



Social Business Innovations

PhD Thesis

Faculty of Economics

University of Wuppertal

Submitted by

Michael Wirtz

Supervisors: Prof. Dr. Christine Volkmann

Chair of Entrepreneurship and Economic Development and
UNESCO Chair of Entrepreneurship and Intercultural
Management

Prof. Dr. Uwe Schneidewind

Chair of Innovation Management and
Sustainability; President of the Wuppertal Institute of Climate,
Environment and Energy

Die Dissertation kann wie folgt zitiert werden:

urn:nbn:de:hbz:468-20180611-090817-2

[<http://nbn-resolving.de/urn/resolver.pl?urn=urn%3Anbn%3Ade%3Ahbz%3A468-20180611-090817-2>]

This PhD thesis is dedicated to my grandfather

Dr. Reinhard Wöbker

OUTLINE

This thesis contains four studies in the field of social business which have been published in double-blind peer reviewed journals:

Wirtz, M. & Volkmann, C. (2015): Do social business cities foster sustainable urban development? *Social Business*, Vol. 5, No. 2.

Wirtz, M. & Volkmann, C. (2015): Social Business Microfinance - Different Models to Empower Women. *International Journal of Social Entrepreneurship and Innovation*, Vol. 3, No. 5.

Wirtz, M. (2016): Charity and social business: two ways to the same goals. *International Journal of Social Entrepreneurship and Innovation*, Vol. 4, No.3.

Wirtz, M. & Volkmann, C. (2017): Social Business Joint Ventures: Opportunities, Challenges and Risks of New Hybrids at the Bottom of the Pyramid. *International Journal of Social Business*, Vol. 1, No. 1. Open Access Publication:

<http://journals.cpgeglobal.com/index.php/publications/archives/file/1-vol-1-issue-1-july-2017>

ACKNOWLEDGEMENTS

I want to thank the editors or editorial managers of the journals in which these studies have been published for permitting me to insert the articles within this PhD Thesis. The publishers retain the copyrights. Additionally, I want to express my gratitude to my interview partners for their time and engagement.

Michael Wirtz

Wuppertal, August 2017

TABLE OF CONTENTS

1. Introduction.....	7
2. Theoretical Background.....	8
3. Discussion	14
3.1 Social Business Cities.....	14
3.2 Social Business Microfinance	16
3.3 Charity and Social Business	18
3.4 Social Business Joint Ventures.....	22
3.5 Limitations and Future Research Opportunities	24
4. Conclusions.....	25

TABLE OF FIGURES

Figure 1: Social business (SB) as intersecting set of non-profit organisations (NPO), social entrepreneurship (SE) and traditional businesses (TB).....	11
Figure 2: Development of social business innovations	12
Figure 3: Features of Charities and Social Business and lessons learnt.....	19
Figure 4: Charity Model.....	20
Figure 5: Social Business Model.....	21
Figure 6: Collaboration Stages of Cross-Sector-Partnerships	22
Figure 7: Social Business Model II.....	23

1. Introduction

To act socially responsible as an entrepreneur is not a new phenomenon. Robert Owen and Friedrich Raiffeisen placed an emphasis on social goals alongside general economic activities: Owen introduced fair working conditions in the cotton plants in New Lanark, Scotland, in the 18th century, i.e. he reduced working times from 14 to 10 hours a day and stopped child labour. The cotton plant was more productive than before and Owen thus showed that ethical behaviour and economic success do not negate each other - on the contrary, in fact (Jones, 1919). The positive correlation between the socially responsible behaviour of companies and their performance has meanwhile been confirmed by several studies and metastudies (Promberger and Spiess, 2006; Loew and Clausen, 2010; DNV GL, 2017). Raiffeisen could even be named as one of the first social entrepreneurs, since he founded cooperative systems in order to support peasants and craftsmen in the 19th century without any intention to gain personal profit: his motivation was to benefit the poor, his organisations were designed as non-profit ones (Klein, 2002). Nowadays, organisations such as Ashoka and Schwab Foundation financially support social entrepreneurs who aim at maximising social benefit. In science, too, the concept of social entrepreneurship is gaining increasing importance (Saßmannshausen and Volkmann, 2016).

In 1983, the Grameen Bank was founded in Bangladesh in order to support and empower the poor by including them into the financial system through the provision of microloans. Muhammad Yunus, Professor of economics at the University of Chittagong, established a bank which has currently eight million borrowers, including 20,000 employees, and covering 80,000 villages, whose sole purpose is to fulfil the social mission it was founded for: including the poor in the financial system and thus empowering them to help themselves by starting a kind of business: that means for

example, buying a cow to sell its milk, planting seeds to sell the crops, or producing garments, etc. Based on his work Yunus created the concept of social business, which is based on a particular form of social entrepreneurship: any economic and financial surpluses are reinvested in the business to benefit the social mission. Besides, the investors are only repaid the original amount. Alongside Grameen Bank, Yunus (2010) has established numerous additional companies based on the concept of social business, some of which are in coalition with global players such as Danone or Veolia. In the meantime, the Grameen Bank group includes more than fifty organisations (Grameen Creative Lab, 2016). The year 2006 stands as a landmark for the international expansion and booming of social businesses through the award of the Nobel Peace Prize to Muhammad Yunus and the Grameen Bank.

2. Theoretical Background

Before defining the concept of social business, the overall concept of social entrepreneurship shall be explained. Social entrepreneurs are founders of social innovations, aimed at solving social and ecological problems via novel means. What exactly defines social entrepreneurship? “Social entrepreneurship means acting within markets to help a societal cause. (...) Social enterprises attempt to target unfulfilled social needs with (more or less) market-based approaches, aiming for sustainable solutions. They do so by creating additional value (social value creation)” (Volkman et al., 2012: 8). The principle criterion is that social and ecological problems are tackled by entrepreneurial means. In the case of social business, investors are only repaid the initial amount. Additionally, a social business is obligated to reinvest all profit in the

social mission, as expressed in the seven principles, Yunus and his partner Reitz fixed (Grameen Creative Lab, 2016a).

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

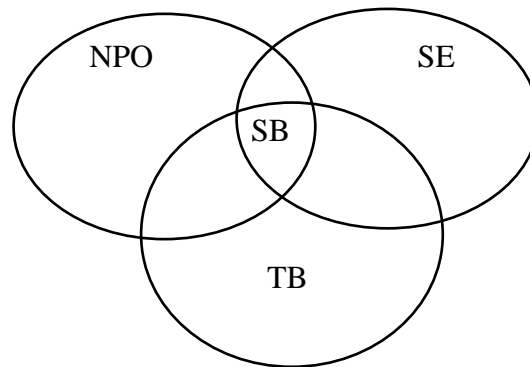
Many authors regard Yunus' concept as a subcategory of the concept of social entrepreneurship, including Esposito (2013) and Humberg and Braun (2014). Beckmann (2012) places social business as a category between non-governmental organisations and profit-making businesses. Humberg and Braun (2014) approach the concept similarly by placing it on a scale between non-profit organisations and traditional businesses. Beckmann et. al (2014) identify commonalities and differences with social entrepreneurship and Ballesteros-Sola (2014) presents intersections with the concepts non-profit organisations, social entrepreneurship and corporate social responsibility.

At the end of my dissertation I want to suggest an additional way of classifying social business: it could be placed within the common intersection of non-profit organisations, social enterprises and traditional businesses.

- According to Helmig (2017), non-profit organisations characteristically do not distribute profit ('positive definition'). Charitable organisations and other organisations dedicated to the benefit of the public are included in this framework; but also organisations that do not call for a social mission in the social business sense (e.g. associations or clubs).
- Social entrepreneurship is a rather vague concept. However, even in this field one can find authors who characterise social entrepreneurship either as a non-profit organisation or as an organisation which distributes modest profits (Dacin et al., 2010; Bacq and Janssen, 2011). All these definitions include the characteristic that a social problem ought to be solved by entrepreneurial methods. Thus, social business and social entrepreneurship both try to solve social problems through entrepreneurial activities. Besides, they both have owners – in contrast to some kinds of non-profit-organisations which have members, due to their legal form.
- A shared characteristic of traditional and social businesses is that only cost-covering businesses can endure. Furthermore, social businesses also rely on financing by investors on the condition that capital investment is repaid even if only in the initial amount. Finally, ownership by shareholders is a common feature (Yunus, 2010).

Summing up, one can say that social businesses and non-profit organisations share the principle of non-distribution of profits; the commonality with social enterprises is the solving of a social issue through entrepreneurial means and the fact, that social enterprises and social businesses both have owners; traditional businesses and social businesses both require financial break-even and return of investment. Accordingly, the following figure correlates with this definition.

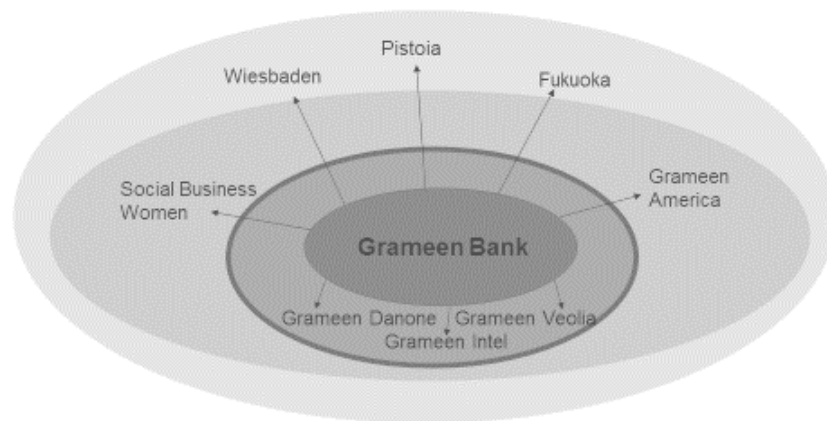
Figure 1: Social business (SB) as intersecting set of non-profit organisations (NPO), social entrepreneurship (SE) and traditional businesses (TB)



Source: own draft

The innovations initiated by Yunus have spread beyond Bangladesh: emanating from the founding of the microfinance bank Grameen, international cooperations with global players have developed. Additionally, microfinance institutions have developed in countries such as the United States (Grameen America) and Germany (Social Business Women). Lastly, recent years have seen the formation of urban ecosystems which also aim at fostering social businesses.

Figure 2: Development of social business innovations



Source: own draft

This research project approached the emergence of social business innovations from the periphery, working towards the core: the first article features the representation of the concept of Social Business City, which was newly implemented by Wiesbaden in 2010. Here, social businesses are to be founded with the help of a network based on both public and private institutions. At the time of conducting the research, three such Social Business Cities existed: Wiesbaden (Germany), Fukuoka (Japan) and Pistoia (Italy); in 2016 Barcelona joined the list of Social Business Cities. The second article analyses the ways in which microfinance organisations that are based on the concept of social business according to Yunus differ from one another. Included in this research was Grameen Bank in Bangladesh, Social Business Women in Germany and Grameen America in the United States. Subsequently, a third article investigates the similarities and differences to be found between social businesses and charities. The research focuses on advantages and disadvantages on both sides and aims at answering the

questions: which approach is appropriate under what circumstances and which aspects could be adopted by the other?

Finally, we investigated the various cooperation of the Grameen Group with global players such as Danone, Veolia and Intel in Bangladesh and the particular challenges which result therefrom.

In 2012 Volkmann, Tokarski and Ernst edited a publication called ‘Social Entrepreneurship and Social Business’ and introduced the themes ‘social entrepreneurship ecosystem’, ‘microfinance’ and the demarcation of social entrepreneurship from non-profit organisations and traditional businesses in the first chapter. Schirmer and Cameron (2012) depict the value of cooperation between social enterprises and other players and outline the joint ventures of Grameen Bank as one form of cooperation in the fifth chapter. In this respect, the studies contribute a more in-depth analysis of some aspects in the field of social entrepreneurship and social business described in Volkmann et al. (2012).

For this dissertation interviews with a total of twenty experts were conducted, transcribed and evaluated with the help of qualitative content analysis (Mayring, 2010).

The structure of the studies is similar with regards to the theoretical sections, because although it can be assumed that most researchers in the field of entrepreneurship are familiar with the field of social entrepreneurship, it is rather unlikely that all of them are aware of the concrete differences between the concepts of social entrepreneurship and social business in the Yunus sense. Therefore, at the beginning of each study we displayed in detail where the similarities and differences of both concepts lie.

In the next section, the four studies will be discussed and the lessons learnt shall be presented. Furthermore, limitations and future research opportunities are illustrated at the end of the section.

3. Discussion

3.1 Social Business Cities

The Social Business City is a ‘social entrepreneurial ecosystem’ in an urban context. Such an ecosystem has stakeholders like universities, media and the government of a city, meaning the city council and the mayor. It can help to reduce social inequality, to create jobs and to generate tax revenues (Volkmann et al., 2012) - which social businesses do as tax paying companies. In that way it creates value as a whole. To measure the value that is to say the social impact of such a network is surely difficult, but I would suggest the following: as one can measure the impact of a sole social business within a time span (i.e. through measuring life satisfaction of its beneficiaries at different points in time), an impact of a social business city could be the aggregated result of different variables: how many social businesses have been founded in a year and how many beneficiaries could be supported by each one, could be measured. Then you identify certain numbers of companies and beneficiaries in year one. If you measure again in year two and the amount arises, a social impact is to be found.

We have cited a lot of research in the article with regards to how clusters enhance innovation and economic activities. A very good example of a university based ecosystem is of course Silicon Valley, which we have also named in the article. Due to the increased amount of contacts in evolving networks, economic growth is stimulated. In a social entrepreneurial ecosystem this dynamism might even be bigger, since all stakeholders share the same vision: creating social value for their cities. In a traditional cluster there might be cooperation, but also competition. With regards to a socially motivated cluster, it can be assumed that the stakeholders are keener on cooperation as

social entrepreneurs have a different attitude: they want their ideas to spread, they do not want to be monopolists; therefore, they want to share their ideas and are much more transparent in their services and product creation processes. They play a ‘win-win’ game because they share a common goal in the end, whilst traditional entrepreneurs often play ‘win-lose’. Therefore, once such an urban social business ecosystem fully works, the cooperation might be very intense which could result in a high impact. One of the interviewees, Enrico Testi, made a statement in which he confirmed that the institutions in Pistoia already cooperated better and thus costs could be reduced. Nevertheless, it is quite difficult to establish such an ecosystem as a whole. I have recently received the information that the start-up ‘Pausenpower’ in Mönchengladbach became insolvent and that the responsables ceased their social business activities. Although there were enthusiastic people like Peter Schlipkötter and Robert Bückmann, apparently the obstacles for the company and for the establishment of the network were too high. Bückmann referred to it within the interview in 2013, when he said that it was hard to overcome the ‘human barriers’. It seems to be hard to convince people in bureaucratic systems like schools to try something new, just as other institutions in such a city. Besides, Michael Brohm from Grameen Creative Lab in Wiesbaden said that sometimes this social business approach is seen as a competitor to already existing charitable organisations. That is what can also hinder such an evolvement in an urban context, especially in countries like Germany where there is a long-term tradition of charity organisations.

Thus the lessons learnt are that you need to create consciousness for the concept of social business so that it is not seen as a substitutive way to the charitable approach, but as an additional one. Furthermore, you need to convince the most important stakeholders with regards to the concept so that you can to build up the network and

structures within such a city. Finally, you need engaged people who constantly work towards this – ideally they are funded by an organisation like a foundation or somehow linked with a university, because you need a lot of time and engagement to create such an ecosystem. It seems to be too big a task to create a social business city network just with the help of volunteers.

3.2 Social Business Microfinance

Although poverty has decreased over the years (World Bank, 2017), social inequality has arisen. According to Oxfam (2016), the richest one percent of the world's population owns more than the rest of the world. Nationally too, inequality seems to have increased, if you take a look at Germany for example. We have observed for years how the middle income segments decrease while we have more rich and more poor people (Deutsches Institut für Wirtschaftsforschung, 2017). So far, we have only individualized microfinance models in Germany, and the Social Business Women is one which is dedicated to benefitting poor women. As the example of Grameen America shows, the Grameen model used in Bangladesh is working in America, too. Five women, no blood relations, regular meetings in peer groups, training and support by the Grameen staff. At the time the study was conducted, Grameen America had about 33,000 beneficiaries, to date there are about 93,000 (Grameen America, 2017).

The study differentiates social business microfinance institutions and depicts the demarcation to other forms of microfinance. As microfinance was originally designed to support the poor, it should be the sole mission of such organisations to integrate the people living at the bottom of the pyramid into the financial system – and not to seek dividends. Microfinance loses its original purpose when it is designed as a means to

generate profits for shareholders who are not poor themselves, but investors like big companies or hedge funds.

The most interesting lesson which can be drawn is that obviously the Grameen system also works in an industrialized country. Thus, it is neither a matter of culture nor external circumstances such as the wealth of a nation, which are decisive, but it seems to work out due to factors such as concentrating on women and creating five member groups. Furthermore, all microfinance organisations explored in the study use both group and individual elements of loan provision. What seems to be important is the right 'dose' of pressure which is put on the lenders: in the case of Grameen Bank and Grameen America, group lending is combined with individual liability. This leads to a positive group dynamism, because the members support each other without having to stand in for each other with regards to the repayments. In the case of Social Business Women we have individual lending, but this is combined with group support. As expressed in the article, both individual and group elements of loan provision are essential.

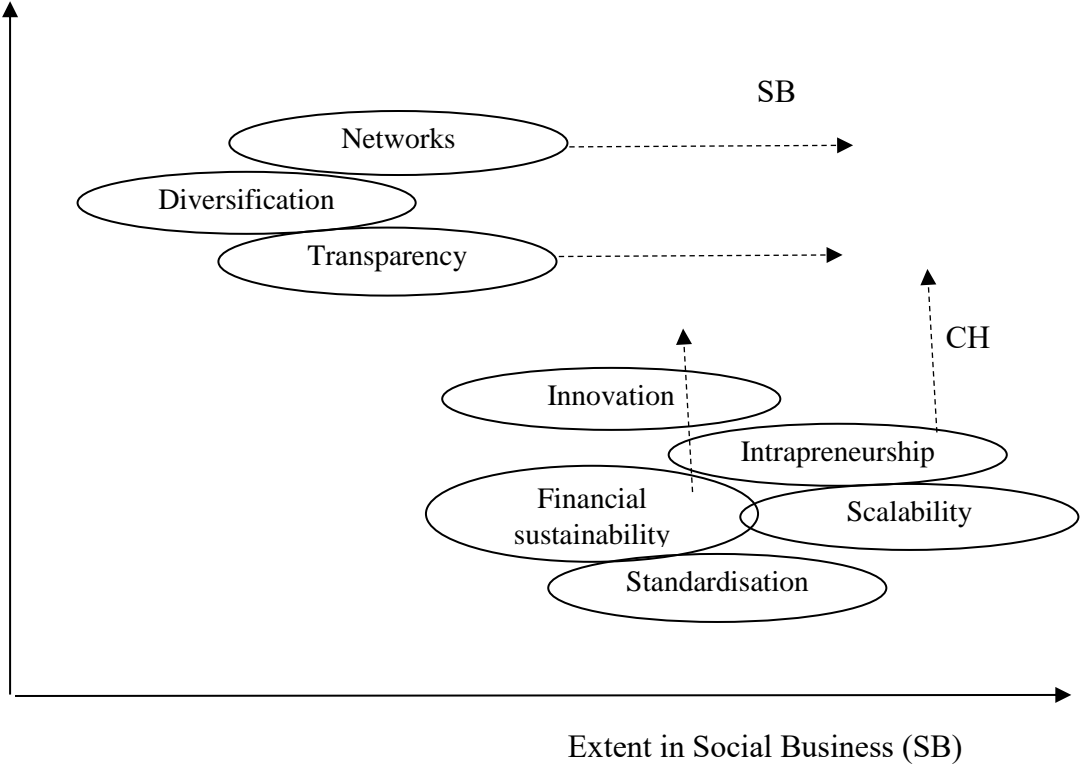
To sum up, the lessons learnt are: firstly, the orientation of a microfinance institution is supposed to be important. Is it designed to benefit the poor or to create a financial return on investment for its shareholders? Secondly, the group lending model based on the Grameen system in Bangladesh works in industrialized countries, too. Finally, the combination of group and individual components of loan provision models is a crucial factor.

3.3 Charity and Social Business

The first reason to conduct the third study, in which the charity model was compared to the social business one, was to contribute to theory. The charitable model has already been compared to the social entrepreneurial one (Dees, 2012), so why it should be of any relevance to compare the social business model to the charitable one? What the social business model and a charitable one have in common is that they are completely dedicated to the benefit of the public due to their non-profit distribution. What differentiates social businesses from charities is the way they support their beneficiaries: we have an entrepreneurial approach without any donations in the social business model - something which not explicitly excluded in social entrepreneurship. Charities on the contrary, are usually dependent on donations, since they do not create business models for their beneficiaries which would guarantee revenue, something which was confirmed by one interviewee. This duality, same goals, but different approaches is also expressed in the title. Apart from that, there were also practical reasons for this research objective. Firstly, as Brohm mentioned in the study concerning the Social Business City concept, social business might be seen as a competitive approach from the view point of a charity. Therefore, I wanted to draw the attention to the question: what differentiates the approaches? And also: what can both approaches learn from each other? The first question should clarify the different ways of solving social problems with regards to daily work. As a result, it was made clear under which circumstances each approach was suitable. This was meant to contribute to theory building, and as a practical implication, to a better understanding of the approaches for the responsables of the organisations. As Gotthard Kleine, CEO of one of Germany's biggest charities admitted, he did not know much about social business. The second question was to elaborate some practical implications for the responsables, too: where could they learn from each other?

This implied that they might also benefit from each other. Thus, the aim of the article was not only to identify the differences of the models, but also to draw attention to the question: how can we make the best of the fact that both models exist, instead of trying to favour one? The results of the interviews were summed up in table 2 of the article. The following figure can be derived from these findings: some of the presented characteristics are shown according to their extent. Additionally, where both approaches could improve, is shown.

Figure 3: Features of Charities and Social Business and lessons learnt
Extent in Charity (CH)



Source: own draft

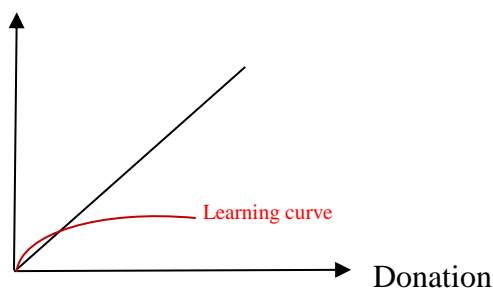
What social businesses could learn from charities is to build up large networks, as was expressed in the study. Besides, a kind of certification could lead to more transparency, something which would increase trust among people - or social investors in particular, with regards to the social business model. Charities on the other hand, could increase

their efficiency through entrepreneurial thinking and acting within their organizations – this was confirmed by both representatives of the charities.

In terms of competition, charities and social businesses both look for funding: either as an investment in terms of a social business, or as a donation from the viewpoint of the charity. Thus, a question for a social investor could be: which approach is best to create an impact? In a donation-based model, the more people you want to reach the more donations are needed, as shown in the following figure.

Figure 4: Charity Model

Social Impact



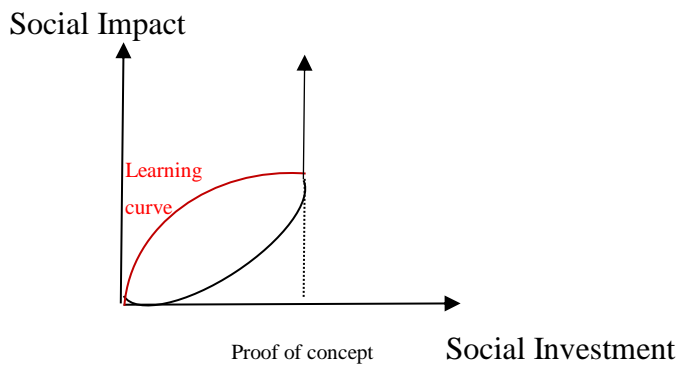
Source: own draft

The charity model has a flatter learning curve due to the fact that charities have a lot of experience, even in new countries under difficult working conditions.

With regards to the social business model, the curve showing the relation between social impact and social investments is rather oval, since it takes some time to come up with an innovative product or service. Thus, it can be assumed that at the beginning, there are high investments but not so many beneficiaries. The learning curve is considered to be relatively steep, because usually, unless you are not a social franchiser, you create a kind of social innovation, so that you have to experiment somehow, until the proof of

concept is achieved. Then, the approach is highly scalable, too, and the social impact is highest from that point on.

Figure 5: Social Business Model



Source: own draft

After the proof of concept, social investments are no longer needed and can even be repaid.

Which lessons can be learnt here? The awareness of the social business approached could be enhanced, which might lead to more cooperation between both organisations. In addition, charities could improve through competencies such as efficiency and intrapreneurial thinking; social business could learn from charities in terms of networks and intercultural competences (fig. 3). Most essentially: each approach has its characteristics and which one is most suitable, depends on what kind of help is needed. Thus, after a natural catastrophe or a war, a first step should be the support of charitable organisations; but as a second step, the creation and promotion of social businesses is a good measure.

3.4 Social Business Joint Ventures

The joint ventures of Grameen Bank with global players like Danone, Veolia and Intel were the research objective of the fourth contribution. Such cross-sector partnerships normally encompass risks like different goal alignment between the partners and mistrust. We found different forms of such collaborations in the literature: Schirmer and Cameron (2012) point out that there can be differentiated between networks, strategic alliances, social franchising and the foundation of joint ventures as the presented ones. Thus, the grade of cooperation has a span, which can be found in the following figure:

Figure 6: Collaboration Stages of Cross-Sector-Partnerships

	<u>Stage I</u>	<u>Stage II</u>	<u>Stage III</u>	<u>Stage IV</u>
NATURE OF RELATIONSHIP	<i>Philanthropic>Transactional>Integrative>Transformational</i>			
• Level of Engagement	<i>Low←-----→High</i>			
• Importance to Mission	<i>Peripheral ←-----→Central</i>			
• Magnitude of Resources	<i>Small←-----→Big</i>			
• Type of resources	<i>Money←-----→Core Competencies</i>			
• Scope of Activities	<i>Narrow←-----→Broad</i>			
• Interaction Level	<i>Infrequent←-----→Intensive</i>			
• Trust	<i>Modest←-----→Deep</i>			
• Internal change	<i>Minimal←-----→Great</i>			
• Managerial Complexity	<i>Simple←-----→Complex</i>			
• Strategic Value	<i>Minor←-----→Major</i>			
• Co-creation of value	<i>Sole-----→Conjoined</i>			
• Synergistic value	<i>Occasional←-----→Predominant</i>			
• Innovation	<i>Seldom←-----→Frequent</i>			
• External system change	<i>Rare←-----→Common</i>			

Source: Austin & Seitanidi (2012: 736)

If one goes through the different dimensions presented on the left of the figure, one can assume that the existing joint ventures have a very high form of cooperation so that such a relationship can be classified as ‘transformational’. According to the results of the study derived from the interviews, nearly every dimension with regards to the joint venture can be found on the right side of the scales.

Interestingly, the study revealed that the joint ventures need more time to become financially sustainable than expected. In contrast to traditional joint ventures the primary task of social business joint ventures is not to achieve break-even right away. Achieving operational break-even should be the task to achieve in the first run, thus the point where the costs are covered by the revenues is crucial. That is when you can say that the proof of concept is achieved. From that point of time on, the company works at least in a cost-covering way and the surplus can be used to cover the overheads and finally to pay back all investments. Figure 5, where the social business model was compared to the charitable one, can be specified with regards to these explanations.

