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SOCIAL ENTREPRENEURIAL BUSINESS MODELS: AN EXPLORATORY STUDY

Johanna Mair*
Oliver Schoen**

* Professor of General Management, IESE
** Research Assistant, IESE

ESE Business School – University of Navarra
Avda. Pearson, 21 – 08034 Barcelona, Spain. Tel.: (+34) 93 253 42 00 Fax: (+34) 93 253 43 43
Camino del Cerro del Águila, 3 (Ctra. de Castilla, km. 5,180) – 28023 Madrid, Spain. Tel.: (+34) 91 357 08 09 Fax: (+34) 91 357 29 13

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Abstract

Although social entrepreneurial organizations have begun to receive more scholarly attention, we still know relatively little about *how* they are able to create both social and economic value. This paper presents a comparative case analysis of three social entrepreneurial organizations, based in Bangladesh, Egypt and Spain, whose success has been widely recognized. Analysis of these organizations' business models reveals common patterns: in their use of strategic resources, in their value networks, and in their customer interface. The findings suggest that successful social entrepreneurial organizations pro-actively create their own value network of companies that share their social vision; develop resource strategies as an integral part of the business model; and integrate the target group into the social value network. Propositions are advanced regarding the business models of successful social entrepreneurial organizations.

Keywords: social entrepreneurship, business model, developing countries

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> "…A single ant is not God's brightest creature. But as colonies, ants engage in food cultivation, temperature regulation, mass communication (using scent trails) and bloody, organized warfare. Ant colonies run themselves with an efficiency that outstrips human society. But no single über-ant manages the show."
>
> (*The Economist*, 2002)

Introduction

In 2003 Dr. Ibrahim Abouleish was awarded the Right Livelihood Award, better known as the Alternative Nobel Prize. The jury saw in Sekem "a business model for the 21st century" (Right Livelihood Award 2003), one in which commercial success is integrated with and promotes social and cultural development.

As societies search for more innovative, cost-effective, and sustainable ways to address social problems, "social ventures", typically led by inspired individuals – so-called "social entrepreneurs" – have attracted increasing attention. Because they combine a social purpose with a for-profit mindset these initiatives are seen as an effective means to cater to largely unsatisfied social needs (Seelos and Mair 2005a,b), especially as traditional social sector activities often are considered inefficient, ineffective and unresponsive (Dees 2001).

Research conducted in recent years has shed light on many interesting aspects of social entrepreneurs and their initiatives, e.g., the social entrepreneur as change agent (Dees 2001); or the role of the founder, and his or her vision and individual traits (Drayton 2002; Bornstein, 2004). However, previous research has not examined how social entrepreneurs actually combine social and economic value creation by setting up self-sustained organizations. The structures they created, the co-operations and partnerships they struck, the way they not only positioned themselves in their industry's value chain but also actively shaped it has rarely been taken into account. As a result, a number of questions remain unanswered. For example, we still have a limited understanding of how specific network building and resource procurement strategies facilitate the creation of social and economic

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value. In addition, we know relatively little about how to ensure that the right target group captures the created value.

The objective of this paper is to address these questions. In order to do this we have chosen to focus our analysis on three initiatives. All three – Grameen Bank (GB), Mondragón Corporación Cooperativa (MCC), and Sekem – started out as social ventures and were led by exceptional, visionary individuals; and all three developed into self-sustained organizations. Moreover, they have been widely recognized as being both socially and economically successful (Wahid 1994, Right Livelihood Award 2003, Whyte and Whyte 1991). By examining these organizations, we aim to identify common patterns in their approaches and derive propositions on how a particular organizational set-up and business model can facilitate the creation and appropriation of social value. The chosen organizations reflect a wide spectrum of social ventures, as they address quite different social needs. Furthermore, they originated in different geographical regions, have different product and market scope, and also differ in size (see Table 1 for an overview of the selected organizations). This diversity allows us, despite the small sample, to advance preliminary propositions regarding the common features of successful social ventures that meet social needs and bring about social change. Importantly, the organizations studied here have been able to do this sustainably, having developed into self-sustained organizations.

Table 1: The Organizations and their social and economic background

	Grameen Bank	Sekem	MCC
Country of Origin	Bangladesh	Egypt	Spain
Geographic Scope	Bangladesh	Europe, Middle-East, Africa	Global
Year of foundation	1983	1977	1955
Core Business	Micro-Lending	Organic products Phyto-pharmaceuticals	Diverse industrial conglomerate producing almost anything from kitchen appliances to parts for cars
Number of Employees	~12,000	~2,000	~70,000
Target Group for social value creation	Poor women living in rural areas of Bangladesh	Egyptian society	Employees of co-operatives and their social environment

The paper is structured as follows. First, we briefly clarify terminology and introduce the research methodology. Second, we describe the three organizations, their historical development, and the social and economic context in which they operate. In the third part we closely examine their business models and distill the shared features that have enabled them to create social value in a sustainable way. To conclude we discuss the implications of this study for research and practice.

