem and thinking, ‘I wonder whether anyone has ever tried to solve the problem by doing this’ – and then trying it” (Yunus 2011b, p. 27). In that way, social business entrepreneurs are able to develop solutions to societal problems that are more cost-efficient than programs offered by governments or nonprofit organizations.

### ***Social Business Aims to Rethink Business in General***

One of the major achievements of the social business idea goes well beyond the establishment of companies serving a social purpose. The hybridity of the model questions the assumed dichotomy between for-profit corporations and nonprofit organizations. Yunus states explicitly in his third principle that “investors get back only their investment amount. No dividend is given beyond the return of the original investment” (Yunus 2011b, p. 3). Transferring this principle of the “non-

distribution constraint” (Anheier 2005) from nonprofit organizations to businesses, can safely be regarded as revolutionary. Success stories such as Yunus’ micro-credit banks inspire politicians and business leaders worldwide. Moreover, also traditional nonprofit organizations are not only adopting the practice of micro-credits but start founding social ventures on their own. Oxfam, for example, was one of the first nonprofit organizations to set up a market-based venture and started the Oxfam shops to finance their projects fighting poverty. Nonprofit organizations engage in social ventures either to finance their operations and programs or to serve their beneficiaries more effectively (Haugh 2007; Mort et al. 2003). Hence, the increasing popularity of social business raises questions such as: does pursuing a social mission really not pay off in terms of monetary profit? Does inclusion and participation of disadvantaged workers and other stakeholders really inhibit profit-generating activities of a firm?

## **Limitations of the Concept**

In connection with the above questions, concerns regarding the concept of social business have been raised. These perspectives that critically reflect upon the legitimacy and the accountability of social businesses are important. It is vital to take a detached look at the extent to which social businesses represent the views of the public and the needs of their beneficiaries.

### ***Is Social Business Really a Universal Solution?***

We just discussed how the concept of social business forces to critically reflect on the role businesses are playing in and for society. It inspires business leaders, politicians and students all over the world to envisage an alternative form of economy which simultaneously pursues financial and social aims. However, today this is still a vision. Even though there already exist some famous examples of social businesses that have grown successfully to become a major player in a given region or country, today the vast majority of social services is being delivered by governments and established nonprofit organizations (Anheier 2005).

Some authors question if social business is appropriate to address all kinds of social issues – as often proclaimed by visionaries (Yunus 2011b). As critics point out, some social problems should – for ethical reasons – not be tackled by businesses, even if they are “socially-oriented”. From a macro perspective, Maitland (1997) argues that morality is weakened by the hand of the market. He refers to a long philosophical tradition since Aristotle that views commerce as hostile to virtues. According to that view, the more a society is dominated by market relations, the weaker will be its ethical capacity. But even from a micro perspective, single social business ideas might be ethically questionable. For example, could

you classify an adoption agency as a social business, because people believe it rescues babies from future harms and, simultaneously, makes happy couples that cannot have kids themselves? Probably yes, if one considers adoptions to be social and if profits stay within the company. However, as demonstrated in the case of the United States, free enterprise in the field of adoption can become a breeding ground for coercion, trafficking and corruption as infant adoptions have become a multi-billion dollar privatized industry (DESA 2009; Riben 1988, 2007). Adoption is only one of the social services which according to critics cannot be provided solely by employing market-based solutions. Privatization of public services can for several reasons be dangerous in fields like immigration control (Gammeltoft-Hansen 2012), prisons (Rapoport 2012), universities (Hiltzik 2009), or infrastructure and transportation (Schweitzer 2011). Moreover in most cases, founders of social businesses are not representatives of the target group, meaning that they are usually not elected by them. Thus, how immigration is controlled, prisons are managed, or adoption is organized is increasingly influenced by independent decisions of private agents instead of democratically elected representatives. In addition, these private agents do not necessarily discuss their decisions in public, and reporting schemes are not yet compulsory (Achleitner et al. 2011). In other words, social businesses cannot yet be made sufficiently accountable to the people they serve (see NGO critique of Kamat 2004). The danger of social businesses undermining democratic control over public issues must not be neglected.

