Social Business: A World-shattering Initiative for Poverty Mitigation – A Case Study on Bangladesh Perspective

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Abstract

Poverty is one of the key problems around the world for creating violence. The root of all violence activities is somehow poverty. Prof. Dr. Muhammad Yunus has come up with a radical initiative to solve that problem by introducing the social business concept based on no loss-no dividend policy. This paper attempts to overview of initiative, discuss the present propensity of social business, and contrast social business model with another existing business model in Bangladesh. The study shows how social business concepts have helped rural Bangladesh to sustain a minimum standard of life and also contribute toward a positive framework of mind of becoming self-reliant and dependent at the same time creating job prospect in the market.

Keywords: Poverty Mitigation; Social Business Concept; Job Creation

1. Introduction

In the capitalist system, two types of corporate bodies can be illustrious; one is profit-maximizing business, whose purpose is to create shareholder value. Another is non-profit organizations exist to fulfill a social objective. The social business idea borrows some concepts from the capitalist economy and some concepts from conventional business so that the new concept can play a key role for poverty mitigation in the society. Social business is a business entity which is run on the basis of “non-loss-non-dividend” motive and the ultimate goal is trying to achieve their social objective, social businesses need to recover their full costs, so they can be self-sustainable and solve social problems especially related to poverty. A social business is designed and operated just like a “regular” business enterprise, with products, services, customers, markets, expenses, and revenues. It 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.

In Yunus” words, “A social business is designed and operated as a business enterprise, with products, services, customers, markets, expenses, and revenues. It 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” (Yunus and Weber, 2007b).

2. Literature Review

As social business is a very recent idea, the literature contains only a few studies.

Bylund and Mondelli (2009) identify free-riding as one of the problems in the evolution of social business. They argue that social business is not a widely observed phenomenon because of a
Weaker incentive to minimize cost and maximize output. They term social business as a very difficult enterprise.

Wimmer (2012), while analyzing the activities of Grameen Shakti, describes how social business can change the daily lives of rural population. She sees the sense of responsibility to the society as the driving force of such a business company.

Referring to the aspects of public health, Donaldson et al. (2011) analyze the reasons why social business represents an important area of consideration for public policy given the limits of traditional businesses. They observe that social businesses in the health care contexts as well as in the non-health care contexts can have a considerable impact on health and overall wellbeing.

According to Sattar (2012), social business reins the pursuit of profit maximization and hence gives some relief within the capitalist system.

This study attempts to discuss the overview of the idea, current practice of social business in Bangladesh and comparison of social business model with other existing business models.

2.1. Objectives of the study

The main objective of the study is to provide an analytical presentation of the Social Business concept. The specific objectives of the study include the following:

i. To recognize the basic theme, types and principles of social business
ii. To contrast the social business with other business models
iii. To evaluate the operations of social business companies in Bangladesh
iv. To examine the contribution of social business in Bangladesh
v. To identify the limitations and future prospect of social business in Bangladesh.

3. Methodology of the Study

3.1. Source of data

This article is based on information collected from various secondary sources including books on social business authored by Dr. Muhammad Yunus, different articles on social business, business ethics and social responsibility, and a few related websites.

3.2. Data analysis

The analysis will be mainly based on description. In the case of necessity, simple tabular presentations may appear. Statistical and econometric analyses are not feasible options due to the fact that the social business is a new concept and necessary data are not yet available.

4. Definition and Features of Social Business

Social business is a cause-driven business and the investors/owners can gradually recover the money invested but cannot take any dividend over the invested amount. The purpose of the investment is purely to achieve one or more social objectives through the operation of the company; no personal gain is desired by the investors. The company must cover all costs and make profit, at the same time, achieve the social objective such as health care for the poor, housing for the poor, financial services for the poor, nutrition for malnourished children, providing safe drinking water, and introducing renewable energy in a business way.

A social business can be characterized by the following properties:

Undertake business for removing identified social problem.

Investors cannot take interest or profit out of their invested money which is required as capital to run the social business program. However, the interest which is to be paid to the investment funding bank will be treated as social business expenditures.
Profit can be reinvested to expand the business. It can also be passed on to target group such as poor people by lowering price and providing better service.

Compliance to all relevant Government Laws, rules, and regulations should be made.

Open style participatory management should be ensured by the involvement of all types of social business stakeholders.

Management of social business needs to be run based on opinion of the majority people/conscious people of the society/area where the social business will be set-up.

The prime purpose of social business will be poverty reduction and long-term economic sustainability.

World renowned weekly business magazine Business Week commented on social business this way, “…Yunus goes beyond microcredit to pioneer the idea of social business - a completely new way to use the creative vibrancy of business to tackle social problems from poverty and pollution to inadequate health care and lack of education. Yunus’s “Next Big Idea” offers a pioneering model for nothing less than a new, more humane form of capitalism” (Yunus and Weber, 2007b).

