Building Social Business Models: Lessons from the Grameen Experience

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Building Social Business Models: Lessons from the Grameen Experience

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Grameen bank, founded in 1976, has both pioneered the development of micro-finance, and created nearly 30 businesses designed to alleviate poverty. The article traces the gradual development of Grameen's expertise in formulating social business models, which require new value propositions, value constellations and profit equations, and as such, resembles business model innovation. The article presents five lessons learned from this experience: three are similar to those of conventional business model 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 and early. We suggest these new business models – where stakeholders replace shareholders as the focus of value maximization – could empower capitalism to address overwhelming global concerns.

Introduction

The Grameen Group is a network of nearly 30 sister organizations linked to the Bangladeshi Grameen Bank, the microcredit pioneer and (together with its founder, Muhammad Yunus, one of this article's co-authors) 2006 Nobel Peace Prize winner. This group was established in 1983 with the creation of the Grameen Bank ('Grameen' means village), within the framework of a new law drafted specifically for the purpose. Yunus, then a professor in economics, had already started to lend money to people trapped into poverty by greedy moneylenders. He had discovered that entrepreneurship was by no means a rare quality among poor people – but that traditional banks refused to grant loans without collateral. Grameen Bank now gives loans to over 7.5 million poor people-97 percent of whom are women – which help the poor lift themselves out of poverty:

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68 percent of the families of Grameen Bank borrowers have crossed the poverty line. Motivation towards repayment is high, with rates currently running at 98.4 percent, and the bank has been profitable in every year of its existence except 1983, 1991 and 1992. The socially-oriented organizations in the Grameen Group now range from the country's largest phone company to one supplying affordable healthcare. The Group's on-going experience (over almost 30 years) of building firms whose purpose is to alleviate poverty has led to the emergence of the concept of 'social business', which can be viewed as still being under construction.

Established multinational companies (MNC) have recently shown some interest in the Grameen experience and in its fight against poverty as part of a more general emphasis on corporate social responsibility (CSR). However shareholder value maximization remains the rule in the capitalist system, and – clearly – the reconciliation of this with social objectives is often problematic. Thus, although advocates of CSR like to propose that companies should be measured by a 'triple bottom line' of financial, social and environmental benefits, ultimately only one bottom line usually matters: financial profit.

reconciling shareholder value maximization with social objectives is clearly problematic … despite CSR advocates proposing a 'triple bottom line', only one ultimately matters in the capitalist system

However, research has shown that, if managed strategically, CSR projects can indeed pay off, both socially and financially.[1] In the midst of the current financial and economic crisis, some companies have begun to question their role more fundamentally and seem to be awakening to social change issues. Some pioneering established companies have sought to implement more pro-active CSR policies that anticipate social trends and go beyond the minimum required,[2] and this impetus has led to the rise of the number of 'social businesses'. Many of these have turned to Grameen to benefit from its experience to help them achieve these goals, and partnered with it in a range of social business ventures. We report on three of these as our case studies:

- Grameen Phone, a partnership with Telenor (the Norwegian telecommunications company), has become one of the largest tax payers in Bangladesh. The success is based on the Grameen 'telephone ladies', who provide a phone service in their villages by lending users a phone for just a couple of minutes – avoiding them having to make costly handset purchases;
- Grameen Veolia is a co-creation with Veolia Water (one of the world's leading water service providers) designed to use simplified surface-water treatment systems to provide rural populations with affordable access to drinking water, distributed at village drinking fountains or via cans, using prepaid card systems;
- Grameen Danone is a collaboration with Danone (one of the world's leading healthy food companies) that offers an affordable and easily available dairy product developed to fulfill the nutritional needs of Bangladeshi children. The yoghurt is produced locally and distributed door-to-door by Grameen ladies.

The story behind each of these ventures is of the gradual emergence of the social business concept: a self-sustaining company that sells goods or services and repays its owners' investments, but whose primary purpose is to serve society and improve the lot of the poor. Building on these recent Grameen experiments, our goal in this article is to delineate the lessons learned so as to provide detailed guidance for companies wishing to create social businesses. We analyze these cases (which are described in more detail in the Appendix) not in chronological order, but in the sequence that fits our main purpose — of studying the building of social business models. As the social business idea borrows some concepts from the capitalist economy, social business implementation can likewise borrow conventional business literature concepts. Our idea is to investigate whether the business model concept — and in particular the business model innovation literature — can help us propose a framework for setting up social businesses. The research into business model innovation, which considers business models as the locus of innovation (rather than products, processes or technologies), while it doesn't always use the same terminology, has led to a growing body of academic literature over recent years.[3] This literature suggests that business model innovation is facilitated by three major strategic moves: challenging conventional wisdom; setting up appropriate partnerships; and undertaking experimentation. We reviewed these recommendations with the Grameen experience (see Appendix 2 for the research method), and found that they were also relevant for creating social business models. However, the case studies show that building social businesses also involves two additional requirements: the needs to involve socially-oriented shareholders and to state the intended social profit explicitly. Hence, overall, five lessons can be learned from the Grameen experience.