Figure 7: Social Business Model II

Social Impact



Source: own draft

When achieving operational break-even (OBE), the proof of concept (PoC) is given. Afterwards the overheads will be covered until break-even (BE) is achieved. Then the social investments can be repaid, so that the financial curve (FC) is narrowing towards the y-axis (due to inflation and the fact that only the original amount will be paid back, the financial curve does not touch the y-axis again). As explained earlier, from point OBE on, a social business generates a high social impact (SI) due to scalability.

What really is an innovation, is the close cooperation between a social business and a global player, creating a new kind of company according to the principles of social

business. Although the amount of trust and goal alignment seems to be high in those ventures, it is also an ‘ad-venture’ since there are many challenges to overcome. Usually, cross-sector-partnerships of companies and charity organisations face the challenge of different mindsets (business thinking vs. project orientation) due to the different funding concepts. In social business joint ventures, both partners are used to applying business methods to their daily work. Despite all difficulties, which have been expressed in the study, this might increase the probability that such a cross-sector partnership ultimately succeeds.

The lessons learnt from this study are that the joint ventures have special challenges to cope with such as lacking infrastructure and legal obstacles (table 4 of the article). Due to those challenges, it takes a lot of time to achieve break-even – in some of the explored cases roughly ten years. Of course, the companies can fail, but there is also the chance of success if the engagement is meant to be long-term.

3.5 Limitations and Future Research Opportunities

In the case of the Social Business Cities, the interviews concentrate on experts of the institutions which organise social business activities. Future research could be done with regards to other stakeholders like urban institutions and the beneficiaries. Using longitudinal studies, it would be possible to explore whether sustainable development is actually fostered in those cities.

Similarly, in the microfinance study, the interviewees are members of the presented organisations. Future research could include longitudinal studies on the living standards of the beneficiaries and the opinions of development experts.

The limitations of the third study lie in the fact that the experts are all members of German organisations, but as expressed in the article, most results are likely to be transferable: the daily work of charities and social businesses has been analysed and is assumed to be similar in other countries. Future research could be done on the topic, if cooperations between charities and social businesses prove to work.

The fourth study includes two interview phases. As expressed within, the first phase was conducted with interviewees who were chosen with the help of a Grameen organisation. Thus, the limitation of the study lies in the fact that there may be a bias with regards to the selection process of the interviewees of the first phase. Future research could include questioning stakeholders such as development experts with regards to their viewpoints on the work of the joint ventures.

4. Conclusions

The final question remains: what impact do the explored social business innovations have on society? If you look at figure 2 again, where the development of social business innovations is described with the help of an onion, these innovations seem to influence society on different levels. Although the transition approach focus on technical innovations (Geels and Schot, 2007), one can also apply it to social ones: on the micro-level, innovations like the microcredit or new products like the ones created by the joint ventures have arisen. If you consider public institutions like city councils as a meso-level, the innovations spread in terms of the evolvement of the Social Business Cities. On a macro-level too, the innovations induced some kind of change, i.e. in terms of the

emergence of the microfinance sector with funding organisations like the World Bank and certification institutions like the ‘Consultative Group to Assist the Poor’ (CGAP).

Considering the social entrepreneurship movement, it can be seen as a transformative one which effects society as a whole (Beckmann, 2012). As social business is an integral part of this movement, it can be assumed that it plays an important role in our striving towards a sustainable development.

References

- Austin, J., Seitanidi, M. (2012): Collaborative Value Creation: A Review of Partnering Between Nonprofits and Businesses. Part I: Value Creation Spectrum and Collaboration Stages. *Nonprofit and Voluntary Sector Quarterly*, Vol. 41, No. 5.
- Bacq, S., Janssen, F. (2011): The multiple faces of social entrepreneurship: a review of definitional issues based on geographical and thematic criteria. *Entrepreneurship and Regional Development*, Vol. 23, No. 5–6.
- Ballesteros-Sola, M. (2014): Social business planning: management and financial issues. In Grove, A., Berg, G. (Eds.) (2014): *Social business: Theory, practice, and critical perspectives*. Wiesbaden: Springer.
- Beckmann, M. (2012): The Impact of Social Entrepreneurship on Societies. In: Volkmann, C., Tokarski, K., Ernst, K. (Eds.) (2012): *Social Entrepreneurship and Social Business. An Introduction and Discussion with Case Studies*. Wiesbaden: Springer.
- Beckmann, M., Zeyen, A., Krzeminska, A. (2014): Mission, finance and innovation: the similarities and differences between social entrepreneurship and social business. In: Grove, A., Berg, G. (Eds.) (2014): *Social business: Theory, practice, and critical perspectives*. Wiesbaden: Springer.
- Dacin, P., Dacin, T., Matear, M. (2010): Social entrepreneurship: why we don't need a new theory and how we move forward from here. *Academy of Management Perspectives*, Vol. 24, No. 3.
- Dees, G. (2012): A Tale of Two Cultures: Charity, Problem Solving, and the Future of Social Entrepreneurship. *Journal of Business Ethics*, Vol. 111, No. 3.
- Deutsches Institut für Wirtschaftsforschung (2017): Einkommensungleichheit und Armutsrisiko. <http://www.diw.de/sixcms/detail.php/550890> (14.8.2017)
- DNV GL (2017): Nachhaltigkeit wird Teil des Kerngeschäfts; Studie der DNV GL in Zusammenarbeit mit EY und GfK Eurisko; https://www.dnvgl.de/assurance/viewpoint/viewpoint-surveys/viewpoint_nachhaltigkeit.html (1.8.2017)
- Esposito, R. (2013): The social enterprise revolution in corporate law: a primer on emerging corporate entities in Europe and the United States and the case for the benefit corporation, *William and Mary Business Law Review*, Vol. 4, No. 2.
- Geels, F., Schot, J. (2007): Typology of sociotechnical transition pathways. *Res Policy*, Vol. 36, No. 3.
- Grameen America (2017): Impact. <http://www.grameenamerica.org/impact> (14.8.2017)
- Grameen Creative Lab (2016): The Network: Online-Dokument: <http://www.grameencreativelab.com/our-company/network.html> (16.4.2016)
- Grameen Creative Lab. (2016a). The 7 principles of social business. <http://www.grameencreativelab.com/a-concept-to-eradicate-poverty/7-principles.html> (15.3.2016)
- Helmig, B. (2017): Non-Profit Organisation: <http://wirtschaftslexikon.gabler.de/Archiv/4696/nonprofit-organisation-npo-v12.html> (12.6.2017)

- Humberg, K., Braun, B. (2014): Social Business and Poverty Alleviation: Lessons from Grameen Danone and Grameen Veolia. In: Grove, A., Berg, G. (Eds.) (2014): Social business: Theory, practice, and critical perspectives. Wiesbaden: Springer.
- Jones, L. (1919): The life, times and labours of Robert Owen: New York: Charles Scribers Sons.
- Klein, M. (2002): Bankier der Barmherzigkeit: Friedrich Wilhelm Raiffeisen. Das Leben des Genossenschaftsgründers in Texten und Bildern. Neukirchen-Vluyn: Ausaat-Verlag.
- Loew, T., Clausen, J. (2010): Wettbewerbsvorteile durch CSR. Eine Metastudie zu den Wettbewerbsvorteilen von CSR und Empfehlungen zur Kommunikation an Unternehmen. Institute4Sustainability and Borderstep Institute.
<http://www.4sustainability.de/fileadmin/redakteur/bilder/Publikationen/Loew-Clausen-2010-Wettbewerbsvorteile-durch-CSR-Gutachten-fuerBMAS.pdf> (1.8.2017)
- Mayring, P. (2010): Qualitative Inhaltsanalyse. Grundlagen und Techniken. Weinheim und Basel: Beltz Verlag.
- Oxfam (2016): An Economy For the 1%. <https://www.oxfam.org/en/research/economy-1> (14.8.2017)
- Promberger, K., Spiess, H. (2006): Der Einfluß von Corporate Social (and Ecological) Responsibility auf den Unternehmenserfolg. Working Paper, Universität Innsbruck.
http://www.verwaltungsmanagement.at/602/uploads/csr_unternehmenserfolg_working_paper.pdf (1.8.2017)
- Saßmannshausen, S., Volkmann, C. (2016): The Scientometrics of Social Entrepreneurship and its Establishment as an Academic Field. In: Journal of Small Business Management. Early View
- Schirmer, S., Cameron, H. (2012): Collaborations and partnerships. In: Volkmann, C., Tokarski, K., Ernst, K. (Eds.) (2012): Social entrepreneurship and Social business: An Introduction and Discussion with Case Studies. Wiesbaden: Springer.
- Volkmann, C., Tokarski, K., Ernst, K. (2012): Background, Characteristics and Context of Social Entrepreneurship. In: Volkmann, C., Tokarski, K., Ernst, K. (Eds.) (2012): Social Entrepreneurship and Social Business. An Introduction and Discussion with Case Studies. Wiesbaden: Springer.
- World Bank (2017): Poverty. <http://www.worldbank.org/en/topic/poverty> (14.8.2017)
- Yunus, M. (2010): Building Social Business. The New Kind of Capitalism that Serves Humanity's Most Pressing Needs. New York: Public Affairs.

Do social business cities foster sustainable urban development?

Michael Wirtz, *University of Wuppertal, Germany**

Christine Volkmann, *University of Wuppertal, Germany*

ABSTRACT

Purpose

Due to the global trend of urbanisation, cities are becoming increasingly important in the context of sustainable development. The innovative approach of establishing a city as a Social Business City marks a new development in the field of social entrepreneurship.

Design/methodology/approach

This paper gives first insights into the emergence and activities of the existing Social Business Cities, which are presented as case studies with the help of qualitative data.

Findings

We have found that the approach is one way to foster social innovation at a local level with the creation of ecosystems, although it is too early to predict long-term development.

Implications

Further research should address if these cities differ from other cities in terms of sustainable urban development.

Contribution

The paper contributes to the theoretical discourse by using the cluster approach commonly used with for-profit enterprises. With regards to implications for policy makers it is discussed whether the concept of Social Business Cities is actually a promising means to foster social innovation. We also make suggestions how the concept can be promoted.

Keywords Social entrepreneurship, Social business, Regional cluster, Ecosystem, Sustainable urban development

*Correspondence details and biographies for the authors are located at the end of the article.

SOCIAL BUSINESS, 2015, Vol. 5, No. 2, pp.157-175

<http://dx.doi.org/10.1362/204440815X14373846978714>

ISSN2044-4087 print /ISSN2044-9860 online © Westburn Publishers Ltd.

INTRODUCTION

Urbanisation is one of the megatrends of the 21st century (Singh, 2012). Cities have to tackle enormous social, economic and ecological problems whilst often lacking the capital to do so. In Germany, for example, a third of all major cities are highly indebted (Ernst & Young, 2014). The new concept of the Social Business City is based on the principle that social issues should be addressed by social entrepreneurs who are supported by local authorities (Jimenez Jimenez, 2014). Although this concept is relatively new, some businesses have already been established in those cities which have declared themselves Social Business Cities. These include Wiesbaden in Germany, Pistoia in Italy and Fukuoka in Japan. This paper explores the development of these cities as Social Business Cities up to now and the initiatives that are being implemented.

The study is based on data triangulation from different sources. Using a case study approach employing qualitative data, we have reached valuable insights into the concept and realisation of Social Business Cities. The paper is structured as follows. Firstly, the trend of urbanisation is demonstrated with the help of statistical data. Secondly, the terms social entrepreneurship and social business are defined and some theoretical considerations are made. Subsequently, the empirical findings are presented to reveal the motivations, obstacles and milestones in the development of Social Business Cities. Finally, the conclusion presents a discussion of the findings and orientations for future research.

URBANISATION AS A MEGATREND

In 2014, 54 percent of the world population lived in cities (United Nations, 2014). Historically, urbanisation emerged due to the investment and employment opportunities provided by cities. These offer the possibility of economic growth, interconnecting people from different backgrounds and thus fostering innovation and entrepreneurial activities (United Nations Department of Economic and Social Affairs, 2011). Consequently, cities are becoming more and more attractive, especially to young people. As Palen (2012) points out, cities attract young people seeking job opportunities, and due to a higher proportion of immigrants, cities and urban areas have a lower average age than rural regions. In general, cities exhibit a more heterogeneous population than rural areas.

By 2050, 66 percent of the world's population are expected to live in cities (United Nations, 2014). Despite this general trend of urbanisation, some cities are faced with the problem of population decline (United Nations, 2014). According to Bärenbrinker (2011), cities which continuously lose inhabitants have to tackle problems concerning the housing market, infrastructure, communal finances and cultural activities. The financial problems of the US metropolis, Detroit, for example, have increased so intensely (its debt level is about twelve billion dollars) that the city has even filed for insolvency (Koch, 2012).

In Germany, income inequality is steadily increasing (Bönke & Lüthen, 2014). Public debt at the local level is rising, making the maintenance of public services in support of the poor, difficult. According to a study by Ernst and Young, a third of all big German cities are deeply in debt and are predicted to have increasing deficit budgets in the future (Ernst & Young, 2014). Due to these financial impediments, they cannot efficiently address social problems.

How can cities deal with increasing local problems in the face of a lack of public resources? One approach could be to use social entrepreneurship, and especially its subcategory social business, to tackle urban problems and simultaneously to conserve public resources. Social business is a concept developed by Muhammad Yunus, a Bangladeshi professor who was awarded the Nobel Peace Prize for providing microloans to the poor in his country. The next section will explain the significance of the concept of social business and will distinguish it from the concept of social entrepreneurship.

SOCIAL ENTREPRENEURSHIP AND SOCIAL BUSINESS

A wide variety of definitions of social entrepreneurship exists. Dacin, Dacin and Matear (2010) count 37 definitions of social entrepreneurs and social entrepreneurship. Bacq and Janssen (2011) present 47 definitions concerning the terms social entrepreneur, social entrepreneurship and social entrepreneurship organisation. Social entrepreneurship could be defined in the following way:

Social entrepreneurship means acting within markets to help a societal cause. ... Social enterprises attempt to target unfulfilled social needs with (more or less) market-based approaches, aiming for sustainable solutions. They do so by creating additional value (social value creation) (Volkmann, Tokarski, & Ernst, 2012, p. 8)

Thus, with the help of a social enterprise, a social or ecological problem can be solved by economic means. Of course, there are different types of social enterprises. The Community Interest Company (CIC) in UK, a legal form of company for social entrepreneurs which has been available in the UK since 2005, requires that no more than 35% of the profits are distributed (Department of Business, Innovation and Skills, 2013). Thus, a social entrepreneur is permitted to retain at least a part of the profit that is generated. However, a social business entrepreneur is not meant to do so, as will be explained in the following paragraph.

Social business is a form of social entrepreneurship developed by Muhammad Yunus. In 1983, this Professor of Economics at the University of Chittagong founded the Grameen Bank, a Bangladeshi micro-finance institution, in response to the famines that the country was facing at that time. When he first visited the village of Jobra (“Grameen” is the Bangladeshi word for village) in 1976, he saw that the populace had been reduced to a form of economic slavery: the locals were deeply indebted to moneylenders who dictated the prices of their products (woven baskets for example). He lent a total of 27 dollars to the village people of Jobra in order to free them from their duties and was amazed when the poor paid him back every cent (Yunus, 2008). This was the beginning of the microfinance revolution which has not stopped since. The Grameen Bank has more than eight million borrowers, most of them women, because it is them who use the money to benefit the whole family (Grameen Bank, 2015). Yunus has since founded more than 40 other businesses, all designed according to specific principles which he and his partner Hans Reitz created at the World Economic Forum in Davos 2009¹ (Grameen Creative Lab, 2015a): They are called the seven principles of social business:

1 Muhammad Yunus and the German Entrepreneur Hans Reitz founded the Grameen Creative Lab located in Wiesbaden, Germany, which supports and spreads the idea of social business all over the world.

- 1 The business objective will be to overcome poverty, or one or more problems (such as education, health, access to technology and the environment) which threaten people and society; and not profit maximisation.
- 2 Financial and economic sustainability.
- 3 Investors are paid back their investment amount only. No dividend is given beyond the invested sum.
- 4 When the investment amount is paid back, company profit stays with the company for expansion and improvement.
- 5 Be environmentally conscious.
- 6 Workforce receives market wage with better working conditions.
- 7 ...do it with joy. (Grameen Creative Lab, 2015b)

To sum up, a social business entrepreneur differs from a social entrepreneur in that he does not personally benefit from the profits of his business. Any and all surpluses are reinvested in the company in order to reach its social goals. The second significant difference between social entrepreneurship and its subcategory, social business, is the rejection of interest on investments: “*In social business, a dollar is a dollar is a dollar. If you invest a thousand dollars in a social business, you’ll get back a thousand dollars - not a penny more*” (Yunus, 2010, p. 2). One example of this is the joint venture between the global conglomerate Danone and the Grameen Bank. Grameen Danone, a social business factory in Bangladesh, produces yoghurt priced at about six cents for the rural population’s children in order to mitigate their malnutrition. This was made possible by an investment from the Danone Communities Fund. The fund, endorsing social businesses all over the world, will only be repaid its initial investment - without receiving any interest (Yunus, 2010).

Why is Yunus so strict in terms of dividend payment? He gives two arguments: firstly, he wants the poor to overcome poverty before being seen as consumers who are subjected to market mechanisms. Secondly, he argues that paying dividends leads to conflicting objectives for a social business. For example, if a social business entrepreneur were to pursue both a financial and a social goal, he might prioritise financial gain over social progress: “*In times of stress, profit will always trump the other ‘bottom lines’*” (Yunus, 2010, p. 14). Therefore, Yunus endorses the strict principles of no dividend and no interest payments.

Yunus is aware of the transformative power of cities to attain a more sustainable world. Thus, a new concept has been tailored to fit the microcosm of a city in order to solve social problems. The innovation in this approach is, instead of one individual social entrepreneur trying to solve a social problem against occurring obstacles, all local authorities and official institutions should foster the activities of the social business entrepreneurs. Ultimately, they also benefit if social issues are solved.

THEORETICAL CONSIDERATIONS

The literature on how regional clusters foster innovation and the economic performance of companies is extensive (Arikan, 2009; Ferreira, Azevedo, & Raposo, 2012; Garanti & Berzina, 2013; Gellynck, Vermeire, & Viaene, 2007; Isaksen, 2009; Krugman, 1991; Lechner & Leyronas, 2012; Lundequist & Power, 2002; Marshall, 1920; Pilinkiene & Kardokaite, 2008; Porter, 2003; Pulles & Schiele,

2013; Reveiu & Dardala, 2012). A Social Business City is a form of regional cluster because it links partners in a specific region in order to address local social problems by entrepreneurial means.

Since social business is a new entrepreneurial approach to tackling social problems, it creates novel economic and social structures by setting up local networks. The city therefore exhibits some creative destruction in the Schumpeterian sense (Schumpeter, 1942). As will be shown, there is one person or institution in each city that acts as a promoter and coordinator for social business activities, trying to influence established institutions and the creation of new ones so that the concept of institutional entrepreneurship can also be referred to (DiMaggio, 1988). Maguire, Hardy and Lawrence link institutional entrepreneurship to “*activities of actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones*” (Maguire, Hardy, & Lawrence, 2004, p. 657). Tracey, Phillips and Jarvis (2011) use the term ‘bridging institutional entrepreneurship’ to show that social entrepreneurs act on three levels: on a micro level, individuals see opportunities; on the meso level, they create organisational forms as a reaction to the recognised opportunity; on a macro level, they seek to legitimise the organisations they have created. They do so by aligning with highly legitimate players. The overall goal of each Social Business City is to foster sustainable urban development. Klein Woolthuis, Hooimeijer, Bossink, Mulder and Brouwer (2013) point out that institutional entrepreneurs play a crucial role within this process. Azadi, Ho, Hafni, Zarafshani and Witlox (2011) also emphasise the role of the government as a part of sustainable urban development.

SUSTAINABLE URBAN DEVELOPMENT

At the environmental conference in Rio de Janeiro in 1992, the Agenda 21 stressed the significance of municipalities in working towards sustainable development:

Local authorities construct, operate and maintain economic, social and environmental infrastructure, oversee planning processes, establish local environmental policies and regulations, and assist in implementing national and subnational environmental policies. As the level of governance closest to the people, they play a vital role in educating, mobilizing and responding to the public to promote sustainable development (United Nations Environmental Program, 1992)

Since then, several local concepts have been developed following the idea of sustainable urban development. There are, for example, Transition Towns, Fairtrade Towns, Sustainable Cities, UN-Compact Cities, and the Innovation City. Finally, there have been Social Enterprise Cities since 2013. Before exploring the specific characteristics of a Social Business City, these concepts shall briefly be explained. The Transition Town Movement began in the Irish town Kinsale in 2006. Here, a core team of volunteers organises events and training for citizens of the area in order to raise awareness with regard to sustainability. For example, they aim to reduce CO₂-emissions and strengthen the local economy by encouraging the consumption of local agricultural goods. Transition towns are officially registered on the transition network, a platform that supports spreading the Movement (Transition Network, 2015).

Since 2000, it has become possible to become a Fairtrade Town. This means that a commune, a town or a city declares its active support of fair trade. For instance, Fairtrade coffee must be served at all municipal meetings. To become a Fairtrade Town, some criteria must be fulfilled: a resolution by the municipal council; a special quota of magazines and a specific number of shops or stores that sell fair trade products, according to the size of the town (Fairtrade Towns, 2015a). So far, more than 2000 Fairtrade Towns have been officially registered worldwide (Fairtrade Towns, 2015 b).

A Sustainable City is part of a special network, the Sustainable Cities International Network, which comprises 40 cities worldwide. Those cities share the vision of becoming more sustainable in terms of energy consumption and declare that they will support each other with the help of the network (Sustainable Cities, 2015).

A UN Compact City is a city that adopts the ten principles of the United Nations Global Compact, an initiative that encourages companies to comply with those principles related to human rights, environment, labour and anti-corruption. These principles are to be taken into account in urban governance and management (Global Compact Cities Program, 2015).

The city of Bottrop emerged as the winner of a 2010 contest between German cities to become an Innovation City. It received 500,000 Euros from the federal government in order to implement energy measures to reduce CO₂-emissions. About 125 projects exist, which make Bottrop a more sustainable place to live in (Innovation City Ruhr, 2015).

Up to now, two Social Enterprise Cities, Bristol and Plymouth, are registered in the UK. The concept of a Social Enterprise City was developed by Social Enterprise UK, which is the national body for social enterprise in the United Kingdom (Social Enterprise UK, 2015a). In 2013, Social Enterprise UK initiated a project called Social Enterprise Places (Social Enterprise UK, 2015b). On its website, Social Enterprise UK explains:

Registered Social Enterprise Places will be supported to reach out to and involve local councils, businesses, charities, consumers and budding social entrepreneurs, bringing them together to grow their social enterprise communities. The program aims to promote, raise awareness, and build the markets for social enterprise at a local and national level (Social Enterprise UK, 2015b)

In order to register as a Social Enterprise Place, the village, town or region needs to prove that its social enterprises are thriving. Furthermore, they are required to demonstrate that they are willing to build a network of supportive stakeholders and measure their social entrepreneurship activities. Finally, they should be willing to share their experiences with other Social Enterprise Places (Social Enterprise UK, 2015c). To date, eight places have been acknowledged as Social Enterprise Places: Alston Moor, Bristol, Cornwall and the Isles of Scilly, Digbeth, Gwynedd, Oxfordshire, Plymouth and Sunderland (Social Enterprise UK, 2015 c). Both Bristol and Plymouth were declared a Social Enterprise City in 2013 by Social Enterprise UK. Bristol's key objectives in becoming a Social Enterprise City are: supporting growth and market development, finding new possibilities of financing, and funding and building a local network of stakeholders in order to foster social enterprises and address civic problems (Social Enterprise UK, 2015d).

The Bristol and Bath Social Enterprise Network coordinated the application process and elaborated a detailed plan for 2014 in which the explicit roles of the

stakeholders, such as Bristol University and the City Council, were stated (Bristol and Bath Social Enterprise Network, 2015).

Plymouth became a Social Enterprise City with the following objectives: an increased awareness about social enterprises, maintaining the support for social enterprise projects, and collaboration with schools and universities to promote social entrepreneurship amongst young people. Major stakeholders are the Plymouth Social Enterprise Network, the City Council and Plymouth University (Social Enterprise UK, 2015e). Prior to its application, the Plymouth Social Enterprise Network set up an action plan which defined the city's milestones (Plymouth Social Enterprise Network, 2015). The network also launched a website on which events in the Social Enterprise City are presented (Social Enterprise City, 2015).

To sum up, there are already different movements which foster sustainable urban development. A recent approach is to advance social innovation through a promotion of social enterprises. Whilst the approach of Social Enterprise Cities has existed since 2013, the Social Business City approach is older and shall be explored in the following section using qualitative data.

SOCIAL BUSINESS CITY

The possibility of declaring a city a Social Business City has existed since 2010. Social Business Cities work towards establishing social start-ups in an urban context with the aid of public institutions. The aim is to engage all municipal stakeholders in this process, in particular the municipal administration and public institutions, such as the Chambers of Industry and Commerce.

Since its inception, three cities have been recognised as Social Business Cities worldwide, namely Wiesbaden (Germany), Fukuoka (Japan) and Pistoia (Italy). Mönchengladbach (Germany), Rio de Janeiro and Barcelona are about to implement the concept as well (Dominique Dauster, Grameen Creative Lab, personal communication). A visit to Wiesbaden, where Dominique Dauster from Grameen Creative Lab introduced the concept, gave us a first impression of the activities of a Social Business City. Dauster explained that there has to be a clear decision made by the town in order to become a Social Business City, expressed in a legal act passed by the City Council. A specific agency is required to coordinate the activities and at least three social businesses should already exist or be planned. Finally, a treaty with Yunus has to be signed to declare a city to be a Social Business City.

Press releases and information can be found on the agencies' websites (Grameen Creative Lab, 2013; Yunus and Shiiki Social Business Research Center, 2013; Yunus Social Business Center, 2013). Furthermore, an article was published in the German social entrepreneurship magazine *Enorm* (Muuss, 2012). In addition, Habel and Stember (2013) published information on the Social Business City Wiesbaden. Finally, Jimenez Jimenez (2014) wrote a detailed overview of the different stakeholders and social business ventures in the Social Business City of Wiesbaden.

We conducted structured interviews with the responsible managers of the agencies in the existing Social Business Cities of Wiesbaden, Fukuoka and Pistoia. In addition, we interviewed Mönchengladbach's responsible parties in order to gather information about the process of becoming a Social Business City. Online research gave us the information cited in Table 1 about our interview partners.

TABLE 1 Interview partners

Social business city	Since	Supporting institution	Interview partner
Wiesbaden (Germany)	2010	Grameen Creative Lab	Michael Brohm (CEO)
Fukuoka (Japan)	2011	Yunus and Shiiki Social Business Research Centre	Masaharu Okada (Director)
Pistoia (Italy)	2012	Yunus Social Business Center	Enrico Testi (Director)
Mönchengladbach (Germany)	upcoming	Marketing Gesellschaft Mönchengladbach/ Pausenpower eG (first social business start-up)	Peter Schlipköter (CEO)/ Robert Bückmann (Chief of Advisory Board)

To find out more about the activities going on in these cities, we asked the following questions:

- 1 What is the motivation for your city to become a Social Business City and which special problems would you like to tackle with the help of this concept?
- 2 What does your institution do exactly?
- 3 Are there measurable aims, e.g., some milestones you want to achieve?
- 4 Which institutions support the concept (the mayor for example)?
- 5 Can you also tell me about any obstacles which inhibit or block the development? What are the special challenges?
- 6 How is the concept funded and how much money do you get from the foundations?
- 7 How many employees do you have, how many people work within the concept of the Social Business City in total?
- 8 Is there a network between the Social Business Cities and how is it managed?
- 9 How many start-ups have been launched so far and which problems do they tackle?
- 10 What has changed so far in total? Is there a remarkable sustainable development in the city since it has become a Social Business City?

