

How Social Businesses are Creating Sustainable Business Models

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ABSTRACT

Aim of the Study: The purpose of this study is to give a practical example of how a social business is transforming business models.

Methodology: Case study methodology is used. One major company is studied and the findings related to that company are presented

Findings: The purpose of a social business is not just to make a profit. But the larger goal of any social business is to meet the social needs of people. The case of Akhuwat has shown that it is possible to maintain a sustainable business model while at the same time serving a social purpose

Conclusion: Akhuwat came up with a new model of social business in which they distributed interest-free loans to the needy. The idea was to distribute interest-free loans to the needy when the traditional micro-finance sector was charging competitive mark-ups on micro-loans. Akhuwat came up with the model of accepting donations directly from people and distributing them directly among the needy. But, over time, it has emerged as the largest micro-finance institution of its kind, which speaks for the success of its programs. Hence, we can see how Akhuwat helped achieve the SDG of poverty alleviation by adopting a new business model.

Keywords: Sustainable, Business Enterprise, Social Enterprise, New Business Model, Conventional Social Business, Social Business, Profit.

Background

The study of social business models is in a preliminary stage. Research on social business models is ongoing; a form of social business model which can be observed in practice has evolved from the ongoing experiences of the Grameen Group (Younas, Moingeon & Ortega 2010). Grameen Group started with Grameen Bank which was essentially a microfinance institution. It has since then grown to include a network of 30 sister organizations. As illustrated by the case of Grameen Bank, a social enterprise is quite different from a for-profit organization. While Friedman argues that the only goal of a firm is to maximize value for shareholders, stakeholder theory takes it a step further and argues that the firm has a responsibility towards not only shareholders but towards all stakeholders. Hence a firm should strive to create value for all of its stakeholders. The idea of a social enterprise takes its motivation from both the capitalist view of the firm and the stakeholder view. A social business exists to generate revenue for its shareholders but at the same time it strives to address a social cause; that cause can be improving the lives of the poor by reducing poverty, reducing carbon emissions to protect the environment or it can involve just giving

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underprivileged communities another chance at life. In the case of Grameen Bank, we have seen that challenging conventional wisdom and introducing new types of loans (which did not require collateral) helped bring about a radical change in the way the poor accessed capital in Bangladesh. The Grameen model also created new hope for the poor and gave them a chance to improve their lives, at the same time contributing to the alleviation of poverty in Bangladesh. The first three of the sustainable development goals include eradication of hunger, alleviation of poverty and access to good health and a good quality of life. The case presented here illustrates how challenging conventional wisdom, basic assumptions and finding complementary partners can help create a new business model, at the same time contributing to the goal of poverty alleviation.

Challenging Conventional Wisdom and Basic Assumptions

Akhuwat gives interest-free loans to poor people so that they can meet their basic needs. It also gives business loans to the poor without collateral. In fact, it gives different types of loans which include family enterprise loans, liberation loans, health loans, housing and emergency loans and small business loans. It uses mosques/churches and other religious places of worship for introduction of the program and disbursement of cheques. The idea is that mosque is the center of activity in most neighborhoods in Pakistan especially among Muslim communities. The idea has been inspired from the state of Medina where all major activities were controlled from the mosque (Masjid-e-Nabvi) at the time of the Holy Prophet P.B.U.H. To make its services accessible to all communities, Akhuwat has included other places of worship in its network as well (like churches and ‘gurdwaras’). Secondly, it is believed that loan disbursement in a mosque/church or other place of worship enhances accessibility to borrowers especially in rural areas where accessibility can be a real problem. A mosque/church is also believed to enhance the moral obligation of the borrower.

The Application Process

Loan process starts with submission of a loan application. Unit manager then evaluates application according to the eligibility criteria. Applicant then visits nearest AIM branch along with relevant documents for submission of loan application. Unit manager then discusses with the applicant whether he or she meets the eligibility criteria of the scheme. Unit manager checks documents and application is processed after completion of required documents. Finally, cheques are distributed in a mosques/church or other place of worship. Akhuwat foundation does not require collateral from its borrowers in the traditional sense. But it does require the borrower to provide social collateral in the form of personal responsibility or guarantors.