The structure of this article follows our research path. First, we present the social business model concept, and highlight how building social businesses resembles business model innovation. We then describe the five lessons learned through the Grameen experience noted above. This leads us to develop a specific social business model framework conceived to help managers seeking to set up businesses conceived to fulfill a social goal.

What is a social business?

In the capitalist system, two extreme types of corporate bodies can be distinguished. On the one hand, companies can be seen as profit-maximizing businesses, whose purpose is to create shareholder value. On the other, non-profit organizations exist to fulfill social objectives. Figure 1 shows how a social business borrows from both these entities: it has to cover its full costs from its operations, and its owners are entitled to recover their invested money, but it is more cause- than profit-driven. Its position in the lower right quadrant shows that it has both the potential to act as a change agent for the world, and sufficient business-like characteristics to ensure it survives to do so.

In organizational structure, this new form of business is basically the same as profit-maximizing businesses: it is not a charity, but a business in every sense. The managerial mindset must be the same as in a business: when you are running a social business, you think and work differently than if you were running a charity, even though your objective is different from a profit-maximizing company. At the same time as trying to achieve their social objective, social businesses need to recover their full costs so they can be self-sustainable. Their owners never intend to make profits for themselves (there are no dividends), but they are entitled to get their money back if they wish. Rather than being passed on to investors, surpluses generated by the social business are reinvested

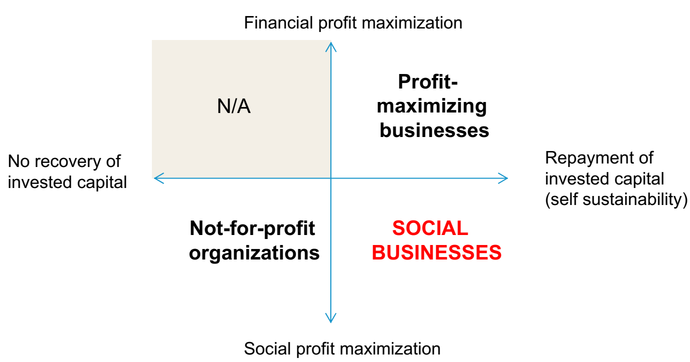

Figure 1. Social business vs. Profit maximizing business and not-for-profit organisations

in the business, and thus, ultimately, passed on to the target group of beneficiaries in such forms as lower prices, better service or greater accessibility. Thus, a social business is designed and operated just like a 'regular' business enterprise, with products, services, customers, markets, expenses and revenues. It is a no-loss, no-dividend, self-sustaining company that sells goods or services and repays investments to its owners, but whose primary purpose is to serve society and improve the lot of the poor. Here it differs from NGOs, most of which are not designed to recover their total costs from their operations, and are therefore obliged to devote part of their time and energy to raising money. As it seeks self-sustainability, a social business only relies on its investors at the beginning of a development project.

[While] its primary purpose is to serve society, a social business has products, services, customers, markets, expenses and revenues like a 'regular' enterprise …It is a no-loss, no-dividend, self-sustaining company that repays its owners' investments

This is close to the concept of 'social entrepreneurship', defined by Mair and Marti as '*a process involving the innovative use and combination of resources to pursue opportunities to catalyze social change and/or address social needs*'. Social businesses can be seen as a subset of social entrepreneurship, which includes both profit and not-for-profit initiatives, and which can be distinguished from conventional entrepreneurship through the '*relative priority given to social wealth creation vs. economic wealth creation. In business entrepreneurship, social wealth is a by-product of the economic value created*'.[4] All those who design and run social businesses are social entrepreneurs - but not all social entrepreneurs are engaged in social businesses (some models, for instance, still include conventional dividend payments to profit oriented shareholders).[5]

Hence, a social business is a new form of business that can be located somewhere between a profit-maximizing and a non-profit organization. But why might investors put money into such a business? The many billions of dollars that people around the world donated to charitable causes every year demonstrate that people want to give money in a way that benefits other human beings. However, as noted above, investing in a social business is different from philanthropy in several ways — the social business is self-sustaining and investors get their money back: people who donate to charity do not. The investor also remains the owner of the company and can thus decide its future course of action, so that — as well as a chance to provide money — the social business offers businesspeople an exciting opportunity to leverage their own business skills and creativity to solve social problems.

Social business as business model innovation

The business model concept is currently attracting much attention from researchers, and seems useful in offering guidance as how to create social businesses. However, despite ever-growing literature on the business model concept, there is no consensus as to its definition. An in-depth analysis of business model components in academic literature shows that, among the plethora of definitions, three elements are usually distinguished: the product/service proposed to customers, the way the company is organized so as to deliver this product and service to its customers, and the revenue model. Some authors, however, focus on just some of these components: Chesbrough and Rosembloom, for example, focus on the revenue model, whereas Zott and Amit focus on transactions between the firm and its external constituents.[6] We suggest that a business model has three components, as shown in Figure 2.