The interviews took place between September and November 2013 and were conducted with the representatives from Wiesbaden, Fukuoka and Pistoia via Skype. The interview with Mönchengladbach was conducted in person. The interviews were analysed through qualitative content analysis with the so called summarising method (Mayring, 2010). Additionally, MAXQDA software was used. The results are presented in the following sections.

WIESBADEN

Wiesbaden was the first city to declare itself a Social Business City in 2010. So, why Wiesbaden, one of the wealthiest cities in Germany? Michael Brohm, CEO at the Grameen Creative Lab, a joint venture between German entrepreneur Hans Reitz and Muhammad Yunus located in Wiesbaden, gives various reasons: *“If we give a good example here, of how a Social Business City can work, in one of the richest cities,*

we think it can work everywhere in the world". In addition to this, he states: "*we also want to show that social business is not only a concept for developing countries ... but that in a rich city like Wiesbaden, one of the richest cities in Germany, one of the richest cities in one of the richest countries, the social business concept can work*". Apart from that, Wiesbaden faces a number of social problems, induced for example by a wide gap between the rich and poor and the consequent shrinking of the middle class. Brohm responds to these challenges: "*... if they were easy to solve, it would have already happened. Thus, we will possibly have to look for new tools, and social business is one of them*".

The idea of turning the city into a Social Business City was formed by Hans Reitz, but since Grameen Creative Lab is a joint venture, it has been continuously developed with the support of Muhammad Yunus. The concept adheres to a principle which Yunus often recommends when talking about the initial establishment of a social business: start small! Instead of changing the entire world at once, one ought to start with the problems closest at hand without being ashamed of the seemingly insignificant scale of one's contribution. This philosophy, inherent to the concept of Social Business Cities, is also adopted by Brohm, who explains: "*If we cannot change a street in Wiesbaden, then we cannot change the world*".

Furthermore, Brohm stresses the importance of a networking and cluster focus, which could expand the concept on a regional level. In a global context, examples for strong symbioses of enterprises already exist: Silicon Valley in the US and Silicon Fen in the UK are examples of synergies between entrepreneurs who foster innovation. Why should it not be possible to solve local social problems if the network is strong enough? Brohm introduces the term 'social business cluster' in this context and stresses that one goal of the Grameen Creative Lab is community building. The Grameen Creative Lab gives advice to organisations which are interested in the social business approach. One of their milestones is to create five more social businesses within the next five years in addition to the ones already existing.

In comparison to other cities, local institutions in Wiesbaden have shown strong support for the concept. This does not come as a surprise, since Wiesbaden, as the first Social Business City, has had the most time to build up its network. Its stakeholders include the European Business School, at which Andreas Heinecke holds a Social Business Chair, financed by Danone. Further stakeholders are the Wiesbadener Kurier (daily newspaper) and Berufswege für Frauen, an organisation supporting women who wish to found their own businesses. Berufswege für Frauen is backed by Accenture Stiftung (foundation) and cooperates with Social Business Women, a microfinance organisation. A specifically created fund finances micro-loans for women who are given the chance to become self-employed in a number of different fields with the help of Social Business Women. More than twenty women have already founded their own enterprises (Toth, 2013). Finally, Stiftung Flughafen, Wiesbadener Stiftung (foundations) and the City of Wiesbaden are important stakeholders.

Referring to the obstacles which can arise when realising the concept of a Social Business City, Brohm explains that it can be difficult to find the people and financial support necessary to establish a network in a city. "*To establish such a concept, firstly, ... we need people who take charge of it. ... It takes a lot of work*". Additionally, a social business could be seen as a competitor within the social sector. "*... I do not see it as competition, but established institutions definitely see what we want to do as competition.*" But Brohm stresses: "*We want to do good and solve social problems, therefore, there is no room for competition*". We are confronted with a different view of the stakeholders with regard to social business activities: on the one hand,

we find established charities or municipal organisations which try to solve social problems like poverty, education and refugee issues. Obviously, these organisations and institutions cannot solve all problems. Thus, social business experts like Brohm offer an additional tool to cope with existing local problems in an innovative way. This could easily be misinterpreted as competition to the existing market, but social business actually is intended as a supplement, not a substitute - at least from the social business actors' point of view.

The Grameen Creative Lab is a self-financed social business. Hans Reitz, as its founder, invested private money, while the foundation Danone Community brought in financial aid. Additionally, the YY-foundation ('Yunus and You') was recently established in Wiesbaden. With regard to the concept of Social Business City, the mentioned foundations support social business activities in Wiesbaden.

Although up to three people are involved in the work of the Social Business City Concept, the main responsibilities are carried out by Dominique Dauster. In the case of a special event or occasion, however, the entire Grameen Creative Lab could become involved.

The network between individual Social Business Cities is still informal. There is communication between the cities' different labs, but a structured network has not yet developed. This shall be established in the coming years, once more cities adopt the concept. The expectation is that, as contacts within the Social Business City context increase, the networking will also develop further.

Grameen Creative Lab has initiated or supported several start-up businesses: Lalaland (a Mother and Child Café), Fasan (a vegetarian restaurant), Variomondo (an online-platform for ethical devices), Heimathafen (a co-working-office), Perfect Day (a chain of cafés selling fair-trade coffee) and Social Business Women. Additionally, the Grameen Creative Lab also organises initiatives in Wiesbaden, such as activities on the Friedrichstrasse, which was declared a so-called 'YY Street' and projects like Leonardo, a contest of project ideas for pupils. Brohm explained: *"that is simply what we do. Advertising, community building and trying to improve the city somehow with small sporadic events. And also appealing to the sense of responsibility of the citizens."*

Finally, Brohm affirms that there is already a noticeable positive development in the town and the development is still ongoing. *"More people must be promoting the whole theme and we must involve more enterprises. This needs to be done in the future: consolidating the existing, but spreading it."* Referring to the Social Business City Wiesbaden, Brohm hopes for more support from entrepreneurs and companies.

FUKUOKA

Masaharu Okada is the director of Yunus and Shiiki Social Business Research Center, a centre that is linked to Kyushu University. In 2011, Yunus received the Fukuoka Asian Award and Fukuoka was declared a Social Business City (Anderson, 2011). According to Okada, until now, the Japanese have linked the term social business to non-profit organisations or charities. *"So, as I mentioned, since there is a social business, a Japanese social business, it is sometimes very difficult to make them understand the difference between Japanese social business and Yunus social business. So we have to start to make them understand correctly what Yunus social business is"* Okada explains.

A number of problems, for example in the field of education or the aging society in Japan, could be solved more effectively with the help of the new social business

concept. The research centre is in charge of the incubation of social businesses, promotes the establishment of a network of supporters, does research, and spreads the idea of social business through the organisation of events, such as the Social Business Forum Asia. Okada explained: *“and through these symposiums we ... make many people know and understand Yunus social business And let them establish their own social business in Japan”*. To date, two social businesses have been launched with the help of Yunus and Shiiki Social Business Research Center. One company takes care of ex-convicts, providing them with housing and training. The other, which additionally employs disabled people, produces environmentally-friendly soap. A third social business will be launched in the near future, to sell and distribute low-energy air conditioning.

Bureaucracy is a serious obstacle in Fukuoka, preventing the concept of Yunus' social business from having a breakthrough. One of the biggest challenges the centre is facing is increasing the awareness within institutions and companies, so the fostering of social business in the Yunus sense becomes complementary to supporting NGOs and charities.

According to Okada, the Yunus social business approach is similar to a very old approach of doing business in Japan. Three hundred years ago, a wise Japanese person stated that morality and business should always be linked. Only contracts which were balanced in three directions were regarded as morally acceptable. The three poles were 'seller', 'buyer' and 'society'. It was only a good contract if all three parties were satisfied. People seem to have forgotten the old way of doing business. Okada tries to make people remember the old way: *“So once the person understands what Yunus social business is, they clearly understand and they remember their own DNA”*.

The centre received a generous donation from Mr. Shiiki to fund its research, training and consulting. It has three full-time paid employees, including Okada. The centre itself does not provide funding to the social businesses under its guidance, however, a fund has been established by the CEO of a local company to provide investments in social business.

Okada explains that a network between the social business cities does not yet exist. First of all the concept has to be made popular on a local level: *“We have to do something. But beforehand we have to make Fukuoka City understand and support social business first”*.

Referring to a development within the city, Okada says: *“[the concept is] too young. So, concerning ourselves, our centre is going its own way anyway. ... Without the city centre. ... But some day they may come to us. And collaborate with us. I hope”*.

PISTOIA

According to Enrico Testi, Director of the Yunus Social Business Center in Pistoia, there were several motivations to become a Social Business City in 2012. The first goal was to introduce more efficiency in the existing social businesses in Pistoia. Secondly, one wanted to create new and innovative solutions for social problems such as drug addiction or employment opportunities for the disabled or elderly. Thirdly, with the help of the Social Business City concept, an entrepreneurial ecosystem should be established to solve social problems within the city of Pistoia. *“... The objective of our Social Business City is to create an enabling environment for social business and*

social innovation ...”, Testi explains. The core tasks of the centre where Testi works are research, training, coordination of important stakeholders within the city and consultancy to social organisations. Pistoia is the first Social Business City which planned to carry out a strict impact evaluation of the programme in 2014.

Important stakeholders supporting the concept are the Chamber of Commerce, associations of cooperatives, banks, the mayor, microcredit institutions and foundations. Testi added: “*We organize joint activities, so where the Chamber of Commerce or associations ... can join, we actually lower the cost of them doing joint activities because we act as the main coordinator*”.

The biggest obstacles and barriers are bureaucracy and the traditional mentality, especially of those working in the non-profit sector. Therefore, one of the challenges in Pistoia is to convince people to transform their approach from collecting donations to a more market-based focus in their work.

The centre is linked to the University of Florence. Each year, it receives funding by foundations and a free local office in Pistoia. It has three full-time paid employees including Testi and is supported by students on a voluntary basis.

Concerning an international network between Social Business Cities, Testi confirms that currently there is no network. “*... real networking will start, if you have four, five cities ...*”.

Since there are a lot of social organisations in the city, the centre mainly aims at giving advice to these organisations. Incubation is not its main task. Nevertheless, one social business in the field of sustainable housing (providing low-energy houses to socially excluded people) is in planning. Testi points out that, with regard to sustainable development in the city, a form of entrepreneurial spirit appears to have developed, especially amongst students. Additionally, there is more cooperation between the city’s institutions than previously, with the centre acting as a facilitator and coordinator. As a result of the annual Pistoia Social Business Day and other events such as the Social Business Plan Competition for students, general awareness of the social business concept has increased.

MÖNCHENGLADBACH

Peter Schlipköter, CEO of the Marketing Gesellschaft Mönchengladbach, and Robert Bückmann, Chairman of the Advisory Board of Pausenpower Eg, are the main promoters and supporters of the concept of social business in Mönchengladbach. In 2011, Yunus was invited by the Marketing Gesellschaft Mönchengladbach to give a presentation on social business. In this context, the social business Pausenpower, which provides healthy breakfasts for schools, was founded. Furthermore, two social business projects have subsequently been launched and completed. Pausenpower and the Marketing Gesellschaft Mönchengladbach are financially supported by the Initiativkreis Mönchengladbach, a group of about thirty people with entrepreneurial backgrounds².

So, why social business in Mönchengladbach? As in other cities, the social problems can no longer be solved in traditional ways. “*We think that we have a strong social environment here in the city, which cannot be tackled by the City itself anymore*”, Bückmann explains. The municipal administration provides donations to charities, but the money is merely ‘distributed’. The social business concept includes

² <http://www.ik-mg.de/index.php>

the idea that the financial resources can be better used to create sustainable solutions to social problems, making them independent of forthcoming donations. That is why Bückmann and Schlipkötter are convinced of the concept of social business.

Bückmann pleads for a bundling of the social forces of the city. The idea of becoming a Social Business City requires existing social organisations to come together at a round table in order to foster more collaboration.

Until now, the *Initiativkreis* provides financial aid, while the *Marketing Gesellschaft Mönchengladbach* is the organising force. Bückmann and Schlipkötter try to popularise the concept of social business in the city and to commit additional supporters.

One of the main obstacles in his work with *Pausenpower*, Bückmann explains, is the mentality of people: “... *the obstacles are human obstacles*”. Most people expect the state to solve their problems and think that goods and services should not cost anything. As Germany has a broad state welfare system, there is also the problem of the social business being seen as a competitor by existing charities in Mönchengladbach. Here, the lack of awareness on the concept of social business is problematic.

Bückmann and Schlipkötter are currently trying to establish a local network to promote social businesses in order to enable Mönchengladbach to eventually become a Social Business City.

DISCUSSION AND CONCLUSIONS

The cities discussed in this paper had different motivations for becoming a Social Business City. One motivation was to show that social business is also a concept for developed countries. Another was to create an environment in which social businesses could thrive.

The institutions which promote the concept in the different cities have similar tasks: consultancy, incubation, raising awareness through the organisation of events and conducting research. Concerning acceptance, a common challenge seems to be to create more awareness about social business within existing social organisations, amongst customers, within municipal institutions and finally amongst the population at large.

Another common challenge for implementing the concept is its subjection to changes in the political environment. A newly elected mayor, for example, may not share his predecessor's enthusiasm for the project, but if social businesses are seen to create social value, even sceptical politicians may come to support the Social Business City concept in its attempt to foster sustainable development.

Funding is a common crucial theme in social business. Our recommendation is to build up a local crowd-funding or even crowd-investing platform to support social projects which could be set up by local banks. In some German cities such platforms already exist, because cooperative banks have started to set up local crowdfunding platforms to support social projects (Volksbanken/Raiffeisenbanken, 2015).

The fostering of the concept of Social Business Cities on a meta-level could be enhanced by the establishment of an umbrella organisation, which coordinates the activities of the different cities more effectively. In this way, each Social Business City could present ongoing activities, such as special events on a website, offering other cities a first impression of what it is like to be a Social Business City. Moreover, a

general action plan listing the preconditions for becoming a Social Business City could be presented on such a website. Other city concepts like Fairtrade Towns or Transition Towns have websites on which the detailed procedures for realising a concept are presented. So far, the Social Business City concept lacks a coordinating umbrella organisation. With the help of a formalised network, common events could be planned, taking place in different cities at the same time. As the cities face similar problems, such an exchange could reveal new strategies to support the concept. It could also be productive for Social Business Cities to establish contact with the Social Enterprise Cities organisation in the UK. Since the concepts show striking similarities, synergies could be created, for example in terms of impact evaluation of the different programmes.

Finally, as a social business entrepreneur does not accept donations but is open to investments, a city might save resources by investing in a social business instead of distributing grants. If a city invested in a social business which tackles problems like youth unemployment or education, the city may be able to recover its initial investment. In this way, the funding would not be consumed, as would be the case if a department tried to solve the problem. Instead, it is reimbursed, at least up to the initial amount. In this way, social businesses could take over important social welfare tasks and by doing so, relieve the municipal budget. All in all, the social business approach can be both a sustainable and an innovative way for cities to lessen the current burden of debt.

The Social Business City concept can be related to the concept of the entrepreneurship ecosystem. In this context, research centres and universities can play key roles in making regions more innovative (Bykova, 2011; Fetters, Greene & Rice, 2010). One case of an entrepreneurship ecosystem is Silicon Fen. Hermann Hauser, a successful entrepreneur, was one of the key drivers in the creation of a university-based ecosystem in Cambridge (Myint, Vyakarnam & New, 2005). Isenberg (2011) emphasises that attempts to copy a functioning ecosystem are of little use, because every ecosystem has emerged due to specific local factors and thus has very unique characteristics. This insight was confirmed when exploring the different Social Business Cities. Each city is unique in its structure and development to launch social business activities.

Cohen formulated the concept of a sustainable entrepreneurial ecosystem and defines it as “*an interconnected group of actors in a local geographic community committed to sustainable development through the support and facilitation of new sustainable ventures*” (Cohen, 2006, p. 3). In this sense, a Social Business City is a kind of sustainable entrepreneurial ecosystem, with the added goal of supporting ventures aimed at societal, financial and environmental sustainability.

Finally, Volkmann et al. (2012) refer to the concept of a social entrepreneurial ecosystem which aims to address different issues: “*It reduces a structural disequilibrium, creates value, solves a social problem, assumes risks, deals with asymmetric information, allocates resources, creates new jobs and generates tax revenues*” (Volkmann et al., 2012, p. 6).

It was the aim of this paper firstly to present basic insights into the concept of the Social Business City in order to determine whether the concept contributes to local sustainable development. We applied a case study approach using a data triangulation method. The analysis of the interviews, literature and internet research showed that the Social Business City concept may be considered as an option for sustainable city development. In answer to the question raised in the title, we come to the conclusion that the Social Business City concept is a well-designed idea which does indeed have

the potential to foster sustainable urban development. Nevertheless, the concept is still in its infancy and much can (and needs) to be done to develop it further. We presented some ideas to achieve this, but our list of recommendations is far from exhaustive. New ideas on local as well as global levels are needed to transform the small handful of Social Business Cities into a fully-fledged movement.

Future research could take on a variety of forms. Firstly, the network within a city could be further explored to clarify the interrelations between stakeholders and partner institutions. It would be interesting to investigate whether such ecosystems differ from business ecosystems in terms of cooperation methods. For example, how social entrepreneurs are interested in sharing their ideas in order to serve as possible strategies for others, in contrast to business entrepreneurs, who may have less interest in sharing their models for success. Thus, social entrepreneurial ecosystems may have stronger interrelations than those we know from entrepreneurial business ecosystems, but to clarify this, future research needs to be done.

Secondly, longitudinal research could be done, investigating how development in a Social Business City changes over time. One of the most important questions will be whether there is measurable sustainable development within a city. Are social problems really solved in a better way using entrepreneurial methods? Quantitative research should address the question of whether Social Business Cities perform better financially with social business entrepreneurs being responsible for solving some of the local problems.

As each ecosystem is unique, every Social Business City has its own characteristics and systematic features. It would be important to quantify the social impact of the social business activities. Contributing to the development of such an evaluation system could be academically interesting work, combining theory and practice. Since urbanisation is predicted to increase, there is a need for concepts like the Social Business City concept. Cities have to find new ways for solving social issues and the concept presented in this paper marks a beginning in this process.

ACKNOWLEDGEMENT

We thank the two reviewers for their valuable comments.

REFERENCES

- Anderson, S. (2011, August 1). NexThought Monday: What Makes A Social Business City? *Next Billion*. Retrieved June 28th, 2015 from <http://nextbillion.net/blogpost.aspx?blogid=2416>
- Arikan, A.T. (2009). Interfirm Knowledge Exchanges and the Knowledge Creation Capability of Clusters. *Academy of Management Review*, 34(4), 658-676.
- Azadi, H., Ho, P., Hafni, E., Zarafshani, K., & Witlox, F. (2011). Multi-stakeholder Involvement and Urban Green Space Performance. *Journal of Environmental Planning and Management*, 54(6), 785-811. doi: 10.1080/09640568.2010.530513
- Bacq, S., & Janssen, F. (2011). The multiple faces of social entrepreneurship: A review of definitional issues based on geographical and thematic criteria. *Entrepreneurship & Regional Development*, 23(5-6), 373-403. doi: 10.1080/08985626.2011.577242
- Bärenbrinker, V. (2011). *Nachhaltige Stadtentwicklung durch Urban Governance [Sustainable City Development through Urban Governance]*. Berlin: Duncker & Humblot.

- Bönke, T., & Lüthen, H. (2014). *Lebenseinkommen von Arbeitnehmern in Deutschland: Ungleichheit verdoppelt sich zwischen den Geburtsjahrgängen 1935 und 1972 [Employees' income in Germany: inequality doubles between birth cohorts 1935 and 1972]*. Retrieved March 30, 2015 from https://www.diw.de/sixcms/detail.php?id=diw_01.c.490981.de
- Bristol and Bath Social Enterprise Network (2015). *Bristol Social Enterprise City*. Retrieved January 26, 2015 from <http://bbsen.groupsie.com/page/bristol-social-enterprise-city>
- Bykova, A. (2011). Institutes of Innovative Development: Their Role in Regional Clusters. *Ekonomski anali*, 56(190), 59-76.
- Cohen, B. (2006). Sustainable Valley Entrepreneurial Ecosystems. *Business Strategy and the Environment*, 15(1), 1-14. doi: 10.1002/bse.428
- Dacin, P., Dacin, T., & Matear, M. (2010). Social Entrepreneurship: Why we don't need a new theory and how we move forward from here. *Academy of Management Perspectives*, 24(3, August), 37-57.
- Department of Business, Innovation and Skills (2013). *Office of the Regulator of Community Interest Companies: Information and Guidance Notes*. Chapter 6: The Asset Lock. Retrieved October 5, 2013 from <http://www.bis.gov.uk/cicregulator/guidance/chapter-6>
- DiMaggio, P. (1988). Interest and Agency in Institutional Theory. In L. Zucker, (Ed.). *Institutional Patterns and Culture* (pp. 3-22). Cambridge, MA: Ballinger Publishing Company.
- Ernst & Young (2014). *Verschuldung der deutschen Großstädte 2010 bis 2013. Update zur EY Kommunenstudie 2014 [Indebtedness of German cities 2010 to 2013]*. Retrieved March 30, 2015 from [http://www.ey.com/Publication/vwLUAssets/Update_zur_EY_Kommunenstudie_2014/\\$FILE/EY-Verschuldung-Deutsche-Gro%C3%9Fstaedte-2014.pdf](http://www.ey.com/Publication/vwLUAssets/Update_zur_EY_Kommunenstudie_2014/$FILE/EY-Verschuldung-Deutsche-Gro%C3%9Fstaedte-2014.pdf)
- Fairtrade Towns (2015a). *Die fünf Kriterien [The five criteria]*. Retrieved January 21, 2015 from <http://www.fairtrade-towns.de/mitmachen/die-fuenf-kriterien/>
- Fairtrade Towns (2015b). *Fairtrade towns*. Retrieved January 21, 2015 from <http://www.fairtradetowns.org>
- Ferreira, J., Azevedo, S.G., & Raposo, M.L. (2012). Specialization of Regional Clusters and Innovative Behavior: A Case Study. *Competitiveness Review: An International Business Journal Incorporating Journal of Global Competitiveness* 22(2), 147-169. doi: 10.1108/10595421211205985
- Fetters, M., Greene, P., & Rice, M. (2010). *The Development of University-based Entrepreneurship Ecosystems*. Northhampton, MA: Edward Elgar Publishing.
- Garanti, Z., & Berzina, A.Z. (2013). Regional Clusters Initiatives as a Driving Force for Regional Development. *European Integration Studies*, (7), 91-101. doi: 10.5755/j01.eis.0.7.3677
- Gellynck, X., Vermeire, B., & Viaene, J. (2007). Innovation in Food Firms: Contribution of Regional Networks within the International Business Context. *Entrepreneurship & Regional Development*, 19(3), 209-226. doi: 10.1080/08985620701218395
- Global Compact Cities Program (2015). *Global Compact Cities Program*. Retrieved March 30, 2015 from <http://citiesprogramme.com/>
- Grameen Bank (2015). *Grameen Bank*. Retrieved March 30, 2015 from <http://www.Grameen-info.org>
- Grameen Creative Lab (2013). *Social Business City Wiesbaden - The Network*. Retrieved September 5, 2013 from <http://www.grameencreativelab.com/live-examples/social-business-city-wiesbaden-%E2%80%93-the-network.html>
- Grameen Creative Lab (2015a). *The Network*. Retrieved April 12, 2015 from <http://www.grameencreativelab.com/our-company/network.html>
- Grameen Creative Lab (2015b). *The 7 principles of Social Business*. Retrieved March 30, 2015 from <http://www.grameencreativelab.com/a-concept-to-eradicate-poverty/7-principles.html>
- Happel, F.-R., & Stember, J. (2013). *Wissenstransfer zwischen Kommunen und Hochschulen. Neue Anforderungen und neue Möglichkeiten der Kooperation [Knowledge transfer between municipalities and universities. New needs and new cooperation options]*. Berlin: Litverlag Dr. W Hopf.

- Innovation City Ruhr (2015). *Modellstadt Bottrop [Model city Bottrop]*. Retrieved March 30, 2015 from <http://www.icruhr.de/index.php?id=28>
- Isaksen, A. (2009). Innovation Dynamics of Global Competitive Regional Clusters: The Case of the Norwegian Centres of Expertise. *Regional Studies* 43(9), 1155-1166. doi: 10.1080/00343400802094969
- Isenberg, D. (2011). Introducing the entrepreneurship ecosystem: Four defining characteristics. *Forbes*. Retrieved November 14, 2013 from <http://www.forbes.com/sites/danisenberg/2011/05/25/introducing-the-entrepreneurship-ecosystem-four-defining-characteristics/>
- Jimenez Jimenez, A.F. (2014). Social Business City: Lessons from Wiesbaden. In A. Grove, & G.A. Berg (Eds.), *Social Business: Theory, Practice, and Critical Perspectives* (pp. 115-138). Berlin: Springer. doi: 10.1007/978-3-642-45275-8_8
- Klein Woolthuis, R., Hooimeijer, F., Bossink, B., Mulder, G., & Brouwer, J. (2013). Institutional Entrepreneurship in Sustainable Urban Development: Dutch Successes as Inspiration for Transformation. *Journal of Cleaner Production*, 50, 91-100. doi:10.1016/j.jclepro.2012.11.031
- Koch, M. (2012, May 26). Detroit in der Krise: In Motor City gehen die Lichter aus [Detroit in crisis: The lights in Motor City are being switched off]. *Süddeutsche Online Magazine*. Retrieved December 14, 2013 from <http://www.sueddeutsche.de/wirtschaft/detroit-in-der-krise-in-motor-city-gehen-die-lichter-aus-1.1367441>
- Krugman, P. (1991). *Geography and Trade*. Cambridge, MA: MIT Press.
- Lechner, C., & Leyronas, C. (2012). The Competitive Advantage of Cluster Firms: The Priority of Regional Network Position over Extra-regional Networks: A Study of a French High-tech Cluster. *Entrepreneurship & Regional Development* 24(5-6), 457-473. doi: 10.1080/08985626.2011.617785
- Lundquist, P., & Power, D. (2002). Putting Porter into Practice? Practices of Regional Cluster Building: Evidence from Sweden. *European Planning Studies*, 10(6), 685-704. doi: 10.1080/0965431022000003762
- Maguire, S., Hardy, C., & Lawrence, T.B. (2004). Institutional Entrepreneurship in Emerging Fields: HIV/AIDS Treatment Advocacy in Canada. *Academy of Management Journal*, 47(5), 657-679. doi: 10.2307/20159610
- Marshall, A. (1920). *Principles of Economics*. London: MacMillan.
- Mayring, P. (2010). *Qualitative Inhaltsanalyse. Grundlagen und Techniken [Qualitative content analysis. Principles and techniques]*. Weinheim und Basel: Beltz Verlag.
- Muuss, C.S. (2012). Wirtschaft für den Menschen: Die Stadthalter [Economy for the people: The proconsuls]. *Enorm*, (May), 30-32.
- Myint, Y.M., Vyakarnam, S., & New, M.J. (2005). The Effect of Social Capital in New Venture Creation: the Cambridge High-Technology Cluster. *Strategic Change*, 14(3), 165-177. doi: 10.1002/jsc.718
- Palen, J. (2012). *The Urban World*. Boulder: Paradigm Publisher.
- Pilinkiene, V., & Kardokaite, V. (2008). Regional Tendencies of Business Cluster Development. *Economics and Management*, 132-133.
- Plymouth Social Enterprise Network (2015). *Social Enterprise City*. Retrieved January 26, 2015 from <http://plymsocent.org.uk/social-enterprise-city/>
- Porter, M. (2003). The Economic Performance of Regions. *Regional Studies*, 37(6-7), 549-578. doi: 10.1080/0034340032000108688
- Pulles, N., & Schiele, H. (2013). Social Capital Determinants of Preferential Resource Allocation Regional Clusters. *Management Revue*, 24(2), 96-113. doi: 10.1688/1861-9908_mrev_2013_02_Pulles
- Reveiu, A., & Dardala, M. (2012). The Influence of Cluster Type Economic Agglomerations on the Entrepreneurship, in Romania. *Theoretical and Applied Economics*, 19(12), 111-124.
- Schumpeter, J.A. (1942). *Capitalism, Socialism and Democracy*. London: Routledge.
- Singh, S. (2012). *New Mega Trends. Implications For Our Future Lives*. Hampshire: Palgrave Macmillan.

