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B- Social Business and big business: innovative, promising solutions to overcome poverty?

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Abstract. Do big businesses have to play a role on their own in poverty alleviation? And if so, what are the means of action they are able and eager to implement? For decades, eradicating poverty has been a challenge tackled by public interventions, international development organizations, NGOs. Since the question raised about corporate responsibility, there have been more and more integrated initiatives aiming at reducing social and environmental negative impact of a company. Some are convinced there may be solutions beyond these reactive approaches, relying on more proactive projects putting the social issues in the core business vision. Social business being one of those ambitious approaches, makes the company move from its business as usual and development innovation standards to “open” “embedded” innovation leading to local market creation while addressing poverty issues. Veolia Water, in collaboration with Muhammad Yunus Founder of the Grameen Bank, decided to experiment this kind of business model innovation in Bangladesh where there is urgent health concerns linked to water arsenic contamination. The experimental process helped the joint-venture adapt to novelty and complexity (contextual, socio-cultural, commercial) and progressively give birth to a real market and test an innovative business model. This learning by doing approach teaches a big company such as Veolia Water how to make the trade-off between short-term profitability and positive contribution to society through a business integrating social concerns in its value proposition. It can also lead to rethinking of its usual practices and contribute to put on a more global sustainable business perspective.

The joint-venture between Veolia Water and Grameen as an illustration of a new innovative business model aiming at reducing poverty in the frontier between market and charity solutions.

On one side, there is a multinational company, a leader in its field, whose primary objective is, naturally, to serve its customers & shareholders. On the other side is a bank that has rolled out microcredit on a large scale. It has done so out of a desire to offer access to financial tools to every underprivileged individual because it considers these tools the first step in economic development and the best means of overcoming poverty; the next steps include providing access to safe water services implemented through the Social Business model.

The partners, each in their own field, feel that action has to be taken. The founder of the Grameen Bank believes that poverty can only be reduced through innovation and by abandoning the traditional patronage formulas and classical market rules. So he invented the Social Business, governed by the “no loss, no dividend” principle, and made it popular. Veolia Water engages in Corporate Social Responsibility (CSR) actions, primarily in response to its clients’ demands for sustainable development, and knows that new economic models must be invented to ensure continued delegation of public services management, especially in developing countries but not only.

For its part, the ESSEC business school, through its Institute for Social Innovation and Social Entrepreneurship (IIES), defines a social enterprise as one whose social purpose takes precedence over its economic purpose and encourages non-profit private initiatives that serve the public interest. The idea is to help invent and develop new markets and economic models that respond to social needs not satisfied due to the lack of efficient market or efficient public and non-governmental action.

We will first see how and why Social Business is an option for big companies wanting to enlist in the war on poverty. Then we will show how a big multinational company like Veolia Water is using a Social Business to distribute affordable safe drinking water in a pilot project in a rural area. Finally, we will show that Social Business is an efficient solution for reducing poverty and that experiences with it lead to profound changes in the company and generate forces of further change in the future.
1 Social Business as a specific avenue in social entrepreneurship for a large company wanting to help eradicate poverty

1.1 Social Business, an ambitious approach to involving large companies in eradicating poverty

The recent rapid rise in experimentation with Social Business is due primarily to the enthusiasm inspired by Professor Muhammad Yunus. With his experience in the development and spread of microcredit, and the success of the Grameen Bank model, he has convinced companies of the value of joining this movement in innovation. It is a movement that not only responds to today’s problems of poverty but will be central in the markets of tomorrow.

Aiming at contributing to fight against poverty tackling social issues, Social Business is an entrepreneurial approach being part of current capitalism models diversity: it introduces some topics, issues and concerns related to poverty, vulnerability and development in the business sphere potentially leading to innovative methods of action. Social Business differs from charitable approaches, which can lead to short-lived projects and have been accused of encouraging dependency, by advocating a for-profit approach through the sale of a product or service with the goal of being self-financing. It also differs from classical market models because its primary objective is social utility and the creation of social value is inseparable from the objective of financial viability.

Social Business follows the “no loss, no dividend” principle and is based on a structure capable of producing a product or service that can satisfy a community’s basic needs. The rationale is to serve the public interest based on an economic model that is viable for the structure and for the consumers, who accept a price for a service that was previously nonexistent or free. In this, it seems appropriate that the Social Business model is aimed at multinational companies, since their strengths (financial weight and soundness; business expertise; technical capabilities; innovation, production and distribution capacities; R&D potential and freedom to compete) are considered important levers for project experimentation and deployment (Prahalad, 2005).