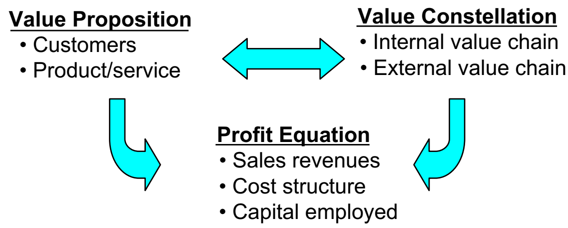

Figure 2. The three components of a conventional business model

- a **value proposition**, that is, the answer to the question: 'Who are our customers and what do we offer to them that they value?';
- a **value constellation**,[7] that is, the answer to the question: 'How do we deliver this offer to our customers?' This involves not only the company's own value chain but also its value network with its suppliers and partners.

These two components need to fit together like pieces of a puzzle in order to generate:

- a positive **profit equation**, which is the financial translation of the other two, and includes how value is captured from the revenues generated through the value proposition, and how costs are structured and capital employed in the value constellation.

The business model concept offers a consistent and integrated picture of a company and the way it generates revenues and profit. But, as noted in our cases, Grameen's creation of social businesses in Bangladesh could not be based on simply replicating conventional for-profit business models. New value propositions and new value constellations had to be created so as to match into a positive profit equation, as illustrated in Table 1: in effect, building social businesses requires building new business models.

How to build social business models

Business model innovation is about generating new sources of profit by finding novel value proposition/value constellation combinations. Hence, we wondered what the literature on this phenomenon offers to our understanding of building social businesses. As mentioned before, five lessons can be learned about the Grameen experiences: three are similar to those involved in conventional business model innovation; two are more specific, as highlighted by Table 2.

Similarities between social and conventional business model innovation

Lesson 1: Challenging conventional wisdom

Most research on business model innovation underlines the radicalism of this type of innovation, which is defined as the capacity to create new strategies which modify the rules of the competitive game in an industry. This represents a major challenge for companies, as it entails questioning the models that have previously led them to success. This in turn requires revisiting a number of basic assumptions, and resembles what Argyris and Schön have described as 'double loop' learning.[8] In contrast to 'single loop' learning — which confines itself to changing strategies within an existing framework — double-loop learning forces the organization to transform its fundamental references and adopt new ones. The creation of Grameen Bank offers an insightful illustration as to how conventional wisdom can be challenged: indeed, the questioning of the current rules of the game was at the very heart of the bank's foundation.

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Table 1. Conventional social business model vs. social business model for Telenor, Veolia and Danone

Grameen Partner & sector	Conventional business model (predominantly in developed countries)		Social business model	
	Value proposition	Value constellation	Value proposition	Value constellation
Telenor, telecom	• Sale of a monthly package (phone + air time) to individual consumers	• Construction of a wireless network • Sale of package through retail	• Caller borrows a phone when needed and pays per minute	• Construction of a wireless network • Grameen ladies own the phones, buy discounted air time in bulk and sell minutes to users as needed
Veolia, water services	• Maximum water quality • Distributing water through taps located inside people's homes	• Water treatment factories with a high level of technology, recycling and purifying water	• Water quality that meets World Health Organization standards (rather than US or European standards) • Village water fountains • Prepaid card payment system	• Construction of a simplified water plant to recycle surface water • Construction of the water supply network towards the fountains • New distribution channel for isolated locations: rickshaws driven by 'Grameen Boys'
Danone, dairy products	• High-end products • Emphasis on lifestyle • Strong brand name through advertisement	• Centralized purchasing and production (economies of scale) • Logistics towards distribution platforms • Sales through food retailers • Storage by end consumers	• Low price • Fulfillment of basic nutritional needs • Grameen brand image	• Local supply of raw products • Local production • Direct door-to-door sales by 'Grameen ladies' • Limited storage by end-consumers

Table 2. Five lessons in building social businesses

Similarities with conventional business model innovation	
	1. Challenging conventional wisdom and basic assumptions
	2. Finding complementary partners
	3. Undertaking a continuous experimentation process
Specificities of social business models	
	4. Favoring social profit-oriented shareholders
	5. Clearly specifying the social profit objective

It was Sufiya Begum, a woman from a village called Jobra, who taught Yunus (then an economics professor) about the problem she encountered. Like many others in her village, she relied on the local moneylender for the cash she needed to buy the bamboo for the stools she crafted. But he would only give her the money if she agreed to sell him all she produced, and at a price he would decide — which was ridiculously low. Thus, though hardworking, she was trapped in poverty — altogether forty-two people in the village, who had borrowed a total amount of less than $27 from the moneylender, faced the same desperate situation. They could not borrow money from conventional bankers since they had no credit histories and no collateral to offer, and could not even fill out the necessary paperwork because they were illiterate. In the event Yunus lent them the $27 from his own pocket: he recovered it — within a week. But despite evidence provided by several other similar experiences, conventional bankers continued to be reluctant to consider poor people as potential customers. They found it impossible to challenge their conventional wisdom — that loans could not be granted without collateral: so a dedicated bank had to be set up.