4.1. Types of social businesses

There are two types of social business:

4.1.1. Type I

Type I business focuses on businesses dealing with social objectives only. The product is produced for the benefit of the poor or targeted to solve a specific social problem. Grameen Danone is an example of Type I social business. The Shokti Doi yogurt produced in the plant in Bogra, Bangladesh, is fortified with micronutrients that are missing in the poor children and it is targeted to fight malnutrition. If malnourished children eat two cups of Shokti Doi per week for approximately 8-10 months, they grow healthy.

4.1.2. Type II

Type II business focuses on profit maximization though it is owned by the poor and the disadvantaged, who can gain through receiving direct dividends or by some indirect benefits. The product could be produced by the poor but exported to an international market while net profits would go toward workers benefits. Examples of Type II social business are Grameen-Otto and Grameen Bank. Please note that Grameen Bank is both Type I and Type II social business, as it is owned by the poor people and it provides a financial service (microcredit – loan without collateral for income generating activities) which was previously unavailable to poor people, especially women.

4.2. Seven principles of social business

Dr. Muhammad Yunus and Hans Reitz, the co-founder of Grameen Creative Lab, figured out seven principles to follow (Yunus and Weber, 2010):

i. Business objective is to overcome poverty, or one or more problems (such as education, health, technology access, and environment) that threaten people and society - not to maximize profit.

ii. The company will attain financial and economic sustainability.

iii. Investors get back only their investment amount. No dividend is given beyond the return of the original investment.

iv. When investment amount is paid back, profit stays with the company for expansion and improvement.

v. The company will be environmentally conscious.

vi. The workforce gets market wage with better-than-standard working conditions.

vii. Do it with joy!!!
4.2.1. Comparison among social business, profit-maximizing business (PMB), and not-for-profit organizations

There are both similarities and dissimilarities among social business, PMB, and not-for-profit organizations. A comparison is made in Table 1.

5. Contribution of Social Business in Bangladesh

On the basis of the theoretical design and construct of the social business model the following contributions of it can be inferred.

5.1. Poverty mitigation

Poverty alleviation, the ultimate goal of social business model, can be achieved in two ways. Type I social business will lift the living standard of poor by providing their basic needs at reachable prices. On the other hand, Type II will enhance their money income by making them self-entrepreneurs.

5.2. Supply products in lower price

Social business is supposed to provide low price goods and services such as education, food, nutrition, sanitation, and technology. The lower price may become the main competitive advantage of the social business.

5.3. Ensure health care facilities

One of the reasons for our extreme poverty is that the poor have to sell their last resort for treatment. There are government efforts to provide free or low-cost treatment, but these are insufficient. Hence, many poor people either die or lose even their last resort. Social business may be of great help in ensuring health care for all those who are below poverty line.

Table 1: Comparison among Social Business, Profit Maximizing Business (PMB) and Not-for-profit Organizations

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Basis of comparison</th>
<th>Social business</th>
<th>Profit maximizing business</th>
<th>Not-for-profit organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Recovery of capital</td>
<td>Capital is returned to the owners</td>
<td>Capital is returned to the owners</td>
<td>No return of capital</td>
</tr>
<tr>
<td>2</td>
<td>Profit equation</td>
<td>Economic profit equation exists</td>
<td>Economic profit equation exists</td>
<td>No economic profit equation</td>
</tr>
<tr>
<td>3</td>
<td>Dividend payment</td>
<td>No dividend is paid to owner</td>
<td>Dividend is paid to owners</td>
<td>No dividend is paid to owner</td>
</tr>
<tr>
<td>4</td>
<td>Self-sustainability</td>
<td>Self-sustainability must be maintained</td>
<td>Self-sustainability must be maintained</td>
<td>Dependency on charities and donations</td>
</tr>
<tr>
<td>5</td>
<td>Social responsibility</td>
<td>Main objective is to fulfill social goals</td>
<td>No responsibility to fulfill social objectives except some legally non-mandatory CSR</td>
<td>Objective is only to fulfill social goals</td>
</tr>
<tr>
<td>6</td>
<td>Main concern</td>
<td>Concerned about social profit maximization as well as recovery of full cost</td>
<td>Only concerned about shareholders’ profit maximization</td>
<td>Only concerned about social profit maximization</td>
</tr>
</tbody>
</table>

CSR: Corporate social responsibility
5.4. New job creation

Huge employment opportunities for the poor can be generated through supply, production, and distribution channels. By the construction of the model poor people will get the priority in the recruitment process of a social business company.

5.5. Concern for environment

One of the seven principles of social business is to be environmentally conscious. Its environment-friendly product and activities can be an inspiration for other business to follow policies conducive to the environment. As a result, economy will receive more products without sacrificing the environment.

