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# Lessons from Muhammad Yunus and the Grameen Bank

## Leading Long-term Organizational Change Successfully

By Katharine Esty

“There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things.”

— Niccolò Machiavelli  
*The Prince* (1532)

I first met Muhammad Yunus in 1993 when I was consulting to UNICEF in Bangladesh. I was wowed, mesmerized, and bowled over. Here was a person who was dedicating his life to eliminating poverty and who had been able to transform an experimental project to lend money to the poorest of the poor into a huge and thriving bank, the Grameen Bank, with millions of borrowers across Bangladesh. Yunus has successfully led the Bank since 1983. His model of small loans to the poor, or microcredit, has been so successful that people have come from all over the world to sit at the feet of the Bangladeshi banker and learn from him. Microcredit has spread round the globe, and in 2006, Yunus achieved worldwide recognition when he received the Nobel Peace Prize. While today a cloud of controversy swirls around academic circles about the impact of microcredit on poverty, Yunus continues to stay the course and flourish as Managing Director at Grameen. This article looks at the leadership and management style of Muhammad Yunus and explores what can be learned about leading long-term change from his forty years at the Grameen Bank.

I have been conducting research on the leadership of Muhammad Yunus for

the last three years. When I went back to Bangladesh in January 2010, I interviewed him twice, for two hours each time. While there, I also interviewed 14 others who know Yunus in various capacities—people who work at Grameen, two of his brothers, and an editor of the English newspaper. I had another interview with Yunus in September 2010 in the US. I have also interviewed about a dozen people here in the US who worked with Yunus at various periods of his long career. I have read the four books authored by Yunus and a number of books about the Grameen Bank. I have also familiarized myself with many of the current articles on microcredit and microfinance.

From this research and supported by the knowledge I gained from thirty years as an organizational consultant, I have identified eight key actions that undergird the successful leadership of Yunus for so many years. I compare and contrast these factors with John Kotter’s and Rosabeth Kanter’s models of successful change and conclude with some preliminary thoughts about how leading successful long-term change differs from leading more time-limited change efforts.

Most of what has been written about organizational change is about short-term change: a new program, a merger, or a restructuring effort. Less attention has been given to what is necessary to lead change successfully over the long haul. It makes sense that, just as a marathon requires quite different skills and abilities than a sprint, so long-term change must require a somewhat different skill set and

abilities than leading a change project or program with a one or two year time frame.

### The Leadership of Muhammad Yunus

In 1972, Yunus returned to Bangladesh after eight years as a student and professor in the US and became a professor of economics. He had no intentions of becoming a banker. Bangladesh had been devastated by its War of Liberation and a famine followed shortly thereafter. In his autobiography and again in an interview with me, Yunus has told me how the faces of silent starving people haunted him, and his economic theories seemed like fairytales, totally useless (Yunus, 1999; Interview, 2010). He wanted desperately to be helpful. In the nearby village of Jobra, he set up a cooperative with farmers and landowners to grow rice more efficiently. The yield at the end of the season was high but he discovered the farmers had robbed him of his share of the profits.

Seeking another way to help the poor, Yunus took groups of his students and colleagues for numerous field trips to Jobra to learn about poverty. One day he lent some small amounts of money, less than twenty-seven dollars in all, to forty-two impoverished villagers. To his surprise, they paid him back. He discovered over the next months and years that not only do the poor pay back their loans even without any collateral, but also they pay back at rates far higher than the 60% rate that was typical of commercial banks. This was the defining moment for Yunus (Yunus, 1999). He had found a practical way to help.

Ending poverty became his life purpose and the vision for his organization. It was compelling enough to motivate employees and grand enough to provide them inspiration. What sets Yunus apart from many other leaders is the fact that this vision has guided him since 1976. Day after day, decade after decade, he has struggled relentlessly and single-mindedly against all kinds of obstacles and challenges to bring his dream into reality.

As Yunus began lending to more and more people, he saw the need to build an organization. His colleagues and students evolved over the years into his staff and his

management team. When I interviewed a number of the executives at the Grameen Bank in Dhaka, I found most of them were the original team going back to those first loans in Jobra. Of course, some have come and gone. His second in command and the heir apparent for many years recently left the bank. I was told he had appeared too eager for Yunus to retire and he was edged out.

The early years of his organization were rocky. In spite of Yunus' impressive results, none of the bankers in the region would help Yunus expand his experimental

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project. They just didn't believe Yunus' reports or his numbers. Eventually, in 1983, after years of negotiating with skeptical bankers and haggling reluctant government officials, the Bangladesh government recognized his organization, now called the Grameen (village) Bank as an independent bank.