Grameen Bank's business model reinvented the rules of the game. First, the value proposition of the bank aims at lifting the poor out of poverty by making small loans sufficient to finance income-generating businesses — rice-husking, machine repairing, purchasing rickshaws, buying milk cows, goats, cloth, pottery and so on. Except in very extreme circumstances, interest is charged on all loans. Second, the value constellation breaks away from bureaucratic control. Local Grameen branch managers (a branch, typically, covers 15 to 22 villages) first visit the villages and identify the prospective clientele, who are dealt with in groups of five. Only if the first two borrowers in a group begin to repay the principal plus interest within six weeks do the other group members become eligible for loans. Group support, peer pressure, self-interest and the motivation of borrowers ensure that repayment rates on Grameen Bank loans remain high.

Grameen Bank's business model therefore challenges several standard banking assumptions, including the beliefs that loans cannot be granted without collateral and that 'entrepreneurship' is a rare quality among the poor. Conventional banks were unable to enter the double loop learning process involved in adopting new frames of reference — but it is challenge that awaits all MNC's wanting to set up social businesses.

Lessons 2: Finding complementary partners

The second step in building social business models is to leverage expertise and resources by setting up partnerships. Again, the need to be open to other players in the industry, and to players in other industries, is covered in the business model innovation literature. The ideas developed by Chesbrough — who called for businesses in technological environments to open up their own business models to partner companies so as to benefit from new resources — can be applied to the context of poverty.[9] On a theoretical level, in contrast to the competitive paradigm, the cooperative paradigm places most of its emphasis on collaboration,[10] which allows organizations to gain access to new resources they would otherwise have needed to either develop alone or purchase. The main advantage of collaborative agreements lies in the pooling of resources and knowledge leveraged by the partners,[11] which may in turn lead to the development of a broader portfolio of resources for firms in the network. Cooperation is considered as a major factor of success for pro-active CSR strategies,[12] and research stresses the importance of long-term relationships among such actors.

As the specific literature on business model innovation which aims at social benefits has already shown,[13] the Telenor example illustrates how setting up a collaborative partnership is a major step in building social business models. The advantages are clear: Grameen had no experience in building a wireless phone network, while, for its part, Telenor had no experience of developing world markets. Telenor benefited from Grameen's knowledge of the country and the network of people the bank had already built. This created a strong barrier against new entrants. The combination of the two partners' resources and skills led this successful venture, which offered a useful value proposition to customers while also helping poor people become entrepreneurs and lift themselves out of poverty.

Such partnerships between businesses and not-for-profit organizations can be highly productive and low in risk, as they take place between actors who are not in direct competition with each other.[14] Having learned from past failures, the Grameen Group encourages partnerships with established and skilled companies whenever possible. For example, several years ago the Group had undertaken an experimental project to develop locally-produced weaning food to compete with imported baby food. The product – Cerevit – was trial-marketed at a much lower price than that of imported products, but did not succeed. One reason was that the project lacked the right kind of partners to make it happen, a type of problem that was overcome in the Grameen Danone case by partnering with an organization that could offer such knowledge.

Lesson 3: Undertaking continuous experimentation

Strategic experimentation is another recommendation from the business model innovation literature, where it is viewed as a specific type of knowledge acquisition.[15] In effect, an existing firm implementing this type of innovation is forced to imagine and learn new ways of doing business – the changes need to be radical, and will question the firm's conventional way of doing business. In the 'classical' strategic approach, most learning occurs in the preliminary phase of diagnosis through analyses and studies. However, the fundamental nature of business model innovation means that simple market studies or client surveys are inefficient and not very useful: the people surveyed are unable to project themselves into this 'radical newness'.[16] Strategic experimentation offers another route towards the required learning, and can be fundamental to solving problems where solutions are uncertain, or when critical information sources are non-existent or unavailable. Launching a series of small experiments helps minimize risk and maximize the firm's rate of learning, making it possible to identify a strategy's potential for success most efficiently.[17]

a series of small experiments minimizes risk and maximizes learning, [this is] not intuition, but involves the ability (and intention) to make changes if the first chosen path turns out unsuccessful

Thus, as for conventional business model innovation, social business models can start small, be refined and then rolled out. Corporate world experts can provide the relevant tools for analyzing the market and finding new outcomes, but analysis alone is not sufficient: only experimentation can determine whether new business model will work out. Experimentation does not mean intuition, but involves the ability (and intention) to make changes if the path first chosen turns out unsuccessful. (This resembles the concept of 'redirection' noted in Thompson and MacMillan's article in this issue on building business models for generating societal wealth.[18]) The development of the Veolia Grameen business model provides an interesting illustration. During the first stage of operation, the factory will supply water to approximately 25,000 people, and its facilities will be extended during a second stage, raising this figure to around 100,000, after which other factories will be built throughout Bangladesh. This social business model is still under construction, and – as with earlier Grameen trials – will need to be fine-tuned as it is implemented.

Table 3 provides a summary analysis of our three cases which emphasizes the first three lessons from business model innovation: how conventional wisdom needs to be challenged, how partnerships pay off, and how experimentation helps create a good road map for rolling out the concept. The story behind each of our cases is of the gradual emergence of the social business concept: a self-sustaining company that sells goods or services and repays its owners for their investments, but whose primary purpose is to serve society and improve the lot of the poor. Such lessons lead to the identification of the specificities of social business models.