6. Current Operations of Social Business in Bangladesh

At least six companies that are currently in operation in Bangladesh have been established as social business company. They are namely Grameen Danone, Grameen Veolia, BASF Grameen, Grameen Intel, Grameen GC Eye Care Hospital, and Grameen Bank. These companies are producing yogurt, water, mosquito net, IT product and eye care services, and microcredit, respectively.

6.1. Grameen Bank

Ownership: 90% by the borrowers, 10% by the government
Launching date: October 1983
Product: Microcredit with no collateral and minimum paper works
Unique feature: Bank officials go to the borrower
Grameen Bank gives loan without collateral to over 7.5 million poor people - 97% of whom are women. 64% of the borrowers who have been with the bank for 5 years or more have crossed the poverty line. Huge self-employment by the poor people has taken place.

6.2. Grameen Danone Food Limited

Ownership: Grameen Group and French Group Danone Activities
Launching date: Late 2006
Product: Yogurt
Special feature: Uses solar and biogas energy
Grameen Danone Food Limited creates yogurt fortified with micronutrients and poor parents now have low-cost solution to the malnutrition problem of their children.

6.3. Grameen-Veolia Water Limited

Ownership: Grameen Healthcare Services and Veolia Water AMI
Launching date: March 2008
Product: Pure drinking water
Special feature: Treats surface water according to WHO standard
Grameen-Veolia Water Limited supplies safe drinking water in a sustainable and affordable way to people who faces water crisis and eliminate of water transmitted diseases and arsenic-related disease.

6.4. Grameen GC Eye Care Hospital

Ownership: Grameen Group and The Green Children
Launching date: May 2008
Product: Eye care especially cataract operation
Special feature: Charges patients according to their ability to pay
Grameen GC Eye Care Hospital specializes in cataract operation, with a capacity to undertake 10,000 operations per year and its objectives are Preventing blindness.

6.5. Grameen Intel

Ownership: Grameen Trust and Intel
Launching date: 2009
Product: Information communication technology (ICT) solution to health and agriculture related problems
Special feature: Digital solutions in remote rural area

Grameen Intel information technology-based services to the poor in health care, marketing, education, and remittances. Mobile health-care workers equipped with smartphones are using technology to assess the risk profile of pregnant mothers who have limited access to medical care at the villages. Mothers at risk are then referred for further diagnostics, bringing the mother into the formal service for basic health care.

6.6. Grameen BASF

Ownership: Grameen group and BASF SE Germany
Launching date: March 2009
Product: Impregnated mosquito net, micronutrient sachets
Special feature: Provides high quality products at low cost

Grameen BASF is one of the world’s largest manufacturers of chemicals and related products, the company produces chemically treated mosquito-nets to protect people in Bangladesh from malaria and other mosquito-borne diseases. It has sold 30,000 nets in Bangladesh.

7. Limitations and Criticism

Although social business idea is emerging and promising, it faces some criticism due to its inherent limitations. A very brief discussion on its limitations and criticisms is presented below.

7.1. No motivational factor

Money or profit is the best motivational elements. But in social business no scope for receiving profit beyond capital by investor. So, why highly skilled person will be interested to run the business without any individual profit?

7.2. Lack of performance measurement tools

The main aim of the social business is to achieve social objectives. However, no solid tool has been devised as performance measuring criteria. It is really difficult to measure such nonmonetary achievement.

7.3. Special risk

Entrepreneurs in social business need to achieve social goals with no loss condition; they have to face the challenges from other business model and the social problems at the same time. Hence, they must have special quality in making decision and dealing with uncertain situations.

7.4. No consideration of time value of money

In social business, the owner who invests the fund is paid back only the original amount after a specific time period, and he is not entitled to get any profit. However, there is no consideration of time value of money for assuming risk by the owner.
8. Future Prospect of Social Business in Bangladesh

According to the Household Income and Expenditure Survey of Bangladesh Bureau of Statistics, the national poverty headcount rate in Bangladesh has declined gradually but still it was 25.6% in 2014. The survey also reports that 12.4% people of the country were living in ultra-poverty in 2014.

A government report entitled “A Situation Analysis Report on Poverty and Hunger (MDG 1) Bangladesh - A Baseline for Needs Assessment and Costing” identifies the following four challenges in reducing poverty: reducing hunger and malnutrition, youth employment, promoting pro-poor growth, and expansion of urban employment. These challenges are the core issues that the idea of social business tries to address. Hence, social business may be important instrument in that effort. As mentioned earlier, several social business companies are already in operation in the country with success. It is therefore reasonable to argue that the prospect of social business in Bangladesh is much promising.

9. Conclusion

The idea of social business is still in its emerging stage. Being a very new and incomparable subject, it may take some more time to assume a full-fledged and mature structure in both conceptual and operational dimensions. Considering the immense need of poverty alleviation and the perspective in which poverty exists, it can be said that winning the war against poverty in Bangladesh requires innovative efforts like promoting the idea of social business model and proper implementation of them.

References