- Social Enterprise City (2015). *Plymouth's Festival of Social Enterprise*. Retrieved January 26, 2015 from <http://socentcity.com/>
- Social Enterprise UK (2015a). *About Us*. Retrieved January 20, 2015 from <http://www.socialenterprise.org.uk/about/about-us>
- Social Enterprise UK (2015b). *Social Enterprise Places*. Retrieved January 20, 2015 from <http://socialenterprise.org.uk/social-enterprise-places>
- Social Enterprise UK (2015c). *Social Enterprise Place. Apply*. Retrieved January 20, 2015 from <http://socialenterprise.org.uk/social-enterprise-places/get-involved/apply>
- Social Enterprise UK (2015d). *Social Enterprise Place. Bristol*. Retrieved January 25, 2015 from <http://www.socialenterprise.org.uk/social-enterprise-places/certified-places/bristol>
- Social Enterprise UK (2015e). *Social Enterprise Place. Plymouth*. Retrieved January 25, 2015 from <http://www.socialenterprise.org.uk/social-enterprise-places/certified-places/plymouth>
- Sustainable Cities (2015). *Our network*. Retrieved March 30, 2015 from <http://www.sustainablecities.net/our-work/our-network>
- Toth, I. (2013, November 23). Social Business Women präsentieren ihre Geschäftsideen im Wiesbadener Rathaus [Social Business Women present their business ideas in the Wiesbaden city hall]. *Wiesbadener Tagblatt*. Retrieved November 25, 2013 from <http://www.wiesbadener-tagblatt.de/region/wiesbaden/meldungen/13643438.htm>
- Tracey, P., Phillips, N., & Jarvis, O. (2011). Bridging Institutional Entrepreneurship and the Creation of New Organizational Forms: A Multilevel Model. *Organization Science*, 22(1), 60-80. doi: 10.1287/orsc.1090.0522
- Transition Network (2015). *Transition network*. Retrieved March 30, 2015 from <http://www.transitionnetwork.org>
- United Nations (2014). World Urbanization Prospects, 2014 Revision. *United Nations*. Retrieved March 30, 2015 from <http://esa.un.org/unpd/wup/Highlights/WUP2014-Highlights.pdf>
- United Nations Department of Economic and Social Affairs (2011). World Urbanization Prospects, 2011 Revision. *United Nations*. Retrieved September 25, 2013 from http://esa.un.org/unpd/wup/pdf/FINAL-FINAL_REPORT%20WUP2011_Annextables_01Aug2012_Final.pdf
- United Nations Environmental Program (1992). Local Authorities' Initiatives in Support of Agenda 21. *United Nations*. Retrieved September 14, 2013 from <http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=52&ArticleID=76&l=en>
- Volkman, C., Tokarski, K., & Ernst, K. (2012). Background, Characteristics and Context of Social Entrepreneurship. In C. Volkman, K. Tokarski, & K. Ernst (Eds.), *Social Entrepreneurship and Social Business. An Introduction and Discussion with Case Studies* (pp. 3-30). Wiesbaden: Springer Gabler. doi: 10.1007/978-3-8349-7093-0_1
- Volksbanken/Raiffeisenbanken (2015). *Viele schaffen mehr! Crowdfunding mit den Volksbanken Raiffeisenbanken [Many accomplish more! Crowdfunding with Volksbanken Raiffeisenbanken]*. Retrieved April 11, 2015 from <http://www.viele-schaffen-mehr.de/>
- Yunus, M. (2008). *Creating a World without Poverty. Social Business and the Future of Capitalism*. New York: Public Affairs.
- Yunus, M. (2010). *Building Social Business. The New Kind of Capitalism that Serves Humanity's Most Pressing Needs*. New York: Public Affairs.
- Yunus Social Business Center (2013). *Yunus Social Business Center*. Retrieved December 1, 2013 from <http://sbflorence.org/>
- Yunus & Shiiki Social Business Research Center (2013). *Yunus & Shiiki Social Business Research Center*. Retrieved December 1, 2013 from <http://sbrc.kyushu-u.ac.jp/pg269.html>

ABOUT THE AUTHORS AND CORRESPONDENCE

Michael Wirtz is a Research Assistant under the chairmanship of Professor Christine Volkmann at the University of Wuppertal, Germany.

Corresponding author: Michael Wirtz, Entrepreneurship and Economic Development, Schumpeter School of Business and Economics, Bergische Universität Wuppertal, Gaußstr. 20, 42119 Wuppertal, Germany.

E wirtz@wiwi.uni-wuppertal.de

Christine Volkmann is Professor of Entrepreneurship and Economic Development, holding the UNESCO Chair in Entrepreneurship and Intercultural Management at the University of Wuppertal, Germany.

Professor Christine Volkmann, Entrepreneurship and Economic Development, University of Wuppertal, Schumpeter School of Business and Economics, Bergische Universität Wuppertal, Gaußstr. 20, 42119 Wuppertal, Germany.

Social business microfinance – different models to empower women

Michael Wirtz* and Christine Volkmann

Chair of Entrepreneurship and Economic Development,
Schumpeter School of Business and Economics,
University of Wuppertal,
Gausstr. 20, 42119 Wuppertal, Germany
Email: Volkmann@wiwi.uni-wuppertal.de
Email: wirtz@wiwi.uni-wuppertal.de
*Corresponding author

Abstract: Social business is a concept founded by Grameen Bank founder and Nobel Prize Laureate Muhammad Yunus. It encompasses the use of business methods in order to solve social problems. A core business of this field is microfinancing which traditionally focuses on the empowerment of women, making them small business entrepreneurs. We present three organisations dedicated to the special concept of social business and use qualitative data in order to find out where they differ in their methods of providing microloans. Our findings are that all organisations use both group elements and individual elements of loan provision models. Our paper provides an insight into what is special about the different models of social business microfinance.

Keywords: social entrepreneurship; social business; microfinancing.

Reference to this paper should be made as follows: Wirtz, M. and Volkmann, C. (2015) 'Social business microfinance – different models to empower women', *Int. J. Social Entrepreneurship and Innovation*, Vol. 3, No. 5, pp.323–338.

Biographical notes: Michael Wirtz is Research Assistant at the chair of Professor Christine Volkmann at the University of Wuppertal, Germany.

Christine Volkmann is a Professor of Entrepreneurship and Economic Development holding the UNESCO Chair of Entrepreneurship and Intercultural Management at the University of Wuppertal, Germany.

1 Introduction

Social entrepreneurship presents a means for using the methods of business in order to combat poverty or other social problems. The more restrictive concept of social business comprises organisations which are solely orientated towards the common public interest with the social mission being the only reason for the establishment of the organisation. The concept of social business was created by Muhammad Yunus, founder of the Grameen Bank, the first and biggest microfinance institution to date, which provides microloans (mainly) to women in Bangladesh. Although Grameen Bank in Bangladesh,

Grameen America in the USA and Social Business Women in Germany are all social business organisations aiming at the empowerment of women with the help of financial services, they differ in their manners. For example, whilst Grameen Bank and Grameen America use a group-based system of loan provision, in Germany Social Business Women provides loans to individual women without using the group approach. This paper aims at clarifying and comparing the different models. The study uses data triangulation from different sources.

The paper is structured as follows: first a theoretical overview is given concerning microfinancing, social entrepreneurship and social business. Then the three existing microfinance institutions in the field of social business – Grameen Bank, Grameen America and Social Business Women – are presented and qualitative data is used to deepen the understanding of each model. Later, in the conclusions, the models are compared and discussed.

2 Microfinancing

Although the number of poor people living in extreme poverty has decreased in the last 30 years (extreme poverty is defined by having no more than 1.25 US \$ a day), it is estimated that in 2015, one billion people will still live below that line. In 2010, about two and a half billion people lived below the \$2 line, which is an indicator for the average poverty line in developing countries (World Bank, 2014). This is the group of people for whom microfinancing might be a means to achieve their integration into the economic system. However in developed countries, too, microfinancing is becoming more and more important, providing loans for people who do not have access to traditional banking credit. According to Khavul “microfinancing aims to alleviate poverty by stimulating economic growth through entrepreneurial initiative” (Khavul, 2010).

Two major differences concerning the overall field of microfinancing can be found: first of all, a differentiation can be made with regards to the organisation itself that provides microloans. Is it a for-profit organisation even registered at stock markets, like the Indian SKS Bank, or is it an organisation which is entirely orientated towards the public good that is to say an organisation which aims exclusively at alleviating poverty? Social business organisations like Grameen Bank are good examples for the latter: on one hand, Grameen Bank provides loans to the poor; on the other hand, it is owned by the poor through shares: 95% of the bank is owned by the borrowers, the rest belongs to the state of Bangladesh (Grameen Bank, 2014). Thus, the poor benefit in two ways: they get access to credit and are able to enhance their deposits.

Apart from the sort of organisation there are different models of how a microloan is provided: first of all you can distinguish between individual microloans and group-based lending. The group-based models can be split up into three subcategories: joint liability group lending, individual liability group lending and village banking (Khavul, 2010). Joint liability group lending was firstly practised by the Grameen Bank and is still practised by microfinance institutions like the SKS (2014). It means that if a borrower of a group is unable to pay his loan back, the others have to pay for it. Immense pressure is put on each borrower through this system. In the case of individual liability group lending, which is nowadays practised by the Grameen Bank, other group members do not have to stand in for members who are not able to fulfil their payment obligations (Grameen Bank, 2014f). Nevertheless, the members support each other as well as they

can. Finally, village banking is designed for a group of individuals that gets a loan, which the group members then divide between themselves, each member being responsible for the whole repayment of the amount (Khavul, 2010). Mainly women receive loans, since they are more committed to repaying the loan (Rahman, 1999). Besides, women are more willing to use the loan with regards to the future of their children (Armendariz de Aghion and Morduch, 2005). Concerning the empowerment of women, some authors claim that women do not benefit (Banerjee et al., 2009). Others stress that the women are in fact empowered through microfinancing (Pitt et al., 2006; Sanyal, 2009; Swain and Wallentin, 2009; Mutai and Osborn, 2014).

In the next section the terms social entrepreneurship and social business are defined and distinguished.

3 Social entrepreneurship and social business

Currently, many definitions of social entrepreneurship are found in scientific discourse. Dacin and Dacin (2010) present 37 definitions of social entrepreneurs and social entrepreneurship, Bacq and Janssen count 47 definitions concerning the terms social entrepreneur, social entrepreneurship and social entrepreneurship organisation (Bacq and Janssen, 2011). For example, social entrepreneurship can be defined “as a dynamic process created and managed by an individual or team (the innovative social entrepreneur), which strives to exploit social innovation with an entrepreneurial mind set and a strong need for achievement, in order to create new social value in the market and community at large” [Perrini and Vurro, (2006), p.4]. This definition contains three elements which are characteristic for definitions of social entrepreneurship: social value creation, innovation and the use of business methods to fulfil the aim. At least two of these elements are contained in most of the definitions. Some definitions of social entrepreneurship even combine all three elements (Dees, 1998; Mort et al., 2003; Light, 2006; Zahra et al., 2009; Volkmann et al., 2012). In short, social entrepreneurship aims at solving social problems with the help of entrepreneurial methods in an innovative way. Bill Drayton, founder of the organisation Ashoka, which supports social entrepreneurs all over the world, coined the following phrase in an attempt to emphasise that social entrepreneurs are not only willing to combat the symptoms of a societal problem but to change society as a whole: “social entrepreneurs are not content with just giving a fish or teaching how to fish. They will not rest until they have revolutionized the fishing industry.” Therefore, in some definitions, social entrepreneurs are described as change agents (Dees, 1998; Dearlove, 2004; Sharir and Lerner, 2006; Beckmann, 2012) causing a social or transformational change (Schuyler, 1998; Prabhu, 1999; Drayton, 2002; Alvord et al., 2004; Roberts and Woods, 2005; Hartigan, 2006; Mair and Marti, 2006; Nicholls and Cho, 2006; Mair and Schoen, 2007; Wirtz, 2013). Finally, some definitions stress that social entrepreneurship implicates that the profit distribution to shareholders has limits and that the generated surpluses are to be reinvested in order to fulfil the social mission at its best (Harding, 2004; Haugh, 2005; Tracey and Phillips, 2007; Hartigan 2006; Thompson and Doherty, 2006).

One famous social entrepreneur who definitely did change society as a whole is Grameen Bank’s founder, Muhammad Yunus. Providing microloans to the rural people in Bangladesh, he started a microfinance revolution and nowadays microloans are available in many countries worldwide, even in industrialised countries such as the USA

and Germany. Before taking a look at these countries, the concept of social business shall be explained.

Social business was founded by Yunus after having established the Grameen Bank and several other social businesses. The term social business is both used for the concept and for social business enterprises (Yunus, 2010).

The concept of social business is displayed in the seven principles:

- 1 business objective will be to overcome poverty, or one or more problems (such as education, health, technology access and environment) which threaten people and society; not profit maximisation
- 2 financial and economic sustainability
- 3 investors get back their investment amount only. No dividend is given beyond investment money
- 4 when investment amount is paid back, company profit stays with the company for expansion and improvement
- 5 environmentally conscious
- 6 workforce gets market wage with better working conditions
- 7 ...do it with joy (Grameen Creative Lab, 2014b).

Social business differs from social entrepreneurship as it is more restrictive than the concept of social entrepreneurship. Firstly, investors only get their initial investment amount back, even after years, if they decide to invest in a social business. Secondly, the profits of the company will not be distributed to shareholders. This distinguishes social business from some social entrepreneurship forms which allow profit distribution. Take for example the British Community Interest Company (CIC): it has a dividend cap of 35%, which means that up to 35% of the profit may be distributed to the shareholders (Department of Business, Innovation and Skills, 2014).

There are two types of social businesses. The first type is a social business which is a social business because its products and services solve a social problem. It is a non-loss, non-dividend company. Grameen Danone, a joint venture of the Grameen Group and the Global Player Danone is a good example for type 1: it produces a special form of yogurt in a plant in Bangladesh in order to help malnourished children. Type 2 is a social business due to ownership, that is to say it is owned by the poor themselves through shares and thus enhances their assets (Yunus, 2010).

In the following section, the three existing social business organisations, which provide microloans to women, are presented. Firstly, a general overview is given about the organisation by extracting data from the website and the existing literature. Secondly, interviews have been conducted and help to deepen the understanding of the organisation's work and the different models of loan provision.

The interview partners were:

- Ratan K. Nag, acting General Manager, International Program Department, Grameen Bank
- Shaw Newaz, CEO Operations, Grameen America
- Kerstin Rucker, CEO, Social Business Women.

Ratan K. Nag from Grameen Bank answered the questions in written form; the other two interviews were conducted on Skype and recorded using special software.

The interview questions were:

- 1 Why do you concentrate on women?
- 2 How do you proceed when providing a loan?
- 3 What are the loan conditions?
- 4 Why do you use the ‘group lending’ approach (Grameen Bank and Grameen America)? Why do you use ‘individual lending?’ (Social Business Women).
- 5 Do the borrowers gain any additional support, for example coaching? If so, how does that work?
- 6 Do you measure your success? If so, how?
- 7 Why do you provide microloans as a social business organisation and not as a for-profit organisation?

The interviews were conducted in September 2014. To analyse the data, qualitative content analysis was used (Mayring, 2010).

4 Social business microfinance

4.1 Grameen Bank

The Grameen Bank was established in 1983 by Muhammad Yunus. Yunus, who was a professor of economics at the University of Chittagong, had found out that poverty in Bangladesh was a structural problem: the poor often had no other chance to get a loan than to ask a loan shark. The latter would then dictate the prices of the handmade products the poor produced, which in fact led to a kind of economical slavery. In order to stop this method, Yunus started to provide loans to them himself after failing to convince local banks to do so (Yunus, 2008).

Today Grameen Bank has more than eight million borrowers. Yunus discovered that women are mostly motivated to use the microloan in order to improve their family lives whilst men use it for gambling or to buy alcoholic drinks. Therefore he decided to concentrate on women, providing loans for them. The first loan usually is about 1,000 Taka, which has a value of roughly 12 US \$ (Yunus, 2007).

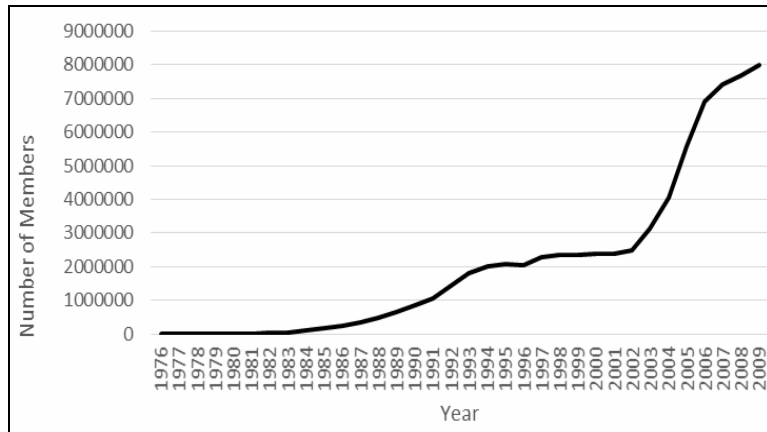
The model of loan provision is always the same: five women have to form a group, not including relatives. Nevertheless, it is advantageous if those women are friends. Each member of the group is solely responsible for her loan, the others support each other for instance by looking after each other’s children. The groups produce some positive social pressure, because it is shameful if one cannot pay back one’s loan. The support of the group members and the shame component may be the main causes for a very high repayment rate of the micro borrowers: it is roughly 97%. The groups meet other groups once a week in so-called Grameen centres which are responsible for about 50 members. Currently, around 140.000 such centres exist in Bangladesh. The centre leader is elected by the women themselves. During those sessions that are accompanied by Grameen staff, microloans are paid out, paid back and some problems are discussed. If a member wants

a loan, she commits herself to the 16 decisions: this is list of obligations which includes commitments regarding hygiene aspects, family planning, etc. (Yunus, 2008).

Grameen Bank measures its impact: the “average household income of Grameen Bank members is about 50 percent higher than the target group in the control village (...). There has also been a shift from agricultural wage labour (considered to be socially inferior) to self-employment in petty trading” (Grameen Bank, 2014a).

Grameen Bank has also published information on the increase in number of their members (Grameen Bank, 2014b).

Figure 1 Development of Grameen Bank members 1976–2009

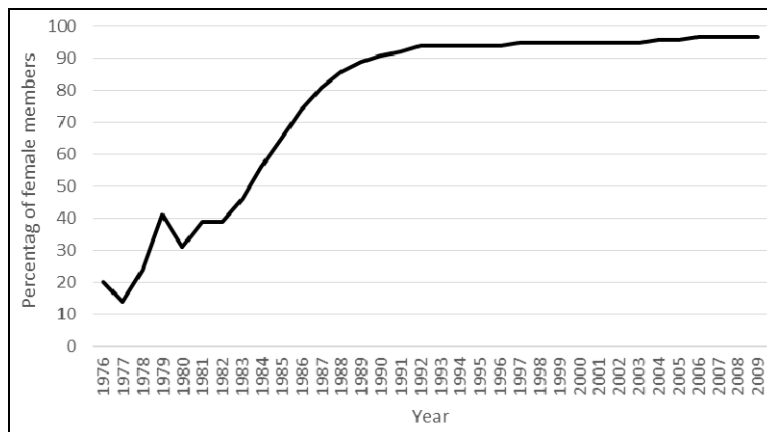


Source: Own draft based on Grameen Bank data (Grameen Bank, 2014c)

The number of borrowers started to rise significantly in the years 1984 and 1985. To date, Grameen Bank has about 8.5 million borrowers (Grameen Bank, 2014d).

As you can see in the next graph, in the first years of Grameen Bank most of its members were men. However, steadily this ratio has changed:

Figure 2 Development of gender ratio of members



Source: Own draft based on Grameen Bank data (Grameen Bank, 2014c)

You can derive from the data that at the beginning, Grameen Bank had 80% men and 20% women as borrowers. But that ratio changed rapidly, after less than ten years the women's share crossed the 50% mark and in 1990 about 90% of the borrowers were female.

In terms of a societal perspective, Yunus strengthens the role of women in the Bangladeshi society which is still quite patriarchal. Besides, through establishing a network of borrowers and Grameen centres all over the country, he has also enhanced the social capital of the population. As Putnam (1993) pointed out, social capital within a society is very important for economic development.

Ratan K. Nag, acting General Manager, International Program Department, sent us a written statement answering our questions. He pointed out that women are responsible for the household and taking care of the whole family. Thus they seldom take part in making business decisions. That is why women are mainly affected by poverty. Therefore, Grameen Bank decided to strengthen women, which benefits the whole family, both through training and through providing microloans. Nag stressed: "we want to involve women, not only through association but we actively encourage education for their children and provide valuable information concerning primary healthcare, family planning etc. We believe this has and will continue to bridge the gap between men and women in society by bringing about women's empowerment".

The first step of the loan procedure is to select an area by a branch manager. This person has to organise the groups by encouraging the village people to form a group. There are seven days of training concerning financial basics and the Grameen method. Afterwards, an oral test is conducted with the group members. The members then become eligible members of a centre formed by groups and apply for a loan with recommendation by the group and centres. The loan is disbursed if the Grameen staffs find it appropriate within 7 days. The loan is repaid weekly in the centres. Those centres are important for the borrowers to have contact to other borrowers and provide each other with support. Nag explained: "centres are designed to provide a convenient location for members to pay their weekly installments and have the tendency to become a significant part of village life".

The purpose of the loan is income generation. It should be used for socially and legally accepted issues. The loan has a duration of between three months and three years. There are different interest rates depending on the purpose:

- income generating loan: 20%
- housing loan: 8%
- higher education loan: 0% while in education, 5% after studies
- beggar loan 0%, with optional repayment.

According to Nag, the group-based approach provides support to the members: "Grameen Bank provides microcredit to the poor people by group and centre structure as we find this is more effective in fulfilling its purposes. It is also a social organisational structure. Groups provide valuable peer support and solidarity. Besides group members exchange socio-economic aspects in the group".

The additional support apart from the provision of the microloan is the previously mentioned training. Moreover, Grameen Bank organises workshops every three months for all centre leaders in a branch office; afterwards the centre leaders offer workshops in

the centres to the borrowers with regards to matters of education, business, nutrition, sanitation, etc.

Grameen Bank has developed ten indicators to measure poverty. These indicators concern repayment, education, sanitation and other issues of daily life. The first of the three indicators are for example:

- 1 the family lives in a house worth at least Tk. 25,000 or a house with a tin roof and each member of the family is able to sleep on bed instead of on the floor
- 2 family members drink pure water of tube-wells, boiled water or water purified by using alum, arsenic-free, purifying tablets or pitcher filters
- 3 all children in the family over six years of age go to school or finish primary school (Grameen Bank, 2014e).

Nag explained: “Through these 10 indicators, Grameen Bank conducts impact studies to its members who continue with the bank for at least 5 years. According to Grameen Bank’s latest impact studies, 68% of Grameen Bank members have moved out of Grameen-defined poverty”.

According to Nag, Grameen Bank is a for-profit company owned by the poor, thus it is a social business type 2.

4.2 *Grameen America*

The organisation Grameen America seems to prove that social business works well in developed countries, too. Grameen America provides microloans to women in the USA. since 2007 (Grameen America, 2014b).

The model of loan provision contains five elements: training, network, credit, savings and loans. In more detail, it means that the borrowers are trained in financial aspects, gain a network, get a creditworthy history, deposit savings and get a loan to start their own business. To become a Grameen America borrower, a woman has to form a group with four other women she trusts – finally a Grameen group is founded, which is similar to the model practised in Bangladesh. The second step contains a one-week-training in order to build up business and financial know-how. Eventually this training ends with the borrowers opening a bank account. The third step is the receipt of a micro loan of about 1,500 US \$ in order to start a small business. The fourth step comprises regular weekly meetings of the borrowers with Grameen America staff, where the payments are paid back. Moreover, it offers an opportunity to discuss problems with other borrowers which finally leads to a support system among the women themselves. Step five involves that the women finally manage to build up their own business. If they succeed and need further loans, Grameen America provides them with it (Grameen America, 2014a).

From a personal point of view, the members get access to a network of up to 25 peers who meet regularly in weekly sessions. Finally, the microloan leads to an additional income of about 2,500 US \$ and to a savings of 100 US \$ per year (Grameen America, 2014b).

The number of members has increased steadily since 2007. Up to now about 33,000 women have received a loan and about 40,000 jobs have been created with Grameen America having reached about 400 communities (Grameen America, 2014b).

We spoke to Shaw Newaz, CEO Operations of Grameen America. Newaz explained, that poverty is a phenomenon which mostly concerns women. Women are more

committed to the family and the children than men, so if the men leave the family, the only support children can gain is their mother's support. According to the experience gained in Bangladesh, in Grameen Bank women use the loans in order to benefit the whole family: "If we go through women (...) ultimately directly it goes to the children and entire family is getting that benefit".

Women are socially disadvantaged and have difficulties finding jobs, because of their lack of physical strength, jobs such as in construction or farming are out of the question. In addition, because of their commitment to the children, they have to look after them and support them when they are young. They are also, especially in Bangladesh, socially deprived because of cultural norms. Newaz explained: "in Bangladesh we have other socioeconomic conventions and the convention was, before Grameen, women were supposed to work in kitchen, be with the children and clean the courtyards of the house".

Thus, Grameen provides loans to women for different reasons: the husband's income is not enough to escape poverty; the economy benefits if women contribute through additional income; to strengthen the women's position in society; finally, to strengthen the ties of the whole family.

Concerning the last point, before Grameen Bank supported the women, men divorced easily when the women did not work well as housewives. After the women received the loans and started their own business, it was observed that the women were successful entrepreneurs and when the businesses expanded, the husbands were often involved in the new family business.

Newaz stressed: "(...) our main objective is the poverty alleviation of that family". Although the loan is provided to the women, it is meant to be a support for the whole family. "This is a family loan, not a woman's loan, not man's loan. What I'm saying to you is that we're not against the men, we're encouraging them to work with the women to increase their business so ultimately you make this business a family business".

Referring to the procedure of loan provision, Newaz explained that after the group formation, the staff of Grameen America check if there are any blood relations between the group members; if not and if they live close to each other, that is to say in the same neighbourhood, in order to be able to support each other, the formal prerequisites are fulfilled. The training begins and after that week, a savings account is opened. Two of the five group members receive a loan at first, which two is decided by the group. After the recommendation of the centre manager the branch manager must also approve.

The borrowers themselves decide whether the loan lasts for six or 12 months. The interest rate is 15% on declining loan balances. The repayment takes place in the weekly meetings at the centre.

But why the group lending model? Because a woman needs the support of her peer group: "She needs some counselling. This counsel we're providing, we're trying to motivate everyone, but we're the bank side, she needs her own community people, who she can trust and where she can be encouraged and get inspiration". Although the group provides the social support a woman needs when she borrows money, the group does not have to guarantee the repayment of a single loan; each group member is responsible for their own loan.