Although pilot projects usually flounder when they are taken to scale, Yunus was able to expand his bank steadily throughout Bangladesh. In 1983, when the Grameen Bank became an independent entity, it had 86 branches and 58,000 borrowers; by 2010 there were 2,800 branches and more than seven million borrowers, all of them poor people (Yunus, 2009). Yunus knew how to get the resources he needed to fund this growth. During the 1980s and up until 1995, international aid agencies granted Yunus more than 35 million dollars to help his bank expand and move towards self-sufficiency.

Yunus turned conventional banking

practices completely upside down. Not only did he lend to the poor with no collateral, which was unheard of, but also, when he discovered that women used loans to improve the situation of their family more often than men did, he focused on lending to women. When he started out, only 2% of bank borrowers in Bangladesh were women. In the 1980s, women in Bangladeshi villages spent their lives in the confines of their family compounds and many had never even touched money. As the years passed, Yunus succeeded in attracting women so that today 98% of the

Bank's borrowers are women. Locating his branches in remote villages, he brought the bank to the people rather making them travel to the larger towns and cities.

Other banks lent to individuals but instead Yunus required borrowers at Grameen to form peer support groups and to use their loan for a small business. At first Yunus thought all the borrowers in a group should be in the same kind of business. From trial and error, Yunus learned that groups of five worked better than ten and that having a mix of different kinds of businesses in each group was more productive than single business groups.

Yunus promoted societal and cultural change as well as organizational change. His overarching goal was always the alleviation of poverty and he was ready to challenge cultural traditions when they stood in the way. He explained to me that he came to understand that transformative change was possible from living through the late 1960s in the US. He participated

in the Civil Rights Movement and protests against the war in Viet Nam while a student at Vanderbilt. He had observed young people trying to transform their society and succeeding in some measure.

At his bank, Yunus created a new culture that would support his overarching goal using the weekly meetings that all borrowers attended and the Sixteen Decisions, a list of agreements that all borrowers had to agree to follow. The Sixteen Decisions asked borrowers to significantly modify their traditional ways of living, and went far beyond the sphere of regulation of other banks. For example, borrowers had to agree to keep their families small, build a latrine, send their children to school, and give up the practice of dowries when their children got married.

While a student at Vanderbilt, Yunus had been impressed by the impact of professors who encouraged participation in class compared to the more authoritarian style of teaching that prevailed in Bangladesh. At the Grameen Bank, he sought total operational transparency and active participation of all his staff. He asked for lengthy narrative reports from branch managers every month so he could keep his finger on the pulse of the organization and make any changes that were needed. He visited every branch himself until there were nearly a thousand branches. Yet he was well aware of the necessity of good management systems and early on pushed for the development of computerized evaluation and monitoring systems. Even as the bank and its systems grew, most employees continued to see themselves working for the idolized Professor Yunus.

Yunus knew communication was critical for success (Bornstein, 1996). From the first years of the bank, he institutionalized the communication vehicles: internal and external newsletters, training programs, manager's meetings, and seminars for outside visitors. He has stayed in constant communication with his managers, his borrowers, the general public, and bankers from abroad. More recently, he has been in touch with people from all corners of the world, receiving over 1,000 emails a day.

While his vision of lifting the poor out of poverty has remained constant, Yunus

changed his strategies and tactics many times. For example, he first wanted his organization to be a part of an existing commercial bank. Later he tried to become a part of a government bank, and finally, he decided Grameen should be a totally independent bank. Another example of shifting strategy was how he handled grants. After having accepted millions of dollars in grants, Yunus did an abrupt about-face in 1995. He announced he would no longer accept any aid at all in order to demonstrate that his Bank could be sustainable without aid.

Yunus frequently changed his short-term goals as well as his strategies and tactics. For example, the goals for the expansion of the Bank were revised often as were the goals for the percentage of borrowers who were women. Today there is a new system of rating each branch in terms of five goals such as having all the children of borrowers attending school.

For long-term change, it is clear that the priority cannot be on short-term wins. But, as Marshak has suggested, short-term wins are necessary to create momentum to ensure long-term survival (2008, p. 63). Yunus managed this paradox skillfully, pushing hard on some issues and biding his time on many others. Yunus was always aware of the big picture. This was especially true in dealing with the Bangladeshi government. He had lifelong mistrust of government, but he knew when to fight and when to accept half a loaf and wait patiently.

