

A study of strategic CSR and BOP business practice from the perspective of organizational sustainability

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Articles

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In developing countries, bottom-of-the-pyramid (BOP) businesses in which companies create new markets through resolution of local social needs by means such as prevention of infectious disease and improvement of medical care and foodstuffs, targeting the BOP layer where people live on no more than US\$3000 per year, are attracting attention. Since for a company BOP businesses lead not only to growth strategies aiming at the company's own sustainable growth but also to the practice of corporate social responsibility (CSR) to resolve the social needs of developing countries, they can be considered an important domain of strategic CSR. In this paper, I will provide some implications on the significance of BOP businesses to global firms and future developments, argued based on case studies.

Introduction

In developing countries centered on Asia and Africa, BOP businesses in which companies create new markets through resolution of social needs by means such as prevention of infectious disease and improvement of medical care and foodstuffs, targeting the BOP¹ layer where people live on no more than US\$3000 per year, are attracting attention.

According to *The Next 4 Billion* from the World Resources Institute and the International Finance Corporation, approximately four billion people, roughly

1 The BOP layer is defined in Prahalad & Stuart (2002), pp. 54-67.

72% of the world's population, have annual incomes of no more than US\$3000 per year². This is a market totaling US\$5 trillion, equivalent to the real gross domestic product of Japan³. While global firms from the West make progress in market entry targeting this layer, chiefly through public-private partnerships, the efforts of Japanese firms are only just beginning to take shape.

Since for a company BOP businesses lead not only to growth strategies aiming at the company's own sustainable growth but also to practice of CSR to resolve the social needs of developing countries, they can be considered an important domain of strategic CSR. To the Japanese business community, seeking to break free from sluggish economic conditions, they also constitute a promising market.

In this paper, I will provide some implications on the significance of BOP businesses to global firms and future developments, set forth based on existing knowledge and case studies.

1. BOP business markets and characteristics

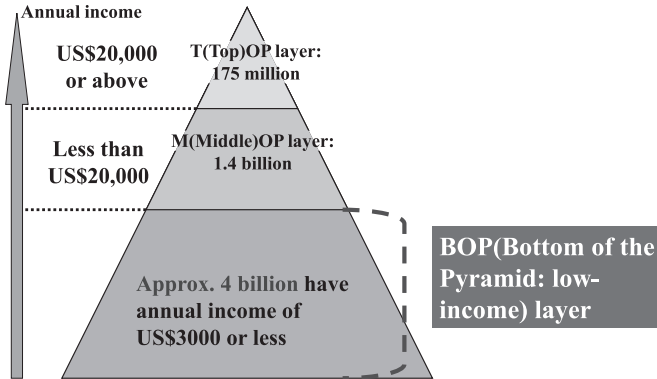
1-1. BOP business markets

The term BOP was proposed by C.K. Prahalad and S.L. Hart in 2002⁴. It is said that the BOP will form the next global market after the BRICs.

2 According to the World Resource Institute & International Finance Corporation (2007), of the world's population of 5.575 billion people, approximately 4 billion (72%) belong to the BOP layer.

3 While in 2008 the World Bank redefined the international poverty rate from the percentage with incomes of less than US\$1 per day to the percentage with incomes of less than US\$1.25 per day, the calculation here uses the figure of less than US\$1 per day.

4 According to Hart (2007), pp. 112-113, in 1997 Hart, and in 1998 Prahalad with K. Lieberthal, published papers with ideas based on this concept in the *Harvard Business Review*, and then in 1998 this concept was developed together with Prahalad and announced in 2002 after four years of revision.



Source: Prepared by the author based on World Resource Institute & International Finance Corporation (2007) and “Sosharu inobeshon no keiei senryaku” (“Management strategies for social innovation”), Nomura Research Institute

Fig. 1: World income layers (2005)

Figure 1 shows income layers and market size of the world population. It is estimated that approximately 72% of the world has annual income of no more than US\$3000, making up the BOP layer, while the middle of the pyramid (MOP, middle-income earners) consists of 1.4 billion people and the top of the pyramid (TOP, high-income earners) consists of only 175 million people.

The BOP layer is centered on the developing countries of Asia and Africa, seen to be promising as future growth markets.

1-2. Objectives of BOP businesses

Many firms identify as the objectives of BOP businesses the Millennium Development Goals (MDGs), established by the UN to be achieved by 2015.