The women do not only get access to financial service through Grameen America: the additional support, except the training, takes mainly place in the weekly meetings. There, up to six groups meet at a centre, where the loan is repaid and where problems are discussed. Thus a woman gets to know about 30 other borrowers and is able to exchange ideas with them. Additionally, if requested, a branch manager provides coaching to the

women. Also, workshops on health or law issues, for example, are organised where experts are invited.

The measurement of its success is evaluated by Grameen America through several numbers. One measurement is the number of microenterprise loans. After receiving a loan and starting a small business, sometimes the women expand and need more money to invest. For that reason, the microenterprise loan was developed which goes up to 7,000 US\$. Grameen America can state how many women have borrowed such a microenterprise loan and how successful they were.

Besides at the weekly meetings, there is a constant exchange between the centre managers and the borrowers, so that the centre managers always know how successful their clients are at generating income. Grameen Bank has developed ten indicators for evaluating their work (Grameen Bank, 2014e). Grameen America wants to develop similar indicators with regards to the socioeconomic circumstances of the USA. However to date, 50% of the borrowers have already passed with a credit score of 600, an indicator for creditworthiness in the USA and thus are able to get access to financial services. Furthermore, in 2017, it is planned to reach 150,000 borrowers.

The bank branches become viable after five or six years: three of 19 existing branches are being run in a financially viable way, the others are partly supported by donations.

According to Newaz, a social business is the appropriate form to solve a social problem: “poverty alleviation is a social issue, that’s why we need a social business concept”.

4.3 Social Business Women

To date, some cities in industrialised countries have declared themselves a Social Business City which implicates that they foster social businesses in their environment in order to solve local problems in an entrepreneurial way. The city of Wiesbaden, Germany, was the first Social Business City and since 2010 social business start-ups have been established (Grameen Creative Lab, 2014a). One of those is the non-profit organisation Social Business Women e.V. which was founded in 2012. Social Business Women aims at the empowerment of women who want to find back into the job either by providing a training to those women with the objective of making them more attractive candidates for potential job givers; or by enabling them to found their own business with the help of a special assistance program and the provision of a microloan (Social Business Women, 2014).

In Wiesbaden, Social Business Women cooperates with the non-profit association ‘Berufswege für Frauen e.V.’. Besides the Accenture Foundation is an important partner.

We spoke with Kerstin Rücker, one of two CEOs of Social Business Women e.V. Rücker also provided us with additional documents (presentations, articles) where we could gather further information.

Social Business Women concentrates on women, because “(...) looking at the society as a whole, there is a lot of under-used potential concerning women”. Thus being part of professional life helps the women as well as their children.

Social Business Women focuses on women in challenging life situations, such as women in unemployment, single mothers, women with health problems, migrants and also women who cannot find a job due to their age (over 50). To sum up, a kind of necessity must be the case. The provision of a microloan is linked to formal as well as personal prerequisites: there must be a business plan and thorough due diligence,

outlining that the idea for the foundation of a micro business has the potential of being successful in the long run.

Thus, there are four steps which finally lead to the provision of the loan:

- 1 A potential borrower has to provide a business plan and due diligence check. To go through each step in this process and be ready to produce this result, candidates can take part in trainings provided by a non-profit partner organisation of Social Business Women. In Wiesbaden, such a local partner organisation is the association 'Berufswege für Frauen e.V.'.
- 2 The idea for founding a business has to be developed and checked by a jury of volunteering experts; the leading question is: does the idea have a realistic chance of being successful and is it realistically compatible with the living situation of the candidate?
- 3 The borrower presents the idea in front of the same jury, which finally decides if the loan is to be provided.
- 4 The loan is disbursed and the borrower enters into a three year assistance program to support business development and individual development.

In the latter, the jury also decides about which kind of coaching measures are appropriate in each case. Rücker stressed that the special situation of a woman is strongly considered: "(...) the basic idea for founding a business, how does it suit the circumstances of each woman and what does the woman need individually, not only to be successful, but also to stay successful?" Thus the loan and the assistance program are adapted as well as possible to the circumstances of each borrower. Those two elements shall be clarified in detail.

The loan can be between 3,500 euros and 10,000 euros. The interest rate is 6.5% annually with a duration of up to six years. In the first year only the interest has to be paid monthly, which can be about 55 euros. From the second year on, the repayment and the interest of the loan leads to a sum of up to 200 euros monthly. The loan is flexible that means that if a borrower has sudden health problems for example, the repayment can be interrupted. This is a feature of the loan model, apart from the fact, that the borrowers do not have any collateral, which distinguishes Social Business Women from banks. Moreover, due to the administration costs and the costs for the assistance program, a model like this would neither be profitable nor practicable for a common bank.

A part of the 10,000 euros, up to 3,500 euros, is spent on the assistance program, which has a duration of up to three years. The rest, that is to say up to 6,500 euros, can be invested in material expenses.

Concerning the assistance program in detail, there are coaching measures, one-on-one interviews and workshops. In addition, once a month there is a meeting of so called success-teams. This is a meeting between three or four women who have all borrowed a loan and can strengthen each other by discussing business challenges and giving advice. "The principle of a group is reflected in the success-teams, and that is learning from each other", Rücker explained.

So far, there have been no loan defaults, but Social Business Women conservatively estimates the potential number of non-repaid credits being up to 20% in the upscaling to new locations.

Social Business Women measures its success by counting how many women join the workshops and the training, the credit volume and the number of companies which have been founded. The loans are financed through a special social business fund consisting of donations from foundations, enterprises and individuals. The volume of this fund is planned to amount to about 1,960,000 euros, which allows Social Business Women to provide up to 50 loans annually. Also the loans repaid by the borrowers go back into the fund, so that the fund is revolving.

The organisation plans to expand to other cities in Germany. More precisely, there are currently four and in the coming years up to seven cities in which the concept of Social Business Women shall be established with the support of local partners. In future, Social Business Women aims at providing initial training for about 1,000 women annually, in order to enhance deprived women's abilities either to find a job or to found a business.

5 Conclusions

The results of the interviews are summed up in the following table in order to compare the different models of loan provision the organisations use.

As one can derive from the table, Grameen Bank and Grameen America are very similar in their methods of loan provision. They both use the group lending approach and provide similar support to their borrowers. Social Business Women on the other hand, uses the individual lending approach, but has a more intensive assistance program compared to the other organisations.

Nevertheless, the group lending models used by Grameen Bank and Grameen America have an individual component: as the group members do not have to guarantee the repayment for each other, each one is responsible for their own loan.

Although Social Business Women uses the individual lending approach, they have a group component in their approach: with the help of the success-teams, borrowers also receive support from a group.

Table 1 Different models of social business microfinance

<i>Institution</i>	<i>Grameen Bank</i>	<i>Grameen America</i>	<i>Social Business Women</i>
Founded	1983	2007	2011
Loan provision model	Individual liability group lending	Individual liability group lending	Individual lending
Loan conditions	Interest rate of income generating loan: 20% 1,000 Taka or higher (~12 US \$) Weekly repayments Duration: three months to three years	Interest rate: 15% 1,500 US\$ Weekly repayments Duration: 6 or 12 months	Interest rate: 6.5% 3,500–10,000 euros (~4,400–12,700 US\$) Monthly repayments Duration: up to six years
Additional support	Training Workshops Support in centres (weekly meetings)	Training Workshops Support in centres (weekly meetings)	Assistance program (three years) including training, coaching and workshops Support through success-teams (monthly meetings)

Source: Own draft

- Bacq, S. and Janssen, F. (2011) 'The multiple faces of social entrepreneurship: a review of definitional issues based on geographical and thematic criteria', *Entrepreneurship & Regional Development*, Vol. 23, Nos. 5–6, pp.373–403.
- Banerjee, A., Duflo, E., Glennerster, R. and Kinnan, C. (2009) *The Miracle of Microfinance? Evidence from A Randomized Evaluation* [online] <http://economics.mit.edu/files/5993> (assessed 19 July 2014).
- Beckmann, M. (2012) 'The impact of social entrepreneurship on societies', in Volkmann, C., Tokarski, K. and Ernst, K. (Ed.): *Social Entrepreneurship and Social Business. An Introduction and Discussion with Case Studies*, Springer Gabler, Wiesbaden.
- Dacin, P. and Dacin, T. (2010) 'Social entrepreneurship: why we don't need a new theory and how we move forward from here', *Academy of Management Perspectives*, August, Vol. 24, No. 3, pp.37–57.
- Dearlove, D. (2004) 'Interview: Jeff Skoll', *Business Strategy Review*, Vol. 15, No. 2, pp.51–53.
- Dees, J.G. (1998) 'Enterprising nonprofits', *Harvard Business Review*, Vol. 76, No. 1, pp.55–66.
- Department of Business, Innovation and Skills (2014) *Office of the Regulator of Community Interest Companies: Information and Guidance Notes. Chapter 6: The Asset Lock* [online] <http://www.bis.gov.uk/cicregulator/guidance/chapter-6> (assessed 16 July 2014).
- Deutsches Mikrofinanz Institut (2015) [online] <http://www.mikrofinanz.net/hintergrundstruktur.html> (assessed 22 January 2015).
- Drayton, B. (2002) 'The citizen sector: becoming as entrepreneurial and competitive as business', *California Management Review*, Vol. 44, No. 3, pp.120–132.
- Grameen America (2014a) [online] <https://grameenamerica.org/model> (assessed 16 July 2014).
- Grameen America (2014b) [online] <https://grameenamerica.org/impact> (assessed 16 July 2014).
- Grameen Bank (2014a) [online] http://grameen-info.org/index.php?option=com_content&task=view&id=25&Itemid=128 (assessed 11 July 2014).
- Grameen Bank (2014b) [online] http://grameen-info.org/index.php?option=com_content&task=view&id=16&Itemid=112 (assessed 11 July 2014).
- Grameen Bank (2014c) [online] http://grameen-info.org/index.php?option=com_content&task=view&id=177&Itemid=503 (assessed 11 July 2014).
- Grameen Bank (2014d) [online] http://grameeninfo.org/index.php?option=com_content&task=view&id=38&Itemid=429 (assessed 20 July 2014).
- Grameen Bank (2014e) *10 Indicators* [online] http://www.grameen-info.org/index.php?option=com_content&task=view&id=23&Itemid=169 (assessed 22 July 2014).
- Grameen Bank (2014f) [online] http://grameen-info.org/index.php?option=com_content&task=view&id=26&Itemid=175 (assessed 19 July 2014).
- Grameen Creative Lab (2014a) [online] <http://www.grameencreativelab.com/live-examples/social-business-city-wiesbaden-%E2%80%93-the-network.html> (assessed 23 September 2014).
- Grameen Creative Lab (2014b) *The 7 principles of Social Business* [online] <http://www.grameencreativelab.com/a-concept-to-eradicate-poverty/7-principles.html> (assessed 24 September 2014).
- Harding, R. (2004) 'Social enterprise: the new economic engine?', *Business and Strategy Review*, Vol. 15, No. 4, pp.39–43.
- Hartigan, P. (2006) 'It's about people, not profits', *Business Strategy Review*, Vol. 17, No. 4, pp.42–45.
- Haugh, H. (2005) 'A research agenda for social entrepreneurship', *Social Enterprise Journal*, Vol. 1, No. 1, pp.1–12.
- Khavul, S. (2010) 'Microfinance: creating opportunities for the poor?', *Academy of Management Perspectives*, Vol. 24, No. 3, p.58.
- Light, P.C. (2006) 'Reshaping social entrepreneurship', *Stanford Social Innovation Review*, Fall, pp.46–51.

- Mair, J. and Marti, I. (2006) 'Social entrepreneurship research: a source of explanation, prediction and delight', *Journal of World Business*, Vol. 41, No. 1, pp.36–44.
- Mair, J. and Schoen, O. (2007) 'Successful social entrepreneurial business models in the context of developing economies: an explorative study', *International Journal of Emerging Markets*, Vol. 2, No. 1, pp.54–68.
- Mayring, P. (2010) *Qualitative Inhaltsanalyse. Grundlagen und Techniken*, Beltz Verlag, Weinheim und Basel.
- Mort, G., Weerawardena, J. and Carnegie, K. (2003) 'Social entrepreneurship: towards conceptualization and measurement', *American Marketing Association Conference Proceedings*, Vol. 13, p.5.
- Mutai, R. and Osborn, A. (2014) 'Impact of microfinance on economic empowerment of women: the case of microfinance institutions' clients In Narok Town', *Journal of Global Business & Economics*, Vol. 8, No. 1, pp.1–23.
- Nicholls, A. and Cho, A. (2006) 'Social entrepreneurship: the structuration of a field', in Nicholls, A. (Ed.): *Social Entrepreneurship: New Models of Sustainable Social Change*, pp.99–118, Oxford University Press.
- Perrini, F. and Vurro, C. (2006) 'Leveraging social change through entrepreneurship', in Perrini, F. (Ed.): *The New Social Entrepreneurship. What Awaits Social Entrepreneurial Ventures?*, Edward Elgar, Cheltenham.
- Pitt, M., Khandker, S. and Cartwright, J. (2006) 'Empowering women with micro finance: evidence from Bangladesh', *Economic Development & Cultural Change*, Vol. 54, No. 4, pp.791–831.
- Prabhu, G.N. (1999) 'Social entrepreneurship leadership', *Career Development International*, Vol. 4, No. 3, pp.140–145.
- Putnam, R. (1993) *Making Democracy work. Civic Traditions in Modern Italy*, Princeton University Press, Princeton.
- Rahman, A. (1999) *Women and Microcredit in Rural Bangladesh*, Westview Press, Oxford.
- Roberts, D. and Woods, C. (2005) 'Changing the world on a shoestring: the concept of social entrepreneurship', *University of Auckland Business Review*, Autumn, Vol. 7, No. 1, pp.45–51.
- Sanyal, P. (2009) 'From credit to collective action: the role of microfinance in promoting women's social capital and normative influence', *American Sociological Review*, Vol. 74, No. 4, pp.529–550.
- Schuyler, G. (1998) 'Social entrepreneurship: profit as means, not an end', Kauffman Centre for Entrepreneurial Leadership Clearinghouse on Entrepreneurship Education (CELCEE), *Digest*, Vol. 98, No. 7, pp.1–3.
- Sharir, M. and Lerner, M. (2006) 'Gauging the success of social ventures initiated by individual social entrepreneurs', *Journal of World Business*, Vol. 41, pp.6–20.
- SKS (2014) *Methodology* [online] <http://www.sksindia.com/methodology.php> (assessed 26 July 2014).
- Social Business Women (2014) [online] <http://www.social-business-women.com/> (assessed 4 June 2014).
- Swain, R. and Wallentin, F. (2009) 'Does microfinance empower women? Evidence from self-help groups in India', *International Review of Applied Economics*, Vol. 23, No. 5, pp.541–556.
- Thompson, J.L. and Doherty, B. (2006) 'The diverse world of social enterprise: a collection of social enterprise stories', *International Journal of Social Economics*, Vol. 33, Nos. 5/6, pp.361–375.
- Tracey, P. and Phillips, N. (2007) 'The distinctive challenge of educating social entrepreneurs: a postscript and rejoinder to the special issue on entrepreneurship education', *Academy of Management Learning and Education*, Vol. 6, No. 2, pp.264–271.

- Volkmann, C., Tokarski, K. and Ernst, K. (2012) 'Background, characteristics and context of social entrepreneurship', in Volkmann, C.K., Tokarski, K. and Ernst, K. (Ed): *Social Entrepreneurship and Social Business. An Introduction and Discussion with Case Studies*, Springer Gabler, Wiesbaden.
- Wirtz, M. (2013) 'Die Rolle sozialen Unternehmertums in einer Postwachstumsgesellschaft', *Berufspraxis und Sozialwissenschaften*, No. 1, pp.68–74.
- World Bank (2014) *Poverty Overview* [online] <http://www.worldbank.org/en/topic/poverty/overview#1> (assessed 19 July 2014).
- Yunus, M. (2007) *Banker to the Poor*, Penguin Group, New York.
- Yunus, M. (2008) *Creating A World Without Poverty: Social Business and the Future of Capitalism*, Public Affairs, New York.
- Yunus, M. (2010) *Building Social Business. The New Kind of Capitalism that Serves Humanity's Most Pressing Needs*, Public Affairs, New York.
- Zahra, S.E., Gedajlovic, E., Neubaum, D.O. and Shulman, J.M. (2009) 'A typology of social entrepreneurs: motives, search processes and ethical challenges', *Journal of business Venturing*, Vol. 24, No. 5, pp.519–532.

Charity and social business: two ways to the same goals

Michael Wirtz

Entrepreneurship and Economic Development,
Schumpeter School of Business and Economics,
University of Wuppertal,
Gausstr. 20, 42119 Wuppertal, Germany
Email: wirtz@wiwi.uni-wuppertal.de

Abstract: This article illustrates the work of charities and social businesses. Charities and social businesses might be seen as two competitive forms to solve social problems and it is the aim of this paper to show that they can also be seen as complementary approaches. Qualitative data gained through expert interviews is used to gain deep insights into the different ways of thinking and acting within those organisations. Thus, they shall be differentiated with regards to their organisational work and it shall be explored whether they could learn from each other. It will be shown that each approach has its strengths, depending on context and goals, and that both can benefit from each other.

Keywords: charity; social business; social entrepreneurship.

Reference to this paper should be made as follows: Wirtz, M. (2016) 'Charity and social business: two ways to the same goals', *Int. J. Social Entrepreneurship and Innovation*, Vol. 4, No. 3, pp.210–222.

Biographical notes: Michael Wirtz has studied Managerial Economics and Sociology. He works as a Research Assistant at the Chair of Professor Christine Volkmann at the University of Wuppertal, Germany.

1 Introduction

Charities have a long tradition of supporting both individuals and communities in need. In recent years, new concepts such as social entrepreneurship and social business have emerged, providing alternative approaches to solving social problems. Although charities and social businesses may follow different methods, they still pursue the same goals. At first sight, they may be seen as competitive approaches, and indeed, with regards to financial resources, they do have similar supporters: donors and social investors. This article explores if the two concepts could also be seen as complementary approaches. In order to do so, the study addresses insights gained from both social business experts and experts from the charitable sector regarding the differences in approaching social problems. The participants are asked questions regarding their own organisational work and the other's work. Furthermore, an exploration of the ways in which both approaches could possibly learn from each other will be presented.

The term 'social business' is related to the concept developed by Muhammad Yunus; in contrast to the more broad concept of social entrepreneurship, social business in the

sense of Yunus is structured clearly and contains two characteristics which prove useful for this study: firstly, social businesses are meant to be non-profit organisations (NPO), just like charities are. Hence, they do not distribute any profit to investors and place a strong focus on the benefit of the public. Secondly, social businesses are designed to be at least cost-covering, paying back all ‘investments’ and not relying on funding. They do not collect donations, but are created as entrepreneurial ventures that aim to be fully financially sustainable (Yunus, 2008, 2010). All in all, what unites both concepts is their complete focus on the benefit of the public; what distinguishes them is their ways of approaching social problems.

The theoretical section clarifies the concepts social entrepreneurship, social business and charity. Additionally, expert interviews with members from charitable organisations and social businesses illustrate the differences in approaches and what both could learn from each other. The discussion entails a critical reflection on the qualitative data.

2 Theoretical context

Many scholars have defined the concept of social entrepreneurship in the last few years – Bacq and Janssen (2011) count 47 definitions with regards to the terms ‘social entrepreneur’, ‘social entrepreneurship’ and ‘social entrepreneurship organisation’. All definitions agree upon the conception that social entrepreneurship encompasses some kind of social value creation or social mission. Often, the concept is accompanied by innovative methods to do so. According to many authors, social enterprises can adopt both a non-profit form and a for-profit form (Austin et al., 2006; Dart, 2004; Dees and Anderson, 2006; Dorado, 2006; Mair and Marti, 2004; Robinson, 2006; Yunus, 2008). Others stress that profits generated with the help of social enterprises should be reinvested to complete the social mission of the business (Harding, 2004; Hartigan, 2006; Haugh, 2006; Thompson and Doherty, 2006). Thus, there is no scientific consensus on whether a social entrepreneurial approach should be strictly non-profit, or if profit distribution should also be allowed.

Defourny and Nyssens (2010) differentiate between the US American and European traditions of defining social entrepreneurship. The US approach was initiated by Dees and Anderson (2006), who distinguish two schools of thought: firstly, the social enterprise school of thought, related to NPOs applying business methods in order to pursue their goals. The second approach, termed the social innovation school of thought, envisions social entrepreneurs as ‘changeagents’. The European approach to define social enterprises is fostered by the EMES Network, a group of European researchers with a focus on the third sector. They define social enterprises according to four criteria (Defourny and Nyssens, 2010): an on-going activity producing and/or selling of goods or services; a high level of autonomy; economic risk-taking; and the fact that work should be awarded by at least a minimal pay. Furthermore, five indicators encompass the social dimensions of social enterprises: activities must be beneficial to society; it should be initiated by a group of citizens; activities should be guided by a fair decision-making process unrelated to financial power; the activities should involve those affected by the enterprise; and, finally, profit distribution should be limited.

Nicholls and Cho (2006) emphasise that social entrepreneurship merges the fields of sociality, market orientation and innovation. Similarly, Volkmann et al. (2012) place the

concept between social orientation, market orientation, innovation and opportunity. To sum up, social entrepreneurship is about solving social problems in an innovative way with the help of business methods.

The European Commission (2011) uses the term 'social business' to define a social enterprise: According to that definition, a social business is a business, “whose primary objective is to achieve social impact rather than generating profit for owners and shareholders; which operates in the market through the production of goods and services in an entrepreneurial and innovative way; which uses surpluses mainly to achieve these social goals and which is managed by social entrepreneurs in an accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activity”. Social business as a term is also used by Grameen Bank founder Muhammad Yunus (2010). Social business in the ‘Yunus’ sense differs from the social entrepreneurship definition in terms of some specific features expressed in the so called ‘seven principles’:

- 1 “Business objective will be to overcome poverty, or one or more problems (such as education, health, technology access and environment) which threaten people and society; not profit maximization.
- 2 Financial and economic sustainability.
- 3 Investors get back their investment amount only. No dividend is given beyond investment money.
- 4 When investment amount is paid back, company profit stays with the company for expansion and improvement.
- 5 Environmentally conscious.
- 6 Workforce gets market wage with better working conditions.
- 7 ...do it with joy” (Grameen Creative Lab, 2016a).

As one can see, Yunus’ social business has two main characteristics which separate it from social entrepreneurship: firstly, a social business does not function through donations, but instead is funded by investments which ought to be paid back. Furthermore, investors of social businesses only receive the original investments and profit is not distributed. Yunus (2008, 2010) shortly characterises social businesses as companies which neither make loss nor pay dividends. Every social business in the Yunus sense is a social enterprise, but not vice versa, and the concept can be seen as a “subcategory of social enterprise” [Esposito, (2013), p.647].

A charity has distinguishable features: it benefits the public by being granted a tax-exempt status by the state if prerequisites are fulfilled. In Germany, an organisation is declared charitable if it serves the community in a spiritual, material or moral way, selflessly. It has to pursue goals like helping the elderly or young people, fostering scientific, educational or cultural purposes, or being supportive of religious matters. Additionally, the tax exempt status implies that no profit is distributed (Bundesministerium der Justiz für Verbraucherschutz, 2016).

The terms charity and NPO are sometimes used synonymously, but the concept of NPO has a broader definition, since it characterises organisations that do not distribute profit (Helmig, 2016). Thus, there are also NPOs which do not explicitly pursue a social mission (e.g., an association of allotment holders).

Earlier research comparisons between charities and social enterprises have been done on a conceptual level emphasising the difference between a sacrifice versus an investment with regards to funding (Dees, 2012). This study aims not only to differentiate between social business and charity conceptually, but also point out how the approaches differ in terms of their organisation and daily work.

The following questions have been asked to experts in both fields:

- 1 What distinguishes the charitable approach from the social business approach? This question is meant to contribute to a better understanding of how charities and social business approach social problems.
- 2 Could both approaches learn something from each other? Here, practical implications for the organisations shall be derived.

3 Data collection

Four interviews were conducted with experts in both fields. The experts were chosen according to the following principles: one expert works as an employee for the organisation, due to the proximity to the 'field work'. Additionally, one expert is the CEO or founder in order to gain insights into the perspectives that oversee all processes involved.

Two experts of two German charities were chosen: Antje Blohm, Corporate Partnership Officer of the Welthungerhilfe, a large charity which fights poverty worldwide (Welthungerhilfe, 2016). The second expert is Dr. Gotthard Kleine, CEO of Kindermissionswerk Sternsinger, also a large charity which offers support to deprived children (Sternsinger, 2016).

Additionally, two experts in the field of social business were interviewed. One is Daniel Nowack, Program Director at Yunus Social Business (YSB) in Frankfurt, Germany. YSB provides incubation services and funding for social businesses through an incubator fund (Yunus Social Business, 2016). The second expert is a German social business entrepreneur, Prof. Dr. Andreas Heinecke, founder of Dialogue Social Enterprise, a company which aims at fostering the social inclusion of deprived people such as the blind or the elderly (Dialogue in the Dark, 2016; Dialogue with Time, 2016).

Table 1 Interviewees

	<i>Employee</i>	<i>CEO/founder</i>
Charity	Antje Blohm	Dr. Gotthard Kleine
Social business	Daniel Nowack	Prof. Dr. Andreas Heinecke

The experts were asked questions regarding the differences they see in the approaches and about what each approach could learn from the other. The interviews were conducted via Skype and analysed with the help of Maxqda software. The findings were extracted by using the summarising method of qualitative content analysis (Mayring, 2010).

4 Main findings

One of the first differences mentioned by the interviewees was the way both approaches act with regards to financial sustainability: obviously, a charity is a donation-based model, whilst a social business uses market mechanisms. Blohm states: “We may not do normal business in Germany as a charity. Of course we have a tax exempt status and are no business. Thus, we gather donations in Germany.” This is indicative of how specific regulations exclude charities from making profit through business practices.

Nowack also refers to the difference between the two forms: “the biggest difference is, of course, regarding the exterior, the financial sustainability. A NGO, a charity organisation is dependent on donations. On long term donations, even if this is based on strategic partnerships, whilst a social business is focused on the market through delivering products (...), which are valued and priced by the market so it is financially independent.” Of course it is essential that one is able to implement an appropriate business model. According to Heinecke, “it is clear, you need a market. That means within the market, there must be customers and consumers. (...) Meaning, the question which is of importance is: who can pay for it?” In conclusion, if one is not able to generate income with one’s organisation because beneficiaries are unable to pay even a small amount for products or services, one will never be able to install a social business. In that case a donation-based model, such as is applied by a charity, is essential. For example, if one provides education in a developing country, beneficiaries will probably not be able to pay an amount which covers all costs. However, if the beneficiaries are adults, such as unemployed women who have become empowered to found their own business with the help of microfinance institutions, a self-sustaining business model can be built.

The experts express a difference with regards to the specific circumstances under which support is needed: instant relief cases after a natural catastrophe or personal emergencies require the work of charities. “In the case of emergencies such as after a tornado, but also within a very small context, there will be no support by a social business” (Blohm). This is confirmed by Nowack: “in case of natural catastrophes, charity work is necessary”. Social businesses, on the other hand, are more likely to act within longer timespans. “You are looking at a long-term engagement, where short-term successes are rare.” Additionally, Nowack stresses: “Whenever long-term economic development and empowerment are the goal, in my view, social businesses can take on a pioneer role.” If one is able to create a business model for beneficiaries to help themselves, a social business might be a good solution, since it is meant at least to cover its own costs and thus sustains itself.