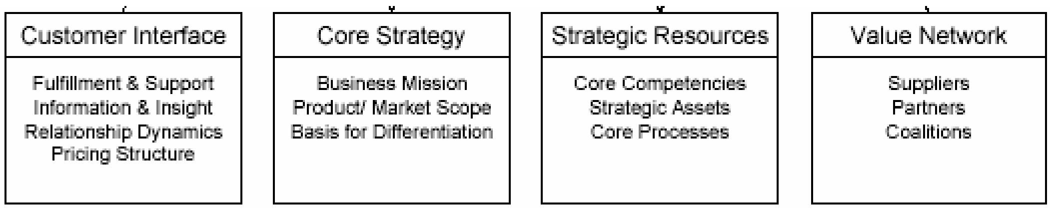
Background

Social value means different things to different people. Initiatives as diverse as soup kitchens in major western cities, companies supplying drugs for neglected diseases in Africa, or educational programs to improve employment opportunities in Latin America may be seen as creating social value. We need a more precise definition of the term “social” in order to identify initiatives that create social value and therefore qualify as social ventures. For the purpose of this paper we define a social venture as an initiative that catalyzes social transformation and/or or addresses social needs. The creation of social value is the primary objective of the venture, while economic value creation is a necessary but not sufficient condition (Mair & Martí 2005).

The term “business model” is another sometimes sketchy term. In general, a business model can be understood to be a simplification of a planned or existing business. Originally it was used in the context of data and process modeling for IT systems (Konczal 1975, 12). Later, the term was defined and used differently, to encompass anything from structural elements (Selz 1999, 106) to agent interaction (Amit and Zott 2000) or knowledge leverage (Venkatraman and Henderson 1998). For this paper we use a conception based on Hamel’s definition of a business model (Hamel 2000, 65-112): a business concept that has been put into practice.

More specifically, a business concept comprises four major components: Core Strategy, Strategic Resources, Customer Interface and Value Network (see Figure 1). As we will see later, this definition facilitates our understanding of how the specific business model design used by social entrepreneurs helps them to be successful.

Figure 1: Components of a Business Model (Hamel 2000)



Methods

This paper aims at identifying common features and patterns across the business models of successful social entrepreneurial organizations. Given the limited extent of knowledge on social entrepreneurship, we deliberately opted for an exploratory research approach. Our focus therefore lies on gathering propositions rather than testing hypotheses. Following Miles and Hubermann (1994) and Yin (1984), we apply a comparative case analysis design to capture the complexity and richness of the underlying phenomenon and detect patterns and regularities across cases.

The selection of cases was based on the following criteria. First, the chosen organizations had to be widely recognized as successful and had to have successfully mastered the transition from the venture stage to that of the self-sustained organization. Second, they had to reflect diverse regional realities. Special attention was given to organizations operating in emerging countries. By adopting a global approach we hoped to reveal patterns and features that hold across regional and national boundaries. Finally, priority was given to organizations which had already been described and documented and were open to additional data gathering via interviews.

We gathered data from several sources: existing case studies, published and unpublished reports and articles, personal interviews with the founders (GB and Sekem) and organizational members (GB, Sekem, MCC), informed observation (Sekem), and Internet sources. These data helped us to identify patterns and compare patterns across cases.

Although we are aware of the limitations of our sampling and data analysis approach, we consider this study as a first important step that provides tentative propositions for a more inclusive empirical research agenda in the future. In the next section we provide a detailed overview of the three cases and a description of the regional context.

Three success stories

Grameen Bank

Grameen's Mission

The objective of the Grameen Bank is to bring financial services to the poor – women and the poorest in particular – in order to help them fight poverty by establishing profitable businesses (Yunus 2004). It is a composite objective, comprising social and economic elements. From the very beginning, the vision of Muhammad Yunus, founder of GB, was to help the poor to help themselves (Yunus and Jolis 1998), a vision that has kept him active, constantly searching for new ways to alleviate poverty.

Organizational History

The origin of Grameen Bank (*gram* means “village” in Bengali) dates back to 1976, when the company was established by Muhammad Yunus, at that time a professor of Economics at Chittagong University in Bangladesh. According to Yunus, it all started with a field trip to a nearby village with his students (Yunus and Jolis 1998). During that trip, he became aware of the desperate situation of local women. Many of them supported their families by running little businesses: making chairs out of bamboo or selling home-grown vegetables, for example. However, many of them did not have the money to buy raw materials such as bamboo. And being denied access to regular loans, they had to resort to moneylenders and pay exorbitant interest rates. Moreover, as a condition of the loans, the chairs they produced had to be sold to the moneylenders at prearranged prices well below market value.

After spending a day in the village of Jobra, Yunus got to know 42 women caught in this kind of poverty trap. When he asked them how much money they needed to buy their raw materials and become independent from the money lenders, he was surprised to learn that $27 would be sufficient for all of them (Mainsah et al. 2004, 2). To him this seemed a fairly small sum, and yet it could change the lives of these 42 women. It did not take him long to decide to extend loans himself, at reasonable rates. Since all of the women repaid the loans, he replicated this approach. Although he shared this success story with local banks, none of them was willing to lend to the poor. Therefore, Yunus decided to found his own bank, which was dedicated to the poorest members of society. This moment is frequently cited as the birth of micro-finance (Mainsah et al. 2004, Schreiner 2001). By 1983, what had begun as a project with his students was a national bank, with 75 branches in five districts (Hassan et al. 1997, 1489).

