

Transforming Capitalism: The Benefits of Social Business Over Profits

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Abstract:

Background: “Grameen Danone Foods” (GDF) is a genius “social business enterprise” conceived by Muhammad Yunus, founder and managing director of Grameen Bank in Bangladesh. It is jointly owned and operated by Groupe Danone, a France-based world corporate giant in dairy products in partnership with subsidiaries of Grameen’s companies, a group of pro-poor firms founded by Yunus that are dedicated to eradicating poverty and other social ills in Bangladesh.

Methods: This is a case analysis of the author’s decade-long research, interviews and corporate data from the launch of GDF beginning in 2006. Over time, the business partnership has evolved and is currently operating in various Bangladesh districts. The joint venture’s primary aim is to optimize social good rather than maximize profits. Its mission is to fight poverty and malnourishment by bringing daily health nutrition primarily to hungry Bangladeshi children through its fortified, nutrient-rich yogurt.

Results: The first state-of-the-art small yogurt factory went into operation near the town of Bogra, followed by other facilities across the country. The venture also reduces poverty by stimulating the local economy through the yogurt plant’s operation. Dozens of additional factories are being built throughout Bangladesh, primarily from profits earned from the very first plant. It is hoped that this business enterprise will spark a growing movement called “social business” throughout the world, through shifting the current conventional focus of traditional capitalism beyond maximizing profits that usually benefit only a few individuals, to realizing social and moral benefits for the entire society.

Conclusion: This case analysis suggests a new management form to reduce human suffering, especially in children, with broader potential to improve the world.

Keyword: Social Business, Capitalism, Grameen Bank, Danone, Poverty, GDF, B Corporation

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I. Introduction

This article is an academic analysis of a collaborative venture that began in 2005 discussions when Dr. Muhammad Yunus of the Grameen Bank of Bangladesh and then Danone CEO, Franck Riboud decided to partner in building the world’s first multinational consciously designed “social business” (Yunus, 2007). The two organizations would create a yogurt manufacturing enterprise in Bangladesh offering nutrition to malnourished children. It was to serve the poor rather than maximizing profits. The venture would be named Grameen Danone Foods (GDF). Its products would be sold at a low price that would be affordable to the poorest population of Bangladesh. This case compares the concepts of traditional “capitalism” versus “social business” by analyzing GDF in Bangladesh as a model of the concept of a “social business,” and concludes by discussing the future of social business in the global society.

On the business side, it’s a way to create value for Danone, its managers and investors through partnerships with the Grameen Family of Companies (Appendix I). GDF produces Shokti+, and in doing so, generates broader social benefits as well. With respect to supply side economics, it assists Bangladeshi farmers through purchasing their milk. Additionally, in terms of the distribution side, it encourages economic empowerment and jobs for village women, mostly mothers to promote and educate struggling families. Known as the ‘Grameen Ladies,’ they sell GDF products to impoverished families in rural areas.

The initial investment was approximately US\$ 1.1 million, half of it generated by Danone and the other 50 percent coming from four of the Grameen Family of Companies: Grameen Telecom, Grameen Byabosa Bikash, Grameen Kalyan, and Grameen Shakti, the latter of which develops, promotes, and supplies renewable energy technologies throughout rural Bangladesh (Ghalib, 2008).

After a decade or so of growing success, GDF evolved in 2018 into becoming a B Corp which is a new organizational form for businesses that gives a company certain privileges above and beyond traditional capitalist objectives. Essentially, this new legal entity now growing rapidly in the United States and Europe, offers positive impacts for shared, sustainable prosperity for all.

As of 2020, Grameen Danone impacted 300,000 Bangladeshi children annually. It also benefitted communities by generating sustainable revenues for some 200 “Grameen ladies,” 100-plus van pullers who distribute Shokti+, and over 500 dairy farmers. Surely, this suggests a win-win.