1.2 Private companies are playing an increasing role in eradicating poverty seizing and tackling public interest issues

Over the years, three clear facts have emerged: social problems cannot be solved by governments alone; big companies are having negative impacts on society (WBCSD, 2007); and society has expectations of big companies (Hart, 2007). In response, whether to regulatory requirements or to important internal commitments, major companies have for several years been developing various types of CSR approaches (Martinet et Payaud, 2009).

Furthermore, companies are expected to play a major role in combating poverty under the Millennium Development Goals, which aim at eradicating extreme poverty by 2015 by tackling societal problems that used to be considered the exclusive realm of government.

Big companies’ CSR programs are therefore part of an overall trend that has given rise to innovative solutions at the point where the public sphere, market forces and civil society intersect in their desire to see systemic change. The result is social entrepreneurship or social intrapreneurship in the big companies that the Social Business is a part of. Thus Social Business initiatives, beyond CSR, in a sustainable business perspective, are to be considered as part of big companies’ global development strategies.

1.3 Veolia Water decided to embark on a pilot project following the Social Business model to help improve the living conditions of poor communities in Bangladesh

Today, as the global leader in water and wastewater services, Veolia Water must ensure quality of service while guaranteeing equality of access, and continuity and mutability of service under optimized technical and economic conditions. Veolia Water operates internationally, primarily in urban areas, which are undergoing continuous growth in developing countries. In addition, as pointed out in Veolia Water AMI’s 2009 report “Expertise and commitment to sustainable development,” the company has been deploying programs to respond to social and societal problems for years in most of the countries in which it operates.

Among the solutions developed by Veolia Water are subsidized connections to the water supply network, variable water pricing, and various technical and financial arrangements (such as compensation mechanisms). This comprehensive approach involves numerous internal competencies.

An opportunity to engage in a joint experiment in Social Business arose in 2007 following the meeting between Eric Lesueur, a member of Veolia Water’s senior management team at the time, and Professor Muhammad Yunus. The prospect of launching a project to supply safe drinking water to impoverished rural communities was both strategic and innovative for Veolia Water. The challenge was to take a business approach to a public health problem at the so-called “Base of the Pyramid” (BoP) in a developing country. The next step was to test a hybrid business model combining a

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1The eight Millennium Development Goals (MDG) were adopted at the Millennium Summit held from September 6 to 8, 2000 at the United Nations headquarters in New York.

2“When it comes to water problems, we will be able to deal with all eventualities. Solutions exist and others will have to be invented or replicated. We will be capable of implementing all of them.” (Frérot, 2009)

3One of the avenues to achieving Goal 7 of the MDG, Ensure Environmental Sustainability, is to halve the proportion of the population without access to safe drinking water and basic sanitation between 2000 and 2015.


5“Base of the Pyramid” refers to the 4 billion people living on less than $2 a day in purchasing power parity. (Prahalad, 2005)
structure with a social purpose (Grameen Health Care Ltd.) with a company to create a new activity of potential strategic interest for that company (Prahalad, 2005).

This Social Business project grew out of three public health threats associated with water in Bangladesh:

- while water problems are often thought of as being associated with drought, dirty water or lack of access, there are regions where water resources are abundant but contaminated with toxins. In the case of Bangladesh, it is arsenic contamination, naturally occurring in the soil and not caused by human activity, which is causing lesions, cancer, numerous complications and even death;

- the consequences of arsenic contamination (which can occur in any type of country) were aggravated by the poverty typical of rural areas of Bangladesh, where the meager purchasing power of poor communities penalizes them when it comes to access to health-promoting services;

- the many prevention programs (distribution of filters and water treatment products, marking of contaminated wells, construction of new, deeper wells, recommendations to use river water instead, etc.) and warnings since the first observations of contamination, in 1993, did little to change behavior and sometimes led to harmful behaviors that increased arsenic exposure due to a lack of knowledge about health issues. Furthermore, it is difficult to publicize these programs in rural areas.

Since the actions of the government and international and local organizations had failed to solve the problem, Veolia Water and Grameen decided to take up the entrepreneurial challenge of creating a joint venture based on Social Business principles.