In the late 1980s, Yunus started to think of ways in which he could accelerate the progress towards a poverty-free world and, at the same time, improve Bangladesh's overall economic performance (GB 2004). To extend the Grameen network he started off, again, with small local initiatives such as leasing unused fish ponds and irrigation pumps. Once successful, these initiatives were spun off and became independent of GB. Other initiatives, on the other hand, were originally created outside of GB but shared the same vision and joined the Grameen network later. Today this "Grameen Family of Organizations" comprises businesses ranging from telecom operations and energy to software development (Mainsah et al. 2004, 12).

As of 2004, GB's micro-credit operation has made a cumulative loan disbursement of $4.2 billion through 1,200 branches in Bangladesh. Today, GB has 3.5 million borrowers, 95% of whom are women. The repayment rate is around a stunning 98% (Yunus 2004, 1). On top of this GB is now financially self-sustaining. Since 1995 GB has accepted no funding or donations from overseas sources, and operations have been run with members' deposits. In 2004 GB started an interest-free loan program for beggars, or so-called "struggling members", which soon reached 7,000 beggars (Kamaluddin, 2004). The bank itself has created employment for over 12,000 staff. In 1994, according to GB, the bank contributed 1.5% to the GDP of Bangladesh, a figure comparable with that of Wal-Mart in the US (Mainsah et al. 2004, 23).

Bangladesh

Bangladesh came into existence in 1971 when Bengali East Pakistan seceded from its union with West Pakistan. It is one of the world's Least Developed Countries, as recognized by the UN, and has a Human Development Index (HDI) ranking of 138 out of 175 listed countries. By 2004 the population had almost doubled from 75 million in the mid-seventies and is expected to rise to 190 million by 2015 (United Nations Development Program 2004).

At the time GB was established, per capita income was about $300 per year, the economy was based on farming and agriculture, and around 90% of the population lived in rural areas (US Federal Research Division 1988). Today the service sector contributes roughly two thirds of GDP, yet it fails to provide jobs in sufficient numbers and farming remains the most important form of employment.

Major impediments to growth include: frequent cyclones and floods, inefficient state-owned enterprises, a rapidly growing labor force that cannot be absorbed by the farming sector, delays in exploiting energy resources (natural gas), insufficient energy supplies, and slow implementation of economic reforms. Living conditions in Bangladesh are extremely harsh. In 2002, life expectancy at birth was 61 years, the adult literacy rate was only 41.1%, and almost 50% of the population was living below the national poverty line (United Nations Development Program, 2004). Gender inequality is also a problem: Bangladesh has a higher rate of female economic activity than Norway, but its women work mostly in rural agriculture and industry, earning around half the income of men and with much lower levels of literacy (Ibid).

Sekem

Sekem's Mission

Sekem's declared mission is to "meet the challenges of the time by contributing towards the all-encompassing development of man, community and the earth" (Merckens 2000). This is an aspiration that its founder, Dr. Abouleish, has not stopped working on for the last 27 years.

Organizational History

Sekem – the transliteration of a hieroglyph meaning "vitality from the sun" – is the name of an initiative that goes back as far as Grameen Bank. In 1977, Dr. Ibrahim Abouleish, after living in Austria for more than 20 years, brought his family to his native Egypt to show them the beauty of his home country. What he found was a country in miserable economic condition and with increasing social problems. Inspired by the anthroposophic and holistic approach of Rudolf Steiner, he developed a plan to "heal the land and the people" (Abouleish 2004). He envisioned an organization that would comprise not only an economic sphere but also a social and cultural one. This was the beginning of an initiative that earned Dr. Ibrahim Abouleish the Right Livelihood Award (better know as the "Alternative Nobel Prize") in 2003.

Having started out with biodynamic cultivation of herbs and spices, as well as medicinal and aromatic plants, Sekem has become a renowned enterprise and market leader in organic food and phytopharmaceuticals in Egypt. Furthermore, it is responsible for the nation-wide application of biodynamic methods to control pests and improve crop yields in the production of cotton (Merckens 2000).

Today, some 2,000 people work for Sekem. In 2003 the Sekem group reported revenues of 73 million Egyptian pounds (1€~7EP) (The Schwab Foundation, 2003). Under the umbrella of a holding organization, the group comprises six companies. Their activities span from packing and distributing herbs and fresh fruit to the manufacture of phytopharmaceuticals and organic textiles. Besides the companies, Sekem has also established and now promotes the Egyptian Society for Cultural Development (SCD). Through this non-profit organization Sekem supports a kindergarten, the Institute for Adult Training, a Medical Center, various other social and cultural activities, and is in the process of setting up a university.

Egypt

When Dr. Abouleish returned to Egypt in the mid-seventies, he found a devastated country. Suffering from a socialist economic system put in place by former president Gamal Abdel Nasser and the aftermath of the Yom Kippur war against Israel in 1973, Egypt was struggling to improve living conditions for its population. Reforms to liberalize markets by president Anwar Sadat put additional stress on living conditions and increased income inequality, leading to violent demonstrations and riots in 1977 (US Federal Research Division, 1988).

Although economic conditions have improved, Egypt still has poor health care and inadequate education systems. In 2002, 16% of the population was living under the national poverty line, life expectancy was around 68 years, and the adult literacy rate was 67% for males and 43% for females (United Nations Development Program, 2004). As in Bangladesh, gender inequality is also high.