The MDGs⁵ combine the UN Millennium Declaration with international development goals adopted by international conferences and summits in the 1990s. The Millennium Declaration identifies a clear course on the UN’s 21st

5 Ministry of Foreign Affairs website (<http://www.mofa.go.jp/mofaj/gaiko/oda/doukou/mdgs.html>).

century role, addressing peace and security, development and poverty, the environment, human rights and good governance, and the needs of Africa.

BOP businesses are in agreement with these MDGs, helping resolve social needs. Specifically, they can not only support the standard of living in the BOP layer but also contribute to progress in local economic development, from production through distribution, sales, consumption, and employment creation. To ensure that firms can continue these activities in a sustained manner, it is important that they secure revenues as main businesses, based on long-term sustainability, instead of being simple charity projects.

2. The significance of strategic CSR and BOP businesses

When a company takes on BOP businesses, the final goal must be sustainable growth as a profit-making organization. Building on this, efforts must be based on strategic decision-making, through selection and concentration of limited people, things, and money, in addition to resolution of social needs. BOP result in employee empowerment, organizational innovation, and improvements in the company's reputation, ultimately leading to improvements in business performance.

Keeping this in mind, a pivotal point about the BOP business is the that it leads to strategic CSR aimed at sustainable growth under competition through incorporating CSR into the company's main business and concentration of management resources.

Western firms' efforts truly embody such practice, and Japanese firms expect that they will be a new means of entering the market of 4 billion low-income people worldwide through resolution of social needs based on strategic CSR, and as part of corporate growth strategies.

Here I will discuss the significance of strategic CSR in greater detail. The CSR Initiative Committee in the Japan Society for Business Ethics Study (JABES) defines CSR as follows: "CSR refers to the responsibility to perform systemic obligations and make active efforts together through multi-stakeholder engagement to prevent scandals and contribute proactively to

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the triple bottom line of the economy, the environment, and society, with the objective of promoting the sustainable growth of the company and society”⁶.

Here, I would like to propose the following two CSR frameworks.

2-1. Subject stakeholders are internal (organizational) vectors and external (social) vectors

First, the subject is internal (organizational) vectors and external (social) vectors. This refers to responding to stakeholders. For this reason, the subjects of BOP businesses are external stakeholders.

2-2. Subject domains are the defensive area of defensive CSR and the strategic area of proactive CSR

Second, the domains of CSR efforts can be prescribed from the two directions of defensive and proactive CSR. Below I will describe the basic concepts of subjects and domains.

First of all, defensive CSR refers to protecting society and the firm from risks. These are preventive ethics activities to prevent unethical behavior negatively impacting society or the company⁷.

In preventive ethics, it is important that members of the organization recognize correct actions and best behavior daily, through means such as standards and charters of conduct. Also important are internal systems and maintenance organizations for this, training, and drills.

Next, proactive CSR in the strategic area refers to proactive ethics activities contributing to society based on strategic thinking⁸.

6 Mizuo et al (2005), Mizuo et al (2007). The CSR Initiative Committee, formed in 2005, established CSR management philosophies, charters of conduct, and standards of conduct as CSR initiatives. It revised these into the current version, Version 2, in September 2007.

7 Mizuo (2000a), pp. 15–21, proposed the concepts of preventive ethics and proactive ethics, further developing these in the introduction to Mizuo (2000b).

The proactive domain in CSR is activities to support stakeholders proactively to achieve the “objective of promoting the sustainable growth of the company and society.” This refers to promoting proactively social welfare and sound development.

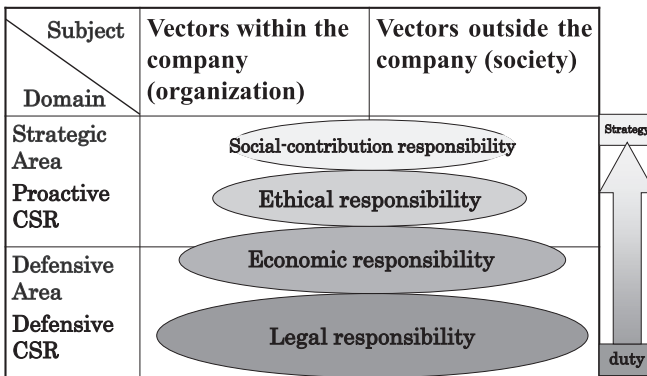
For example, this demands proactive compatibility with the environment, giving back to the community, contributing to society at large, or corporate support of the arts and culture. BOP businesses are included in this domain since they involve proactive contributions toward resolution of social needs.