2 How a global company adapts to novelty and complexity when experimenting with an innovative economic model: the case of Grameen Veolia Water (GVW)

2.1 Establishment of an appropriate structure tending to respond to the specific needs and issues on the ground through a top-down approach

The investment model chosen, a 50-50 joint venture between Veolia Water AMI and Grameen Health Care Service, a subsidiary of the Grameen Bank, was the Social Business model as defined by Professor Muhammad Yunus, with an initial capital of €500,000.

GVW’s objective was to take a public service approach to supply affordable safe drinking water to the entire population of a rural area in Bangladesh, where over 99% of the population is considered by the World Resource Institute to be at the Base of the Pyramid (WRI, 2007).

During the start-up phase, GVW relied on the expertise of the two parties to optimize its capacity for action. Grameen contributed its knowledge, local roots and local know-how to define the area for project experimentation. The village of Goalmari was chosen: it lies along the Meghna River in a rural area where the Bangladeshi government had found that 83% of the wells contained arsenic. There was a local branch of Grameen Bank there, along with a well-established network of women who had received micro loans from the Grameen Bank. For its part, Veolia Water contributed its technical expertise in choosing the water treatment method using river water which is arsenic free rather than ground water (a traditional technology producing water of a quality meeting the WHO standards) and in building a treatment plant and supply network appropriate to the geography. As often in BoP approaches, the company did act to provide the population with an existing solution as “satisfiers” to the population stakes considered to be needs from an occidental point of view but that were not knowingly expressed to date (Max-Neef, 1991). GVW chose a proven technology that would guarantee the best quality water possible for a limited cost. The joint-venture also benefited from Veolia Water credibility as a large French company in a country where the residents do not trust the quality of the goods and services produced by local businesses (Blanchet, 2011).

The first phase of the project, between 2008 and 2009, resulted in the construction of a plant, a 2 km network and 11 communal tap points. The Grameen Bank borrowers were employed and charged with opening the tap points and managing water distribution. They received a commission at the end of the month and remitted to GVW the sums received from the customers, which corresponded to the water volume supplied and recorded on each tap point’s meter (franchise system).

2.2 Social Business approaches helps a company think out of its usual business practices in order to create a market in a specific context

Water from the communal tap points is sold for 2.5 takas for 10 liters, comparable to what a village man pays for his habitual glass of tea at the local market. The price was set above all to make water affordable and does not cover the company’s capital investments and operating expenses in the project’s

6 Tests carried out for the World Bank on 4.7 million wells in 2002 and 2003 found that the water in over a third of them was unfit for human consumption (arsenic concentration higher than the 0.1 milligrams per liter limit recommended by the WHO). An estimated 34 to 77 million Bangladeshis are likely to be affected. (HEALS, 2010)

7 “We estimated the summary attributable proportion based on the arsenic concentration in well water for all-cause and chronic disease mortalities to be 21% and 24%, respectively.” (HEALS, 2010)

8 The penalty paid is the additional cost to poor communities of access to goods and services in the absence of competition and in inefficient markets, where the prices are far above the average in a classical market. (Sibieude, Vidal, 2011)

9 BoP is meant to describe a population segment and entrepreneurial modalities of targeting this population through innovative service or product offer aiming at fighting against poverty.

early years: that will happen when consumption and therefore revenues increase. After the first six months, sales at the tap points were disappointing, stagnating at 10% of the forecasts despite the favorable reception given the project and the organization of a communications campaign (of a general nature at first but then oriented toward health benefits, with physicians featured). In spite of repeated urging from GVW staff and follow-up by the Grameen employees to encourage the villagers to use the tap points, the residents of Goalmari did not seem to change their habits and continued to use water from the wells, even when they were contaminated by arsenic and, in some cases, marked with a red cross.

What had been seen as a means to respond to a so-called “need” did not solve directly the problem that had been primary highlighted. The initial top-down approaches led to another completing stage where the roles of the parties were reorganized, making them more suitable for the realities on the ground through the network expansion to Padua, where the penetration rate is now 40%. Based on consultations with the residents of the different villages of Padua, decisions were made on tap point siting and the organization of service (schedules, role of the dealers, payment, etc.), inspired from pragmatic Human Centered Design (IDEO, 2009) methods. The initial maximum distance of 250 m between a tap point and the houses to be served was reduced to 50 m. A new strategy of greater involvement of the inhabitants as beneficiaries, consumers and potential players in the business (GVW stakeholders such as schools, public and religious authorities, etc…) has increased the prospects for embedding the GVW project in the communities (London et al., 2009).