The agricultural sector is Egypt's major employer, accounting for 40% of the workforce. However, periodic droughts and unpredictable, hot, driving windstorms can have a devastating effect on its output. Today, only 3.5% of the land is actually arable, having been dramatically reduced by the completion of the Aswan High Dam, which altered the time-honored place of the Nile River in the agriculture and ecology of Egypt. Increasing soil salination, the growing popularity of monocultures and the lack of the flooding which previously redistributed fertile Nile soils have led to ever increasing use of pesticides and the pollution of limited natural fresh water resources.

Mondragón Corporación Cooperativa (MCC)

MCC Mission

MCC's mission can best be described as combining basic business objectives with the use of democratic organizational methods, job creation, personal and professional development of workers, and a commitment to the improvement of the society in which it operates.

Organizational History

On February 5, 1941 José María Arizmendiarrieta, a young priest, arrived in Mondragón, a little town in the Basque country. Although he wanted to study sociology, his monsignor had sent him to this small deprived town (Whyte and Whyte 1991). At the time of Arizmendiarrieta's arrival, Mondragón's economic life revolved around Unión Cerrajera, a large foundry and metalworking company. Ownership and management positions in this firm were closely restricted to family and friends; career development for local workers was almost non-existent. The young priest's first activities were focused on creating opportunities for the local youth. He founded the "Escuela Politécnica Profesional", a school aimed at providing technical education. The school was organized as a cooperative, i.e., it was owned by members of the local community rather than by the government or the Church. This marked the beginning of a movement that led to the founding of numerous cooperatives in subsequent years.

In the early 1950s, empowered by these educational initiatives but still facing limited opportunities for economic development, five graduates of Arizmendiarrieta's school decided to set up their own business. Inspired by Arizmendiarrieta's vision and values, they organized their business as a cooperative. After some struggles with state authorities, ULGOR (the name is a combination of the founders' initials), the first industrial cooperative of what has become Mondragón Corporación Cooperativa (MCC), was born. It produced electrical and mechanical products for home use and was an instant success. By the early 1960s ULGOR was on the way to becoming one of the hundred largest industrial companies in Spain (Whyte and Whyte 1991).

Encouraged by the success of ULGOR, others set up similar enterprises, most of them also arising out of the social and educational mobilization guided by Arizmendiarrieta. The first of these enterprises produced components for ULGOR products and hence benefited from ULGOR's success. In 1959 Caja Laboral, a cooperative bank, was established to help the organizations in this emerging network overcome their financing problems. Although the cooperatives had strong relationships and shared the same values, at this stage they were independent of each other and Arizmendiarrieta usually only provided advisory services.

By the end of the 1960s the total number of cooperatives had risen to 41, and the boom lasted until the end of the 1970s. Like most companies, however, they could not escape economic recession and some were forced to close. Subsequently, the whole group of cooperatives underwent a significant reorganization, with the creation of common bodies for co-ordination and decision taking.

Today, MCC is the seventh largest business group in Spain by revenues. The product and service portfolio ranges from household goods to components to machine tools to supermarkets. Business operations are organized into three groups: financial, industrial and distribution. In 2003, the industrial group had total sales of €4,379 million and the distribution group, €5,276 million. MCC has a global presence, with 38 production plants worldwide. With a total of 68,260 jobs, the group ranked third among employers in Spain in 2002 (MCC 2003).

Spain

Mondragón came into being during the dictatorship of General Francisco Franco. From the end of the Spanish civil war in 1939 to his death in 1975, Franco imposed tight controls on political, social and economic life and installed an autarkic economic regime which lasted until the early 1950s. By this time, per capita gross domestic product was barely 40% of the average for Western European countries.

After Franco's death, Spain experienced a complete turnaround: democracy was implemented, inflation and unemployment fell steadily and a remarkable economic boom beginning in the mid 80s has created an economy which, today, supports a GDP per capita that is 80% that of the four leading Western European countries. Efforts to modernize and expand the economy were greatly aided by a number of factors, including EC membership, the continuing fall in oil prices, increased tourism, a sharp reduction in the exchange value of the US dollar, and a massive upsurge in the inflow of foreign investment (CIA, 2004).

The Basque Country

The Basque Country comprises three provinces at the north western border with France. Though part of Spain, the Basques are culturally different from the Spaniards, with a strong sense of identity which is tied to Euskera, the Basque language. Historically an important economic area, the Basque provinces have been at the center of the Spanish shipbuilding, steel and iron industries. The guilds of craftsmen that formed in these industries provided the cultural basis of what was to become the cooperative movement in the Basque country (Turnbull 1995, Whyte and Whyte 1991).

During the civil war, the Basque Country was especially ravaged. Unemployment was very high and the area around Mondragón had a bleak economic outlook. Today, however, the region of Mondragón is at the top of the Spanish per capita income scale and has the most equal distribution of wealth in Spain. As of 2001 MCC contributed 3.7% to the Basque GDP and therefore takes its share in the economic performance of the region (MCC 2003).

Identifying common features of success

All these organizations have created social value: Grameen Bank by alleviating poverty for women in Bangladesh, Sekem by introducing organic farming as well as by fostering cultural and social life in Egypt, and Mondragón by creating jobs and opportunities for people who did not have them before. These three organizations not only vary substantially in their "social" mission, they also build on different organizational set-ups and act in very different environments. Yet, we can identify common features which, we believe, account for their success in combining social and economic value creation in a sustainable manner.