2-3. The four responsibilities of CSR

Figure 2 depicts the concept of strategic CSR based on these frameworks.

(i) Legal responsibility

The first responsibility of CSR is legal responsibility. This is the minimal level of responsibility of a company as a presence in society. For example, one meaning for a company is found in compliance with laws and regulations and compliance with social rules on subjects such as consumer safety and the environment in the local community. This also includes responsibilities



Note: The above is a partially revised version of a matrix framework and four responsibilities proposed by Mizuo and Tanaka (2004). The four responsibilities were revised from Carroll (1979).

Fig. 2: Fundamental concept of strategic CSR

such as those of fair transactions in dealing with business partners.

This is the responsibility to protect the lives and safety of the public and to prevent legal violations or unfair transactions.

(ii) Economic responsibility

When it has performed its legal responsibility, the company needs to fulfill its economic responsibility. This refers to dividends, wages, and taxes. Economic responsibility to stakeholders also refers to responsibilities such as paying appropriate prices to business partners.

(iii) Ethical responsibility

Ethical responsibility also must be fulfilled. Ethical responsibility can include voluntary ethical standards and rules of the industry or the company itself, above and beyond legal restraints. Ethical responsibility consists of human rights and the working environment, dealing with consumers, and environmental protection.

While legal responsibility is the minimum level that should be complied with, ethical responsibility is targets set by the industry or a company individually. It will be an important element of corporate strategy from now on.

(iv) Social-contribution responsibility

Social-contribution responsibility includes protection of benefits to consumers, social-contribution and cultural-aid activities, environmental protection, and proactive contributions.

Internally, this refers to systems to support social contributions or employee-focused programs, such as volunteer leave or childcare leave and day-care centers for working women and an environment that makes it easier for employees to work. There is a need to address such areas through strategic thinking, as means of addressing costs to society. The domain of BOP businesses mainly is found here in the social area.

Decisions need to be made from a strategic perspective, judging matters such as MDGs the company can help resolve through putting to effective use its people, things, and money and its capabilities, while maintaining its main businesses.

From the perspectives of defense and offense, once a company has performed its legal responsibility and practiced defensive CSR, strategic CSR to deploy proactive CSR to succeed amid competition is the next step. Since the four responsibilities build up from bottom to top, a firm cannot perform its social-contribution responsibility if it neglects its lower-level legal responsibility.

2-4. The meaning of strategy

In strategic CSR, social-contribution responsibility is important as a strategic element. CSR efforts must not be a charity project like a nonprofit or similar organization. They are not the efforts of nonprofits. CSR truly must be strategic, in combination with the company's main businesses, as part of profit-making activities.

If CSR is not social and strategic investment, then it cannot be sustainable amid limited management resources. CSR is strategic once incorporated into the core of management based on strategic thinking, instead of confined to a single CSR section. BOP businesses are the best example.

Porter and Kramer (2002) have pointed out the following on competitive advantage and strategic philanthropy: "This refers to focusing on strategic context to benefit both the company and society, through addressing social and economic goals simultaneously and providing the firm's own assets and specialized capabilities"⁹. Here philanthropy is the same as social-contribution responsibility argued by the author. Strategic CSR points out the importance of aiming to combine social needs and the company's main business.

Later, the same authors pointed out the importance of "strategic CSR" above and beyond "responsive CSR," organically linking business activities to CSR¹⁰. A BOP business also can be judged on whether it will be a "strategic BOP business" linked with the main business.

9 Porter & Kramer (2002), pp. 57-68.

10 Porter & Kramer (2006), pp. 78-92.

In 2011 Porter and Kramer introduced the concept of “Creating Shared Value” to build win-win relationships in which both companies and developing countries enjoy creating value.

From the perspective of strategy, Barney (2007) argued the importance of “resource-based strategy”¹¹ that seeks the possibilities of CSR through analysis of strengths and weaknesses from the company’s own resources and capabilities, based on social adaptability, pointing out that strategic CSR should be conducted through the company’s main business purpose..