Specific lessons for building social business models

Grameen Danone is considered to be the world's first consciously-designed multinational social business — an international business with a social mission but run as a for-profit organization — so special lessons can be learned from this case. As noted earlier, building social business models relies on some of the same strategic moves as conventional business model innovation. However, the Grameen Danone example also illustrates the specificities of this type of business model: the need to take all stakeholders (not just shareholders) into account and the need to define the social profit expected from the social business.

Lesson 4: Favoring social profit-oriented shareholders

As noted above, more and more corporate managers are keen to launch CSR projects that seek to help developing countries. But they face the problem that, even if such projects are small in terms of the overall scale of the company, they still require resources. In the Danone case these resources included both asset expenditure (for the factory) and valuable top management time. Since business managers report to owners or shareholders, they must give profit the highest priority — reducing profits to promote social welfare might leave owners and/or shareholders feeling cheated. Corporate social responsibility could be viewed as corporate financial irresponsibility unless financial profit-oriented shareholders can be shown that the incurred costs will turn into a positive cash flow in the medium or long term.

Table 3. Building Social Business Models: Lessons 1 to 3

	Lesson 1: Challenging conventional wisdom		Lesson 2: Finding partners	Lesson 3: Undertaking experimentation
	Basic assumption	**New recipe**		
Grameen Phone	Buying power in developing countries is too low to build a profitable wireless network	The handset can be rented rather than owned	Telenor, the Norwe gian incumbent	Grameen Phone extended the network step by step
Grameen Veolia	In developed countries, water is treated in high tech factories so as to be safe and is distributed inside' people's homes	Water has to reach minimal World health organization's standards. It can be distributed at public fountains	Veolia (French company), one of the global leaders in water services	Fine-tuning of the model in Goalmari
Grameen Danone	A yogurt can only be affordable if produced in large quantity and distributed through retail	Local production and door to door distribution can lead to an easily available and affordable dairy product	Danone, one of the world's leading healthy food companies	First plant in Bogra serving families within a 30 km radius

Despite the ever growing number of studies trying to measure the impact of CSR on financial performance over the past thirty years (some list 52 such studies, others 127), researchers still argue about the existence of a positive, negative or neutral link.[19] These unclear outcomes stem from different shortcomings, including inappropriate constructs, methodological flaws or problems in the definition of 'performance'. More recent studies have taken these shortcomings into account and attempted to correct them — but, as Barnett observes, *'the link between CSR and financial performance has become only murkier'*.[20]

Even if we claim a positive link between CSR initiatives and corporate financial performance, another debate remains, as Friedman's advocates would argue that such a positive financial contribution is not necessarily consistent with maximizing shareholders' wealth. As the CEO of a publicly-held company, Riboud is answerable to his Danone's shareholders, but he risked being unable to provide clear evidence of how the resources used in the Grameen Danone experiment maximize value for them. So, in order to avoid alienating skeptical shareholders, Danone developed another innovation by disconnecting the funding of Grameen Danone from the stock market. The company created a publicly-trade mutual fund with a special mission — to give investors social benefits rather than financial benefits — and gave Danone's shareholders the option of joining if they wished. €765 M has been raised so far, of which 20 has came from Danone. Over 25 percent of Danone's 8,000 employees in France have opted to invest part of their profit-share income into the fund. 90 percent of the mutual fund's assets will be invested in money-market instruments yielding a predictable market rate of return; the remaining 10 percent will be invested in social businesses, which will pay no return. Taken together, these two pools of money will provide investors with a near-market yield on their money, while at the same time supporting businesses that are bringing specific social benefits to people in need. Although theoretically, a social business should provide no annual return, this mutual fund is an acceptable and innovative way of financing social businesses through the existing stock market.

the value proposition and value constellation of the social business model must link all stakeholders, including shareholders who understand and accept its social mission

This leads us to refine the social business model framework so it includes not only customers, suppliers and other partners, but also shareholders who understand and accept the social mission of the experiment. In building social business models, the value proposition and the value constellation must be constructed through innovative links between all stakeholders, *including shareholders*.

Lesson 5: Specifying social profit objectives clearly

As is often the case in partnerships, cooperation can uncover conflicts between partners over time. For example, the Grameen Group's idea was to convert Grameen Phone into a complete social business by giving the poor the majority of shares in the company so as to let them benefit from its soaring profits — but Telenor refused to sell its shares. To avoid such problems, the mission of Grameen Danone was established in detail at the beginning of the project.

When the objective is to build a social business, its business model must be shifted from traditional financial profit generation towards social profit generation. This is possible where only social profit-oriented shareholders are involved in the project, but it makes the design of the business model more difficult, since it must focus not only on financial profit, but on profit for all stakeholders. Hence, while financial profit is implicit in conventional business model innovation, social business models need to define their objectives clearly.