Previous studies on social entrepreneurs and their ventures have emphasized the important role of the founder, the founder's vision, and the founder's individual traits (Drayton 2002, Bornstein 2004). As our descriptions of the three initiatives have illustrated, the individual visions of the founders of GB, Sekem, and MCC are idiosyncratically linked to the fundamental social problem they aim to address.

In this paper, we deliberately focus on common features of the particular business models which have allowed the three initiatives to develop into self-sustained and successful social entrepreneurial organizations. Our analysis reveals that the organizations share commonalities in their approach to: (1) the creation of value networks, (2) the procurement of strategic resources, and (3) the management of the customer interface. All three are important pillars of any business model, as defined by Hamel (Hamel 2000).

In more detail, the first pattern we observed is the way the founders (social entrepreneurs) pro-actively created specific value networks to facilitate social value creation and appropriation by the target group. The second pattern is the way these organizations crafted innovative resource strategies to secure critical and scarce resources, and how they incorporated these strategies into their business models. The third pattern is the novel way in which they define and set up the customer interface. All three organizations interact in a special way with their target groups, i.e. the groups for which they primarily want to create social value. We believe that these common patterns played an important role in how GB, Sekem and MCC succeeded in their social endeavors and became self-sustained organizations.

Table 2 provides a summary of the common patterns along the three business model components. In the following section we elaborate in more detail on how these business model elements were enacted in each of the individual business models.

Table 2: Overview of Patterns along Business Model Components

	Grameen Bank	SEKEM	MCC
VALUE NETWORK **Positions controlled or significantly influenced in the value network**	▪ Provision of complementary goods through the "Grameen Family". This family includes businesses ranging from telecoms to electricity to knitwear.	▪ Influence on sourcing through control of supervisory authority (EBDA) ▪ Production ▪ Distribution ▪ R&D	▪ Finance ▪ Social Security ▪ Sourcing ▪ Research & Development ▪ HR Training & Development ▪ Depending on the product, several steps along the value chain
STRATEGIC RESOURCES **Strategic resource needs incorporated into business model**	▪ Funding ▪ Human Resources ▪ Risk Management	▪ Raw Materials, i.e. organically grown crops and herbs	▪ Funding ▪ Highly skilled employees ▪ Research & Development
CUSTOMER INTERFACE **Integration of target group**	▪ Borrowers are also owners of GB ▪ Borrowers are turned into entrepreneurs, with support and within the value network	▪ Farmers network ▪ Creation of a community with "ideal" living conditions, the so-called "mother farm"	▪ Employees are to a large extent also owners ▪ Reallocation of employees ▪ Strong business links (supplier/buyer) within group

Composition and Structure of Value Networks

In recent years, the notion of value networks has come to the fore in academic research (Borgatti and Foster 2003). Value networks have been analyzed in various ways: with respect to their potential to create competitive advantage (Stabell and Fjeldstadt 1998, 413), added value and distributive power (Brandenburger and Nalebuff, 1996), and as a means to achieve collective objectives (Todeva and Knoke 2002). Research has also focused on consumption and production externalities (Economides 1996), and value creation and appropriation in general (Winther 2001, Zott and Amit 2002). Although these authors view value networks differently, they agree on their importance for the creation and distribution of value. As a result, value networks have been repeatedly viewed as fundamental elements of business models (Hamel 2000, Chesbrough and Rosenbloom 2002).

GB, Sekem and MCC all proactively created social value networks from the very beginning. These value networks allowed them to offer complementary goods on the supply side, and establish positive network effects among consumers on the demand side, with the final objective of increasing the creation and appropriation of value for their target group. Thus, whenever a critical activity or link was missing in the network (which may have hindered the appropriation of value by their target group), the three organizations either filled this gap themselves or facilitated the creation of a new company to provide the missing link. In sum, within their respective social value networks, GB, Sekem and MCC either perform critical activities themselves or partner with companies that share their social vision. Every single part of the social value network thus created plays a specific role in the creation of social value for the target group.

Sekem

Sekem, for example, partnered at a very early stage with distributors (Lebensbaum and Piramide) in Germany. These two companies shared Sekem's vision and had their own missions of social responsibility. While these efforts focused on distribution, Sekem was also active on the sourcing side. In 1986 it partnered with a German pharmaceutical company, Dr. Schaette, in order to develop and conduct research on the phytopharmaceutical market. This was followed, in 1990, by the establishment of The Centre of Organic Agriculture in Egypt (COAE), a non-profit organization whose purpose was to establish biodynamic standards for Egyptian growers, as well as to offer training and consultancy services to those applying such standards (Merckens 2000). Later, the foundation of the Egyptian Biodynamic Association (EBDA) complemented COAE's efforts by providing consultancy services to farmers during their transition to biodynamic agriculture. With this combination, Sekem was able to set a number of standards for biodynamic agriculture in Egypt. Furthermore, these initiatives allowed Sekem to expand its impact by realizing its mission beyond the direct reach of the business group.

Sekem also realizes its mission through the Egyptian Society of Cultural Development (SCD), an organization it founded as an umbrella for all the group's predominantly social activities. Among other things, SCD runs a school, a medical center, and several education & training centers. Social value, in Sekem's sense, is not only created within Sekem but within its social value network.

