

# 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.

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## 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:

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.

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However, research has shown that, if managed strategically, CSR projects can indeed pay off, both socially and financially.<sup>1</sup> 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,<sup>2</sup> 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

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