However, even if social business might not be able to, and sometimes should not, replace government provision and nonprofit organizations, the concept fulfills an important function as an “innovation engine” in the social sector. Business expertise and market mechanisms generate innovations from which other players learn. At the same time, social business practices may question the long-established and sometimes inefficient or bureaucratic practices of publicly owned or contracted providers of social services. As these organizations usually have no or only a few competitors, social businesses as new players in the social field may indirectly influence traditional organizations’ working modes in a positive way.

### ***Can Beneficiaries Really Become Consumers and/or Employees?***

Social business means a transfer of business ideas to social issues, thereby integrating the underlying principles of markets, supply and demand, and acts of selling and consuming into the new field. In this process, social business falls in danger of shifting principles without adapting them to the concrete specifics of the social sector. For instance, some socially disadvantaged groups like mentally ill persons or orphans may be limited in their ability to formulate what role they wish to take in business processes. Due to their potential restrictedness in analytical capacities and access to information, they may not be able to formulate whether and what kinds of

products they would like to consume. The personal desires of drug addicts and suicidal patients might even cause damage to them. However, consumption in the modern business world relies exactly on this capability of developing and stating one's own will. The same issue can be raised in case the social business creates social impact through new employment patterns, e.g. by designing new job opportunities for disabled people or long-term unemployed. Here again, standards for employment cannot be simply transferred. Employees of social business could be workers, but at the same time patients who undergo treatments and therapies. They may need special working environments or struggle with long working hours.

This is to say that consumers or employees engage in business processes based on personal and direct decisions, whereas as citizens and clients, subjects benefit from the public infrastructure in a less self-determined way (Mintzberg 1996). These alternative roles are especially important when it comes to socially disadvantaged groups who much stronger depend on the provision of care by others and sometimes also depend on others taking decisions for them. Hence, business is in these respects limited to serve as a single principle to improve the situation of marginalized groups. It is also questionable in how far social business is going to include groups who have neither the potential to work nor to act as consumers and therefore cannot participate in economic processes at all, for example seriously disabled persons. It becomes clear that social business models may not tackle the issues which are most severe, urgent and life-threatening. However, this is also not the aim of social business. Rather, as Yunus describes it, nonprofits and governments alone cannot be expected to solve the world's social ills, hence additional tools become necessary (Yunus 2009). Those groups who can formulate their consumption or employment interests, but are structurally excluded, can benefit from and emancipate through social business. Viewing social business recipients as customers or employees is different from classifying them as welfare recipients only. In this perspective, they have the power to influence the success of products, formulate needs, make decisions, and exercise agency.

Especially because it relies on principles of co-creation and democratic decision-making, social business can make a difference to overcome paternalism. Paternalism has up to now been an important tendency in the United States and other state governments' social policy, but also in the field of development aid. In the U.S., it implied the close supervision of the dependents, meaning that for example stricter rules for homeless' residents and tougher standards in education policy have been set (Mead 1997). In the field of development aid, Amartya Sen (2009) has criticized top-down paternalistic approaches to defining capabilities and argued for public reasoning and deliberation. In line with these critics, social business challenges paternalistic tendencies as it implicitly prioritizes deliberate decision-making and autonomy of the individual. Insofar as clients are able to carry responsibility for themselves, this is a welcome development.

## ***Do Social Businesses Really Provide Sustainable Long-Term Solutions?***

Another element that needs special adaptation when it comes to social issues is failure. Failure is a main element of corporate lifecycles and, therefore, an issue for social businesses but less so for government agencies or nonprofit organizations relying on public funding. Bankruptcy of a social business may have different emotional and social consequences than failure in usual business processes as the groups involved usually have fewer alternatives than healthy, educated and integrated employees or customers. In other words, consumers and employees of social business may become dependent on the services offered by social business making them morally responsible to ensure a long-term provision of these services. A prime example of this situation is the case of Aspire, a social franchise in the United Kingdom that employed homeless people in a door-to-door business (Tracey and Jarvis 2006). The founders report they had difficulties in dismissing the homeless due to absenteeism caused by addiction, mental illness, and a lack of basic requirements such as punctuality: “We can’t say: ‘Thanks very much, Sunshine, but that’s it. Off you go. We will see you next year,’ because that would put them back in the hole we’ve just dug them out of” (Aspire managers cited in Tracey and Jarvis 2006). The Aspire case demonstrates vividly how overlooked fundamental tensions between an economic model and social orientation can manifest themselves in a combination of practically hardly comprehensible aims. In addition, if a social business fails, the question can be raised if it really works more efficiently than government organizations and nonprofit organizations, especially as success here is measured in terms of long-term social return on investment (Dees 1998). In other words, how can we guarantee long-term maintenance of consumer or employee relations that might have become a fundamental value to the disadvantaged people addressed in the model?