From the start, Yunus envisioned a culture of integrity, hard work, and simplicity for Grameen that would reflect his values and be in stark contrast to the lavish perks and corruption that were usual in Bangladesh (Interviews, 2010). To accomplish this, he hired staff that were young and malleable and who cared about lifting the poor out of poverty. New staff underwent a long and intense training period living in remote villages away from their families. The pay was minimal.

Employees of Grameen have never been allowed to accept gifts—even something as small as a plum or glass of water. All offices at Grameen have always been bare. Managers have simple wooden tables

rather than desks with drawers where papers can get put away and forgotten. Yunus himself has always lived very simply sharing the life of sacrifice that he expected from his employees. Today, Yunus lives in a small apartment adjacent to the Bank and draws a modest salary.

Following several years of extreme flooding in the late 1990s, an increasing number of the Bank's borrowers began to default. By 2000, it was clear that the Grameen model of banking had become a straight jacket and restructuring was needed for the Bank to survive. Unlike many founders of companies, Yunus was able to adapt to these new circumstances. He was able to let go of the original Grameen model that had served him so well and oversee a participative process to design a new model, Grameen II. Grameen II offered many new financial services such as savings plans and insurance and provided far more flexibility to the borrower.

From the earliest days right up to the present moment, Yunus has told and retold the amazing story of Grameen in newsletters, speeches, articles, books, films, and broadcasts until it has now achieved mythic status. His speeches have always been rich with powerful metaphors and vivid anecdotes. He frequently talks about the time when our grandchildren will have to go to a museum to learn about poverty. Or how the poor are like a bonsai tree. As the pot prevents the seedling from a giant tree from growing, so their impoverished environment keeps the poor from reaching their full potential. For years, he has been the public voice, the promoter and advocate of microcredit as well as for his model and his bank.

In 2009, I heard him speak on a snowy night in Cambridge, Massachusetts. His plane from London was late and the eight o'clock speech began at 9:40 pm. Despite the long day of travel, his jet lag, and the fact that for him it was two o'clock in the morning, a glowing Yunus leapt to the podium and launched into his speech with relish. And when it came time for questions, he was eager to talk until the last question from the last person was answered. Later on, during one of my interviews with Yunus, I asked him whether he

ever got bored telling the same stories over and over. He just looked puzzled and shook his head.

It has not been all accolades and praise for Yunus. Over the years he has stirred up wave after wave of detractors both in Bangladesh and abroad. Among his critics have been journalists who sought to deflate the hype that surrounds him. Yunus has seemed to invite these criticisms by his exaggerated claims about the Bank, his way of simplifying complex issues, and his hyperbolic language, which is more like a politician's than a scholar's. Recently, several economists from MIT's Poverty Action Lab have raised questions about the impact of microcredit in Bangladesh and elsewhere. Some of their studies have concluded that the effect of microcredit on poverty is weak if not nonexistent. Others have acknowledged that microcredit provides a necessary buffer during the inevitable crises that the poor face. At times, Yunus has offered a rebuttal to a critic as he did to Daniel Pearl's scathing appraisal of Grameen in *The Wall Street Journal* in 2002. In 2010, as an Indian microfinance institution, SKS, was getting a good deal of press for the huge profits investors have made from the IPO (initial public offering), Yunus was once again taking center stage. He has denounced SKS saying, "Of course (microlenders) can serve the poor and make a huge profit. But I would not support it. That's what loan sharks have been doing over centuries" (*The Times*, 2010).

As I began my research I had wondered over and over if Yunus was too good to be true.

Three years later, and after taking his critics as well as his admirers into account, I see his accomplishment as stunning. It is true that he often exaggerates his accomplishments and sometimes oversimplifies complicated issues. He does take credit for all he has done and a bit more. But these are minor frailties.

What is truly important is that Yunus changed the world. He was not the first one that came up with the idea of small loans to the poor, but he was the one who showed the world that they could work on a large scale. He was the one who demonstrated

that the people at the bottom of the economic pyramid could be brought into the mainstream of financial services. And he was the one whose work at Grameen provided the major model and the impetus for a worldwide microcredit movement.

Yunus' achievements as an organizational developer and leader of change over the long-term are also extraordinary. He was able to take the Grameen Bank from a single branch and help it grow larger and larger, despite all the usual challenges of developing an organization over time and

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despite the ongoing natural calamities that plague Bangladesh. It may be helpful for all organizational practitioners to take a closer look at how he was able to successfully develop and lead his organization over the long-term. From my research and analysis, I have identified eight lessons that can be gleaned from such an analysis.