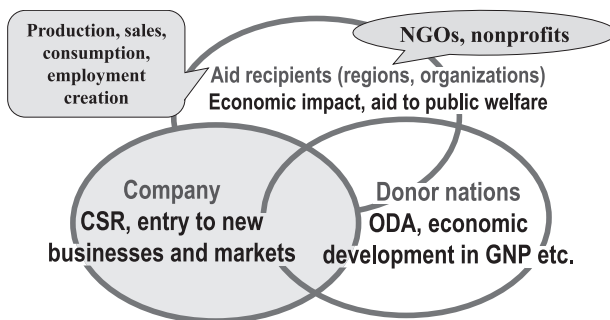
As a result, for the first firm to link it to market development a BOP business not only leads to sustainable growth through new “blue ocean” markets¹² but also is evaluated highly by society as CSR. To a later entrant to a “red ocean” existing competitive market, competitive strategy utilizing its strengths is important, but this is true of business in general, not just BOP businesses.

Either case leads to resolution of social needs in developing countries, such as securing employment from production through distribution and sales, support for living, and improvements in medical care and foods. If Japanese firms can advance such efforts with government aid agencies, NGOs, and nonprofits, they will be regarded highly as official development assistance (ODA) as well.

As shown in Fig. 3 the BOP business can be said to represent a new business model based on a win-win-win relationship in which the company, its country, and the developing country all benefit.

11 Barney (2007), pp. 49–72 proposed a resource-based strategy.

12 Kim & Mauborgne (2005), pp 4–5. This refers to entering new markets, called blue oceans, as opposed to traditional entry to existing markets, called red oceans.



Source: Prepared by the author

Fig. 3: BOP businesses represent a new win-win-win business model

3. Learning from companies that have succeeded in BOP businesses

I would like to propose eight tips for BOP business success, based on success stories of companies that have been leading entrants to BOP businesses.

3-1. Starting with high aspirations and a mission to contribute to public welfare

A BOP business must be linked to resolution of social needs. At the planning stage there is a need for consistency with management philosophy. Just as Konosuke Matsushita set forth management policies based on his saying, “a business is a public instrument of society”¹³, a BOP business needs to advance with high aspirations and a mission to contribute to public welfare. A company can press forward to a shared objective in agreement with its management philosophy.

13 Matsushita (1974). This book includes the statement, “First of all, what must be considered the fundamental is the fact that a business is a public instrument of society. That is, it is considered not personal property but the property of society.”

Nippon Poly-Glu Co., Ltd. in Osaka has started a BOP business setting forth this point clearly¹⁴. Founded in 2002, the company has capital of just 100 million yen (US \$ 1million). Even so, it is putting into practice its lofty mission of ensuring “that the World Community can drink raw water without fear.”

Chairman Kanetoshi Oda says he had this mission in mind at all times. One day, he noticed polyglutamic acid, which makes fermented soybeans sticky. Polyglutamic acid long had been used as a raw material in cosmetics due to its water retention. Nippon Poly-Glu’s thought it could use this property in water purification. This is a traditional product-development strategy, of putting an ingredient to new use.

Ultimately, Oda’s business started with development of the PGa21 series of water purifiers that cause no harm to the environment or the human body, made using polyglutamic acid.

A small quantity of PGa21 can purify a large volume of water, and it has high purification capabilities when used together with aluminum flocculating agents.

Cyclone Sidr in Bangladesh in 2007 led to use of this equipment in social-contribution activities. Nippon Poly-Glu’s aid activities, centered on water, began in February 2008.

The company continued its activities in Bangladesh, training “Poly-Glu Ladies” locally to deploy businesses to resolve social needs.

Oda says in the water field “our intention is to build the Poly-Glu brand, and already we have earned a certain reputation. In the water business, the Poly-Glu name is the best-selling one among the public.” It already has received numerous invitations for joint projects. It says the first discussions toward a partnership with Grameen Bank took place in February 2010.

14 Trade Finance and Economic Cooperation Division, Trade and Economic Cooperation Bureau, METI, ed. (2010), pp. 241-244, Nippon Poly-Glu website (<<http://www.poly-glu.com/index.html>>)

BOP business ability does not depend on company size. If it has a unique ability, strong purpose of mind and foresight, and a strong sense of mission, it can take part in BOP businesses.