Training

Change or poverty alleviation cannot be brought about by loan disbursement alone. That has been the experience of many micro-finance institutions in Pakistan. So Akhuwat took the initiative and started offering trainings to upgrade the skills of those individuals wanting to increase income levels of their families by starting new businesses. Again the focus is on poor unskilled people. Research has shown that increasing the skill level of workers can have a significant impact on their income levels.

Innovation

Group Lending

Akhuwat provides group loans in Pakistan. This is an innovative type of loan in which the amount to be loaned is distributed among groups of men or women who are looking to increase the income of their families but are unable to do so because of scarce resources. Men or women are required to form a group of 3 to 6 people. All members in a group become guarantors of a loan. In this way, people can borrow to solve their financial and social problems in groups.

Donations

Though Akhuwat does accept funds from its partner organizations like the DFID-UK; it introduced a unique fund called charitable donations fund. Many people who were benefiting from the micro-loans being offered by Akhuwat wanted to give back to the organization. Since the organization was in need of funds, it started accepting donations directly from people who benefited from Akhuwat loans. These donations were added to the charitable donations fund. Akhuwat has collected millions of rupees in donations towards its charitable donations fund.

Finding Complementary Partners

Leveraging resources by setting up partnerships can be crucial to any type of social organization. By collaborating with partners and opening up its own resources, the organization gains resources. A major advantage of collaborations is that it helps build a pool of resources which becomes part of a network. An organization can draw from this pool of resources; a major advantage of this pool of resources and knowledge is that a firm does not require developing the resources on its own. Research has shown that collaborations are an integral part of any social endeavor. We've already seen how Grameen Bank used outside partnerships to build a mobile phone company. Such partnerships can also be seen in the case of Akhuwat.

Akhuwat partnered with British Asian Trust funded by DFID-UK. Under this partnership, both partners agreed to advance interest-free loans to economically active women in Karachi and rural area of Sindh and Punjab initially with revolving fund of PKR 47.75 Million.

Major objectives of the project were:

1. Women's economic empowerment
2. Empowering women through increased access to financial services and financial literacy
3. To enable economically active women to successfully setup and run small scale businesses
4. To empower women through increased control over economic resources and decision making at the household level
5. To encourage self-employment

In 2010, Care international, one of the leading aid and development organizations in the world, started a project named lendwithcare. Lendwithcare allows you to lend 15 GBP to fund small businesses and once your money is paid you can recycle that amount to another poor entrepreneur or withdraw your money. In April 2013, Akhuwat signed an MOU with Care International to start lendwithcare.

Major objectives of the project were

1. To reach out to the low-income groups of people living in Gilgit, Baltistan and support them with interest free loans enabling them to earn their livelihoods.
2. To help improve socio-economic conditions of the target segment of the society through social and financial inclusion
3. To promote self-employment

History of the Organization

Akhuwat is not just an organization. "It is the name of a philosophy, a viewpoint, a way of thinking and reasoning" (Saqib, 2016). Founded in 2001 by Dr. Amjad Saqib, the basic philosophy behind the Akhuwat microfinance organization is that every child should be able to go to school; every patient should be able to buy a medicine; everyone should have a shelter above his head. Akhuwat started with the story of one woman; a woman who one day entered the office of Dr Saqib Anwar. She told him that her husband had

passed away and she had four children to feed and take care of. She said she could not see her children become criminals. She said she wanted to earn a livelihood with respect and wanted a good education for her children, and for that she needed Dr. Saqib's help. She said she was looking for a loan (Qard-e-Hasna). Dr. Saqib arranged Rs 10,000 from a friend and lent her that money. The women bought two sewing machines with that money and used earnings from the machines to look after her children. Sometime later, the woman returned to pay back Rs. 10,000 which had been lent to her. She was willing to pay back the Rs. 10,000 but she had one request. She said she hoped that the 10,000 rupees would be given as loan to someone who actually needed that money. Hence Akhuwat was born.

Akhuwat gathered 2 lacs in the same year and distributed that money among residents of 'shanty towns' in Pakistan. Initially they employed a team of volunteers who would visit every home in 'shanty towns' offering money as a loan to whoever needed help. Many people took micro-loans and used them to start small ventures.