So Grameen Danone's mission statement is very explicit: *'to bring daily healthy nutrition to low income, nutritionally deprived populations in Bangladesh and alleviate poverty through the* *implementation of a unique proximity business model'*. Several sources of social profit were targeted, with two constraints: the need to limit the environmental impact of the operation, and the need for it to become economically viable (full cost recovery constraint). Nutritional profit was the first source. Shoktidoi yoghourt naturally contains calcium and proteins, and is expected to have a strong nutritional impact on children aged 3 to 15 who eat it on a regular basis. There is also an employment profit: jobs were created locally on the (one-person) micro-farms, at the factory, and in the distribution channels. Grameen Danone plans to create 3,000 micro-farms, while the Bogra factory was conceived with the aim of creating local employment rather than using sophisticated machinery, so also avoiding recurrent equipment maintenance problems. The Grameen ladies — local entrepreneurs already involved in collecting loan interest payments for local Grameen Bank branches and selling Grameen Phone calls — have increased their income by distributing the product. By developing local employment without competing with existing networks, Grameen Danone is also helping fight against rural exodus, which is at the root of many problems in developing countries. It is also important to add that these 'profits' have not been achieved at the cost of compromising on the third 'bottom line' — environmental issues — in fact, quite the opposite. Grameen Danone is particularly vigilant in implementing its environmental policy, which focuses on ecological packaging and reduced energy use. Although the cup in which the yogurt is contained is not (yet) edible, it is made out of PLA (Poly Lactic Acid) which is elaborated from corn starch, and is designed to be completely biodegradable in local climate conditions. Furthermore, the rickshaw vans used to distribute the product use no natural gas or oil.

inherent and ongoing conflicts between the demands of economic and social profit objectives are 'facts of life' for social businesses

The example of Grameen Danone shows that social and environmental goals do not necessarily conflict with long-term economic goals. However, conflicts can appear at any point. As just one example: in 2008 the rise in milk prices made it difficult for Grameen Danone to break-even, posing the problem of which objective — the economic or the social profit — should be favored in such a situation. Such questions highlight 'facts of life' for those designing or managing social business models — conflicts of this type are inherent and ongoing, and represent yet another specificity of social as compared to conventional business models.

The social business model framework

Drawing from these Grameen Group experiences, we can highlight the adjustments needed in switching from a traditional to a social business model framework. The first change is the specification of targeted stakeholders, and the provision that the value proposition and constellation are not focused solely on the customer, but are expanded to encompass all stakeholders. The second is the definition of desired social profits through a comprehensive eco-system view, resulting in a social profit equation. The third is that the economic profit equation targets only full recovery of cost and of capital, and not financial profit maximization. These changes are illustrated by Figure 3.

Our topic here has been limited to the social impact of social businesses; however it is important to stress that the social business model can also be applied to environmental issues. Problems ranging from climate change and water shortages to industrial pollution and high-priced energy, which are mere nuisances to people in the North, pose life-and-death difficulties for those in the South. These problems could also be addressed by social businesses using specific new social business models.

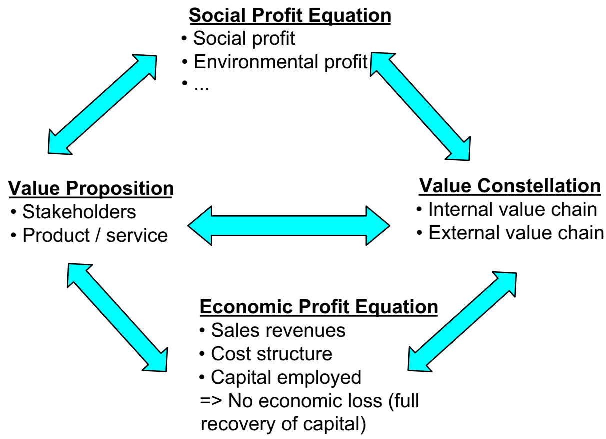

Figure 3. The four components of a social business model

Conclusion

By comparing the business model innovation literature and the Grameen experience, we have shown five lessons that can be learned about building social business models. We have also designed a social business model framework and demonstrated its value to our understanding of social businesses. We believe these findings not only concern MNC's wishing to engage in pro-active CSR policies, but can also be generalized to all entrepreneurs seeking to create social businesses.

We consider this article as a first step in shaping the concept of the social business model, and further field experiment and research are needed for researchers and practitioners to study and develop this self-sustaining type of business. Indeed, many questions remain unsolved. For instance, how should the performance of social businesses be assessed? While return on capital employed is an accepted measure for conventional business models, social profit is difficult to measure with such standard ratios. Relevant indicators will probably suffer from greater time lags than those used in financial performance management: the impact of Shoktidoi yoghurt on children's health, for instance, will not become measurable for a couple of years. Certification procedures, such as the one developed by the Global Reporting Initiative, might be helpful, but are still under construction.

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

Second, unlike conventional businesses, social businesses are not engaged in a contest. Their objectives are social, so they can learn from one another and best practices should spread rapidly. The effort involved in creating and refining social business models is, in a sense, a 'donation': they are unlikely to be seen as intellectual property in any sense, and so can be easily copied and rolled out by other global partners — and may even merge to become a stronger social force in the world.

Last but not least, there is another set of reasons why these cases studies should encourage businesses to engage in this type of initiative. We believe, although small, these new ventures can play prominent roles within MNCs. While disagreement remains as to their effects on firm performance, several studies have found a positive relationship between CSR and firm reputation,[21] while research has also consistently demonstrated the advantageous effect of CSR initiatives on current and prospective employees.[22] Building social businesses could be seen as a 'learning lab', offering an arena where managers can challenge their conventional wisdom and develop dynamic capabilities that could in turn be helpful to an MNC's main business.