3-2. Getting to know the market through feasibility studies

In Japan a company can start gathering information from the Japan International Cooperation Agency (JICA), JETRO, and the UNDP. Then, it can visit to learn about actual conditions in the field. It must not simply leave everything to local agents. It is important to go to the field and check things with one's own eyes. This refers to seeking out needs through the *sangen shugi* ("three reals": real place, real things, and real facts) approach. Top management also needs to participate in final decision-making.

Once the actual conditions are clear, an actual feasibility study must be conducted in the field, to seek out local needs and identify local systems and laws, government agencies and private organizations, and cooperation partners and NGOs, to make the blueprint real. Assistance for this may be available from JICA or the Ministry of Economy, Trade and Industry¹⁵. If no expertise is available through local partnerships, another means is partnership with local subsidiaries, such as Dentsu India, which is advancing a condom program in with the Indian government¹⁶.

3-3. Discerning social needs

There is a need to discern social needs in the local BOP zone through gathering information, fact-finding, and feasibility studies, to seek out the aid needed by the BOP layer. While taking local culture, religion, and customs into consideration and keeping the company's businesses in mind, the MDGs

15 Trade Finance and Economic Cooperation Division, Trade and Economic Cooperation Bureau, METI, ed. (2010), ch. 4, METI website, op. cit.

16 Information obtained from Dentsu India during a research trip to India, Feb. 2010.

serve as important milestones. For example, more than one billion people in the world lack access to safe drinking water. To improve this situation, efforts are targeting the water business. Swiss-based Vestergaard Frandsen has developed and supplies a portable water filter called the LifeStraw, approaching it as a new business toward resolution of social needs.

3-4. Working toward compatibility with the company's own core competencies

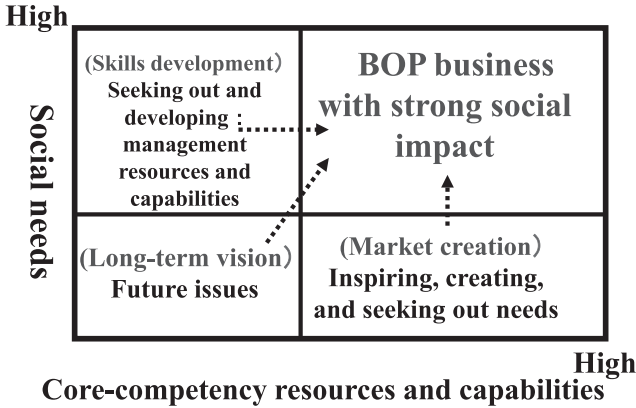
A BOP business is not a nonprofit project. It requires strategic efforts. Porter argues for strategic philanthropy or strategic CSR, pointing out the importance of CSR activities that generate revenues through the company's main business.

To seek out the green shoots of growth of a BOP business, strategic decision-making through the company's main business, as proactive CSR, is needed. Barney argued that strategic CSR should be conducted through the company's main business, insisting on the need to discern "resources" and "capabilities" in light of social adaptability. The author would like to argue for the importance of screening new businesses through proactive CSR, adding to these the company's own "strengths." Incidentally, the first letters of these three words can be rearranged to form the acronym "CSR."

BOP businesses with high levels of social impact are in fields that can be entered using the management resources of human beings, products, and money while choosing adaptable technologies and businesses from the company's own strengths and differentiating core competencies¹⁷ from strategic perspectives, while discerning where social needs are high. Fig. 4 illustrates these points.

Olyset Net from Sumitomo Chemical is an early example reflecting this¹⁸.

17 Prahalad & Hamel (1990), pp. 81-84, describe these as cores that cannot be imitated by other firms. It argues that these constitute the ability to generate success and are the source of competitive advantage.



Source: Prepared by the author

Fig. 4: Strategic decision-making using the BOP business matrix

This effort began with participation in the Roll Back Malaria (RBM) Partnership begun in 1998 with the UNDP playing a central role and with support from other organizations including the World Health Organization (WHO).

As part of this activity, Sumitomo Chemical developed the Olyset Net, which in 2001 was the first to be recommended by the WHO as a long-lasting insecticidal net (LLIN).