Four times more people were using the tap points than in the first phase, but GVW was still not satisfied. More resources were assigned to analyze the obstacles to consumption of arsenic-free water. It would seem that, while a need for drinking water had been identified upstream of the project, it did not mean that there were a corresponding market (Simanis, 2010). Thus, after planting the seed, a better process for community participation seemed necessary to help change habits and create demand and a market (Hart, 2008).

With the support of the ESSEC Institute of Innovation and Social Entrepreneurship, Veolia Water began to focus more on the project’s social and societal aspects. It was decided to initiate a process of mutual commitment and participation with the communities, combined with social innovation modeled on the principles of the BoP Protocol and other multidisciplinary approaches. The BoP Protocol 2.0 (Hart, Simanis, 2008) is based on multidisciplinary academic approaches (anthropology, social action, international development, graphic design, etc.) and participatory and social embeddedness methods (including Participatory Rural Appraisal, rapid ethnography and the Rapid Assessment Process) to set innovation in motion. The protocol—to be considered as a milestone for BoP movement more than a ready to use definitive tool (Simanis, 2010)—is used by the IIES in combination with complementary deliberative approaches to multi-player, multi-criteria innovation and evaluation (Vidal, 2011).

Focus groups inspired by the “World Coffee Meeting” participatory workshops were held in 2010 to allow residents to express their views on the village’s water problems and choose the discussion topics themselves. This type of approach brings out the complex factors in communities’ values...
and representations, to encourage the stakeholders express their point of view through building a deep dialog and make community actors agents of the innovation process (Vidal, 2011). In addition, a detailed anthropological study was conducted by the Drishti Research Center between August 2010 and April 2011 to provide a better understanding of the village’s socioeconomic structure, the importance of tradition, the social representations associated with water and the residents’ position on arsenic and diseases due to it. The study revealed the origin of some of the obstacles and will enable GVW to embark on a comprehensive new and more-targeted action plan. As in any research, the actions are evaluated for their effectiveness and pertinence and are then corrected, deployed or abandoned.

2.3 Social Business enables a partnership approach based on local entrepreneurship

In rural areas, almost half of GVW’s sales are through wholesalers, who distribute 20-liter containers to neighboring villages. They capitalize on the credibility of a large French company to promote GVW water. The women selling water from the tap points were also recruited with a view to promoting entrepreneurship (franchise). The villages were too small, however, to identify the right people for project promotion: sales varied widely and were often closely related to the saleslady’s motivation and commitment (Blanchet, 2011). These dimensions must be considered in re-evaluating the economic model since it is important to find levers for community involvement, which will be a factor in co-building the market with the players in a coherent overall model based on the right to imagine (Hart, 2008) and the right to change approaches, “so long as the primary objective remains the same” (Yunus, 2010.)

Social Business involves interaction with the players in an ecosystem that it helps build by creating new “hybrid value chains” with local entrepreneurs or NGOs (Ashoka, 2005). In a second period, different types of distribution were added and tested, for example, private individual and collective connections.

2.4 Social Business creates the innovation framework as a multi-dimension experimental model targeting sustainability

Aiming at co-defining together “satisfiers” and needs in specific contexts and adapted to specific populations (Max-Neef, 1991), GVW created and is now testing new activities in a business portfolio helping to propose various distribution modalities targeting different segments while serving a common “umbrella value proposition” at the same time (Hart, 2008).

Since the business model did not produce enough revenue to ensure sustainable water supply, GVW’s Board of Directors decided to target urban customers by selling 20-liter containers of water from Goalmari to a new urban segment with greater purchasing power (government, hotels, etc.). Revenue generated by sales of water containers in an active market will finance expansion of the rural market.

This new dimension of the business reflects GVW’s interest in implementing innovative ways of achieving its objectives. It wanted to design a hybrid economic model called cross-subsidization that combines revenue-generating activities

Figure 1. Grameen Veolia Water processes.
(RGA: selling water in containers to consumers with more purchasing power) to finance the necessary investment supporting the development of less profitable ones. Thus, over time, investments that are too big for rural communities to bear can be financed through a sufficiently long amortization period and effective formulas for pooling or equalizing the costs and revenues. In this manner, Social Business is relying on a process of economic sustainability through economic stabilization.