All these arguments speak in favor of the development of social business initiatives within established companies, and suggest there should be a proliferation of social businesses through new or duplicated business models. Research on this topic needs to go on — not only does it enhance our understanding of pro-active CSR policies, but it also challenges our conventional approach to business thinking. Indeed, introducing it into the capitalist system may save the system altogether, by empowering it to address the overwhelming global concerns that currently remain outside mainstream business thinking. In addition, as we highlight in this article, building social businesses requires taking all stakeholders into account, a lesson that might also be usefully transferred to MNCs' conventional businesses, so as to contribute to a 'post-crisis system' where stakeholder value maximization replaces shareholder value maximization. Taken altogether, research on social business could be a factor in changing the capitalist system, by helping both academics and practitioners to challenge the current dominant shareholder paradigm.

The findings in this article have emerged from the field, and in the specific context of shaping current experiments at Grameen. So far, our findings cannot be generalized to theory: further empirical inquiries need to be made into more social businesses, within and beyond the Grameen Group. However, we hope our lessons and framework will become a vehicle for examining new cases, so as to ultimately become a definite contribution to theory.

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people would rather live in a world without poverty, disease and needless suffering. Social businesses do not engage in contest … [and] could be a learning lab where managers challenge conventional wisdom and develop dynamic capabilities. [They] may become a stronger social force in the world … [leading] to a 'post-crisis system' where stakeholder value replaces the shareholder paradigm.

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Appendix 1. Case studies

Case study 1: Grameen phone

In 1996, in partnership with three foreign companies,[23] the Grameen Bank created a mobile phone company, Grameen Phone, to extend telephone services across Bangladesh, where it was one of four companies licensed by the government to provide mobile phone services. With no land-line service in most of the 80,000 villages in Bangladesh, mobile phone technology was essential to bring the country into the age of electronic communication. A UK-based consultant estimated the market in 2005 would be 250,000 mobile phones — in fact, it turned out to be about 8 million, and grew to 40 million subscribers by 2008: by challenging conventional wisdom and rules of the game, Grameen Phone had created a new market.

In developed countries, individuals contract for a monthly package including the handset and air time: this engagement ensures the profitability of the operator which, in turn, enables it to build the telecoms infrastructure required. But poor people simply can't afford this type of commitment. So, relying on the shared know-how of its two partner companies, Grameen Phone developed another business model, based on both a non-conventional value proposition and value constellation, which turned out to be profitable even in rural areas, after having being tested in denser urban settings. People who need to make connections with a friend, family member or business associate can borrow a phone and buy just a couple of minutes from the 'Grameen Telephone ladies' who provide the phone service to their villages they, in turn use Grameen bank loans to buy the mobile phones and bulk air time.

By mid-2007, Grameen Phone – now owned by Telenor (62%), the Norwegian telecoms incumbent, which had a total 2008 turnover of $4.8 billion, and Grameen Telecom (38%), a non-profit company created specifically for this purpose, and run by experienced Telenor managers – had become the largest tax-generating company in Bangladesh, with over twenty million subscribers.

Case study 2: Grameen Veolia

Veolia Water (a subsidiary of Veolia Environnement), is the world's leading provider of water services with a 2008 turnover of €12.6 billion. In March 2008, Veolia Water created a joint venture with the Grameen Bank – Grameen Veolia – with the aim of providing affordable access to drinking water for rural populations in Bangladesh, many of whom had previously been obliged either to buy bottled water, or to drink polluted surface water or even water tainted with arsenic. For several years previously, Veolia Water had been developing solutions to allow access to drinking water for vulnerable people in urban areas, but had not yet tackled the problems of isolated rural areas. As with other developed country water service operators, Veolia Water's conventional business model consisted of recycling and purifying unclean water and billing consumers for their water consumption.

But the rural people of Bangladesh cannot afford water points in their own homes, so Veolia and Grameen shared their knowledge and resources to experiment with a new business model. By the end of 2008 they had built a factory and a whole water supply network in Goalmari, a fairly densely populated rural area. The value proposition was to provide safe drinking water at an affordable price to the inhabitants. The value constellation challenged Veolia's conventional business model in several ways. First, the cost of water treatment was to be reduced as much as possible in order to offer the cheapest price, so the factory was kept simple, and it was decided to recycle surface water as a less costly option. While the drinking water it produced would not meet current US or European norms, it did nonetheless meet World Health Organization standards. Second, three different water access modes needed to be implemented: inside people's homes, at the village's public drinking fountain, or by distributing water cans, which were dispatched to the most isolated villages by rickshaws driven by Grameen-financed entrepreneurs (a distribution mode that was a first for Veolia). Finally, new payment facilities needed to be implemented and a system of prepaid cards is being established. Grameen Veolia is currently fine-tuning this business model, and expects to roll it out over Bangladesh and other countries in the coming years.