Again the answer can be that social business fulfills an important additional function instead of replacing welfare services. Social businesses usually become aware of opportunities because the respective services are not yet provided by anyone. The examples named above give a novel job opportunity to people who otherwise might have to live on welfare provision. In order to address the needs of employees with Asperger syndrome, the founder of Specialisterne built special offices and reduced the workload of his employees to 20–25 h per week to create a supportive environment (The Independent 2009). Even though these jobs cannot be guaranteed for longer than usual working contracts, it might be a starting point for socially excluded groups as they pursue activities that potentially strengthen their self-confidence and feeling of independence. One must keep in mind this capacity for positive effects on the individual level. In addition, social businesses usually grow through scaling in a step-by-step mode (Beckmann and Zeyen 2013). Ideally, they start as initiatives developing structures of trust and collaboration, build a circle of supporters in their regional communities and flexibly change their social business model depending on the experiences they gather (Mauksch 2012; Shaw

and Carter 2007). These steps can also be considered as test stations at which the model is exposed to moral and ethical critique and has to prove its economic viability.

### ***Do Social Businesses Really Provide Enough Space for Participation?***

The processes of privatization and marketization mentioned above also have other unwanted effects. Several authors point to the danger that marketization leads to a deterioration of the contributions social organizations, especially nonprofit organizations, make to creating and maintaining a strong civil society (Eikenberry and Kluver 2004; Nickel and Eikenberry 2009). According to these authors, gaps in the market should not be taken for granted but politically questioned. By starting with the identification of such “gaps” in social service provision, social business runs the risk of depoliticizing the root causes of the identified problems.

Moreover, in social businesses – as compared to nonprofit organizations – another political potential gets lost, namely the active participation of the population in the form of volunteers. Volunteers in nonprofit organizations represent an important part of civil society and actively influence the organizations they work for. As independent companies, social businesses integrate the groups addressed by their business model, but do not involve civil society representatives to the degree a nonprofit organization does. That is why social businesses might not be able to fulfill the functions to accommodate diversity (give political voice to groups with differing beliefs, values and practices) and to pay attention to minority needs (Douglas 1983) with the same intensity of nonprofit organizations. This important role of nonprofit organizations in giving voice to the people beyond political elections may be diminished if the social sector is dominated by social businesses in which political aspects are diluted by economic considerations.

Furthermore, recent studies show how the introduction of entrepreneurial practices and management instruments in the social sector can even threaten participatory impulses and alienate (potential) volunteers (Kreutzer and Jäger 2011; Maier and Meyer 2011) and thus may even endanger the functioning of civil society as such (Milofsky 1988). The exposure of social organizations to “normal” business aspects like (financial) risk-taking and competition may involve consequences regarding the organizational culture of social businesses. Namely, the application of organizational models that stress competitive practices may be dangerous to values which emphasize community participation, transparency, due process and stewardship (Alexander and Weiner 1998). Critics therefore insist that the “adoption of structures and practices from the for-profit sector is not a universal solution to the problems facing the nonprofit sector” (Alexander and Weiner 1998, p. 239).

However, even if social business does not necessarily have the potential to give political voice to people, it serves as a tool to identify and satisfy needs. Being



based on principles of market demand, but not on the rationale of profit maximization, social businesses may fill gaps in social service provision which seem unattractive for “normal” businesses.