GB

GB created a slightly different value network. As mentioned, Yunus's vision was to alleviate poverty for women in Bangladesh. Based on the belief that every human being is able to help him or herself, he started with a bank providing micro-finance, convinced that giving small loans would enable borrowers to either establish a business or to grow and expand an existing business.

With the arrival of the Internet, however, he realized that providing loans might not be enough to overcome the digital divide. Yunus addressed this concern by founding Grameen Telecom and Grameen Phone (Lawsonn and Meyenn 2000). In co-operation with GB, these two companies created the "Village Phone" plan, whereby women are able to buy a mobile phone, financed through a loan from GB, and offer telephone services in villages that are not yet connected to the national telecom system.

Like Sekem, Grameen created a dedicated organization, Grameen Trust, to promote its activities and lobby for the necessary regulatory and legal reform. One of Grameen Trust's explicit aims is to build an international network of concerned people and institutions working in the field of poverty alleviation. It also aims to organize and conduct any project or enterprise that will help increase employment, income and management skills among the poor.

Another extension of GB's social value network was the Grameen Fund. After operating GB for some time, Yunus realized that many of the business ideas that people presented to him could help realize his vision but did not fit into the GB loan policy. They were economically compelling and socially progressive but did not fall within the scope of GB's initial objective of providing micro-credit to the very poor. Hence, the Grameen Fund was established to fill this risk capital gap for promising social ventures.

Besides the companies already mentioned, another 14 companies make up the social value network, the so-called "Grameen Family", created by GB. Through this network GB not only lends money to the very poor; it also offers specific business models that enable borrowers to set up a business; it educates them to advance economically and socially; it creates and offers jobs, promotes the use of high technology, and facilitates replication efforts in other countries. The Grameen Family is a powerful network that complements the activities of each individual member organization.

MCC

MCC is probably the best example of the creation of a social value network. Based on the ideas of Arizmendiarrieta, MCC cooperatives focused from the very beginning on the education, rights and development of their workers. The social value network has therefore evolved around these objectives. The "Escuela Politécnica Profesional", as the starting point of the cooperative movement, was just the first node in this network. The first industrial cooperative proved to be another central part of the value network, in that it became a major customer for subsequent cooperatives that were established in Mondragón.

However, having been set up as cooperatives and lacking significant collateral, most of the organizations in the network lacked financial robustness and therefore faced severe growth constraints. Arizmendiarrieta, realizing this problem, soon started to work on a plan for a cooperative bank. Although the idea was at first dismissed by the founders of the first cooperative, he continued to work on his plan. Convinced that a bank would be crucial for the future success of his "social experiment", he even forged two signatures he needed for the banking license (Whyte and Whyte 1991). Caja Laboral Popular was thus brought into existence and subsequently became the backbone of Mondragón's development.

Further elements of the value network were added based on necessities and opportunities. The cooperative organizational set-up had a significant disadvantage, namely the denial of state social benefits for members. As owners of the cooperatives, workers and employees were denied access to the national social benefit plans available at that time. To meet this social need MCC created an insurance company, Lagun-Aro. In order to foster competitiveness some of the cooperatives created the Ikerlan Research Center in 1974, which has not only provided applied technological research for the founding members but for the whole cooperative group and the Basque government.

In contrast to SEKEM and GB, the Mondragón group cooperatives not only support each other by providing products or solutions that complement the offerings of other companies within the network, but also support each other financially in times of need. During the 1980s, in particular, many cooperatives were only able to survive thanks to financial transfers within the Mondragón Group.

To reiterate, by establishing education centers, financial institutions and strong supplier/customer relationships within the Mondragón Group, a social value network was created spanning from sourcing to production and distribution – from education to research and technical assistance. This allows MCC to combine economic viability and social value creation in a sustainable way.

From the observations described above we propose:

Proposition 1: Successful social entrepreneurial organizations pro-actively create social value networks at a very early stage

Resource Strategy

Another area in which the three organizations show similarities is in how they incorporated resource strategies into their business models. Each organization innovatively built a business model which made sure that critical resources would be provided in a sustainable manner. Foreseeable resource needs were not simply seen as a sourcing problem but as an opportunity to expand the value network even further. By using this approach GB, Sekem and MCC were able to expand the reach of their social value creation and solve their resource problems at the same time.

Sekem

The first resource problem Abouleish faced when he started Sekem was the availability of organically grown crops, which were essential for the first organic medicinal products he planned to produce. Biodynamic or organic farming was not popular among farmers at that time. One of the reasons was the prevailing belief that organic farming was a risky venture with low yields and limited returns. The quick solution Abouleish found was to acquire additional farmland, so that he could grow whatever he needed himself. However, he also knew that this approach would not carry far and could limit the scalability of his business. He therefore needed to foster organic farming in Egypt on a large scale. He achieved this by establishing COAE and, a few years later, EBDA. Both institutions provided training and consultancy services, and defined standards for farmers and processing firms interested in organic farming in Egypt.

Abouleish went one step further and found a way to exert influence over the whole sector. Through COAE, which in 1992 was appointed as the private body responsible for the inspection and approval of organic products for export to the EU, Sekem today controls organic farming standards in Egypt. Through EBDA, it controls the use of the DEMETER trademark, belonging to an international ecological association that represents about 3000 producers in 40 countries.