These nets are manufactured and sold by A to Z Textile Mills in Tanzania using technology provided by Sumitomo Chemical, producing 29 million nets and creating 7000 jobs in 2010.

As one of its core competencies Sumitomo Chemical developed window screens with long-lasting insect-repellency effects. A staff member came up with the idea for mosquito nets to prevent malaria. This represents a BOP business in a sector where the need to prevent malaria matched up with Su-

18 See materials from a lecture by Tatsuo Mizuno of Sumitomo Chemical's Vector Controls Division, delivered June 9, 2009 to the CSR Study Group of the Japan Society for Business Ethics Study.

mitomo Chemical's core competencies.

There is a need for strategic decision-making on BOP businesses, through screening core competencies in terms of resources, capabilities, and strengths. The Olyset Net too was an idea from research in the field, adapting pesticide development to insect-repellent window screens and linking this to a new business domain.

3–5. Resolution of social needs in addition to business perspectives

Hindustan Lever began selling low-priced detergents and shampoos in small volumes, identifying prevention of infectious diseases in rural areas as its goal for resolution of social needs¹⁹. This has received financial support from USAID, the World Bank, and UNICEF as a public-private partnership to promote washing hands with soap. According to data from the McKinsey Global Institute, in 2025 India's BOP layer will be 710 million people (vs. 950 million in 2005), shrinking to about 50.7% of the total population. The MOP layer is projected to increase rapidly to 470 million people (vs. 60 million in 2005). Already Western firms are competing to enter this market.

Its sales strategy involves networks of women, with members of an NGO called Shakti playing a central role. It has raised awareness of hygiene and carried out sales through throwing human resources at the challenge nationwide.

They have developed a business outline of achieving mass consumption through selling each pouch at a low price of one rupee, to large numbers of buyers purchasing a little at a time and using the products everyday.

When viewed from the perspective of combining resolution of social needs with a BOP business, this is an attractive market with great potential.

19 Trade Finance and Economic Cooperation Division, Trade and Economic Cooperation Bureau, METI, ed. (2010), pp. 95–97.

3-6. Thinking about deployment of a BOP business using a matrix of product, expertise, and the market

A BOP business represents a new entry to the low-income market, and it constitutes development of a new market. One can consider such a business based on the product/market strategy of Ansoff (1965) with the first opportunity being development of a new market using an existing product²⁰.

Many cases of selling products in small individual quantities such as that of Hindustan Lever employ the same approach used as the initial business model in Japan. They represent development of new markets using existing products (expertise). The case of Ajinomoto can be analyzed from a similar perspective²¹.

Ajinomoto's core product brand and its corporate brand are central to its global strategy. The BOP business targeting low-income consumers in devel-

Product Market	Present expertise, products	New expertise, products
Present markets	Market penetration	Product development
New BOP markets	Market development ▪ Ajinomoto ▪ Hindustan Lever (detergent, shampoo) ▪ Grameen Danone	Diversification ▪ Olyset Net ▪ Shea butter ▪ Nippon Poly-Glu

Source: Prepared by the author

Fig. 5: Viewed from Ansoff's product-market matrix strategy

20 Ansoff (1965), p. 109, depicts a matrix of products and markets categorized into four groups: existing product—new market, existing product—existing market, new product—new market, and new product—existing market. The business of selling products in small sizes, one model of a BOP business, can be categorized as an existing product—new market business model.

oping markets is experiencing marked growth.

For example, considering improvements in nutrition in developing countries to be one of its important missions, Ajinomoto's activities include the AIN Program²². A project begun together with the University of Ghana and the International Nutrition Foundation (INF) to develop and promote foods to realize improvements in nutrition for children in the weaning period in Ghana is being advanced, to develop a sustainable business model toward resolution of malnutrition in developing countries.

Each of these involves selling a single meal's worth of the product in small polyethylene pouches at prices representing a single coin in each country. For example, in India a 2.5-gram pouch sells for one rupee (approx. US¢1.5), while in Nigeria a nine-gram pouch sells for five naira (approx. US¢2.5). Today, Ajinomoto produces the product employing local workers, utilizing its expertise in pouch products to target the BOP layer.