History of the Industry

Microfinance in Pakistan can be categorized into three main categories which include Microfinance Institutions (MFIs), Microfinance Banks (MFBs), and Rural Support Programs (RSPs).

MicroFinance Banks

A bank is generally licensed and regulated by the State Bank of Pakistan. The first Microfinance Bank was established in 2000 under a presidential decree. Since then 11 Microfinance Banks have been licensed under Microfinance Institutions Ordinance, 2001. MFBs are legally empowered to accept and intermediate deposits from the public.

Microfinance Institutions

MFI is a non-bank microfinance company which only provides microfinance services. These institutions are required to be registered with the Securities and Exchange Commission of Pakistan as Non-Banking Microfinance Institutions. Presently, 17MFIs have obtained NBMFC license. One NMBFC is operating as a microfinance institution license with an investment banking license. These MFIs are registered under section 40 of the Companies Act.

Rural Support Program

This is a Non-Bank financial company which extends coverage to rural areas. A rural support program is differentiated from MFI in that it is purely focused on rural credit operations.

At present the microfinance sector in Pakistan comprises of Microfinance Institutions which account for 58% of the total market, followed by Rural Support program which account for 29% of the market. Microfinance Banks account for only 13% of the total market.

Microfinance sector has grown since the 2001. In 2019, Microfinance borrowers increased 11% from 669 million in 2018 to 7.44 million while gross loan portfolio grew from Rupees 256 billion to 302 billion (Nisa 2021). Among the MFBS, growth was led by Telenor Microfinance Bank but Mobilink Microfinance Bank and Khushali Bank also recorded significant growth. At the time when Akhuwat came into existence there were strong players in the industry like Khushali Bank, Kashf foundation and Telenor MicroFinance Bank. But Akhuwat continued to grow in the presence of these industry leaders, mainly because of its unique business model.

Overall MFBs remained market leaders in 2019 as active borrowers grew from 48% to 50%. The success of Microfinance Banks can mainly be attributed to Telenor Microfinance Bank and Mobilink Microfinance Bank which aim to increase outreach by providing micro loans.

Synopsis

Akhawat is an organization which defies the traditional capitalist view of the firm. It has used a new business model which involves giving out interest-free loans. It defies conventional wisdom by offering interest-free loans in an industry where interest-based micro loans are very common. It is innovative in that it introduced a new form of lending which was geared towards groups of people. This is an innovative type of loan targeted at those people who want to increase their income but cannot do so because of scarce resources. All people in the group become guarantors of the loan. The company has also leveraged resources by forming partnerships with other organizations. It formed partnerships with British Asian Trust and Care international and by doing so enhanced its reach to the needy and underprivileged.

Objectives of the Study

This case has 4 general teaching objectives:

1. To introduce students to the importance of United Nations Sustainable Development Goals(SDGs)
2. To illustrate the different types of business models being used by social enterprises around the world and how that fits with stakeholder theory and the SDGs.
3. To illustrate how an enterprise has been successful in fulfilling the SDG of poverty reduction by challenging conventional wisdom and using innovation
4. To illustrate how an enterprise has been able to increase resources by collaborating with partners

Methodology

The purpose of this study is to highlight how a social business is changing the way business is done and transforming traditional business models. The idea was to showcase a practical case which could show the how a social business works and achieves its social goals. For that purpose, case study approach was used. A single organization was chosen. Data regarding this organization was collected from published reports, magazines, newspapers and books. The data was used to analyze the organization to understand its business model.

Discussion

From the point of view of shareholders, value maximization seems to be an important goal. But, if the primary goal of an organization is to maximize value for shareholders, what about other stakeholders? Some students may argue that the goal of an enterprise is not just to serve the interests of its shareholders but to look after the interests of the many stakeholders involved. Such stakeholders should refer to the different types of stakeholders and explain how the stakeholder view of the firms differs from the stockholder theory. Students may argue that it is duty of an organization to serve the interests of its employees, the communities, the suppliers and the environment. Students should give specific examples from their experience of how an enterprise which only serves the interests of its stockholders only can harm the interests of other stakeholders involved. Students may refer to problems facing communities, harassment at work, employee morale or to environmental degradation. They should be able to explain how any one of these can be detrimental to a business. Students can also explain the conflict between the stakeholder theory and the stakeholder view of the firm.