II. Conceptual Definitions: Social Business and Traditional Capitalism

To understand the analysis, we must differentiate between the concept of “Social Business Enterprises” (SBEs) intended to realize social benefits for the entire society from “Profit Maximizing Businesses” (PMBs) that benefit only a few individuals. This new form of enterprise is called “social business” (Yunus, 2007, 21-28). SBEs and PMBs operate and may compete in the same market while perhaps trying to outmaneuver each other for market share. SBEs also compete among themselves for market shares and push each other to improve the quality of their products and services, as do most capitalist firms. But the results are different. Examples of social benefits that can be created by SBEs include poverty alleviation, social justice, housing for the homeless, environmental clean-up, reductions in domestic violence, healthcare, crime prevention, regional peace, education, racial relations, changes in the political environment of given societies, among others.

In its organizational structure, operations and overall management, a social business may be somewhat similar to a PMB but differs in its objective. It is cause-driven rather than profit-driven. It is designed to meet social and ethical goals. It pays no dividends, and it should incur no losses (Grameen Trust, 2006). A social business is designed and operated as a business enterprise with a business plan and strategy, products, services, workers, customers, markets, expenses, and revenues, but with the profit-maximization principle replaced by the social-benefit principle. It provides its goods and services to its customers consistent with its social objective. It sells products or services at prices that make it self-sustaining, as well as more affordable to the masses. It enjoys the potential for almost unlimited growth and expansion. And as the social business grows, so do the benefits it provides to society.

As of 2020, various forms of social business operate globally. The first kind involves companies that focus on providing a social benefit rather than on maximizing profit for the owners. The second kind involve PMBs that are fully or mostly owned by the poor or disadvantaged, in which dividends and equity growth go to benefit the poor, thereby helping them to escape poverty. Grameen Bank, founded by Yunus, falls under this category since 94 percent of its shares have been held by its borrowers, who are mostly poor Bangladeshi women. The borrowers earn annual dividends from the bank’s profits. The third kind of system is a hybrid version, which combines the best characteristics of a PMB with those of an SBE. For example, a company may be driven by social-benefit objectives and personal-benefit objectives, or vice versa. It is hoped that in the future, as the concept of social business is more fully embraced by the global society and social businesses begin to spring up around the world, new features and forms of social business will emerge (Yunus, 2007, 28).

III. Three Features of What Social Business is Not

The organizational design and institutionalization of SBEs have several distinct aspects that clarify not only what it means, but also what it isn’t, each described in the following paragraphs.

Traditional Humanitarian Aid:

Humanitarian aid traditionally encompasses volunteer, charitable and nongovernmental sectors. These sectors devote a great deal of resources, time and energy to dealing with various social problems. They help those who are so seriously disabled that they cannot help themselves. However, in cases where people can help themselves, over-reliance on charity in the form of giveaways and handouts may take away initiative and responsibility from the recipients. Handouts often encourage dependence and laziness rather than self-reliance, hard work and self-confidence. They may also breed corruption. When aid is donated to help the poor, the officials who are in charge of distributing the free goods and services often turn themselves and their favored friends into recipients. Finally, charity creates a one-sided power relationship. The beneficiaries of charity are favor-seekers rather than claimants of something they deserve. Such one-way relationships then make the poor more vulnerable to exploitation and manipulation by donors (Yunus, 2007, 115-116).

Charitable organization:

A social business is not a charitable organization. While charities create social benefits by partly or fully relying on donations, foundations grants, or governmental support to implement their programs, a social business must recover its full costs from its operation on a sustainable basis, while achieving its social objectives. Once it is set up, a social business should be self-propelling, self-perpetuating and self-expanding. Donors or investors do not need to pump in never-ending supplies of money into the business. Any social business that has to continuously rely on subsidies and financial contributions to cover its losses remains a charitable organization.

Corporate Social Responsibility:

Unlike a social business which heavily devotes its efforts to creating maximum social benefits for the society, corporate social responsibility (CSR), in some cases, tends to primarily pursue the selfish-centered interests of PMB, resulting in achieving fewer social benefits for the society. Although the concept of corporate social responsibility is built on good intentions, some corporate leaders misuse the concept to produce selfish benefits for their companies. At times, this self-interest might include supporting the personal goals or values of a powerful or respected corporate leader, earning favorable publicity for the company, deflecting criticism over the company's past ethical and business lapses, attracting customers who may prefer to do business with a company they perceive as socially responsible yet isn't, winning the friendship and support of government regulators or legislators who are considering laws that might benefit the company, and gaining footholds in a new market that holds promise for the future but is currently unprofitable (Yunus, 2007, p. 36). Every year, many companies spend millions of dollars on corporate social responsibility, some of which primarily supports selfish interests and achieve less good for society.