However, dealing with differences in religion and living customs was an issue. In Indonesia eating pork is prohibited under Islamic practice. Once Ajinomoto was forced to cease production because it switched to an ingredient derived from pork. Today it has attained halal certification. In fiscal 2009 sales of its business in Indonesia had grown by more than 10% from the previous year to 26 billion yen (US\$260 million), as consumption grew together

21 Materials from General Manager Yozo Nakao of the Ajinomoto CSR Division. Descriptions below concerning Ajinomoto are based on materials from CSR Symposium 2.0, held Feb. 12, 2010.

22 The Ajinomoto International Cooperation Network for Nutrition and Health (AIN), conducted by Ajinomoto as part of its social-contribution activities. This refers to activities to improve nutrition in developing countries conducted since 1999 as a project to commemorate the 90th anniversary of the company's founding. Intended to improve quality of life (QOL) through improvements on issues in the food, nutrition, and health fields, this program has aided about 70,000 people through 44 projects centered on Asia and South America.

with a rising standard of living. Looking to grow sales in rapidly growing Asian markets, in 2011 it added a plant for the Ajinomoto seasoning in Karawang.

Fig. 5 depicts the positioning of the products addressed in this paper.

3-7. Advancing through localization policies throughout the entire supply chain

Since they both help resolve social issues and lead to local economic development, BOP businesses are accepted by local society. There is a need to advance through localization by looking at the entire supply chain.

A good example is that of Danone, which partnered with Grameen Bank in Bangladesh to help improve children's health through yogurt²³.

One of Danone's beliefs calls for "deployment of social-contribution activities under the philosophy that there can be no business growth without growth in society, in all processes from product development through management"²⁴.

Grameen Bank is a bank established in Bangladesh by its president M. Yunus. It has grown to number 2400 branches serving 7 million individual customers. Yunus won the Nobel Peace Prize in 2006 for promoting micro-credit services.

The two companies in March 2006 signed an agreement on a joint venture. Yunus describes this partnership between Danone and Grameen as a social business.

This concept of social business is a new business model developed by Yunus, with profit reinvested to grow the business or being returned to the local community.

23 Regarding Grameen Danone activities below, see Yunus (2007), pp. 149-162, Yunus (2010), pp. 33-56, and BBC News website <<http://news.bbc.co.uk/1/hi/business/8100183.stm>>.

24 Danone Group website <<http://www.danone.co.jp/group/activity/mission/>>

It is essential that a BOP business localize all processes from procurement of raw materials through sales. This is where it differs substantially from the traditional business model of exporting yogurt produced in France. Localization needs to take place throughout the entire supply chain. This leads to resolution of social needs through improving child nutrition and improvements in the local standard of living.

All raw materials are purchased from local farmers. Since dairy farmers borrow funds from Grameen Bank to raise dairy cattle locally, the supply of the raw material of milk is stable. Yogurt produced in the local plant is sold under the name Shoktidoi (a Bengali word meaning “energy”), with one cup of yogurt providing 30% of a child’s necessary daily nutrition intake. A container of 80 grams of yogurt sells for about five taka (approx. US\$0.1).

In addition, the yogurt produced in the local plant is distributed to individual households by women called “Grameen Ladies.”

Grameen has established a micro-credit fund to fund the project, and the Grameen Ladies too invest in this fund. Local participation through participatory development, instead of just a top-down blueprint-like method, leads to motivation²⁵.

3-8. Efforts from a long-term perspective

A BOP business needs to be nurtured as a business over the long-term. In recent years, the number of Western multinationals identifying long-term investment in the community as a basis of corporate strategy has begun to increase. For example, Vodafone of the U.K. has assigned a unique position to BOP businesses²⁶.

Until the business gets on track there is a need for management policies

25 From an interview with Kimiaki Jin, Resident Representative at the JICA UK Office. The blueprint method employs a top-down approach, which does not encourage local participation.

26 Tsuchiya (2009), p. 260.

giving more importance to future market growth than the profitability of the business, from a long-term perspective. It also is possible that ODA or aid from METI or the Japan Bank for International Cooperation (JBIC) could be employed as well.

One goal is for business income from a new business to turn positive in about the third year after the start of the business, with cumulative losses being covered by about the fifth year. However, since a BOP business involves various obstacles such as language and local customs, it also takes some time to succeed. It should be possible to create models with income turning positive in the fifth year and cumulative losses covered in the seventh, or in the seventh and tenth years, respectively.