“A social enterprise is one which exists for the greater purpose of serving society but at the same time it also generates revenue for its operations”. Explain to what extent Akhawat can be described in terms of this definition of social enterprise.

A social enterprise is one which exists for a greater purpose .The main goal of a social enterprise is not just to maximize shareholder value. Students can refer to the definition of social enterprise or to the fact that social enterprises exist to serve a social purpose. That purpose can be to improve the level of education in a town, to reduce air pollution, to reduce contamination of drinking water or to provide poor children access

to education. Students should realize that a social enterprise is different from a non-profit organization. A non-profit organization does not generate revenue but instead finances its operations through donations, grants etc. Akhuwat does not fit this definition of the social enterprise. It is true that the purpose of Akhuwat is to reduce poverty by providing funds to the poor and needy so that they can increase their income. It provides interest-free loans to the poor. Furthermore, it has been shown the goal of poverty alleviation cannot be achieved through loan disbursements alone. Hence Akhuwat engages in training programs which are meant to increase the skill level of underprivileged people.

Akhuwat does serve the broader purpose of reducing income inequality and poverty alleviation through the disbursement of loans and through training but it does not have any source of revenue. Students should know that Akhuwat does not engage in income producing activities. In that sense, it does not truly fit the model of a social enterprise.

Akhuwat challenged conventional wisdom by disbursing interest-free loans to the needy when such loans were not available in Pakistan. It truly challenged the existing models of loan disbursements and introduced new types of loans which were interest-free. Moreover, students should show knowledge of the fact that Akhuwat made it easy for people to access loans. The loans were not disbursed primarily through offices but through religious centers. Islam truly believes that the mosque serves as the center of activity of a Muslim society. Loans were distributed in all types of religious centers around the country. These included mosques, churches and 'gurdwaras'. The loans were funded through donations made by Pakistanis from all over the world. The company also formed collaborations with other organizations to raise funds.

Akhuwat is not the traditional type of profit-making enterprise. It is an enterprise which was founded with the goal of serving a social mission. It does not aim to make a profit for its shareholders. The first thing that organizations can learn from Akhuwat is that it is possible for a business to have a purpose other than maximizing value for its shareholders. Other organizations, like Akhuwat, can have a social goal. Other than that, students should also mention how Akhuwat challenged conventional wisdom to create a new business model. It challenged existing practices to create a model where interest-free loans could be disbursed to the underprivileged. It created a model which was different and at the same time sustainable. Secondly, students should realize that it is very important for companies to use innovation. It is difficult for a business to thrive in the long-term if it does not innovate. Akhuwat used innovation to introduce a new type of lending called group lending. In this new type of lending, loans were extended to groups of 3-6 people. All the people in the group acted as guarantors of the loan. Moreover, Akhuwat disbursed loans which did not require collateral. These innovations made it possible for more people to have access to loans.

Conclusion

Akhuwat came up with a new model of social business in which they distributed interest-free loans to the needy. The idea was to distribute interest-free loans to the needy when the traditional micro-finance sector was charging competitive mark-ups on micro-loans. Akhuwat came up with the model of accepting donations directly from people and distributing them directly among the needy. However, the organization later realized that it was not sufficient to offer micro-finance loans because the real challenge was to end the cycle of poverty which has been prevalent in Pakistan for so many years. To meet this goal of ending the cycle of poverty, Akhuwat started offering training to future entrepreneurs to facilitate capacity building in addition to the micro-loans it was already offering. In addition to that, Akhuwat also has a Food Bank and clothes donations program. To date, Akhuwat has distributed Rs. 15.2 million in loans benefiting 5,703 families. It began with just Rs. 10,000 of donations back in 2001. But, over time, it has emerged as the largest micro-finance institution of its kind, which speaks for the success of its programs. Hence, we can see how Akhuwat helped achieve the SDG of poverty alleviation by adopting a new business model.

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Conflict of Interest

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