## Management Challenges

### *Balancing Different Logics*

Social businesses often operate in areas characterized by a paucity of resources and poorly functioning markets (Di Domenico et al. 2010). Due to this shortage of resources, achieving financial results which secure economic survival may jeopardize their social mission. The social orientation and a strong focus on mission are fundamental distinguishing features of social entrepreneurship which influence multiple areas of management (Austin et al. 2006). In other words, in order to be successful, social businesses have to positively combine previously separate logics an attempt that may result in a win-lose or even lose-lose situation rather than the win-win situation proposed by social entrepreneurship research (Berglund and Schwartz 2013). For example, microfinance organizations combine a development logic that guides their mission to serve the poor, and a banking logic that requires profits sufficient to support on-going operations and fulfill fiduciary obligations (Battilana and Dorado 2010). Thus, social businesses face a double challenge: to survive as (new) ventures while striking a delicate balance between the managerial and social logics so as to avoid mission drift (Battilana and Dorado 2010). Mission drift means that social businesses can transform into classical profit-seeking companies, thereby potentially harming their former beneficiaries. These struggles between profitability and social impact became evident in the aforementioned case of SKS Microfinance in India. To ensure profitability for shareholders, the founders raised \$358 million in an initial public offering and, thus, needed to raise interest rates (Yunus 2011a). The subjection under the pressure group of shareholders inevitably resulted in aggressive marketing and loan collection. Yunus condemned this tendency of commercialization as a “terrible wrong turn for microfinance” as it indicates a “worrying ‘mission drift’ in the motivation of those lending to the poor” (Yunus 2011a). In 2012, the SKS founder acknowledged his mistake stating that “Yunus was right” (Thirani 2012).

In other words, one of the main challenges of social businesses is that their services are highly demanded, but may include high economic and social risks. A significant level of economic risk is even one of nine defining characteristics the EMES network attributed to the ideal type of social enterprise (Kerlin 2006). Existing research suggests that in order to be sustainable, those “multi-discursive” organizations (Beyes and Jäger 2005) need to create a common organizational identity that strikes the balance between the logics they combine (Battilana and

Dorado 2010), and effective leaders need to fully personify both logics (Albert and Whetten 1985) and claim key ideologies as their own (Glynn 2000).

### ***Founders Syndromes***

Scholars highlight social entrepreneurs' "outstanding skills" and examine their characteristics (e.g. Zahra et al. 2009) and unique personalities (see Mair and Marti 2006 for a review). Founders of social organizations deserve special recognition because they have demonstrated a remarkable capacity to translate their visionary ideas into organizational realities for the good of a community. However, at some point board members and staff in every organization might have the expectation that founders will become more egalitarian and refrain from controlling organizational decisions. Sometimes founders are even being judged critically for their leadership style and their propensity to abuse their position of privilege to advance personal rather than organizational goals (Block and Rosenberg 2002). Therefore, succession planning and a sustainable organizational culture represent another challenge for social businesses as they are strongly driven by the leader's charisma and trustworthiness. Social entrepreneurs are not necessarily also trained managers. Wood (1992) therefore suggests that social organizations shifting out of the founding stage should hire executive managers who focus more on management than entrepreneurial tasks. Challenging this perspective, critical academics argue against the elevation of managerialism and for a further investigation of the moral and social role of social entrepreneurship (Dey and Steyaert 2012; Mauksch 2012). The managerial focus bears the danger of reducing reality to a set of simplified activities, inputs, outputs, and outcomes, rather than acknowledging the chaotic and complex affairs of (social) life (Dey and Steyaert 2010).

### ***Framing a Social Business Model to be Long-Term Self-Sustainable***

To date, statistical evidence for the contribution of social businesses to the social sector's overall performance is still lacking. Thus, social business as a business model still has to prove its long-term sustainability (Paton 2003). However, as Yunus suggested, it is not necessary that every social business has to reach large-scale effects as the "[...] real power of social business is in the opportunities it creates for a single person, or a small group of friends, with much more modest resources, operating on a very small scale, to create business that can someday have a global effect" (Yunus 2011b, pp. 96–97). Social business may grow very slowly and later become, e.g. a social franchise, but importantly, it fosters engagement of beneficiaries and responsibility on a very individual level.