Case study 3: Grameen Danone

Created in 2006, Grameen Danone is a 50-50 joint venture between the Grameen Group and the French Groupe Danone, one of the world's leading healthy food companies. (Number one in the worldwide market for fresh dairy products and number two in bottled water, Danone had 2008 revenue results of €15.2 billion.) Danone has been involved in a dual commitment to business success and social responsibility for the past 30 years, over which its mission has evolved from: *'bringing health through food'* in early 2000 to *'bringing health through food to a maximum number of people'* currently.

Echoing its two partners' mission statements, Grameen Danone's goal is to *'help the children of Bangladesh to be healthy'* by offering them *'a nutritious and healthy product which they may consume on a daily* *basis*'. The value proposition meant that, to be effective, its product had to be affordable — on a daily basis - for poor families who represented a radically different target market from Danone's conventional high-end consumers. 'Shoktidoi' (literally, '*yoghourt which makes one strong*') was created to achieve this goal. Made from cow's milk and date molasses enriched with micronutrients, Shoktidoi contains calcium and proteins essential for children's growth and bone strength. Thanks to its price — 6 BDT (approximately €6 cents) per container — even the poorest Bangladeshi families could purchase it regularly.

The business model is still being fine-tuned. In terms of the value constellation, the whole value chain again had to be questioned. The three main processes of the value constellation — supply, production and distribution — needed to be radically revisited. Grameen Danone favored using locally available ingredients for several reasons: to reduce raw materials costs (no import fees, simplified logistics, etc.), to minimize fossil energy consumption (reduced transportation), and to promote local community development and counter rural exodus. To avoid competing with other milk purchasers, and so as to limit any increases in already high milk prices, Grameen Danone had to structure the upstream market, and chose to develop micro-farms to form part of its own supply network. Micro-credits were offered by the Grameen Bank to potential owners of dairy cattle, who received a guaranteed annual fixed price and veterinary advice to help improve quality and output. As far as production is concerned, the Grameen Danone factory at Bogra in northern Bangladesh is small (500 square meters in surface area) and has a capacity which is approximately one thirtieth of Danone's typical European factory, so the production process has been simplified to the extreme and slightly automated. Door-to-door distribution and sales are handled by the 'Grameen ladies', who can reach 200 households per day and, although illiterate, have been trained to deliver a nutritional message. Again, they act as small-scale entrepreneurs: they are not employees of Grameen Danone but use credit from Grameen Bank to buy in their product stock and receive a commission for each yoghourt they sell — unsold items are not taken back. As well as this door-to-door distribution system, Grameen Danone sells Shoktidoi via existing (mostly food) stores.

The standard advertising model (press and television-based ad campaigns) was not deployable, due to the lack of conventional media penetration in rural Bangladesh. But Grameen Danone was fortunate to get the support of Zinedine Zidane, the internationally famous French soccer player, who visited the factory and contributed to a spectacular launch for the brand.[24] Grameen Danone is still fine tuning its business model in Bogra; there is no doubt that through experimentation, changes will occur to improve the current model.

Appendix 2. Research method

This research relies on a close collaboration between two academic researchers and a reflective practitioner (the first author). The other two authors' original research focus was on business model innovation, particularly in established firms and low-tech industries, which led to an in-depth study of about 30 cases. Their interviews with leaders involved in the process highlighted three main steps of business model innovation from the literature: challenging conventional wisdom, finding complementary partners and undertaking a continuous experimentation process.

They encountered the Grameen examples while looking for new case study possibilities. The idea of the research was to confront conventional literature on business model innovation with the social business experiences implemented by the Grameen Group, to test whether the Grameen experimentations were actually business model innovation, and to find out if building social businesses resembled conventional business model innovation. The most appropriate method seemed to be the case study, since the objective was to highlight the process of building social businesses.[25] As the literatures on both business models and social businesses were nascent, a qualitative approach provided the best methodological 'fit': thus, research relied on data collected through interviews, and its design implied an iterative, exploratory, back and forth process between the literature and the field.[26]

The three case studies were written based on narratives by the first author, the founder of the Grameen Bank concept. These identified the three main steps in building social business models as similar to those in business model innovation. However, this dialogue also showed that these three steps did not completely explain success or failure in designing and building a social business model — more data collection was needed. Contrasting the Telenor and Danone cases has been particularly revealing. Although Grameen Phone has been a significant success as far as profit is concerned, Grameen Phone has not been transformed into a 'real' social business, as much of its profit continues to flow to for-profit shareholders rather than to mission-oriented stakeholders. Grameen has learned from this failure to meet this element of its social objectives, and taken it into account in building its venture with Danone. Thus, new data has emerged through extensive interviews with managers involved in this venture (at Danone as well as those in the field in Bangladesh). Less data is available about the Veolia case, which builds on Grameen's experience of the Danone venture, but is more recent and as yet less well advanced.

Analyzing this new primary source material has provided grounds for the two lessons more that are specific to building social businesses: the need to actively try to source and recruit social profit-oriented shareholders and to specify the social profit objective(s) clearly. These two additional steps could not be found in the literature, since the phenomenon is only emerging, but allowed us to go back to the theory and propose our social business model framework.

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