Moreover, this system of equalization can be used to finance rural water distribution and replicate the business model elsewhere. GVW is expected to break even (rural and urban operations combined) in 2014. In the mean time, profits from the urban segment can go to expanding the amount of water consumed in the rural Goalmari and Padua areas. The money generated by this new segment and the learnings from the introduction and evaluation of new action plans in Goalmari and Padua will improve the efficiency of GVW’s approach in rural areas. At the end of the project’s pilot phase, GVW’s performance in terms of economic, social and health benefits will be assessed. In the end, the performance level achieved in the rural areas and the viability of the business model would attract new outside investment to respond on a larger scale to the public health problems of rural communities in Bangladesh.

3 Social Business and experiments with it as efficient levers for widespread poverty reduction and as a tool for social innovation, producing systemic change in the company

3.1 Social Business: an efficient tool for poverty reduction

Social Business is therefore an appropriate new response for poverty reduction because it provides sustainable solutions (revenue from the activity must cover the capital investment and operating costs) and it warrants replication. A change in scale is possible because the structure will have learned from its initial experience and because the money to finance replication will be available once the capital initially invested is built up again.

However, the timeframe for poverty-reduction targets, in particular the Millennium Goals, is short. For a more efficient scale change, investors not chasing dividends must be allowed to invest in these structures. We are convinced that such investors exist and that there are many possibilities (Perron, 2011). It is the projects’ overall performance and financial profitability (in particular, the acceleration of profitability through balancing mechanisms in the form of RGA) that will make this change of scale possible.

For replication of the structures, companies willing to test innovative approaches in new contexts are needed. These companies must be prepared to finance a pilot project and bear the costs (capital investment, support, evaluation, etc.). But aside from these requirements, there are gains for a company, even in the short term: Social Business puts a company on a learning curve.

3.2 Social Business puts a company on a learning progressive curve

Experimenting with a Social Business project in a “White Space”, as described in the BoP Protocol and represented by a joint venture with a flexible scope of action, offers the long-term perspective needed in managing innovative models at the base of the pyramid. A company testing methods of action outside its habitual sphere will therefore find itself engaged in entrepreneurial learning that will change and improve its practices based on the principle of learning by doing.

Testing activities under the radar also makes possible projects that diverge from the usual activities, while company resources, competencies and expertise can be allocated to them. This experiential curve is enriched by innovative governance tools and methods of appraising societal performance, which are also important for the company’s core activities and enter into its overall CSR policy.

3.3 Social Business as a vector of change in the company and in its role in society from the sustainability perspective

All experiments in Social Business have a mobilizing effect in the company. Personally and professionally rewarding because of their effects on society, such experiments define the objectives of tomorrow’s senior managers.

Social Business also raises important questions in the minds of the players and makes them demand a lot from within themselves. Aside from internal financial and strategic considerations, companies involved in Social Business projects are bound by their commitments. This implies discipline in carrying out the projects and serves as a stimulus for success and the creation of positive societal impacts.

The Social Business approach engages a company in a process that will prepare it for the future. The local innovations it tests at the base of the pyramid in developing and developed countries today will give it the new knowledge and expertise it will need to meet its growth challenges tomorrow (Nidumolu et al., 2009).

4 Conclusion

Social Business can be seen as a combination of community-based approaches and companies’ lucrative innovations. However, even though a company has to understand and know much about new and complex social and anthropological situations, it is not supposed to be an NGO but definitely to act as a genuine company. Companies have then to address this innovation issues and react with an entrepreneurial approach leading to a creative tension where Social Business can emerge. These are new forms of organization, combining social institutions and innovative companies seeking to provide solutions to the problems of poverty by developing...
inclusive approaches at the base of the pyramid. The lessons gained from experiences in local embeddedness and deep dialogue with communities in connection with Social Business show that the stakeholders can be the source of new solutions. Through Social Business, a company learns to see itself differently. In his speech at the conference organized to launch the French version of Muhammad Yunus’ book “Building Social Business: The New Kind of Capitalism That Serves Humanity’s Most Pressing Needs,” Antoine Frérot said, “The company must embrace causes that are bigger than itself but nonetheless vital to its future.”

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