## Final Thoughts

The concept of social business once has been a visionary idea. Today it is well-known and applied in countries all over the world. The vision of creating businesses with social goals has found followers on every level; social entrepreneurs found social ventures with innovative and sustainable business models, politicians provide the appropriate legal frameworks and infrastructure, business leaders engage in social businesses, and employees, customers and countless individuals embrace the concept. We believe that despite the shortcomings and challenges we discussed above social business bears considerable potential. Social business creatively enriches the portfolio of social problem solving approaches. It challenges paternalistic tendencies and prioritizes individual autonomy and deliberate decision-making. Social business creates opportunities for fundamental change – not only in the social sector but also in the economy as a whole.

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# **Part V**

## **Conclusion**

# Chapter 14

## Looking Forward

Andrea Grove

### Introduction

In 2010, when considering how we could act to fill the void of academic research on social business, the editors were encouraged by a major publisher to produce a traditional-style textbook on social business. Following our instinct that the field was too new, the examples or cases too few, and the “experts” too non-traditional, we chose instead to take a prior step – to gather some of the scholars and practitioners from very diverse backgrounds who had begun to explore Professor Yunus’ new idea and turn that diversity into a multidisciplinary look at ideas surrounding what social business should be and how it has been applied thus far. I hope that this volume provides impetus for more research and thinking about social business so that it might take on the markers of a true academic field. As this book goes to print, I am encouraged that for the first time in the Global Social Business Summit’s 5 years, an academic conference is scheduled to precede the annual gathering (held in Kuala Lumpur, Malaysia in November 2013). This chapter provides observations about the state of knowledge regarding the social business concept and its implementation across cases. Not meant to be an exhaustive summary, the first section draws attention to a few areas of consensus and debate. The second part of the chapter takes a look forward, pointing out several major avenues for research that might be explored in order to enrich our understanding about the impact of social business.

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## The Concept in Theory and Practice

In Chap. 13, Kreutzer and Mauksch discuss criticisms and potential shortcomings of the social business idea. I acknowledge those debates and encourage students of social business to continue to explore the questions those authors so effectively raise. In this section I step back to focus on a few additional queries encouraged by reading this books' contributions as a whole.

One of the most difficult aspects for academics working in a new field is the need to situate a concept in juxtaposition to extant ideas. There is a tension between wanting to distinguish the concept of social business as new and unique compared to social entrepreneurship and nonprofit work, and the fact that in the real world there are very few ideal cases of any of these models. Take, for example, the growing number of projects run by nonprofits as discussed by Ballesteros-Sola (one of the more prominent American examples is Homeboy Industries in Los Angeles; see Kim 2010). When we examine their business models, they look much like a Yunus social business, but in fact preceded the Yunus notion. Further, the legal framework available at the time of their establishment in the United States did not allow for something like a social business; they operate in a gray area of the nonprofit category. The same might be said of the student loan businesses that Gary A. Berg examines in his chapter. Indeed, we have found in our work at the California Institute for Social Business that entrepreneurs and nonprofits are excited about the Yunus idea, but despite the new legal category of the Benefit Corporation (see <http://www.bcorporation.net/what-are-b-corps>) some of them prefer to seek legal status in older models. We hope to see that changing over time.

The situation in Africa is similar. Yunus social business is just recently gaining traction. The StarShea business in Ghana was created with corporate partners and the Grameen Creative Lab as a Yunus-style social business (<http://www.starshea.com>). In addition, in spring 2013, a new partnership between Yunus Social Business and the African Development bank (AfDB) to promote social business was established with incubators in Uganda and Togo to be funded by the Japanese government and the AfDB (<http://www.yunuscentre.org>). But there are many examples of businesses around Africa that appear to operate according to the principles of the Type II Yunus idea, such as the Bulungula Lodge in South Africa (<http://www.bulungula.com>). In what seems to be a reverse pattern of what we see in other places – where nonprofits are starting a “wing” using a business model to raise funds – the Bulungula group started an incubator nonprofit to address additional social issues in the villages around the lodge.

Nguyen's chapter looking at Type II social businesses in Vietnam provides additional illustration: Tien Minh Blind Massage Service and Mutual Aid Tontine are fascinating examples of Type II social businesses but were not consciously created as such. Instead, as Nguyen put it, “necessity was the mother of invention” – the disabled people were inspired to create work for themselves because they felt they became a burden to their families otherwise. They wanted to escape poverty not for themselves alone but for their families. However, upon learning about



Professor Yunus's ideas, these entrepreneurs were very excited to connect with the broader social business community and to learn more (Nguyen, 2013, 18 July, personal communication with author).