IV. Discussion: Key Venture Partners and Challenges

Returning to the case study at hand, the facts are that Groupe Danone has grown into a multi-billion euros France-based global food products corporation, the world leader in dairy products. Its Danone brand yogurt (known as Dannon in the U.S.) is popular throughout Europe, North America and other countries. After Danone decided to partner with Yunus' Grameen Bank and its some 20-plus other organizations involved in fighting poverty and other social ills in Bangladesh, further initiatives have been developed and implemented. Some of these now offer programs such as vaccination, veterinary care and other kinds of support to poor dairy farmers to enable them to provide sufficient milk to the country's yogurt plants (Yunus, 2007). Relationships between Danone and Grameen began expanding in 2009 as the new partnership grew to involve additional Danone entities worldwide whose executives wanted to invest and help grow the new joint venture as a social business (Appendix 2). Today Grameen Bank continues to provide loans to micro-borrowers in order to buy dairy cows and to produce and sell the milk to the GDF yogurt plants.

GDF chose yogurt as the initial product to enter the Bangladeshi market for several reasons. First, as a dairy product, yogurt contains many healthful nutrients necessary to fight malnutrition. Secondly, the active cultures in yogurt promote good intestinal health and help reduce the incidence and seriousness of diarrhea among children. Third, additional micronutrients are added to the yogurt in the form of supplements to create a more fortified yogurt. Fourth, yogurt was perceived to likely be a popular food among Bangladeshi children and their parents. It is creamy and slightly sweet, the kind of food that children enjoy eating. Lastly, there has long been a local popular tradition of eating and enjoying yogurt as a snack and dessert in Bangladesh. Under the name of *Mishit Doi* (sweet yogurt), it is sold in clay pots at local shops or roadside stalls throughout the country (Yunus, 2007, 132).

Of course, like all joint ventures, there were and still are challenges faced by Grameen Danone Foods (GDF). They include the following: 1) The venture invested significantly in time and resources to train over 1000 "Grameen Ladies" for its yogurt distribution campaign. However, this figure has dwindled over time. Given that the turnover rates of the product average from only 60-70 cups per day, there is less overall daily monetary incentive for the women to stay in the distribution business. Instead, they more typically now use their distribution microenterprises as a part-time source of income. 2) Advertising is currently being done primarily by word of mouth, making its growth limited. Thus, the venture is facing the challenge of maximizing its social benefits to all its target consumers. 3) Another problem is the nature of easily perishable yogurt products, especially in the heat and humidity of Bangladesh's South Asia tropical environment. Bangladeshi consumers dislike yogurt in a runny state, making it difficult to sell the yogurt, despite its nutritional content.

Another issue is that GDF initially chose to ensure that its fortified yogurt reached the malnourished poor villagers by choosing to separate its market by geographic location and marketing methodology. The joint venture located its first yogurt factory in Bogra, a remote rural area so that *Shokti Doi* would reach the poor first rather than be marketed to the larger and more "affluent" population in the capital city of Dhaka. But this restricted its rapid spread among the rural villages where poverty is more endemic. Also, poor, local Grameen borrowers were selected to serve as distributors of the product to their friends and neighbors, who are also poor. In some respects, this strategy put a damper on the highly anticipated launch and the first few years that followed.

An additional challenge has been the problems of dishonest individuals trying to deceive investors and the general society by creating social businesses marred with deception, false reporting, inflated claims and disguised PMBs. Having a new set of clear, government-enforced definitions of social business might have prevented a degree of unscrupulous businesspeople from creating deceitful social businesses. A related matter is that conflicts of interest emerged, as is frequently the case, especially for hybrid type social businesses. Some corporations, like GDF, might find it difficult to convert their businesses into hybrid social businesses, due to a

direct conflict between their profit pursuits, and the pursuits of social and moral causes. In the case of Groupe Danone operating GDF, it still labors to rewrite the organizational mission to incorporate and embrace the more profound concepts of social business, although progress has been made over the past decade.