There are also differences with regards to the legal structures of organisations. A charity can adopt the form of a registered association dedicated to the benefit of the public. Consequently, it has a tax-exempt status and no owner. Thus, in terms of governance a charity has a participatory decision process. The members of a charity make decisions about the distribution of money and any surplus is always reinvested in the charity. “An association has no possibility to withdraw money, but the money is always invested in the association’s goals. An entrepreneur of course always has the possibility to withdraw money and to change his social engagement in a private and profit-maximizing one. There is much more freedom within the latter” (Kleine). A registered association with a tax exempt status is subjected to much more regulation by law. This has pros and cons. On the one hand, people place more trust in charities than in

social entrepreneurs, due to the organisation's transparency. Additionally, regulations govern how funds are allocated: "We cannot act like a limited company, nobody would trust that we actually only use the donations for the purpose" (Kleine). On the other hand, regulation implies bureaucratic work, because the charity's social engagement has to be proven to the financial institutions. Furthermore, one does not only have to be transparent with regards to the state. For example, German charities bear an official seal imposed by an organisation which evaluates charities. The German Central Institute for Social Issues provides documentation and evaluation of charities and may bestow an official seal as a sign of trustworthiness (German Central Institute for Social Issues, 2016). However, in order to receive such a seal, charities have to document their impact evaluation. All in all, charities in Germany are highly regulated and supervised, leading to a high level of trust amongst the population. Nowack has experienced this also within social business context: "a NGO has, of course, sometimes a credibility advantage. Since social businesses are still a rather new concept, they sometimes face mistrust because people expect a profit-making motive."

The approach to solving a problem is quite different: whilst charities think in terms of projects, social business entrepreneurs think in terms of business solutions. What does that mean? A charity detects a problem, has a certain amount of money and tries to set up a project in order to support its beneficiaries. A social business has a different approach: it focuses on a single problem in a specific local context and tries to create a business model in order to change the structural deficit within this local context. If it succeeds, the model can be replicated in other localities where similar problems exist. Thus, a social business is highly scalable, as Nowack explains: "I think with regards to scalability, social businesses do have an edge once they have a proof of concept because they are market-based and therefore demand-based. Scalability – ideally – becomes a matter of finding new customers."

Another difference Blohm mentions is the diversification of products and services. "The social businesses I saw were focused much more on one specific theme. They were not as diverse as a charity." Social businesses try to find a business solution for one single problem. Nevertheless, different problems can be addressed by different social businesses, as the variety of Grameen Social Businesses shows (Grameen Creative Lab, 2016b). Charities, on the contrary, provide a huge range of products and services within *one* organisation, especially when looking at a large charity.

With regards to innovativeness, social businesses are quite successful. "This is due to the solving of an urgent social problem in an innovative way that is also scalable, in which an entrepreneur, a social entrepreneur, a social innovator is always involved" (Heinecke). Often one finds social business entrepreneurs tackling social problems with specific new approaches. Clearly, one has to find a creative business solution, whilst at the same time being fully sustainable – at least in the long run. Blohm stresses: "We do not produce solar panels which we would use. This whole solar-voltaic history is a good thing, but we do not develop them. These are not our objectives." Thus, new products are rarely developed by charities. It goes without saying that social innovations play a role in projects of charitable organisations, however, it is emphasised more amongst social business entrepreneurs. Charity workers may only partly think and act intrapreneurially, the latter measuring the entrepreneurial thinking and acting within an organisation. Blohm admits that, with regards to her experience within a charity: "thinking in business models: we do it in many ways, but in many ways we do not."

Another difference lies in the way the two forms of organisation see their beneficiaries; a social business views its beneficiaries as customers. Due to the empowerment of those beneficiaries, they may feel like they are actively working towards improving their own lives, with a little help on the side, rather than being entirely reliant on financial contributions. This may only partly be the case for charities. Beneficiaries, at times, cannot act as customers because the support they need is urgent and immediate.

Finally, a major difference is stated with regards to networks and relations. "If you are confronted with instant relief cases, famines or natural disasters, supportive competence and local network of charities is required" (Kleine). Additionally, Nowack stresses: "what we often see, and what is unbelievably valuable, is simply that NGOs have built up very long term, valuable networks and relations to their beneficiaries." This is something social businesses have to pursue in the future due to their very young existence.

What can both approaches learn or adopt from each other? Charity workers could possibly learn from social business entrepreneurs to think more in business models as Blohm and Nowack stress. This also includes fields like marketing and fundraising. "What social business can do is to just shift the focus to customers, as beneficiaries, who make such businesses efficient. (...) This can be very valuable for a NGO, but it can be a challenge to adopt this attitude" (Nowack). Additionally, the experts confirm that innovativeness with regards to problem-solving could be adopted by charities. "If I look at how to help the market, it is just this new approach of seeing things in a different way, from another perspective. I also consider the courage to think in an innovative way to be interesting", Heinecke explains.

Some other points, such as enhanced efficiency in terms of the organisations' interior, are in line with the business model approach. Here, Kleine states: "I think what one could learn would be how the businesses are organised structurally." Due to the fact that social businesses are subjects to market constraints, they might be organised in a more efficient way.

Another point is scalability: once a social business has proven successful, it can be replicated in another location. According to Blohm, the maxim 'think big' can be adopted from this approach. Finally, social businesses aim to standardise products: "Yes, also the standardisation of our products. So, if we build water tanks in a country, why do they look different everywhere? So, this could be learnt" (Blohm).

Social business could learn from charities in how the latter have achieved building up such large-scale organisations. "This simply means continuity, (...) that millions of people benefit from the Caritas [a German Catholic charity; explanation by the author]. We as social entrepreneurs can only dream of building up such a volume" (Heinecke). Another aspect worth mentioning in this light is the intercultural competence charities have built up over the years, as Blohm explains.

Finally, social business entrepreneurs could learn to take a step back and adopt a more modest stance towards their work and impact: "I think there is partly a huge arrogance of social entrepreneurs who think it is them, who, save world peace. I think there should be a form of relativeness, a form of modesty, even a form of humility. This is found more in charities. (...) I think this is something we as social entrepreneurs can learn from" (Heinecke).

In terms of cooperation between the charitable and the social business sectors, Kleine states: "we know very little about social business. I know very few social businesses, and

it would be very important to set up a round table.” Furthermore, he says: “it would be very important to establish such a network, (...) but as far as I know there is no organisation so far which aims to build one.” Heinecke refers to mental barriers that exist on both sides: “of course, we have to tear down prejudices on both sides, but I think, all of them are intelligent, motivated people who should be sitting at one table. And of course, all of us are human; everything finally works through a dialogue”. Nowack confirms: “it is unbelievably valuable and very important that NGOs and social businesses work together in order to solve social problems at their roots”.

Finally, Heinecke compares charities and social entrepreneurs to trees and bees: in this simile, (big) charities are the trees, having grown for a long time with the bees characterising the social entrepreneurs: “each wind brings us somewhere, maybe very far away, while a tree just stands there. That means that a lot should happen through pollination. I like this trees-and-bees model very much, because it shows the proportionality.” On the one hand there are stable institutions with a long history, on the other hand the innovative entrepreneurs, which have recently emerged. The simile also indicates that the bees can bring fresh ideas into the third sector and that cooperation between social entrepreneurs and established charities could be fruitful.

All the experts plea for a stronger cooperation between organisations of both concepts since they pursue the same goals. It would be useful to build up common networks in order to generate a collective impact.

5 Discussion

As is shown above, there are noticeable similarities and differences between social businesses and charities. This section summarises and offers a discussion on the previous findings.

With regards to legal aspects, charities have a tax exempt status. This leads to increased transparency which in turn might be part of why the public shows high levels of trust in charities. Social businesses, due to their young existence and consequent lack of public exposure, do not enjoy such high levels of trust. Besides, a charity has no owner, only members, whilst a social business has owners or one single social entrepreneur as head. Therefore, a social business entrepreneur is always in danger of going bankrupt, and he and his employees run higher risks than that of a charity employee. Thus, he has more power to decide what he wants to do, while a charity’s CEO must always justify his decisions to the board of supervisors. Due to its legal form, a charity is ultimately governed by a group of people, leading to a more extended participatory decision process.

Concerning finance, the charity approach goes hand in hand with a donation-based model, which means that the money is ‘consumed’. Jansen (2013) stresses, too, that NPOs differ from social enterprises in financial aspects: on the one hand they receive donations, on the other hand they can be supported by the state (e.g., through tax incentives). The social business approach is an investment-based model; hence, the money is just ‘used’ and could be reinvested again after being paid back to the investors.

Whilst a charity uses a top-down approach in its project work, a social business tries to create a business model around one single problem, which can be scaled up in further work through standardised products or services. Thus, the latter is a kind of bottom-up

approach. Especially big charities tend to be highly diversified, since they aim to solve problems like education, poverty and climate issues by influencing all the associated circumstances simultaneously.

Certainly, the question of whether a business model can be installed at all is always present. This depends on the specific situation: how urgently is help needed? In instant relief cases, charity work is absolutely necessary. For long-term issues, however, a social business could be an efficient actor to ameliorate the situation. Thus, with regards to social business, there is always the question as to whether a group of customers able to pay for a service or a product is present. If this is the case, social business may be a good tool to foster economic development in the long run.

The business model may finally lead to an innovative product. The term ‘innovation’ is often used to describe commercial entrepreneurship (Volkman et al., 2010). ‘Social innovation’ implies that social problems are addressed with the help of innovative methods (Nicholls and Huybrechts, 2012). It has been shown that, with regards to social enterprises, innovation is an important feature (Weerawardena and Mort, 2006). Although innovation plays a role within a charity's project work, no new products are created. The experts considered the innovation rate of the social business approach to be higher than that of charity. Social innovation might entail some kind of social change, and therefore social entrepreneurs are sometimes described as ‘change agents’ (Beckmann, 2012; Dees, 1998).

Finally, referring to the political and cultural networks in which the organisation is embedded, charities have already built up long-term relationships, which, to date, most social entrepreneurs lack. Jansen (2013) also emphasises the fact that NPOs have a stronger capacity to build up networks with political and cultural institutions.

Table 2 shows a summary of the results.

Table 2 Distinction between charities and social businesses

<i>Characteristics</i>	<i>Charities</i>	<i>Social business</i>
Legal features	Tax-exempt status; only membership possible	No tax incentives; ownership possible
Governance structure	Participatory decision making processes	Owner-based decision processes
Transparency	Highly transparent due to legal status	Medium rate of transparency
Finance	Donation-based model	Investment-based model
Scalability	Medium rate of scalability	High rate of scalability
Diversification rate	Highly diverse in terms of ways of support	One service or product is provided for one problem
Mode of support	Short term and long term	Long term
Innovation rate	Medium rate of innovation	High rate of innovation
Beneficiaries	Mainly receivers	Customers
Mentality	Employees are partly intrapreneurial	High intrapreneurial thinking; founder is willing to take high entrepreneurial risk
Networks	Highly embedded in networks	Partly embedded in networks

Source: Own draft

What can both forms learn from each other? Charities might integrate more entrepreneurial thinking and business methods in their daily work. This kind of intrapreneurship could be useful to increase efficiency. Several scholars emphasise that NPOs and charities can improve their outcomes through market orientation (Chad, 2013; Modi, 2012; Ralser, 2007; Pinho et al., 2014; Vázquez et al., 2002).

Charities could adopt innovative methods in solving social problems; cooperating more closely with business entrepreneurs could prove useful to charities. This would lead to a stronger integration of the business sector into the third sector with business entrepreneurs being actively involved in solving social problem. The Grameen Bank has entered into joint ventures with global players like Danone and Veolia. For example, Grameen Danone produces yoghurt for malnourished children, while Grameen Veolia filters arsenic from contaminated water in order to provide clean drinking water for the population in Bangladesh. All joint ventures between Grameen and global players are social businesses themselves (Humberg, 2011). These kind of cooperative ventures show that there is both the will and the potential with regards to the business sector to apply its full competences in order to contribute to solving social problems.

If there was stronger cooperation between social businesses and charities, the bees could possibly profit from the trees and vice versa. As shown before, many of the experts interviewed plea for an increased cooperation originating from both sides, logically, since the bees and the trees fight for the same goals. Universities could provide a ground for regular meetings and exchanges. Universities, for example, could locally organise round tables for charity workers and social business entrepreneurs. On the one hand future cooperation options could be elaborated. On the other hand methods for social impact evaluation could be explored and developed in more detail. Finally, such an initiative could lead to the creation of a local ecosystem which could foster social innovation on a local level.

6 Conclusions

Although social businesses and charities work for the benefit of the public generally, this study shows that the appropriate approach depends on the circumstances and specific goals. For example, it is only possible to install a social business if it generates income from its beneficiaries. If the focus lies on beneficiaries without economic means (such as orphans), charitable support is needed. Furthermore, the work of charities is indispensable in cases where urgent support is required. In terms of long-term aid, a social business might be a fruitful tool to transform the mode of 'support' into the mode of 'empowerment'. Whilst instant relief cases often necessitate charity support, a social business poses a productive tool for the second step, after structures have been built up partly. The study shows that the concepts are no substitutes for each other, but essential complements. The experts interviewed gave some valuable insights into that and stressed the importance of cooperation in the future.

The limitation of this study arises from the fact that the approaches were only analysed within the German context, but since the study does compare the work of charities and social businesses in terms of how to approach to social problems, most findings may also be valid with regards to the international perspective. Thus, one could

generate the findings in terms of common features and challenges concerning the daily work.

Some questions could be addressed in further research: cooperations between charities and for-profit companies have proven to be difficult in terms of cross-sector-social-partnerships (Venn and Berg, 2014), but would a cooperation between charities and social businesses not be expected to be easier, because both are used to pursue a social mission? And: in what fields and under which circumstances do these cooperations actually prove to be productive?

Charities and social businesses may be seen as competitors. As shown in this study, they can also be seen as complements and benefit from each other.

References

- Austin, J., Stevenson, H. and Wei-Skillern, J. (2006) 'Social and commercial entrepreneurship: Same, different, or both?', *Entrepreneurship Theory and Practice*, Vol. 31, No. 1, pp.1–22.
- Bacq, S. and Janssen, F. (2011) 'The multiple faces of social entrepreneurship: A review of definitional issues based on geographical and thematic criteria', *Entrepreneurship and Regional Development*, Vol. 23, Nos. 5–6, pp.373–403.
- Beckmann, M. (2012) 'The impact of social entrepreneurship on societies', in Volkmann, C., Tokarski, K. and Ernst, K. (Ed.): *Social Entrepreneurship and Social Business. An Introduction and Discussion with Case Studies*, Springer Gabler, Wiesbaden.
- Bundesministerium der Justiz für Verbraucherschutz (2016) *Gemeinnützige Zwecke* (online) http://www.gesetze-im-internet.de/ao_1977/_52.html (accessed 24 June 2016).
- Chad, P. (2013) 'Implementing market orientation in charities: a necessity for survival', *Marketing Theory*, Vol. 13, No. 3, pp.303–322.
- Dart, R. (2004) 'The legitimacy of social enterprise', *Nonprofit Management Leadership*, Vol. 14, No. 4, pp.411–424.
- Dees, G. (1998) 'The meaning of 'social entrepreneurship'', *Kauffman Centre for Entrepreneurial Leadership*.
- Dees, G. (2012) 'A tale of two cultures: charity, problem solving, and the future of social entrepreneurship', *Journal of Business Ethics*, Vol. 111, No. 3, pp.321–334.
- Dees, G. and Anderson, B. (2006) 'Framing a theory of social entrepreneurship: building on two schools of practice and thought', *ARNOVA Occasional Paper Series*, Vol. 1, No. 3, pp.39–66.
- Defourny, J. and Nyssens, M. (2010) 'Conceptions of social enterprise and social entrepreneurship in Europe and the United States: convergences and divergences', *Journal of Social Entrepreneurship*, Vol. 1, No. 1, pp.32–53.
- Dialogue in the Dark (2016) (online) <http://www.dialogue-in-the-dark.com/> (accessed 25 June 2016).
- Dialogue with Time (2016) (online) <http://www.dialogue-with-time.com/> (accessed 10 May 2016).
- Dorado, S. (2006) 'Social entrepreneurial ventures: different values so different process of creation, no?', *Journal of Developmental Entrepreneurship*, Vol. 11, No. 4, pp.319–43.
- Esposito, R. (2013) 'The social enterprise revolution in corporate law: a primer on emerging corporate entities in Europe and the United States and the case for the benefit corporation', *William and Mary Business Law Review*, Vol. 4, No. 2, pp.639–714.
- European Commission (2011) *Social Business Initiative* (online) http://europa.eu/rapid/press-release_MEMO-11-735_en.htm (accessed 4 June 2016).
- German Central Institute for Social Issues (2016) (online) <http://www.dzi.de/dzi-institut/german-central-institute-for-social-issues/> (accessed 1 August 2016).

- Grameen Creative Lab (2016a) *The 7 Principles of Social Business* (online) <http://www.grameencreativelab.com/a-concept-to-eradicate-poverty/7-principles.html> (accessed 9 August 2016).
- Grameen Creative Lab (2016b) *Network. Grameen Family of Businesses* (online) <http://www.grameencreativelab.com/our-company/network.html> (accessed 15 August 2016).
- Harding, R. (2004) 'Social enterprise: the new economic engine?', *Business and Strategy Review*, Vol. 15, No. 4, pp.39–43.
- Hartigan, P. (2006) 'It's about people, not profits', *Business Strategy Review*, Vol. 17, No. 4, pp.42–45.
- Haugh, H. (2006) 'Social enterprise: beyond economic outcomes and individual returns', in J. Mair, Robinson, J. and Hockerts, K. (Ed.): *Social Entrepreneurship*, Palgrave Macmillan, Basingstoke, UK.
- Helmig, B. (2016) *Non-Profit Organisation* (online) <http://wirtschaftslexikon.gabler.de/Archiv/4696/nonprofit-organisation-npo-v12.html> (accessed 22 June 2016).
- Humberg, K. (2011) *Poverty Reduction through Social Business? Lessons Learnt from Grameen Joint Ventures in Bangladesh*, Oekom, München.
- Jansen, S. (2013) 'Begriffs- und konzeptgeschichte von sozialunternehmen differenztheoretische typologisierung', in Jansen, S., Heinze, R. and Beckmann, M. (Ed.): (2013) *Sozialunternehmen in Deutschland. Analysen, Trends und Handlungsempfehlungen*, Springer Gabler, Wiesbaden.
- Mair, J. and Marti, I. (2004) *Social Entrepreneurship: What are we Talking About? A Framework for Future Research* (online) <http://ideas.repec.org/p/ebg/iesewp/d-0546.html> (accessed 25 June 2016).
- Mayring, P. (2010) *Qualitative Inhaltsanalyse. Grundlagen und Techniken*, Beltz Verlag, Weinheim und Basel.
- Modi, P. (2012) 'Market orientation in nonprofit organisations: innovativeness, resource scarcity, and performance', *Journal of Strategic Marketing*, Vol. 20, No. 1, pp.55–67.
- Nicholls, A. and Cho, A.H. (2006) 'Social entrepreneurship: the structuration of a field', in Nicholls, A. (Ed.): *Social Entrepreneurship – New Models of Sustainable Social Change*. Oxford University Press.
- Nicholls, A. and Hybrechts, B. (2012) 'Social entrepreneurship. definitions, drivers and challenges', in Volkmann, C., Tokarski, K. and Ernst, K. (Ed.): *Social Entrepreneurship and Social Business. An Introduction and Discussion with Case Studies*, Springer Gabler, Wiesbaden.
- Pinho, J., Rodrigues, A. and Dibb, S. (2014) 'The role of corporate culture, market orientation and organisational commitment in organisational performance. The case of non-profit organisations', *Journal of Management Development*, Vol. 33, No. 4, pp.374–398.
- Ralser, T. (2007) *ROI for Nonprofits. The New Key to Sustainability*, John Wiley and Sons, New Jersey.
- Robinson, J. (2006) 'Navigating social and institutional barriers to markets: How social entrepreneurs identify and evaluate opportunities', in Mair, J., Robinson, J. and Hockerts, K. (Ed.): *Social Entrepreneurship*, Palgrave Macmillan, Basingstoke, UK and New York.
- Sternsinger (2016) (online) <http://www.sternsinger.org/en/home/about-us.html> (accessed 9 June 2016).
- Thompson, J. and Doherty, B. (2006) 'The diverse world of social enterprise: a collection of social enterprise stories', *International Journal of Social Economics*, Vol. 33, Nos. 5/6, pp.399–410.
- Vázquez, R., Álvarez, L. and Santos, M. (2002) 'Market orientation and social services in private non-profit organisations', *European Journal of Marketing*, Vol. 36, Nos. 9/10, pp.1022–1046.
- Venn, R. and Berg, N. (2014) 'The gatekeeping function of trust in cross-sector social partnerships', *Business and Society Review*, Vol. 119, No. 3, pp.385–416.

- Volkman, C., Tokarski, K. and Ernst, K. (2012) 'Background, characteristics and context of social entrepreneurship', in Volkman, C., Tokarski, K. and Ernst, K. (2012) (Ed): *Social Entrepreneurship and Social Business. An Introduction and Discussion with Case Studies*, Springer Gabler, Wiesbaden.
- Volkman, C., Tokarski, K. and Grünhagen, M. (2010) *Entrepreneurship in a European Perspective. Concepts for the Creation and Growth of New Ventures*, Springer Gabler, Wiesbaden.
- Weerawardena, J. and Mort, G.S. (2006) 'Investigating social entrepreneurship: a multidimensional model', *Journal of World Business*, Vol. 41, No.1, pp.21–35.
- Welthungerhilfe (2016) (online) <http://www.welthungerhilfe.de/en/about-us/who-we-are/facts-and-figures.html> (accessed 9 June 2016).
- Yunus Social Business (2016) (online) <http://www.yunus.com/> (accessed 9 June 2016).
- Yunus, M. (2008) *Creating a World Without Poverty: Social Business and the Future of Capitalism*, Public Affairs, New York.
- Yunus, M. (2010) *Building Social Business. The New Kind of Capitalism that Serves Humanity's Most Pressing Needs*, Public Affairs, New York.

**Social Business Joint Ventures -
Opportunities, Challenges and Risks of New Hybrids
at the Bottom of the Pyramid**

Michael Wirtz and Christine Volkmann

Social business joint ventures are companies founded by two parties: global players committed to solving social problems and the Grameen Bank in Bangladesh. Designed according to the principles of social business, these companies face the challenge of pursuing their social mission whilst simultaneously being financially sustainable. This research project intends to explore what opportunities, challenges and risks are linked to creating such cross-sector partnerships. We conducted expert interviews both with university representatives in Bangladesh and the CEOs of joint ventures. Our contribution provides insights into this kind of partnership and illustrates the ways these partnerships differ from other forms of collaboration. Practical implications can be derived for global players that consider engaging in social business.

Keywords: Cross-Sector Partnerships, Joint Ventures, Social Business, Social Entrepreneurship, Bottom of the Pyramid

Michael Wirtz works as a Research Assistant at the chair of Professor Christine Volkmann at the University of Wuppertal, Germany.

Christine Volkmann is Professor of Entrepreneurship and Economic Development, holding the UNESCO Chair in Entrepreneurship and Intercultural Management at the University of Wuppertal, Germany.

Address correspondence to: Michael Wirtz, Chair of Entrepreneurship and Economic Development at the Schumpeter School of Business and Economics, Bergische Universität Wuppertal, Gaußstr. 20, 42119 Wuppertal, Mail: wirtz@wiwi.uni-wuppertal.de

Introduction

Millions of people live in extreme poverty (Worldbank, 2017). Despite intensive development aid provided by industrialized countries in the last decades, the reduction of poverty still remains a global challenge. Prahalad (2006) argued for a different view on the poor, that is, to see them as customers. Another approach with a similar way of thinking called ‘social business’ has been developed by Muhammad Yunus (2010). The professor of economics founded the Grameen Bank in 1983 in order to help the poor in Bangladesh through the provision of microloans. Meanwhile, the Grameen Bank is not the only company he has founded. The Grameen group comprises more than 50 companies, including joint ventures with global players like Danone, Intel, and Veolia Water (Grameen Creative Lab, 2016). What differentiates the Bottom of the Pyramid approach by Prahalad and the social business approach by Yunus is that all companies which follow the principles of social business are dedicated to benefitting the public and do not distribute profits to their investors. Additionally, for a few years, the latter has also been applied in developed countries such as the U.S. and France (Grameen America, 2017; Yunus *et al.*, 2015). Humberg (2011) has shown that it can be an immense challenge for global companies like Danone or Veolia to work in this context, as they are confronted with problems they normally do not face. Here, the challenge consists of finding ways to become financially sustainable while solving a social problem. The companies we focus on are novel in so far that they combine two features: firstly, they are joint ventures between actors of two sectors, the civil one and the business one; secondly, they are designed as social businesses themselves according to the principles of the concept.

In order to extend our knowledge about these new hybrids, we pose the following research question: *what opportunities, challenges and risks do social business joint ventures face?*

In the first phase of our research project, semi-structured interviews were conducted with university representatives who are familiar with the social business movement in Bangladesh. These experts give an overview of the joint ventures in terms of opportunities, challenges and risks. In the second phase, interviews with the CEOs of the joint ventures were conducted. Here, we focused on the challenges the companies face. The findings of the first interviews also served to create a guideline for the second phase, broadening our understanding of the specific challenges of their daily work.

The article is structured in the following way: joint ventures are described successively to the theoretical section. Consequently, the interviews of the two phases and two concluding interviews are displayed providing data with regards to the research question. The discussion entails a critical reflection of the previous sections.

Background and definitions

Up to now, many definitions have arisen with regards to the term social enterprise, social entrepreneurship and social entrepreneur. Dacin *et al.* (2010) count 37 definitions with regards to social entrepreneur and social entrepreneurship, whilst Bacq and Janssen (2011) enumerate 47 definitions of social entrepreneur, social entrepreneurship and social enterprise.

Taking into consideration all existing definitions, one can conclude that the definitions of the term 'social entrepreneurship' have one consensus: the solving of social problems by entrepreneurial means. Some definitions include that the used approach has to be 'innovative' (Dees, 2001; Alvord *et al.*, 2004; Mair and Marti, 2004; Mair and Noboa, 2006;

Weerawardena and Sullivan Mort, 2006). Many authors plead for the possibility of profit distribution (Dart, 2004; Mair and Marti, 2004; Austin et al., 2006; Dees and Battle Anderson, 2006; Dorado, 2006; Mair and Noboa, 2006; Robinson, 2006). Others stress the fact that a social enterprise has to be non-profit, implying that the total profit stays within the company and is not distributed to shareholders (Thompson, 2002; Thompson and Doherty, 2006; Weerawardena and Sullivan Mort, 2006).

One can see that publications on social entrepreneurship research have gained increasing importance (Sassmannshausen and Volkmann, 2016). Some journals emerged in the past years which focus on the concept in detail. Not only in the sciences, but also in politics, social entrepreneurship is becoming an increasingly popular concept. Some countries like the US and the UK have explicitly developed legal forms for social enterprises. The Low-Profit Limited Liability Company (L3C) in the U.S., for example, makes it possible for foundations to invest in private companies and obtain a tax-exempt status at the same time (Field, 2012). Additionally, the Benefit Corporation exists in the US, was recently established in Italy, and will soon be established in other countries (Benefit Corporation, 2017). The legal form of the Community Interest Company (CIC) was founded in the UK in 2006 in order to ease the way for social enterprises (Department for Business, Innovation and Skill, 2013). Until today, more than 10,000 CICs have been founded (Third Sector, 2015). The emergence of new legal forms for social enterprises makes sense from a societal point of view: social enterprises take on tasks which could not be fulfilled by the state or charities and are supported by the state in that way indirectly.

Yunus' definition of social business includes non-profit distribution and can be seen as a subcategory of the concept of social entrepreneurship. Yunus and his partner Hans Reitz,

who together founded the ‘Grameen Creative Lab’, an institution that promotes the concept of social business globally, developed the seven principles of social business (Appendix 1).