Overall, Abouleish’s approach ensured that the number of farmers converting to organic methods grew continuously, thereby improving the supply of raw materials for Sekem. By the end of 2003, some 800 farmers from Aswan to Alexandria were using biodynamic farming methods (The Schwab Foundation 2003).

Grameen Bank

What are vital resources for a bank? Obviously cash, but what else? If we were talking about banks in developed countries, we would probably add personnel to analyze customers and their creditworthiness. Other elements might include branches in major cities, a computer-system for surveillance and control, and so on. Yunus had none of these things when he founded GB. All he had was his knowledge of economics and his personal funds. Yet he still managed to establish a successful, if not the most successful, micro-finance institution worldwide.

One important part of GB’s business model is the “group lending” method (Letelier et al. 2003). Through this method, GB was able to solve several resource problems. Firstly, it saved on personnel, because the groups of borrowers selected and monitored themselves, obviating the need for labor-intensive monitoring and verification by the bank. Secondly, it was able to reach many potential borrowers very quickly, without significant personnel training or an extensive branch network. Finally, it reduced its risk and later financial requirements. To qualify for a loan from GB, individuals must form a group of five borrowers. This group defines several steps in the loan process, e.g., the amount needed and when each member of the group will receive the loan. It also provides “social collateral”, as the group is responsible for making sure that each member pays back his or her loan. The members of each group exercise enormous peer pressure on each other, as they know everyone in the group well enough to understand how important the money is to them. If one member defaults, other members of the group will be deprived of much needed funds. The defaulting member’s reputation in the village will suffer. Determining a borrower’s individual default risk is very costly; it is also costly to ensure that borrowers take actions that facilitate repayment. Members of a credit group, however, are self-selected, and potential defaulters are weeded out at the very start. Thus, GB effectively exploits the villagers’ local knowledge to select its customers. Moreover, the resulting peer pressure ensures that borrowers pay back the loans.

Like any other bank, GB required deposits to transfer into loans. While, initially, GB depended on donations to make loans, its goal from the very beginning was to become financially self-sustained, a goal that was achieved in 1995. This financial self-sustainability was achieved through several measures. Firstly, borrowers are required to pay into different kinds of deposits (Schreiner 2001, 8). From the very first day of their loan, group members are required to contribute to a private savings plan. The conditions on these savings plans are very attractive and many people who do not actually borrow money from GB may have one. For GB this has become a major source of refinancing at low rates. Each month such savings plans bring in over Tk 100 million (US $ 1.75 million) as deposits towards pension savings. GB can now rest assured that it will have enough of its own money to expand its lending operation in the future (Yunus 2002). Secondly, it also sells GB stocks to borrowers. By so doing, GB not only improves its funding basis but also strengthens the sense of ownership among its customers and instills the discipline of saving.

MCC

Mondragón’s resource strategy is slightly more complex. As MCC is a group of more than 160 cooperatives, it is difficult to talk about one single business model. However, the cooperatives have developed extremely close ties and, in fact, share the services of many organizations within the network. In this sense the structure resembles the value chain of a business organization in which support functions are provided by individual organizations. Such functions include financing, research, and training and development. Arrizmendiarrieta directly initiated almost all of these support organizations, a fact that illustrates his foresight and skills in developing a business model that took account of resource needs at a nearly stage.

One of the resources which became essential early on was, again, funding. As organizations owned by their employees, the cooperatives could only tap into the financial resources of their owners, which usually were very limited. Furthermore, the fact that the cooperative concept was new to banks, combined with the lack of collateral, made corporate loans nearly inaccessible. Obtaining funds for running the business was therefore a major concern and was one of the main reasons why Arizmendiarrieta pushed so hard for the creation of a cooperative bank. Through Caja Laboral Popular the Mondragón Group was able to increase the savings rate and channel these savings to productive investments within the cooperative. In the first years the cooperatives severed their ties to other financial institutions and started to work exclusively with Caja Laboral Popular. Through this bank and its policy, funding could be provided to newly established and troubled cooperatives which would not normally be eligible for loans.

Another resource issue that could potentially limit the growth opportunities of newly established cooperatives was the lack of a highly educated and specialized workforce. Many companies, at the time MCC was established, left this problem to the government. MCC, however, not only maintained but also supported and expanded the teaching institutions it had created. Supervised through the "League for Education and Culture", MCC oversees the education system within the organization. This system includes a polytechnic school, a business school and a professional college. MCC also has strong ties with Mondragón University, which was promoted and is supported by educational organizations within MCC (Errasti et al. 2004). Graduates of these organizations also provide a constant stream of talent for MCC.

From the above discussion we suggest:

Proposition 2: Successful social entrepreneurial organizations carefully assess their resource needs and accordingly design a resource strategy that is integrated into the business model at an early stage

Interface with the Target Group

The third area in which we observed similarities between Sekem, MCC and GB was the way value was transferred to the target group. This common pattern reflects the customer interface part of the business model. For the purpose of this study, the "customers" are the beneficiaries of the social value created by the organizations we are considering. In other words, we use the terms customers and target group interchangeably. The social value created by our three organizations takes various forms; in all cases, however, it was created by delivering a product or service to the target group. In this sense, members of the target group are customers. Knowledge about, interaction with, and relationships with this group are as crucial for successful social ventures as are relationships with regular customers for traditional business ventures.

