



Book Building Social Business

The New Kind of Capitalism That Serves Humanity's Most Pressing Needs

Muhammad Yunus
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Recommendation

Muhammad Yunus, founder of Grameen Bank, a microcredit lender, won the Nobel Peace Prize for his contributions to fighting world poverty. Although the government of Bangladesh eventually forced him to leave the bank (possibly for political reasons), his views still convey great force. Yunus espouses an economy that embraces humanity as a pool of positive potential. His book, written with Karl Weber, lays out a blueprint for “social business.” It details compelling case studies of how various Grameen enterprises handle everyday market problems. *BooksInShort* recommends it to executives who want to enfranchise good works, and to garage-office entrepreneurs and public policy technocrats who believe in a world with less poverty, but who need a little guidance to get there.

Take-Aways

- People are as motivated by the desire to help others as by personal greed.
- The world’s economic system creates and perpetuates poverty by denying credit opportunities to the poor.
- Targeted business practices can address seemingly intractable social problems.
- The world needs new legal, commercial and academic structures that recognize “social business.”
- Social business depends on abjuring personal gain and putting profits back into the enterprise.
- When launching a social business, start small and stay flexible.
- A social business must be sustainable in the free market.
- The entrepreneurial spirit that fires traditional business is ideal for creating a social business.
- Social businesses require the same types of planning as standard businesses.
- Losing the contributions of people barred from the system by poverty is a waste of human potential.

Summary

How Microlending Led to Social Business

Driven to act by the desperate Bangladesh famine of 1974, Chittagong University economics professor Muhammad Yunus went to the village of Jobra and found his calling. After giving villagers \$27 to pay off loans to predatory lenders, Yunus hit upon the idea of lending to the poor as the foundation of a new kind of banking business. He started the bank himself, calling it “Grameen” after the Bengali word for “village.” Grameen now has eight million customers, 97% of whom are women. Lending to women proved more effective at combating poverty than lending to men. Grameen’s success in Bangladesh sparked microfinance operations worldwide,

including in the United States.

“The rule of ‘strongest takes all’ must be replaced by rules that ensure that the poorest have a piece of the action.”

Yunus concluded that the world’s financial institutions enable global poverty because they don’t extend credit to poor people. All people are born with creative gifts, and poverty deprives the world of benefiting from them. Society should remake its institutions so all people can thrive. This requires the establishment of “social business.”

“Poverty is not created by poor people. It is created by the system we have built, the institutions we have designed and the concepts we have formulated.”

Society must accommodate a world with two types of business: for-profit and social. A social business conforms to normal commercial practices. It must be fiscally sustainable, but its investors take no dividends. A social business seeks to heal social ills, not accumulate wealth. All profit covers expansion or contingencies. Funding for such ventures should be plentiful, given the multitudes worldwide who contribute to charitable causes. Governments could divert funds from social welfare programs to social businesses.

“Human beings have a natural desire to help one another. It’s a motivating force...as powerful as the desire for profit.”

The Grameen brand expanded in Bangladesh to include Grameen Danone (yogurt), Grameen Veolia (drinking water), BASF Grameen (mosquito netting), Grameen Intel (rural IT), Grameen Adidas (shoes) and Otto Grameen (textiles). Grameen Healthcare develops prevention-oriented clinics in rural areas, creates nursing colleges and founded a health sciences university to train staff for more clinics.

Defining Social Business

Two kinds of social business exist: “Type I,” where investors plough profits back into the company to achieve a social remedy, and “Type II,” a for-profit entity owned by impoverished people, such as Grameen Bank. Social businesses adhere to seven principles: The business seeks to improve society, not to make a profit; the company is financially viable; investors get only their original investment returned; profits fund expansion; the company is eco-friendly; workers are paid market salaries in above-standard workplaces and the businesses share a spirit of positive good will, as indicated by the motto: “Do it with joy!”

“Everyone on this planet suffers personally when anyone’s life is wasted.”

“Social business must be an essential part of the growth formula because it benefits the mass of people who would otherwise be disengaged. And when people are energized, so is the economy.” Social business is not socialism or communism. It is a modified form of capitalism in which people assist their communities by supporting business solutions to challenges that, in ideal circumstances, government would handle. Social businesses offer more choice to the market, incubate innovation by drawing on people’s creative capacity and present a resource supply limited only by the power of their business ideas to draw investment capital. Social business suggests an alternative to privatization, which often means a private grab of public assets that enriches only the new owner.