A striking fact about the definition of social business is that it does not include donations and explicitly speaks of investors; however, unlike other investments, these are only repaid to their initial amount, even after years. “In social business, a dollar is a dollar is a dollar. If you invest a thousand dollars in a social business, you’ll get back a thousand dollars – not a penny more” (Yunus, 2010, p. 2). A social business can adopt one of two types: the first kind is a company which solves a social problem by providing a service or product - like the joint ventures displayed below. The second type of social business is a company which serves the poor by being owned by them (Yunus, 2010). To sum up, a social business is a self-sustaining business with a social mission that does not distribute dividends to investors. From this perspective intersections between the concepts of social business, non-profit organizations and social entrepreneurship can be drawn (Ballesteros-Sola, 2014; Beckmann *et al.*, 2014). The term social business is also used by other authors and institutions like the European Commission (European Commission, 2016). In the latter case, it is a synonym for social entrepreneurship.

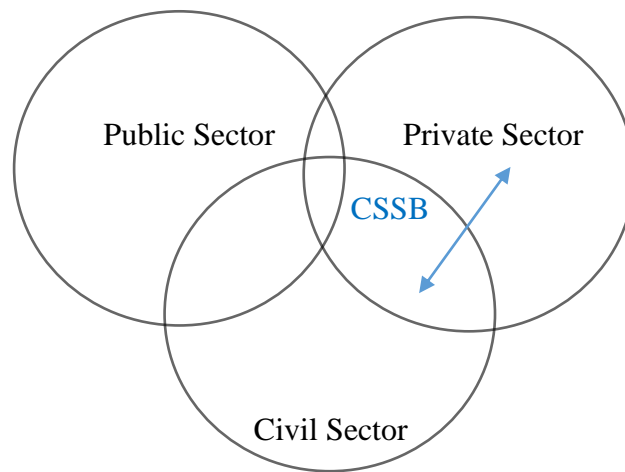
In 2007, the first joint venture of Grameen and a global player, Danone, was founded in Bangladesh to support malnourished children. But what is the advantage of such partnerships? One advantage of conventional joint ventures is that it is easier for companies to overcome market barriers (Volkman *et al.*, 2010). This is also true for partnerships between different sectors like the public sector, the private and the civil one. “Unconventional partnering across sector boundaries is crucial in overcoming market barriers” (Venn and Berg, 2014, p. 387). Those partnerships are called cross-sector partnerships (CSP) including public-private-partnerships (PPP) with regards to partnerships between the public sector and the

business one and so called cross-sector social partnerships (CSSP), which stress the social mission of such a partnership.

Business companies face special challenges when entering in emerging countries (Gradl *et al.*, 2008; Rivera-Santos and Rufin, 2010). They have to cope with difficulties such as low-income customers (Dawar and Chattopadhyay, 2002), lack of knowledge of the infrastructure (Dahan *et al.*, 2010), and legal and bureaucratic obstacles (Dobers and Halme, 2009). Thus, scholars stress the opportunities linked with cross sector partnerships (Reficco and Marques, 2009; Dahan *et al.*, 2010; Wadham and Warrant, 2013). Basic challenges those partnerships face concern the governance in terms of trust and aligning goals (Bendell *et al.*, 2010; Dahan *et al.*, 2010; Getha-Taylor, 2012; Venn and Berg, 2014; Johnston and Fineggod, 2015). Additionally, they also encompass risks: for example, a NGO cooperating with a business company to solve a social problem might run the risk of losing legitimacy (Herlin, 2015). Nevertheless, partnering across sectors is useful to get access to the partner's resources in order to meet the specific challenges in emerging countries. Of course, 'partnership' or 'collaboration' is a broad term that includes working together in projects, alliances, some form of network or creating new business models. The latter is done in the joint ventures we explored and of course these kinds of partnerships are the closest form of cooperation. Thus, one could name these companies 'cross-sector social businesses', because they are hybrids of two different sectors designed according to the principles of social business.

Schirmer and Cameron (2012) place social enterprises in the intersections of the sectors. If one inserts the concept of social business into the intersection of the private and the civil sector, a cross-sector social business would be a cooperation between a social business of this intersection and the private sector.

Figure 1: Cross-sector social businesses (CSSB)



Source: Own draft based on Schirmer and Cameron (2012)

The joint ventures – an overview

The joint ventures are listed on the website of Grameen Creative Lab (Grameen Creative Lab, 2016) and on a social business platform, socialbusinesspedia.com. The following information was gathered when screening the companies' websites and literature.

Grameen Danone Foods

Rural children in Bangladesh often show deficiencies in their mental and physical development due to malnutrition, commonly a lack of sufficient minerals and vitamins. In order to improve their diet, a yogurt named Shukti Doi (“that which builds strength” in Bengali) was created by Grameen Danone Foods for an affordable price. The product is

distributed by ‘Grameen Ladies’, micro-lenders of Grameen Bank in rural areas and retailers in urban regions (Danone Communities, 2016). Grameen Danone Foods was designed as a yogurt factory in Bangladesh. The first plant was opened in 2007 in the region of Bogra. The plant was an innovation in itself, since it posed a challenge for Danone’s planners to construct a plant that would suit this specific local environment, while also completing a social mission (Humberg, 2011). Danone’s joint venture with Grameen is a non-profit, non-loss company (Danone Communities, 2016a).

Grameen Veolia Water

Grameen Veolia Water was founded in 2008 in order to provide clean water for the rural people in Bangladesh (Grameen Veolia, 2016). Much of the ground water is contaminated with arsenic due to the fact that the water washes down from the Himalayas. Hence, people in Bangladesh often suffer from cancer and skin lesions as a result of not having alternative water supplies. Grameen Veolia Water provides the people in the area of Goalmari Union and Padua Union with “water that meets the highest WHO standards” (Grameen Veolia, 2016a) at an affordable price. The aim is to reach up to 100,000 people with the filtered water.

Grameen Intel Social Business

Grameen Intel was founded in 2009. The company develops software applications for rural entrepreneurs who, in turn, provide services to farmers. Additionally, the company has a focus on health care services and educational issues (Nahinduzzaman and Sultana Munni, 2014; Grameen Intel, 2017). The project ‘Harvest’, centered on agricultural support, provides recommendations to farmers on how to better fertilize the soil (Grameen Intel, 2017a). The

farmers transfer information about their land size, the crops they use, the type of soil and other details to a local entrepreneur. The latter conducts soil tests and records the information on his smart phone. With the help of the software app ‘mrittika’ a detailed and individualized plan for each farmer is developed, including the type of fertilizers farmers should use, how they should apply it and where to get it (Nahinduzzaman and Sultana Munni, 2014). Additionally, the products ‘ankur’ (seed selection), ‘potikar’ (management of plant diseases) and ‘vistar’ (market information to sell crops optimally) can help farmers improve their income (Grameen Intel, 2017b). Finally, the company provides health care services and products related to education (Grameen Intel, 2017c; 2017d).

The following table gives an overview of the companies described above.

Table 1: The explored social business joint ventures

Joint Venture	Social Mission	Business Model	Social Impact (2013)
Grameen Danone Foods (founded in 2007)	Supporting malnourished children and poverty reduction through job creation	Selling yogurt with fortified micro-nutrients and using cross-subsidization to become financially sustainable (the product is sold at different prices in rural areas by Grameen Ladies and urban areas by small retailers)	300,000 customers, first research on the yogurt shows a positive impact on the health of the children if the yogurt is consumed regularly; job creation for about 1,500 people
Grameen Veolia Water (founded in 2008)	Providing arsenic free drinking water	Delivering drinking water under the use of cross-subsidization (the product is sold at tap points in rural areas and through jar sales in Dhaka)	Customers in Goalmari and Padua: 7,000; 21 employees, 45 water keepers, 10 jar distributors
Grameen Intel Social Business (founded in 2009)	Supporting farmers and rural entrepreneurs, improving health of pregnant women and newborns, educating children	Software applications are created and distributed with the help of intermediary organizations	More than 900 farmers using soil analysis to improve their turnover; job creation; more than 1,300 pregnant women screened; more than 2,000 customers

Source: own draft based on Willis *et al.* (2013)

More joint ventures were found on the website of Grameen Creative Lab, but since we want to find out more about their experiences, the focus is placed on the three most recent ones.

Empirical findings

We used triangulation in order to approach our research objective. Web research and a literature review was the basis, and qualitative data helped to gain special insights with regards to the research question. Humberg (2011) identified some insights and divided them into opportunities, limitations and risks. We decided to focus on the opportunities, challenges and risks observed by our interview partners during the first phase in order to get an overall view. Based on these results, guidelines were developed for the second phase. Here, representatives from the joint ventures share their opinions from the organizations' points of view in terms of the challenges with which they have to cope. Finally, two more interviews provide concluding explanations which prove valuable for the further analysis.

The interviews of the first two phases were analyzed with the summarizing method of qualitative content analysis using MAXQDA Software (Mayring, 2010). With the summarizing method, the transcribed text is paraphrased, generalized and reduced. The material is composed in a way that basic elements of the original text are condensed in a corpus, which can be used for further analysis (Kohlbacher, 2005). In order to ensure reliability, the transcribed texts have been coded by a second coder (inter-rater reliability rate: 71.81%).

Table 2: Steps of the Research Methodology

Research Methodology
1. Web and literature review
2. First interview phase: Semi-structured interviews with University representatives from Bangladesh
3. Guidelines for the second phase based on first phase with a special focus on challenges for the companies
4. Second interview phase: Semi-structured interviews with CEOs of joint ventures
5. Concluding interviews

Source: own draft

Perspectives of the university representatives

The experts chosen share three characteristics. Inherently, they are familiar with the social business approach. Additionally, they are university representatives and show knowledge on relevant research done in the field. Thirdly, they are locals and thus have an overview of the various processes taking place in Bangladesh. Since Grameen Creative Lab has contacts in Bangladesh, they were asked to identify potential interview partners and provide contact details. Four experts were chosen: Prof. Abdul Hannan Chowdhury, Eastern University; Ass. Prof. Rumana Parveen, Dhaka University; Prof. Asif Nazrul, Dhaka University; Ass. Prof. Masud Rahman, Daffodil International University. Face-to-face interviews were conducted in Dhaka, Bangladesh. All interviews are expert interviews due to the fact that the interview partners share the characteristics mentioned above. The following

findings of the categories ‘opportunities’, ‘challenges’ and ‘risks’ have been derived from the data.

Opportunities

In terms of opportunities, all interviewees agree on the joint ventures being a productive approach to solving social problems. Hence, all of them ascribe a positive impact to them. When going into detail, the interviewees elaborated on some of the reasons for this positive evaluation. Firstly, in terms of the products and services, the quality standard is assured.

“(...) this thing is done in collaboration with the foreign company that it gives us the confidence that there’s a minimum of quality be maintained there” (Nazrul).

Additionally, the possibility of scaling up successful approaches is very high considering a global perspective. Chowdhury explained,

“I would definitely say that it is going to help not only Bangladesh or a particular community; it is going to be helpful for any country, even for the developed countries.”

With regards to the financial power of global players, the risk of a joint venture’s failure could be bearable for a big company. Thus, the financial power these global players are able to mobilize is an important factor. Parveen explained:

“The large companies or the established companies that are in the business field for a long time, they can take some risk (...), because if this new venture fails, it is not a threat for the existence of the company.”

Another crucial factor is Grameen's vast network, which is highly beneficial for global players too:

“So Grameen already has established a network with them, so by using that network if they come, I believe that many sort of problems of this society can be solved through social business” (Rahman).

Challenges

According to the experts the joint ventures face some challenges. Firstly, the navigation of cultural diversity is expected to be obvious for global players; that is to say, social norms should be no problem. This is related to the fact that global players have long-term experiences with regards to how to behave in a foreign country; nevertheless, some difficulties may occur in terms of social acceptance by the Bangladeshi population. Of course, one major point contributing to this context is the lack of awareness of the concept ‘social business’. Rahman explained:

“If you ask 100 people, you may get less than ten people who have a proper understanding of social business.”

Nazrul also stressed the fact that social business joint ventures may face bureaucratic problems in a country like Bangladesh; he encouraged the creation of laws and regulations.

Rahman explained:

“You and me, we have a joint venture company started together. So after four or five years I decide that I will not deal with you. So how we do this sustainable? That's the question.”

Parveen expressed that the change from profit-orientated to social-orientated perspective might be a big challenge for global players.

“So far, they have conducted their business from the profit maximization point of view, but now they are changing their perspective when they’re entering into a joint venture to establish a social business. Their total focus is changing, so it should be their strategic decision: Should we or can we change our focus?”

And she continued:

“They are going to a totally different and new philosophy.”

In terms of practical work, Chowdhury expressed:

“One big challenge for the corporations, big corporations, is to come and to design a product or service with a very low cost, within the affordability of the customer.”

Thus, as social businesses are designed as no loss companies, they have to find a way to at least cover their costs under the condition that customers can only afford products at a very low cost level. Chowdhury added:

“So in that sense, companies, corporations, those who are interested to do social business with their existing product or service, they’re always facing a big challenge, in terms of meeting the needs as well as making profit for the organization to be sustainable in the long run; and that is a big challenge for these.”

Simultaneously, these products and services are to be of a good quality. However, even if the quality of the products is good and low-cost, it is not guaranteed that customers actually decide to consume them. Here, another part of the issue of ‘social acceptance’ is important:

not only the companies designed as social businesses may have problems with being accepted; also, the necessity of their products might be questioned by potential customers, as Chowdhury explained. Consequently, the challenge for those joint ventures consists in creating awareness of the necessity of their products. Finally, Rahman stressed the point that the number of professionals in the field can prove to be scarce; acquiring employees might also cause a challenge when starting such a business.

Risks

The risk of global players misusing the concept for a beneficial reputation is present. Nazrul explained what some global companies might assume:

“Okay, we are making a huge amount of profit by doing this type of business (...). Since Dr. Yunus has a global acceptability, why shouldn't we do one of our businesses as a social business and it will actually enhance our global reputation and global acceptability?”

Chowdhury confirmed this:

“So I see that, well, some of the companies or organizations, they have back in their mind that by involving themselves in the social business activities that they are going to brand their product indirectly to the global community.”

In order to mitigate and control this risk, certifications could be useful, which was specifically expressed by all experts. Rahman explained:

“So definitely, there should be a certification process, unless until you certify the risk of misusing it will go higher and higher without certification. So you will have to set up certain standards and norms so that if somebody can call

themselves social business once somebody is certified, and there should be a monitoring body as well. You just need a certification, and if you don't have a monitoring body it will not work, actually."

Up to now, anyone can call his business a social business, no matter if it fulfills the seven principles or not. Finally, Nazrul expressed concerns about the fact that a social business company could be used for personal benefits, i.e. by employing relatives.

According to Chowdhury, some companies might not clearly understand the concept of social business and confuse it with social responsibility. With regards to the aspect of legal barriers, Nazrul mentioned that they can possibly slow down the process of creating companies and doing business; but with the help of a local partner like Grameen, such obstacles can be dealt with agreeably. The lack of sufficient regulations and laws has already been expressed as a challenge in terms of the division of partners. What actually happens if partners no longer want to work together and split up the business is an open question. No legal framework seems to exist for such a case up to now.

The extracted findings of the expert interviews are displayed in the Table-3.

Table 3: Expert opinions in terms of opportunities, challenges and risks

<p>Opportunities</p>	<ul style="list-style-type: none"> • In general: positive impact • Assurance of good quality standard • Chance of scaling up • Financial power allows taking risks • Use and support of Grameen' s network
<p>Challenges</p>	<ul style="list-style-type: none"> • Creation of laws and regulation • Change of perspective from profit-orientated view to social-orientated view • Social acceptance of joint ventures and products • Designing low cost products of good quality • Generating revenue to be non-loss • Overcoming bureaucratic problems • Hiring trained people
<p>Risks</p>	<ul style="list-style-type: none"> • Misuse of concept by global players to enhance their reputation • Failure of joint venture • Legal barriers can slow down processes

Source: own draft

The issues addressed by the experts have been partly identified by Humberg (2011) and by Ballesteros-Sola (2014) as well. Humberg found that the low demand addressed by customers in the markets is a major challenge for the companies. This is due to the fact that customers are unaware of the necessity of a healthy consumption, making the initial acceptance of products difficult. Furthermore, social norms play an important role; a number

of Bangladeshi men, for example, expressed some antipathy concerning the product distribution provided by Grameen ladies, originating from a long tradition of the division of work. Additionally, break-even had not been achieved by the time the study was conducted – even though it was estimated that this should have taken place five years after the companies had been founded (Humberg and Braun, 2011). The second phase of this study will focus on whether these aims have been achieved at that point in time. Humberg and Braun (2011) also addressed the lack of a regulatory framework in terms of the concept of social business, making it possible for anyone to call his or her company a social business. Thus, the misuse of the concept is seen as a potential risk. “More elaborated guidelines and standards (...) would definitely facilitate a more consistent application of the social business term and concept” (Humberg and Braun, 2011: 20). Humberg and Braun (2011) plead for adding ‘Grameen’ before the term social business. Recently, it is recommended to place the term ‘Yunus’ before social business in order to distinguish it from other forms (Ballesteros-Sola, 2014).

Perspectives of the joint ventures representatives

Based on the previous results, some question guidelines were elaborated (Appendix 2). The interview questions have been created with a special focus on the challenges we identified. The interviews were conducted and recorded via Skype. As prior, the data were analyzed with Mayring’s qualitative content analysis (summarizing method). As the interview partners have gained insightful knowledge through their position as CEOs of the joint ventures, the interviews are expert interviews in that sense, too.

Grameen Danone

Eric Ipavec is General Manager of Grameen Danone, a position which is equivalent to a CEO. Grameen Danone aims at two tasks: firstly, the provision of a yogurt for malnourished children in Bangladesh in order to improve their physical well-being; secondly, the reduction of poverty through job creation. Currently around 300,000 kids are provided with the yogurt with the help of a distribution system including sales forces and Grameen Ladies. They walk around the villages, selling the product door-to-door. All in all, 600 Grameen Ladies benefit from selling the yogurt on a provision basis and 500 farmers sell milk to the factory in Bogra. Additionally, Grameen Danone has 300 employees, 100 of them working in the factory, 170 sales forces and 30 people working in the headquarters in Dhaka. The yogurt is sold at a price of 10 Thaka (approximately 8 cents) in villages and 12 Thaka in the cities.

The break-even is expected to occur in 2017. When asked about the main benefit of cooperating with Grameen, Ipavec replies:

“The main part we are benefiting from our partners is knowledge of the country, is knowledge of how to get things done as fast as possible, because we are an emerging country and the (things are) not as easy as it could be sometimes.”

Ipavec describes the achievement of financial sustainability as the main challenge:

“And the main challenge to achieve this is a quite simple challenge. I need to be able to target and to reach more consumer markets. And again: More consumers will bring me more social impact, because this is one part of my mission to give nutrition to the poorest as many as possible. So if I am targeting to be able to reach markets, I am giving more nutrition to those kids. And if I give more nutrition, I am selling more yoghurt, and if I am selling more yoghurt, most of my ladies will sell more, and most of my farmers will produce more and will get more

revenue to reduce the poverty – so it is a very virtuous cycle, but the key point is to sell more! And that is why we are on the part like any business in the world.”

Ipavec continues:

“Our product is still not known by all Bangladeshi kids in Bangladesh. When I am talking about 300,000 kids, it is a lot! But the target group - which is around between four and twelve years old – they’re around 25 million kids.”

There are also everyday challenges which companies in emerging countries have to face: a technical problem in the factory may be particularly constraining, as spare parts could be difficult to find; additionally, the mentality of employees, such as salesmen, is not the same as in industrialized countries: it happens that people do not show up to work or quit their job without giving notice. When asked about the social orientation within his company, Ipavec replies that the orientation is different with regards to a traditional business company:

“and yes, a major difference, I am a bit less focusing on: What is the margin? What is the profit level I am getting every month? But I still have the target to be at break even.”

Ipavec mentions two major features with regards to acceptance problems of the company and its products: firstly, the price needs to remain as low as possible in order to make it affordable for the poor. Secondly, awareness needs to be present: people have to know the product and its benefit. As the parents are the ones buying the product, they are the ones to be informed:

“But this is a part of our daily challenge also – to go back on the question number A – how to educate people and who to educate. Because we have two-level education: kids, we try kids, but kids do not care about nutrition, kids love

the product or they do not love. As simple as that. So if you want to educate someone it is more the parents. (...) And if they understand that this product can help in the part of the better diets, it helps. But it takes time. It takes time.”

The quality assurance is executed by a special department. Ipavec confirms that the bureaucracy in an emerging country may pose as a challenge. With regards to human resources, Ipavec replies that it is not an easy task to find suitable people:

“What’s important for me is someone who feels attached to the sole mission of our business. (...) Open minded and who have the capacity to learn more, a willingness to learn more and to be part of the future of the country.”

Two more points shall be referred to: Ipavec stresses that, in terms of the cooperation between Grameen and Danone, the relationship is a fruitful one. Both partners pursue the same mission, whereas partners in a traditional business company focus on their own benefits:

“You need to share the objectives. So in our case we are sharing the objective of social business. (...) Maybe where we are much more align[ed] is on the global vision, on the global target.”

The social impact is measured by the company:

“So we are doing once or twice a year some survey about their life - for both: ladies and farmers, on a very simple criterion: about using the train, about going to the doctors, about having a cell phone or else – many items (...). No one became a millionaire – to be clear. But their life standard has improved a bit more than the ones who are not engaged in our network. And that is all why we are here.”

Grameen Veolia

Ayoi Kumar is Project Manager, a local CEO, at Grameen Veolia. The company has a clearly defined mission:

“Actually the mission of the company is to provide arsenic-free safe water to the disadvantaged rural population of Bangladesh.”

Grameen Veolia has established one plant which provides water in two areas. Thirty-four people are employed and the break-even is expected in 2020. According to Kumar, Grameen was supportive in finding a suitable region for the projects. Making people aware of the dangers of tap water consumption was a major challenge:

“Normally if you, if the people have the right education, the right information about the water what they are drinking, they should come forward to you to take water. But in my project area, the people were not conscious, so I had to launch the awareness campaign to make the people understand that they need good quality of water for their lives, so that they can avoid many arsenic-related diseases and water-borne diseases. So, this was the major challenge faced by us.”

And he continues:

“If people have the right education about health and hygiene, they will come forward. Until they are not aware of health and hygiene, there will be hesitation.”

Kumar continues:

“The second challenge is that in Bangladesh you can get free water everywhere.”

The people in Bangladesh are used to free access to water; thus, it was a further challenge to convince them to pay for it. The shift towards a social orientation is not a problem from Kumar's point of view:

“Social business philosophy is inside our heart. Our philosophy is that we are not here to maximize our money.”

He adds:

“I don't think it is difficult, because it is a question of attitude.”

In terms of acceptance problems, Kumar explains:

“Actually, if people have no right information, there is a possibility to mistrust, but the company is mentioning the audit and everything each year so there should not be any mistrust.”

Quality assurance is done by both Veolia and Grameen Veolia. In order to achieve financial sustainability, Grameen Veolia not only sells its product in villages but has expanded to cities with 20 liter containers:

“For this approach, I can get a quick revenue from my urban business and the profit that I will earn from this urban area, I will give as cross subsidy to my rural area.”

According to Kumar, bureaucracy can pose as a problem for his daily work at times. So far, his company has not had problems finding employees. Finally, he stresses that the support of Veolia in technical and legal issues is very helpful.

Grameen Intel

Dilek Altin is Director International Business Development at Grameen Intel. According to Altin, the mission of the company is to use information and communication technology in order to support the people living at the base of the pyramid. Grameen Intel has 31 employees, three of them are being paid half their salary by Intel and the other half by Grameen Intel. One of the three is Altin. The break-even has not been reached yet. The company aims at expanding internationally, for example to countries such as India. Since it does not sell its products to customers directly, but instead uses the support of non-governmental organizations and public institutions to gain access to people, the cooperation with Grameen proves productive due to Grameen's good reputation. Altin enumerates some challenges he faces in his daily work: the overall challenge is to become financially sustainable by increasing the turnover.

“In terms of our business, in general, I think, a lot of social businesses face this challenge, we have to be able to stay within our lean budget and keep our ‘burn rate’ below, so that it is stable; we have to acquire projects, in order to assure financing and to achieve break even to become financially sustainable and expand”.

In case of Grameen Intel, the work in an emerging country also marks a challenge: for example, customers need at least some knowledge in terms of literacy and also need an income to be able to pay for the product. Besides that, they need to know how to use a smart phone or tablet – and have one. Basic prerequisites like access to electricity and the internet have to be a given, which is not always the case in Bangladeshi areas.

“The challenge really is our clients.”

Finally, Altin mentions the training and mentoring of employees as one of his tasks and the bureaucratic problems that come with establishing a company as an American investor in Bangladesh. In terms of the social orientation, Altin differs between employees of Grameen Intel and Intel:

“In Grameen Intel it is no problem. Because everyone has been employed locally with the perspective and the profile of the company as a social business.”

Some problems may occur in the parent company Intel, where an understanding of the concept of social business may be limited amongst employees.

“It is not easy within multinational companies to explain why you put investments and resources in a project, where you have a benefit but not a maximization of profit – instead a maximization of impact.”

The cause for this, Altin explains, is the incentive system of multinational companies which is focused on a high salary. He adds that this might change for the next generation, but his own generation is mainly motivated by monetary incentives. With regards to acceptance problems that the joint venture might have in Bangladesh, Altin replies:

“This is no big problem, on the contrary, I have the impression that the Grameen subcompanies mainly have a good reputation in the population, although I am not an expert in that point.”

Customers of Grameen Intel often do not understand why they should buy the software; this is why Grameen Intel collaborates with middle organizations in order to make people conscious of the advantages that come with the applications.

Grameen Intel has a quality department that assures and develops the products. The basic challenge to become financially sustainable is related to features of a technology business:

“the specialty in our case is of course, that we are a fixed-cost business, as software is a fixed-cost business in general. You invest in the first version, I do not know, like Microsoft does, and this costs some thousand euros and the next version is for free, because you can copy and distribute it easily. (...) Therefore, it is important for us to address a lot of people because the more people we address the lower the price and the costs are and the higher is our profit at the end.”

Thus, Grameen Intel also tries to expand internationally. With regards to the matter of finding suitable employees, Altin explains:

“This is really difficult. (...) Because firstly, in the tech business, it is difficult to find good people anyway and secondly, it is difficult to get those people, because other companies, which are not social businesses, can offer higher salaries; therefore, it depends very much on the attitude the employees have”.

Finally, Altin remarks that Intel also learns from its cooperation with Grameen. Although the joint venture is not seen as an ‘innovation incubator’, Intel aims to gain more knowledge on the developments within this sector. It is one of Altin’s tasks to return this knowledge to the parent company.

All in all, four major challenges can be derived from the data of the interviews with the CEOs of the joint ventures. They are summarized in the following table:

Table 4: Major challenges of the joint ventures

1. Financial sustainability Increase of turnover through awareness creation of necessity of the products and services
2. Challenges in terms of local circumstances Access to technical devices Knowledge of customer habits Lacking infrastructure
3. Bureaucracy and legal barriers
4. Human resources Attitude of employees Provision of training and mentoring for employees Acquiring qualified and suitable people

Source: own draft

Concluding interviews

Two more interviews were conducted, one of them with Hans Reitz, co-founder of Grameen Creative Lab. Reitz was asked to give an overview of his experiences with these companies. In terms of creating new social business joint ventures, Reitz declared:

“It is very agile, it grows, it is in action and there is incredibly much going on. Of course, one has to say that in traditional business, launching joint ventures differs from market to market and in social business it takes a long-term process to start these things.”