#### **Lessons from Muhammad Yunus about Leading Long-term Change**

1. Set forth an inspiring vision and stick with it.
2. Innovate. Challenge the prevailing wisdom.
3. Build a team that owns the dream.
4. Communicate. Relentlessly communicate within and beyond the organization.
5. Be Flexible. Change strategies, goals, and tactics as needed.
6. Be patient and persevere. Sometimes you have to wait.
7. Embed your values into the organizational culture.
8. Brand yourself and your organization.

#### **Lessons from Yunus compared with Kotter's and Kanter's Change Models**

For twenty years, as an organizational consultant, I often turned to the thinking of John Kotter (1998) and Rosabeth Moss Kanter (1983; 1999) for their insights on leading change. Kotter's eight step model for successful change efforts and Kanter's insights about the skills of change masters guided my consultations. I worked at Kanter's firm from 1984 to 1987 and during those years often facilitated workshops

on change and gave the "Change Master" speech.

Interesting similarities and some interesting differences can be seen comparing and contrasting the factors that undergird Yunus' successful long-term leadership at Grameen with the models for Kotter's and Kanter's models of change. I am using Kotter's eight factors from his article in *Leader to Leader* (Kotter, 1998, p.27-33) and Kanter's article, *The Enduring Skills of Change Leaders* (Kanter, 1999, p. 3-7).

All three models agree on the importance of developing an inspiring vision. But what is significant and different in the Yunus model is the idea of the importance of sticking with the vision (see *Table 1*). A key factor in his success in my opinion was the way he held to his vision over the years. He did not change or modify it. All three models also believe building a team or guiding a coalition is critical to success.

Yunus and Kotter both highlight embedding the new ways into the organization. Kotter's model, unlike the other two, calls for creating a sense of urgency and

focusing on short-term wins and consolidating gains. In terms of leading short-term change, these priorities make sense. Yunus and Kanter agree on challenging the prevailing wisdom and the importance of perseverance. Kanter uniquely focuses on tuning into the environment and recognition.

Three of the lessons from Yunus differ from the other two models of change: flexibility, communication, and branding. First, flexibility: Yunus was willing to change strategies, tactics, and goals over and over. While he never deviated from his vision, he was ready to change everything else as circumstances changed. He was guided by what worked, not theoretical concepts. Yunus was even willing to give up his own model when he reorganized and created Grameen II.

Secondly, the Yunus model places a priority on communication of all kinds in contrast to Kotter and Kanter who stress only the importance of communicating the vision. It seems today that there is never enough communication and Yunus understood that communication is a key lever of change. He developed many different kinds of mechanisms for internal communication that allowed for his values and his ways of working to reach the smallest village in Bangladesh.

Finally, branding: Yunus became the storyteller of his organization and micro-credit. He also became a global celebrity and has made the name of Grameen Bank known in the far corners of the world.

His facile use of the media and his ability to create a compelling narrative about the bank and himself differentiates him from many other leaders. Of course, it is all the hype that envelopes him that has spurred some people to criticize him. I believe, however, that his ability to create the brand is, perhaps, the most important factor in explaining how he has been able to continue to be a successful leader for so many years.

The leadership of Yunus can be taken as a starting point for creating a model for leading long-term change. The model presented in this paper builds on earlier models and many of its elements overlap the major points about successful change made by Kotter and Kanter. The study of Yunus broadens our understanding of leading long-term change successfully, however, by highlighting the importance of flexibility, communication, and branding as well as holding to the vision. For too long we as organizational practitioners have limited our thinking about change to short-term change. We can improve our practice by raising questions about the long-term in all our comments and recommendations to clients. Yunus beckons us to a new frontier.

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Table 1: Comparison of Three Change Models

YUNUS	KOTTER	KANTER
Create an inspiring vision and stick with it	Develop a compelling vision	Communicate aspiration /vision
Innovate	Communicate the vision	Challenge prevailing wisdom
Build a team that owns the dream	Establish a sense of urgency	Tune into the environment
Communicate relentlessly	Build a guiding coalition	Build coalitions
Be flexible	Empowering employees	Transfer ownership to team
Be patient and persevere	Generate short-term wins	Persevere
Embed values in the culture	Consolidate gains	Make everyone a hero
Brand yourself and the organization	Anchor new approaches in the culture	