“We assume that for-profit businesses are the chief source of human creativity and the only way to address society’s problems.”

Social business avoids combining the profit motive with the desire to do good for three reasons: First, it’s wrong for businesses to fatten their bottom lines by exploiting the poor. Sadly, some institutions following Grameen’s microcredit footsteps now charge exorbitant interest rates, a violation of the original intent of microcredit. Second, when a business chooses between profit and social aid, profit always wins. Staying away from profit gives managers clarity: A social business helps people. Third, positing social business as a separate kind of endeavor encourages similar outside-the-box approaches. For example, while addressing a need for credit, Grameen Bank became aware of other obstacles affecting the rural poor. In response, Grameen established “life pledges” it asks of its borrowers. These include adhering to a better diet and improving personal waste disposal.

Grameen Danone: A Case Study

Grameen’s first social business, the Grameen Danone yogurt factory in Bogra, Bangladesh, began in 2005 with a conversation between Yunus and Franck Riboud, CEO of Paris-based Groupe Danone. From the start, the venture focused on creating a popular yogurt to bring better nutrition to Bangladesh’s children, 50% of whom are malnourished.

“Here is an important lesson for others interested in starting social businesses: There’s a huge advantage to starting small.”

Danone and Grameen experts built a small plant, partly powered by a biogas waste converter and solar panels. Test runs for the yogurt formula settled on a local sweetener, date molasses. Grameen’s livestock company secured a steady milk supply for the yogurt, named Shokti Doi (“energy yogurt”) and marketed with a muscular cartoon lion as its mascot. Initial pricing upon launch in February 2007, seven cents a cup, was below the market rate of 30 cents.

“Identify a need and match it with your capabilities and talents. Look at the world around you and ask what disturbs you. What do you really want to change?”

Initial response was positive, but sales of Shokti Doi – available in a limited number of Bogra shops and through rural door-to-door efforts – remained insufficient to maintain the plant or make the hoped-for nutritional impact. The problem was that the saleswomen were reluctant to go door-to-door because that violated cultural norms. Grameen Danone hired a full-time local manager who overhauled the recruitment process, and by March 2008, the sales force numbered 270, up from only 29 in September 2007. Sales grew steadily over six months, with 40% to 50% market penetration in the highest-use areas.

“Spend time with the people you hope to serve. Get to know their interests, needs, abilities and dreams.”

But the worldwide increase in food prices beginning in 2006 created difficulties. Milk prices doubled; by March 2008, each cup of yogurt lost money, threatening the company’s survival. By April 2008, board members agreed to a price increase, up to 11 cents a cup, but sales fell 80% and the sales force disappeared. The firm

learned that it could offer the same nutritional benefit (30% of a child's minimum daily requirements) in a smaller, 60-gram cup sold for eight cents, an increase the rural market could bear.

“Social business – like the art of medicine itself – is all about solving problems, helping people and making the world a better place.”

The company expanded into the Bangladeshi capital of Dhaka, where urbanites found 16 cents reasonable for an 80-gram cup. Grameen invested in a refrigerated distribution center and refrigerated trucks. The firm created a two-tier business model serving rural and urban customers. By 2010, it changed the product name to Shokti + (“energy plus”). Residents of Dhaka represented nearly 40% of all sales. On the rural side, the sales force had stabilized, with each saleswoman bringing home about \$11 a month from selling smaller, cheaper cups. The experience demonstrated the difficulty inherent in social business. Useful lessons included: Focus on your goal, but be flexible; understand your market; get help wherever you can; realize that each market presents a singular opportunity; and regularly review your assumptions.

Getting Started

With so many pressing global problems, new social businesspeople should begin in their own backyards to face familiar issues to which they can bring extant resources. Start small, start local, have a clear objective and be prepared to make multiple attempts to reach success.

“The fate of Lehman Brothers and that of the poor women working in a garment factory in Bangladesh are linked.”

The Grameen companies' social businesses show that one omnibus business can't ameliorate overarching problems such as poverty and inadequate health care. The answer in Bangladesh has been to take on pieces of the challenge – unhealthy drinking water, insufficient nutrition, lack of shoes, nursing shortages – by creating numerous social businesses that in sum improve the health of the poor. Arts entrepreneurs could change stagnant cultures with entertainment programs, engineers could craft waste-to-energy systems, outdoorsmen might help with reforestation and bankers could help offshore workers get remittances to their families.