He continued:

“Every multinational company that is part of such a joint venture is assumed to be a highly efficient business institution, and in those highly efficient business institutions everybody is working at full capacity. To initiate something new, whilst underlying the pressure to be innovative and to perform in changing markets, poses a great challenge – and to find the suitable contact persons to do so.”

Reitz declares that people who are enthusiastic about the concept of social business and try to establish a sufficient ground within their company normally continue until they succeed:

“And those people who try to implement it in their company structures and their value systems in order to serve the cultivation of their company, they do not give up. Normally suggestions which have innovation power are not pursued more than two or three years. In social business one can observe that people do not give up. (...) This is special about social business, I think, that you keep on trying much longer. And this can become very exciting, this persistence for different innovation fields, something which a company can learn a lot from.”

Reitz also makes clear that founding a joint venture is not the only way to engage, sometimes it proves more productive for a company to start a social business on its own.

“And if one comes to the decision to go on alone and to start something within another sustainability context that is great, that is already a success in our view.”

Finally, Reitz concludes:

“After all those years, I can observe without a doubt that this process conducts the economic system into a better direction.”

At a conference in 2016, we had the chance to conduct an interview with Muhammad Yunus concerning recent research projects (Wirtz and Volkmann, 2015; Wirtz and Volkmann, 2015a). Three of the questions related to this study (Appendix 3). Yunus declared his philosophy with regards to successfully installing social businesses:

“Always start small, then you can test it and you know the proof of the concept. Once it's proven, you can take faster speed.”

When we asked about why it takes the social business joint ventures so long to become financially sustainable, Yunus replied:

“For one thing, this is a multinational company. They follow their own principles, like salaries, it's not a NGO so that you can develop your own salary level and so on. They have to maintain their salary scale and other standards. (...) That way, expense is high obviously. It doesn't mean that the break-even point cannot be reached. It takes time. The development phase always takes time.”

Yunus added that multinational companies are very careful when entering in social business activities, because they can run the risk of losing reputation, if the company fails. Therefore, he concludes:

“Our own interest is not to come to the break-even point right away. Our main issue is to come to operational break-even, just make sure you cover whatever you're spending now. Overheads have to be done over a long period, because overheads are built for a much larger market, but you start with serving only a few people at the beginning. Overheads cannot be covered by the product that you produce right away. If you want to do that it becomes too expensive. When you grow, when volume becomes big, then you come to cover the overheads. In the

beginning, you just look at the operational cost. Even the operational cost is higher in multinational joint ventures because of the reason I explained to you. “

Our second question concerned the certification process for social businesses, which had been recommended by the university representatives before.

“I’ve always promoted that idea that we should go back and have the certification process installed for several reasons, not only the seven principles. (...) There should be two audits, one is the conventional audit making sure your financial reporting is correct and you abide by your legal requirements. Another separate audit should be on checking whether you have complied with all the requirements to remain as a social business for the audit year. This audit will look through everything that is relevant to a social business (...). Just because a business started as a social business, does not mean that it will remain a social business over time. Owners can change their mind. But people should know about it. “

Finally, we referred to what had been expressed by Hans Reitz, asking why the concept seems attractive to some people staying persistent installing it in their companies. Yunus said:

“It is about natural social commitment among people. Many people have social commitments. But they cannot express it within their company framework. (...) When they hear about social business, or when they get involved in social business, they want to do more of it. An individual may have a social business idea while he is still working for the profit seeking company. He wants to find an opportunity to put it into action. There may be social commitment already within a person who never gets a chance to express it. Now, that commitment can be expressed in terms of social business. Given a chance they may encourage the company to get involved in social business.”

Discussion and Conclusions

At first sight, it is remarkable that none of the companies has reached break-even so far. Becoming financially sustainable is the main challenge addressed by all interview partners. Humberg (2011) has already shown that both Grameen Danone and Grameen Veolia had to adjust their products and distribution strategies. This is a challenge often seen when firms start working in emerging countries: due to the limited resources of customers in terms of income, specific products have to be created that are affordable for the poor (Dawar and Chattopadhyay, 2002). Yunus gives some explanations why it is such a long-term process for the joint ventures to achieve the break-even point. First, a multinational company pays high salaries and has high quality standards with regards to the products. This means that the total costs containing overheads and operational costs in the joint ventures are on a high level common in international business. Especially the operational costs are high at the beginning, because you have to create a new product of high quality under difficult circumstances. Additionally, it has to be sold at low cost. That is why it is already a success to cover the operational costs and thus reach operational break-even. To reach the break-even point also including the covering of the overheads is a process which obviously takes time – if it succeeds at all. Yunus mentions that there is a risk of failure, which has also been expressed by the university representatives. If something like this happens, it is not only a financial burden for the parent company; there might also be a risk in terms of losing reputation.

The advantages of a social business solution are financial sustainability and scalability; but such a solution can only be installed if prerequisites such as market availability are fulfilled. For this, customers who can pay for the product are a necessity. Of course, there are also cases in which the instalment of a social business is not possible and a donation-based model is necessary; i.e. after a natural catastrophe. Both approaches have their

advantages and disadvantages – they should not be seen as competitive approaches, but as complementary to one another (Wirtz, 2016).

In terms of opportunities, the joint ventures between global players and Grameen have the potential to create a high impact, if they succeed and are able to scale up their companies. Of course, it is a benefit of this cooperation, as one of the interviewees stressed, that due to the financial power of the companies, there is some space to experiment in terms of products and distribution channels. Another opportunity is the cooperation with Grameen, because it ensures that the joint ventures have access to knowledge of the country, including cultural habits. This is important for coping with every day challenges as well as for finding suitable localities for the plants. Additionally, in terms of Grameen Intel, the reputation of Grameen is helpful for the joint venture when working with partner organisations.

The basic risk of such a joint venture is the entrepreneurial one: the company can fail. Although this may be manageable in terms of finances, the point Yunus addresses, that a loss of reputation might occur for the global players still stands. The risk of misusing the concept has been addressed by the interviewees. According to Yunus a certification process could be done through an audit, which would make sure that a social business company really acts according to the seven principles.

Comparing the social business joint ventures to other forms of cooperation, Ipavec, the CEO of Grameen Danone, points out that the cooperation with Grameen might be successful because both companies share the same goals. As Roloff (2008) has shown, cooperation between a non-for-profit company and a for-profit company can prove difficult if goals are conflicting. Research concerning traditional business joint ventures often focusses on the governance of the two partners (Ding, 1997; Bamford *et al.*, 2004; Bamford and Ernst, 2005; Beamish and Lupton, 2009). Sometimes the interdependencies with the parent companies

hinder those joint ventures from performing accordingly; this might be the case, if board members in those ventures are too powerful and pursue the interests of parent companies (Bamford and Ernst, 2005). Basically, for successful partnering, trust seems to be essential. This is the case for cross sector partnerships (Dahan *et al.*, 2010; Getha-Taylor, 2012; Venn and Berg, 2014) and business joint ventures (Beamish and Lupton, 2009).

The social business joint ventures have a social mission, and in terms of innovations, they are also pioneers. Although they are not designed as ‘innovation incubators’, they generate knowledge for their parent companies. This has been expressed by Altin and Reitz. Jochen Ebert from Danone India confirmed:

Grameen Danone Foods allowed us to experiment with new approaches and processes. A big corporation becomes more and more top-down in the way it is managed. Our social business in Bangladesh was really created bottom-up. (...) The direct-delivery systems we created in Bangladesh are smaller and more effective than what we have in many other countries. And we’ll be launching some products in France that were strongly inspired by our products in Bangladesh (Villis *et al.*, 2013, p. 11).

Additionally, such joint ventures can make employees of the parent companies proud (Villis *et al.*, 2013). Thus, an increase in employee motivation and the generation of innovations can be seen as beneficial for global players.

To conclude, one can derive the following opportunities, challenges and risk from the study: the Grameen Group has the opportunity to get access to both financial power and technical expertise when cooperating with global players. A global player has the opportunity to access a broad network, including the chance to get specific and essential knowledge of the country and infrastructure. Additionally, innovative products and an enhancement in both reputation and employee motivation are effects. A challenge for Grameen is to cooperate with

a global player that operates differently, since a social business like Grameen aims at contributing socially while global players aim at making profit. The challenge for the global player obviously is the same when partnering with Grameen. A basic risk for the parent companies lies in the fact that a joint venture can fail and damage the reputation of the partners. Taking a look at the joint ventures themselves, the opportunity of the approach is to create a solution which is financially sustainable and scalable if it succeeds. The basic challenge is to come to break-even point or to achieve an operational break-even point at the least. Here, the proof of concept is the starting point at which scalability is possible. However, as the cases show, the path to achieving this point is a long one, since companies have to be flexible in using cross-subsidizing and altering their products and distribution channels in order to become cost-covering. The final risk for the joint ventures is the ‘entrepreneurial risk’; here it is possible that a joint venture does not achieve financial sustainability and will be terminated by the parent companies.

The study reveals its limitations in the fact that the university representatives were identified with the help of a Grameen organisation. Hence, a certain bias in terms of the selection is probable. Future research could integrate more stakeholders like development experts and beneficiaries of the joint ventures, according to Humberg (2011). Furthermore, we focused on the successful cases. As our web research shows, other joint ventures had been formed but obviously no longer exist. It could be productive to gain information about these experiences as to learn from them.

Social business joint ventures face challenges both from cross sector partnerships and traditional joint ventures. It might take a longer time to reach break-even, due to the specific challenges of an emerging country combined with the aim to become financially sustainable. “Cooperating with other organisations, companies, and institutions is an effective and

efficient way to mobilize resources, gain complementary capabilities, and capture synergies” (Schirmer and Cameron, 2012, p. 84). This observation has been confirmed by the above mentioned joint ventures. It might be a concern of a multinational company, if such a joint venture fails. In this regard, the fear of the large corporate entity of obtaining a bad reputation is understandable. However, this risk is inherent in such engagements. A potential success and sustainable solutions to social and societal problems requires the courage to take new ways of cooperation and long-term commitment.

Acknowledgement: we thank the anonymous reviewers for their valuable comments.

References

- Alvord, S.H., Brown, L.D. and Letts, C.W. (2004). Social entrepreneurship and social transformation: an exploratory study. *Journal of Applied Behavioral Science*, 40, 3, 260–82.
- Austin, J., Stevenson and H., Wei-Skillern, J. (2006). Social and commercial entrepreneurship: same, different, or both? *Entrepreneurship Theory and Practice*, 31, 1, 1–22.
- Bacq, S. and Janssen, F. (2011). The multiple faces of social entrepreneurship: a review of definitional issues based on geographical and thematic criteria. *Entrepreneurship and Regional Development*, 23, 5–6, 373–403.
- Ballesteros-Sola, M. (2014). Social business planning: management and financial issues. In A. Grove and G.A. Berg (Eds.), *Social business: Theory, practice, and critical perspectives* (pp. 156-176). Wiesbaden: Springer.
- Bamford, J. and Ernst, D. (2005). Governing joint ventures. *McKinsey Quarterly*, Special Edition, 62-69.
- Bamford, J., Ernst, D., and Fubini, D. (2004). Launching a world-class joint venture. *Harvard Business Review*, 82, 2, 90-100.
- Beamish, P. and Lupton, N. (2009). Managing joint ventures. *Academy of Management Perspectives*, 23, 2, 75-94.
- Beckmann, M., Zeyen, A., and Krzeminska, A. (2014). Mission, finance and innovation: the similarities and differences between social entrepreneurship and social business. In A. Grove and G.A. Berg (Eds.), *Social business: Theory, practice, and critical perspectives* (pp. 23-41). Wiesbaden: Springer.
- Bendell, J., Collins, E., and Roper, J. (2010). Beyond partnerism: toward a more expansive research agenda on multi-stakeholder collaboration for responsible business. *Business Strategy and the Environment*, 19, 6, 351–355.
- Benefit Corporation (2017). <http://benefitcorp.net/international-legislation>. Accessed 20 February 2017.

- Dacin, P., Dacin, T., and Matear, M. (2010). Social entrepreneurship: why we don't need a new theory and how we move forward from here. *Academy of Management Perspectives*, 24, 3, 37–57.
- Dahan. N.M., Doh, J.P., Oetzel J., and Yaziji M. (2010). Corporate-NGO collaboration: co-creating new business models for developing markets. *Long Range Planning*, 43, 2-3, 326–342.
- Danone Communities (2016). <http://www.danonecommunities.com/en/project/grameen-danone-food?mode=measures>. Accessed 4 April 2017.
- Danone Communities (2016a). <http://www.danonecommunities.com/en/project/grameen-danone-food?mode=history>. Accessed 6 August 2016.
- Dart, R. (2004). The legitimacy of social enterprise. *Nonprofit Management and Leadership*, 14, 4, 411–24.
- Dawar, N. and Chattopadhyay, A. (2002). Rethinking marketing programs for emerging markets. *Long Range Planning*, 35, 5, 457–474.
- Dees, G. (2001). The meaning of social entrepreneurship. White paper, The Center for the Advancement of Social Entrepreneurship, Duke University; <http://community-wealth.org/content/meaning-social-entrepreneurship>. Accessed 19 September 2016.
- Dees, G., and Battle Anderson, B. (2006). Framing a theory of social entrepreneurship: building on two schools of practice and thought. ARNOVA Occasional Paper Series, 1, 3, 39–66.
- Department for Business, Innovation and Skill. (2013). https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416351/13-786-community-interest-companies-frequently-asked-questions.pdf. Accessed 13 September 2016.
- Ding, D. (1997). Control, conflict and performance: a study of U.S.-Chinese joint ventures. *Journal of International Marketing*, 5, 3, 31-45.
- Dobers, P. and Halme, M. (2009). Corporate social responsibility and developing countries. *Corporate Social Responsibility and Environmental Management*, 16, 237–249.

- Dorado, S. (2006). Social entrepreneurial ventures: different values so different process of creation, no? *Journal of Developmental Entrepreneurship*, 11, 4, 319–43.
- European Commission (2011). Social business initiative. http://europa.eu/rapid/press-release_MEMO-11-735_en.htm. Accessed 4 August 2016.
- Field, A. (2012). IRS Rule Could Help the Fledgling L3C Corporate Form. <http://www.forbes.com/sites/annefield/2012/05/04/irs-rules-could-help-the-fledgling-l3c/>. Accessed 1 September 2016.
- Getha-Taylor, H. (2012). Cross-sector understanding and trust. *Public Performance and Management Review*, 36, 2, 216-229.
- Gradl, C., Sobhani, S., Bootsman, A., and Gasnier, A. (2008). Understanding the markets of the poor: A market system approach to inclusive business models. In P. Kandachar and M. Halme (Eds.), *Sustainability challenges and solutions at the base of the pyramid – Business, technology and the poor* (pp. 30–51). Sheffield, UK: Greenleaf.
- Grameen America. (2017). <http://www.grameenamerica.org/>. Accessed 8 February 2017.
- Grameen Creative Lab. (2016). Network. Grameen family of businesses. <http://www.grameencreativelab.com/our-company/network.html>. Accessed 15 February 2016.
- Grameen Creative Lab. (2016a). The 7 principles of social business. <http://www.grameencreativelab.com/a-concept-to-eradicate-poverty/7-principles.html>. Accessed 15 March 2016.
- Grameen Intel. (2017). <http://www.grameen-intel.com/about/who-we-are/>. Accessed 3 February 2017.
- Grameen Intel. (2017a). <http://www.grameen-intel.com/projects/project-harvest/>. Accessed 3 February 2017.
- Grameen Intel. (2017b). <http://www.grameen-intel.com/tax-products/eagriculture/>. Accessed 3 February 2017.
- Grameen Intel. (2017c). <http://www.grameen-intel.com/products/coel/>. Accessed 3 February 2017.

- Grameen Intel. (2017d). <http://www.grameen-intel.com/tax-products/learning/>. Accessed 3 February 2017.
- Grameen Veolia Water. (2016). <http://www.grameenveolia.com/index.php?p=action>. Accessed 5 September 2016.
- Grameen Veolia Water. (2016a). <http://www.grameenveolia.com/index.php?p=context>. Accessed 5 September 2016.
- Herlin, H. (2015). Better safe than sorry: nonprofit organisational legitimacy and cross-sector partnerships. *Business and Society*, 54, 6, 822-858.
- Humberg, K. (2011). *Poverty reduction through social business? Lessons learnt from Grameen joint ventures in Bangladesh*. Munich: Oekom.
- Humberg, K. and Braun, B. (2011). Social business as a new route towards poverty reduction. Experiences from Grameen joint ventures in rural Bangladesh. *Journal of Social Business*, 1, 4, 4-35.
- Johnston, L. M. and Finegood, D. T. (2015). Cross-sector partnerships and public health: challenges and opportunities for addressing obesity and noncommunicable diseases through engagement with the private sector. *Annual Review of Public Health*, 36, 255-271.
- Kohlbacher, F. (2005). The use of qualitative content analysis in case study research. <https://pdfs.semanticscholar.org/33a6/2dcb00f86d99b1e10e4fad4fc9983e1a247.pdf>. Accessed 27 January 2017.
- Mair, J. and Marti', I. (2004). Social entrepreneurship: what are we talking about? A framework for future research. Working Paper 546, IESE Business School, University of Navarra.
- Mair, J. and Noboa, E. (2006). Social entrepreneurship: how intentions to create a social venture are formed. In J. Mair, J.A. Robinson, and K. Hockerts (Eds.), *Social entrepreneurship* (pp. 121–35). New York: Palgrave Macmillan.
- Mayring, P. (2010). *Qualitative Inhaltsanalyse. Grundlagen und Techniken*. Weinheim und Basel: Beltz Verlag.

- Nahiduzzaman, K.M. and Sultana Munni, S.R. (2014). Information Technology: marriage between it and social business – Grameen Intel Social Business Ltd. In A. Grove and G.A. Berg (Eds.), *Social business: Theory, practice, and critical perspectives* (pp. 101-114). Wiesbaden: Springer.
- Prahalad, C. K. (2006). *The fortune at the bottom of the pyramid: Eradicating poverty through profits, enabling dignity and choice through markets*. Upper Saddle River, NJ: Wharton School Publishing.
- Reficco, E. and Marquez, P. (2009). Inclusive networks for building BOP markets. *Business and Society*, OnlineFirst, published March 27.
- Rivera-Santos, M. and Rufin, C. (2010). Global village vs. small town: understanding networks at the base of the pyramid. *International Business Review*, 19, 2, 126–139.
- Robinson, J. (2006). Navigating social and institutional barriers to markets: How social entrepreneurs identify and evaluate opportunities. In J. Mair, J.A. Robinson, and K. Hockerts (Eds). *Social entrepreneurship* (pp. 121–35). New York: Palgrave Macmillan.
- Roloff, J. (2008). Learning from multi-stakeholder networks: issue focused stakeholder management. *Journal of Business Ethics*, 82, 1, 233–250.
- Sassmannshausen, S.P. and Volkmann, C.K. (2016). The scientometrics of social entrepreneurship and its establishment as an academic field. *Journal of Small Business Management*. Early view.
- Schirmer, S. and Cameron, H. (2012). Collaborations and partnerships. In C.K. Volkmann, K. Tokarksi, and K. Ernst (Eds.), *Social entrepreneurship and social business: An introduction and discussion with case studies* (pp. 83-101). Wiesbaden: Gabler.
- Third Sector (2015). The rise and rise of community interest companies. <http://www.thirdsector.co.uk/analysis-rise-rise-community-interest-companies/governance/article/1348096>. Accessed on 13 September 2016.
- Thompson, J.L. (2002). The world of the social entrepreneur. *International Journal of Public Sector Management*, 15, 4/5, 412–31.

- Thompson, J.L. and Doherty, B. (2006). The diverse world of social enterprise: a collection of social enterprise stories. *International Journal of Social Economics*, 33, 5/6, 361–75.
- Venn, R. and Berg, N. (2014). The gatekeeping function of trust in cross-sector social partnerships. *Business and Society Review*, 119, 3, 385–416.
- Villis, U., Strack, R., Yunus, M., and Bruysten, S. (2013). The power of social business. Lessons from corporate engagements with Grameen. Report of The Boston Consulting Group and Yunus Social Business, Boston.
- Volkman, C. K., Tokarski, K., and Grünhagen, M. (2010). Entrepreneurship in a European perspective: concepts for the creation and growth of new ventures. Wiesbaden: Gabler.
- Wirtz, M. and Volkman, C.K. (2015). Do social business cities foster sustainable urban development? *Social Business*, 5, 2, 157-175.
- Wirtz, M. and Volkman, C.K. (2015a). Social business microfinance - different models to empower women. *International Journal of Social Entrepreneurship and Innovation*, 3, 5, 323-338.
- Wirtz, M. (2016). Charity and social business – two ways to the same goals. *International Journal of Social Entrepreneurship and Innovation*, 4, 3, 210-222.
- Wadham, H. and Warrant, R. (2013). Inspiring action, building understanding: How cross-sector partnership engages business in addressing global challenges. *Business Ethics: A European Review*, 22, 1, 47-63.
- Weerawardena, J. and Sullivan Mort, G. (2006). Investigating social entrepreneurship: A multidimensional model. *Journal of World Business*, 41, 1, 21–35.
- World Bank (2017). Poverty overview. <http://www.worldbank.org/en/topic/poverty/overview>
Accessed 21 March 2017.
- Yunus, M. (2010). Building social business. The new kind of capitalism that serves humanity’s most pressing needs. New York: Public Affairs.

Appendix 1:

The seven principles of social business:

1. “Business objective will be to overcome poverty, or one or more problems (such as education, health, technology access, and environment) which threaten people and society; not profit maximization.
2. Financial and economic sustainability.
3. Investors get back their investment amount only. No dividend is given beyond investment money.
4. When investment amount is paid back, company profit stays with the company for expansion and improvement.
5. Environmentally conscious.
6. Workforce gets market wage with better working conditions.
7. ...do it with joy.” (Grameen Creative Lab, 2016a)

Appendix 2: Guidelines for the second interview-phase

1. Company related items

- a. What is your position in this company?
- b. How would you define the social mission of the company?
- c. How many people do you employ?
- d. How many factories/stores do you run?
- e. Did you achieve a break-even? If not, when do you expect to do so?
- f. What role does Grameen's network play?

2. Special challenges

- a. What are the major challenges which you have to overcome in your daily work?
- b. Was it difficult to change the perspective from a profit-orientation to a social orientation?
- c. Do you have acceptance problems concerning your business? Do you have acceptance problems concerning your products/ services?
- d. How do you assure the quality of your products and services?
- e. How do you face the challenge of low cost production and generating enough profit?
- f. Do you or did you have bureaucratic problems? Do you wish to have more laws and regulation for your company?
- g. Is it difficult to hire trained people?

Appendix 3: Interview with Muhammad Yunus

Yunus: “Always start small, then you can test it and you know the proof of the concept. Once it's proven, you can take faster speed.

Authors: Thank you. The joint ventures Grameen Danone, Grameen Veolia and Grameen Intel still have not reached break-even although the financial gap is narrowing. Why does it take social business joint ventures so long to become financially sustainable?

Yunus: For one thing, this is a multinational company. They follow their own principles, like salaries, it's not a NGO so that you can develop your own salary level and so on. They have to maintain their salary scale and other standards. It's a Danone company, whether it's a joint venture, whether it's a social business or not, it's a Danone company and there is the standard of the Danone company and the salary, etc. This is on the higher side than what you would normally expect in a country like Bangladesh and then lots of things they have to do at the same level of standard, efficiency, and quality. So it becomes expensive. That way, expense is high obviously. It doesn't mean that the break-even point cannot be reached. It takes time. The development phase always takes time. When you build your first car, it takes a lot of time. When you know how to build a car and put it through the factory process, probably every hour or every ten minutes there's a car coming out. This is the time you're developing the prototype. Every business that we have, it becomes extra difficult for multinational. They cannot afford to make mistakes. If you make a mistake, it becomes big news even if you are doing social business. So you have to be very careful on the legal issues, on moral issues, political issues and everything, so they have to be very cautious, step by step. This is what is done. Our own interest is not to come to the break-even point right away. Our main issue is to come to operational break-even, just make sure you cover whatever you're spending now. Overheads have to be done over a long period, because overheads are built for a much larger

market, but you start with serving only a few people at the beginning. Overheads cannot be covered by the product that you produce right away. If you want to do that it becomes too expensive. When you grow, when volume becomes big, then you come to cover the overheads. In the beginning, you just look at the operational cost. Even the operational cost is higher in multinational joint ventures because of the reason I explained to you.

Authors: And the reason you just explained, for example, in a social business joint venture, is that the quality is the same as what you sell in Europe? It's very high quality.

Yunus: Exactly. It's very high quality.

Authors: This might differentiate this approach from a BOP approach, where a multinational company sells low cost products so that the quality is not a very important issue.

Yunus: Even then, quality is very important for multinationals, because they carry their brand name. A BOP product is a product of the same company. They cannot compromise the quality because somebody will say, 'Look, they are selling second class products.' They have to maintain their quality. For BOP products they overcome it because they have a big structure already and a big market already. Their overhead cost doesn't weigh much on this one product. Overhead costs are spread out over many products and over a bigger market.

Authors: According to quite recent research projects, there is significant risk that companies declare themselves a social business despite not meeting the seven principles; therefore researchers have recommended a certification process for social businesses. Would you support such a measure?

Yunus: Yes, I've always promoted that idea that we should go back and have the certification process installed for several reasons, not only the seven principles. The important reason is that you start with good intentions, follow all seven principles, you come to the break-even

point. It's an excellent idea that you have and you created a successful social business, and you have done it for five years already. During the sixth year, you may change your mind, and you want to make personal money from this business. You have quietly shifted from a social business to a conventional business without publicising about it. People still know you as a social business. Nobody knows that, in the meantime, you changed the type of business. How do you protect the consumers, protect the image of social business, and also protect the promises that you made? The people cannot detect that you are no longer a social business. So, it needs more than a one-time certification, it needs annual auditing, a social business audit. There should be two audits, one is the conventional audit making sure your financial reporting is correct and you abide by your legal requirements. Another separate audit should be on checking whether you have complied with all the requirements to remain as a social business for the audit year. This audit will look through everything that is relevant to a social business; have you given any personal dividend, whether you are in compliance with the seven principles. Audit will also give management report identifying how the company would do better as a social business. This auditing should be an integral part of any social business. Just because a business started as a social business, does not mean that it will remain a social business over time. Owners can change their mind. But people should know about it.

Authors: Is this already done?

Yunus: Not yet. We don't have the numbers yet, but this has to be done. There's no other option.

Authors: The concept 'social business' seems to be very attractive to people. One of the interviewees expressed that some people are very persistent when trying to establish it in their companies. Can you explain what especially attracts people and why some of them stick with it until they succeed?

Yunus: It is about natural social commitment among people. Many people have social commitments. But they cannot express it within their company framework. They cannot express their social commitments because they're only devoted to profit making for the company. So they feel unfulfilled. They are providing their services, but it is only going to increase the profit of the company for the shareholders. They are not delivering any significant of social benefit. When they hear about social business, or when they get involved in social business, they want to do more of it. An individual may have a social business idea while he is still working for the profit seeking company. He wants to find an opportunity to put it into action. There may be social commitment already within a person who never gets a chance to express it. Now, that commitment can be expressed in terms of social business. Given a chance they may encourage the company to get involved in social business. “

Epilog

After passing my PhD Defense at the end of May 2018, I want to express some more thanks: to Professor Uwe Schneidewind, who supported me during my work at the Wuppertal Institute with regards to my proposal; and of course to Professor Christine Volkmann, whose scientific advice was always available, when I worked at her chair.

Finally, I want to thank my parents Almuth und Bert Wirtz for creating their own kind of social business joint venture.

They have persistently supported me, until I reached break-even.

Wuppertal, 2.6.2018

Michael Wirtz