We found that each of our three sample organizations created a special interface with its target group, integrating customers into its social value network or even, whenever possible, into its organization. Targeted individuals are thereby involved in the value creation process and enabled to capture value. This approach sets these organizations apart from the usual development organizations, which very often view their target groups, at the end of the value chain, as mere recipients of donations or services at highly subsidized prices.

The logic that led to the integration of target groups into the social value network is straightforward. The founders of Sekem, MCC and GB believed that every individual is capable of, and responsible for, helping him or herself once the right conditions are created (Letelier 2003, Auwal 1996, Whyte and Whyte 1991). This capability, however, is only effective if enacted with a sense of responsibility. Hence, they created networks in which their target groups could take responsibility for their own fate, and that facilitated the development of individuals and the community. By integrating the target group into their social value networks, the organizations were able to create employment, gain market knowledge, and interact directly with their customers. In sum, Sekem, GB and MCC helped their customers to capture a substantial part of the value that was collaboratively created.

Sekem

Building on Dr Abouleish's vision to "heal the country" by integrating "social, cultural and economic life", Sekem's target group could be defined as Egyptian society in general. Although it is almost impossible to integrate the whole of society into a social value network, Sekem is trying to achieve this in as much as its size permits.

Central to this effort is the concept of the "mother farm", which is where Sekem employees live and work, benefitting from the environment created by the organization. Based on a 2000 hectare plot, the mother farm includes the farming and processing facilities, but also housing, a kindergarten, a school, and a hospital. Basically, it is a little village in which almost all Abouleish's visions are realized. It is a healthier environment than probably anywhere else in Egypt. The same is true of the workplaces. Besides creating safe and attractive workplaces, Sekem also provides training and education. Moreover, it encourages all employees to devote 10% of their time to cultural or social activities such as painting, singing and the like. On the sourcing side of its social value network, Sekem formed a network of farmers who share their experiences in organic farming and help one another.

Sekem integrated its target group – Egyptians – into its value chain. Firstly, it created jobs, which were desperately needed in a country with an unofficial unemployment rate of nearly 20%. Secondly, in line with the customer interface approach discussed above, it created a healthy environment, offering cultural, social and professional services that directly benefited employees.

GB

The group which Muhammed Yunus targeted right from the beginning was the poorest of the poor in rural Bangladesh, predominantly women. GB integrated these women into the social value network in two ways. First, it made them member-owners, i.e., the vast majority of the shares of GB are owned by former or current borrowers. This system ensured that the poor would also be able to capture the value created through GB, either through profits, which would flow back to the borrowers as owners, or through favorable credit terms, which a profit-maximizing bank would not offer. Based on the principle of establishing capability and responsibility in parallel, as discussed above, this structure included the responsibility of owning and partly running a bank.

Second, and more interestingly, GB tried to turn its borrowers into entrepreneurs. Many other activities undertaken by GB and organizations set up or supported by it facilitated this process. Again, by this means GB ensured that the value created through the borrowers' business activity was also captured by them.

MCC

At MCC we can observe a similar pattern. As members of cooperatives, the workers were at the same time owners. All the MCC organizations that emerged around the industrial and distribution cooperatives, such as Caja Laboral Popular or Lagun-Aro, are owned partly by workers of the related cooperatives.

Moreover, strong supplier/customer relationships exist within the MCC network, which has ensured that any value created is captured within the network and by the target group, i.e., the members of the cooperatives. These strong relationships are partly a result of the way MCC evolved – as a web of interrelated and dependent organizations (Malo and Vézina 2004). The growth of this network of organizations was assisted by a special division of Caja Laboral which evaluated new business opportunities and facilitated the establishment of new organizations (Turnbull 1995).

Based on these observation we state the following proposition:

Proposition 3: Successful social entrepreneurial organizations integrate their target group in the social value network at an early stage.

Learning points and conclusion

Our aim in this paper has been to identify common features of organizations that have succeeded in developing from social ventures into self-sustained organizations creating social and economic value. We have examined the business models of three very different organizations – Sekem, GB, and MCC – which are widely recognized as successful examples of social entrepreneurial organizations. Our analysis has revealed that these organizations share similar approaches with respect to three elements of any business model, namely the value network, the resource strategy, and the customer interface. In particular, our findings suggest three conclusions. First, successful social entrepreneurial organizations do not just position themselves at a specific point in an industry value chain but pro-actively create their own value network of companies that share their social vision. Second, the three organizations ensured that the resource strategy was an integral part of their business model. And third, all three companies employed a special approach to transfer value to the groups they targeted: they integrated the target group into the social value network at a very early stage, so that the target group played a vital role in creating value and at the same time was able to capture a significant portion of that value.

This paper contributes to the existing literature on social entrepreneurship. While previous studies focused on the *who* (the social entrepreneur and his special characteristics) or the *what* (the outcome of social entrepreneurial activity), this study addresses the *how*: how social entrepreneurs successfully combine social and economic value creation, and how they transform social ventures into self-sustained organizations. Our hope is to stimulate future empirical research that builds on these qualitative findings. The paper also offers interesting insights to prompt existing for-profit multibusiness companies to rethink their business models.

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