“Governments often become captive to special interests, self-serving political parties and corrupt individuals. Hence the need for social business.”

To find a good idea for a social business, think about the needs of a group of people (children, the aged, the homeless, the mentally ill) and build a concept that strengthens the group, for example, by finding markets for artisans or mentoring would-be entrepreneurs. Test your model to see whether it can be a viable business. Study the income-generating skills of profit-oriented enterprises. Alternatively, you can convert a for-profit business into a social business by transferring ownership to the poor, either directly or through a trust.

“Globalization must not become financial imperialism.”

Starting a social business requires preparation similar to that for a profit-making enterprise. Begin with a business plan. Ask questions besides the usual queries on market analysis, expenses and break-even point: Who am I helping? How do I measure that? Can I do more?

Getting Funded, Getting Organized

Obtaining the money to run a social business has a lot to do with how you organize your business. Start with a five-year business plan showing expense and revenue projections. Remember that start-ups generally overestimate how much they'll sell. Seek investment capital, probably beginning with funding sources close to home, which can include family or friends. Craft a presentation from your business plan to woo outside money.

“It's immoral to make a profit – and especially to pursue the usual business goal of maximum profit – from the poor. This is benefiting from the suffering of our fellow human beings.”

Grameen companies use a for-profit structure that seems to fit social business best. Grameen firms raise outside capital, pay taxes, and mandate management responsibilities, all of which promote efficiency. One drawback is that the social business's renunciation of profit might not be permissible in a for-profit structure. Other proposals for social business formats include the community interest company (CIC) in the UK, and the low-profit limited-liability company (L3C) and the *B* (for “beneficial”) corporation in the US. All three formats demonstrate a public desire for a new way to handle intractable social problems, but all lack the crucial element of social business – the preference for humanitarian good works over profit. A specific legal structure for social business awaits its legislative moment.

Grameen Veolia Water: A Case Study

An estimated 35 million to 80 million people in Bangladesh drink water contaminated by arsenic. Eric Lesueur, who works for the Veolia Water division of the French conglomerate Veolia Environment, proposed a social-business venture with the Grameen companies to bring clean water for drinking and cooking to the rural poor of Bangladesh. The initial challenge: Sell 10 liters for one cent.

Lesueur won the backing of his company's executives and started the project in December 2007 to an enthusiastic response from Veolia employees. Grameen suggested starting in the 20,000-person village of Goalmari. In March 2008, Veolia decided to treat surface water from the river in a fixed plant. But the price for 10 liters rose to four cents due to the cost of piping water. Still, by June 2009, treated water sold at 14 venues in Goalmari. Sales were slow because of the price, resistance to the idea of paying for water and because the harmful effects of arsenic in water are so long-term as to be unpersuasive for changing lifelong behavior.

The Grameen-Veolia solution centered on “cross-subsidization,” as with Danone yogurt: selling larger quantities of water to institutions and piping the water into houses whose owners could afford it. Enough affluent buyers shouldered the costs to enable the poorest households to pay only a nominal fee.

Toward Ending Poverty

In 2008 and 2009, additional multinationals stepped in to create social businesses for Bangladesh. The German chemical giant BASF began working with Grameen to

provide antimalarial mosquito nets and small micronutrient meal additions. Grameen and Intel founded a neonatal care unit that uses smartphones to connect rural mothers with physicians elsewhere. A Type II social business – owned by the poor, like the original Grameen Bank – is being established to make clothing. Grameen and Germany’s Otto GmbH, a large mail-order company, are establishing a for-profit textile firm to fund a trust to benefit the poor. The ecologically sustainable clothing plant will offer workers health care, housing assistance and education aid. Adidas, the German shoe company, has begun a project to provide stylish shoes for one euro to Bangladesh’s poor, many of whom fall prey to parasites because they go barefoot. Grameen has initiated social-business economic makeovers in Colombia, Albania and Haiti.

Two major global crises have had profound effects on the poor: a rise in food prices, which is exacerbated by runaway commodities speculation, and the worldwide financial meltdown. These crises caused great suffering to millions of vulnerable people, but they also offered a chance to rethink capitalism. Nations should restructure their economies to allow resources to reach everyone, not just the wealthy. Using social business to make the disadvantaged full partners in the market system will boost opportunities for all.

About the Author

The 2006 Nobel Peace Prize winner, **Muhammad Yunus**, founded Grameen Bank.