V. The Future of Social Business

Although the vast world of social business remains largely unexploited, with the assets of all social businesses of the world remaining an insignificant component of the global economy, its future appears to grow ever brighter and more promising. As the world recognizes and adopts social business principles and systems as a valid approach to designing more innovative economic structures, revolutionary changes may more fully emerge in the current global economy. New trends may arise in the growth, funding and regulation of social businesses. As Woodworth (2000) has argued, social business enterprises like microcredit and other ventures offer much promise for a better world. His book, *Small Really is Beautiful: Micro Approaches to Third World Development – Microentrepreneurship, Microenterprise, and Microfinance*, features his own perspectives, as well as chapters by his collaborator, Muhammad Yunus, and others, in proposing new ways we can reduce human suffering. Research cases range from Russia to China, Bolivia to Polynesia, the Philippines to Cambodia, Mali, West Africa to Chile, and dozens of other nations far beyond Bangladesh.

VI. Conclusions

The success of the concept of social business in Bangladesh may help create a global revolution in the worlds of conventional capitalism and charity. It just might prove that capitalism, by developing more of a social conscience, can help eradicate poverty throughout the world in future decades.

Just like the 1980s when Yunus’ tiny microcredit strategy that sprang from Bangladesh and has now become a worldwide movement, the social business concept that has now expanded may continue to also spread globally. It just might be replicated in various forms throughout the world to create more humane approaches to justice for the masses. If so, once social business concepts become a larger part of the mainstream economy, capitalism and other free market concepts will need to be redefined to incorporate the goals and objectives of not only pursuing maximum profitability, but also social and ethical impacts for the masses.

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Appendix 1: Table - The Grameen Family of Companies Early Years

Company Name	Year	Purpose
Grameen Bank	1983	Financial Services for the poor
Grameen Trust	1989	Training, technical assistance, and financial support for microfinance institutions around the world
Grameen Krishi (Agriculture Foundation)	1991	Experimentation and training to improve agricultural practices and output
Grameen Uddog (Enterprise)	1994	Export of Grameen Check hand-loom fabrics
Grameen Fund	1994	Social venture capital funding for entrepreneurial start-ups

Grameen Motsho O Pashusampad (Fisheries and Livestock) Foundation	1994	Fishpond and livestock breeding programs
Grameen Telecom	1995	Telecommunications services for the poor
Grameen Shamogree (Products)	1996	Domestic sales of Grameen Check hand-loom fabrics, handicrafts and products
Grameen Cybernet	1996	Internet service provider
Grameen Shakti (Energy)	1996	Renewable energy sources for rural Bangladesh
Grameen Phone	1996	Cell-phone service
Grameen Kalyan (Welfare)	1996	Health and welfare services for members and staff of Grameen Bank
Grameen Shikkha (Education)	1997	Scholarships and other assistance to students of poor families
Grameen Communications	1997	Internet service provider and data processing services
Grameen Knitwear	1997	Manufacture of knitted fabrics for export
Grameen Capital Mgmt.	1998	Investment management
Grameen Solutions	1999	Development of IT solutions for businesses
Grameen IT Park	2001	Development of high-tech office facilities in Dhaka
Grameen Byabosa Bikash (Business Promotion)	2001	Provision of small business loan guarantees
Grameen Information Highway Ltd.	2001	Data connectivity and Internet access provider
Grameen Star Education	2002	Information technology training
Grameen Bitek	2002	Manufacture of electronics products
Grameen Healthcare Trust	2006	Funding for Grameen Health Care Services
Grameen Health Care Services	2006	Health care services for the poor
Grameen Danone Foods	2006	Affordable, nutritious foods for the poor

(Yunus, 2007, pp. 78-79)

Appendix 2: Financial Statement Showing Grameen Danone Foods's Share of Assets in Groupe Danone

FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS, FINANCIAL POSITION AND RESULTS			
Consolidated Documents			
Notes to the Consolidated Financial Statements - NOTE 32			
ENTITIES ACCOUNTED FOR UNDER THE EQUITY METHOD			
Entities	Country	Group's control	Percentages Interests
FRESH DAIRY PRODUCTS			
GLENISK	Ireland	36.90	35.74
TOECA International Company	Netherlands	49.00	49.00
STRAUSS DAIRY	Israel	20.00	20.00
CENTRALE LAITIÈRE	Morocco	29.22	29.22
STIAL/SOCOOGES	Tunisia	50.00	50.00
GRAMEEN DANONE FOODS	Bangladesh	21.43	21.43
WEIGHT WATCHERS JV	China	49.00	49.00
YAKULT DANONE INDIA	India	50.00	50.00
YAKULT HONSHA	Japan	20.02	20.02
YAKULT VIETNAM	Vietnam	20.00	20.00
WATERS			
FERMINVEST	France	57.00	57.00
DASANBE AGUA MINERAL NATURAL	Spain	50.00	50.00
MAGYARVIZ	Hungary	50.00	50.00
POLSKA WODA	Poland	50.00	50.00
DAMAVAND	Iran	69.98	39.89
SOTHERMA	Morocco	29.99	29.99
CHINA HUIYUAN JUICE	China	22.98	22.98
WAHAHA ⁽¹⁾ (2)	China	51.00	51.00
KIRIN MC DANONE WATERS	Japan	25.00	25.00
BISCUITS			
BAGLEY LATINO AMERICA	Spain	49.00	49.00

(1) Group of legal entities comprising the consolidated company.
(2) See Note 2.2.

(Danone, 2009; English Version, p. 139)

Appendix 3: Table - Highlights of Grameen Danone Foods Joint Venture in Bangladesh Over Time

Mission	The major goal was to fight malnutrition by bringing daily health nutrition primarily to poor malnourished children in Bangladesh through fortified nutrient-rich yogurt and thereby reduce poverty by stimulating the growth of the local economy.
First Yogurt Plant	It began construction, which was located just outside the town of Bogra, 140 miles northwest of Dhaka, the capital of Bangladesh. It covered 7,500 square feet.
Business Model	The so-called launch was described as a “Unique Proximity Business Model.” It was to create operational efficiency by bringing the supply of raw materials, food production, storage, distribution, retailing and consumption as close to one another as possible.
Plant Initial Costs	Starting up required 75 million taka (about US\$ 1.1 million). Half was provided by Danone and the other half by Grameen’s subsidiaries.
Key Joint Venture Partners	The four partners: Groupe Danone (owned 50% of the joint venture) and four Grameen subsidiaries owned the rest (Grameen Byabosa Bikash, Grameen Kalyan, Grameen Shakti and Grameen Telecom).
Target Market	The focus was on malnourished Bangladeshis, primarily children.
Product	Yogurt was produced under the brand <i>Shokti Doi</i> (“Yogurt for Power”), fortified with micronutrients. A single 80g cup provided 30% of a child’s daily nutritional requirements.
Product Price	The cost for a cup was 5 taka (seven US cents) per 80-gram cup of yogurt
Product Distribution	“Grameen ladies” (poor female borrowers of Grameen Bank) became the direct sellers of cups of yogurt door to door or across the counters of small grocery and sundry shops to other malnourished villagers.
Plant Management	During the start-up phase, Imamus Sultan was Managing Director of Grameen Danone Foods, while Probir Sarkar the Plant Manager for Grameen Danone’s yogurt plant in Bogra district, Bangladesh (Ghalib, 2008).
Achievements	The venture was serving about 6.6 million malnourished Bangladeshis, providing over 1,600 local jobs to villagers, and conserving the environment by operating an environmentally “green” plant in Bogra, Bangladesh.
Long-term Goal	In the early years, GDF planned to build about 50 small yogurt factories throughout Bangladesh to reach malnourished Bangladeshis primarily from the profits generated from the first plant. It was hoped that the venture would spark a new movement called “social business” throughout the world.

(Ghalib and Hossain, 2008)

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