In this book, both Ballesteros-Sola and Humberg and Braun provide useful taxonomies that boil down the vast literature within the broad socially-oriented business field so that we might more easily comprehend how social business fits. Further, Beckmann, Zeyen, and Krzeminska's three-dimensional framework purposely creates ideal-types so that we can more readily understand and theorize about overlap. The reader is encouraged to think carefully about their insightful work here and not reify the ideal types. These chapters should give students of social business valuable tools with which to explore real world examples and ask where real differences are and when/if they matter.

The case studies of social businesses around the world that are featured in this book show us a great diversity of the implementation of the concept of social business. Ballesteros-Sola's taxonomy breaks them down clearly: Grameen social business entrepreneurs; medium to large social businesses backed by private investors and venture capital firms (and as described in the Jimenez-Jimenez chapter, sometimes cities); traditional corporations with Grameen social business initiatives (such as Grameen Danone, Grameen Veolia, Grameen BASF, Grameen Intel); and Grameen-driven social businesses (such as Grameen Shakti, Grameen Caldas). Most common as consciously labeled social businesses are those established in partnership with the Grameen family, falling into the latter two categories of Ballesteros-Sola and several of which are explored in this volume: Grameen Caldas, Grameen Intel, Grameen BASF, Grameen Shakti, Grameen Danone, and Grameen Veolia.

Most of the well-known examples are (not surprisingly) those associated with Grameen itself and with large corporations. Some of these are very successful such as Grameen Shakti, as Wimmer describes in this volume and also a finding that is borne out in academic evaluations such as Asif (2012). The case studies also reveal that some have pursued paths that do not conform to the ideal principles of Yunus social business. For example, in order to get off the ground the companies have worked in a way that essentially accepts donations, either of capital or human resources (relying on the work of many volunteers, for instance); some scholars, for example, have described Grameen Shakti as a nonprofit (Sovacool and Drupady 2011). As Rubaiya and Nahiduzzaman note in their analysis of Grameen BASF, the mosquito net product may require an initial subsidy from the government in order to make the nets more affordable to the poor. Humberg (2011) evaluates in detail the Danone and Veolia business models, noting how they initially fell short of their own business objectives but expressing optimism in their future commercial viability based on how they seemed to be learning quickly to adapt. In addition, it is clear that the corporations essentially donated a great deal of employee time to the projects (Humberg 2011). Loeffler addresses this discrepancy between the ideal social business model and reality in his account of Grameen Caldas by arguing that it is the longer term model of eventually achieving sustainability that distinguishes social business from nonprofit or corporate social responsibility. Intriguingly, some

of the businesses that fit best with the Yunus model are those that were not designed based on Yunus' idea but look like the Type II social business. As noted above, they developed organically by the poor out of the needs of poor people in particular localities (the Vietnam cases).

In summary, some social businesses look more like nonprofits at these early stages of their development at least, some nonprofits look like social businesses. Scholars would agree that this kind of conceptual fuzziness clearly requires more study. Perhaps application and exploration of the Beckmann, et al. typology against real-world cases will offer more clarity, as well as additional case study comparisons over time.

## Looking Forward

Despite debates that will continue about whether social businesses follow the nonprofit, non-dividend model perfectly or tend to operate sometimes more like traditional nonprofits, I have found that among both practitioners and academics who focus on social business, academic distinctions about the concept are less important than the goals of social business. People want to work with Professor Yunus to spread the word about social business because they want to do something to make the world a better place. We might measure the success of the concept by the fact that more people know about it, more universities are teaching about it, more corporations and investment funds are considering social business investments – all things that are true. But really the hope is that social business gives us another tool in our toolbox, alongside other ways of alleviating poverty and addressing the rest of the long list of social problems that plague us. In order to think about whether this hope is warranted, we have to prepare for longer-term evaluations of extant (self-declared) social businesses.

In many cases it is simply too soon to tell if the businesses are succeeding in alleviating the social problem for which they were designed. For example, Grameen BASF's mosquito net plant was not opened until March 2012, as noted by Rubaiya and Nahiduzzaman in this volume. For the *mrittikā* and *shumātā* programs of Grameen Intel (addressing needs of farmers and pregnant women, respectively), impact is evaluated in a similar way to other social businesses in early stages – through anecdotal evidence from participating farmers (see chapter in this volume by Nahiduzzaman and Rubaiya).

Further, there is still much debate about the best measures to use in attempting this kind of evaluation. In comparison to social businesses, traditional businesses have it quite easy – are they making money, is their stock rising, etc.? At the Global Social Business Summits each year, Professor Yunus and others have argued that a Social Business Stock Exchange would benefit social businesses, contributing to our ability to measure their success and value. As we noted in Chap. 1 and also mentioned by Ballesteros-Sola, there are a range of social impact measures,

developed primarily for nonprofits, that social business practitioners have suggested be applied to social businesses.

As is apparent from the case studies, few of the companies highlighted in this book have conducted self-studies (understandably, given the need to get the businesses up and running), and, while in future cases on social businesses we hope to see scholars report social impact studies, in fact most scholars would argue that we need longer time spans to really pick up whether nutrition in Caldas is improving, how that impacts education and thus social inequality, and so on. The kind of evaluation we really need is just not possible when these businesses are only beginning to operate. There have been some interim studies. For example, the Global Alliance for Improved Nutrition (GAIN) funded a study by Prof. Sunil Sazawal of Johns Hopkins to evaluate the impact of shoktidoi (the Grameen Danone yogurt) on children's nutrition. Sazawal and colleagues published the results in 2013; their double-blind experiment evaluating children who had eaten the yogurt for a year showed improvements in several measures (Sazawal et al. 2013).

Humberg and Braun's application of the sustainable livelihoods approach is an intriguing method that can be applied both to short term and longer term examinations; those authors used the method to examine Grameen Danone and Grameen Veolia, as they discuss in Chap. 12. First, it is useful to note that Humberg's work also advocates an evaluation of performance against business objectives and several dimensions of performance against social objectives. The first of the latter is the value proposition and impact (did the company make yogurt that kids eat and does the yogurt improve their health?); second is access in terms of affordability and availability; third is poverty reduction in economic terms (Humberg 2011). But the sustainable livelihoods approach takes a broader view. Quoting Humberg and Braun in this volume, a livelihood comprises the possession of human capabilities, assets (including both material and social resources), and (economic) activities required for a means of living. A livelihood is sustainable when it can cope with and recover from long-term stresses and sudden shocks and maintain or enhance capabilities and assets, while not undermining the natural resource base and foreclosing options for other groups.

For these two Grameen corporate partnership social businesses, as Humberg and Braun summarize, Humberg conducted intensive focus group discussions (for example, for Grameen Danone she worked with micro-farmers, sales ladies, and customers) to explore the full range of potential economic, human, social, and environmental outcomes. As Table 12.4 in Chap. 12 shows, the two businesses have been successful on multiple dimensions. What the analysis also teaches us is that a social business created to improve child nutrition is also about alleviating poverty directly, not just its effects. Indeed, the evaluation tools we need are complex and multidimensional, and require a broad, interdisciplinary approach.

While thorough and taking a necessarily broad view, this approach is labor-intensive, requiring the researcher to spend quality time learning the context, getting to know the people, their culture, and (depending on the case) their language. Most business schools do not provide backgrounds in these skills,

which is why any social business program must be – consciously and actively – an interdisciplinary field with appropriate interdisciplinary training. It is in terms of the social (and also sometimes political and cultural) impacts that those going into social business hope to see results yet these are the areas least brought to the table. We hope this volume has provided a baseline for work in this area and others will take up the reins to create a true field of academic study that bridges our traditional disciplinary boundaries. Social business is about much more than “business as usual.” Indeed, as Kreutzer and Mauksch write in Chap. 13, it is about positive social change, empowering marginalized groups, creating effective solutions, and rethinking business in general. These undertakings require depth of knowledge about the problem itself; the historical, political, social, and cultural systems that comprise the context of the problem; and exposure to alternative ideas about investment, capital, and markets.

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