4. Toward spreading and raising awareness of the BOP business

4-1. Co-creation of mutual value in the BOP business is unrelated to business size

Tree of Life, an herb and aroma firm, has capital of only 10 million yen (US\$0.1 million). Since 2005 it has taken part in a BOP business manufacturing shea butter soap in Ghana²⁷. While shea butter itself is a good business, it has little added value and its price gets beaten down, but processing it into soap increases added value. As a result, the women producers can earn more.

At the Center for Sustainable Global Enterprise of Cornell University's Johnson Graduate School of Management, Simanis & Hart, et al. (2008) have

27 Descriptions of this project hereinafter refer to an interview with JETRO London Director of Research Kenichi Nakamoto, the JETRO website, (http://www.jetro.go.jp/jfile/report/05000912/05000912_002_BUP_0.pdf), and an article written by Ryoichi Udagawa, senior managing director of Tree of Life and chairperson of the Aroma Environment Association of Japan, (http://www.aromakankyo.or.jp/magazine/ghana03_02.html).

issued the BOP Protocol, guidelines for companies' efforts in BOP businesses. These include the concept of co-creating mutual value²⁸. Tree of Life's project in Ghana truly represents co-creation of mutual value from shea butter.

While companies in the Western natural-cosmetics industry already sold shea body butter, this was the first Japanese firm to enter the industry. Managing director Udagawa of Tree of Life took part in the development project in Ghana, visiting the field and providing on-site guidance.

The first task was to develop a soap-production workshop. After much hard work, the workshop was completed. Later, a total of six people including five members of the local women's group Sagnarigu were instructed in soap manufacture.

The fully manual processes to manufacture the soap and then cut and package it faced considerable difficulties in Ghana. Still, JETRO, the NGO, and Tree of Life worked as a team to achieve a successful example of a BOP business. Local government cooperated too.

BOP businesses do not depend on a company's size. They are businesses can be realized with just high ambitions and the ability to act, backed by corporate philosophy.

4-2. Innovation and reputation lead to enlightened self-interest

As seen from the preceding cases, a BOP business leads to organizational innovation in creating new business opportunities. It can promise diverse innovation, product development and technological development, improvements in competitiveness, and empowerment of human resources. As Milstein argued, it can lead to sustainable growth²⁹.

These results are linked to the corporation's reputation both internally and externally. Decisions should be made including not just current profits but

28 Simanis & Hart, et al. (2008) pp. 8-9.

29 Cornell University Johnson School, Center for Sustainable Global Enterprise website <<http://www.johnson.cornell.edu/sgc/>>

also corporate reputation for future profits. Such concern for corporate reputation represents enlightened self-interest and is linked to a company's sustainable growth³⁰. Management giving importance to stakeholders increases consumers' trust in the company, improving its reputation and loyalty and ultimately business performance. It is a source of new corporate value.

Ansoff (1965) argued for the clear necessity of enlightened self-interest, arguing that it improved the welfare of society and provided individual companies with economic benefits in long-term growth³¹.

4-3. Building distribution networks through personal selling in areas such as partnership with NGOs

A BOP business also must employ NGOs in the field and obtain the participation of the public in funding. In a developed country, where a distribution market including ordinary retailers and convenience stores exists, there are considerable possibilities for business through building up a sales network. However, this is not the case in Bangladesh. In rural areas there are few retailers at all, and they tend to be far away, which leads to the need for use of the Grameen Ladies NGO.

The sales strategy of Hindustan Lever too built a women's network around members of the NGO Shakti.

Conclusions

Amid the tough business conditions, in future growth strategies Asia should be seen as a domestic market with Japan. Increasing income in Asia through infrastructure improvements can power growth of Japanese firms as well. This truly describes the BOP business itself. The keywords are "sustainability" and "profit," or prosperity for local people and continuation over the long term.

30 Mizuo (2003), p. 1.

31 Ansoff (1965), pp. 32-38, p. 64.

Fast Retailing (Uniqlo) and Grameen Bank have established an apparel joint venture in 2010, representing the start of a BOP business³² in Bangladesh.

Japanese firms need to follow the lead of Sumitomo Chemical, Fast Retailing, and others in linking BOP businesses to growth strategies.

The key to BOP business success is cooperation with nonprofits and NGOs. In October 2011 Japan had 43, 829 nonprofits³³, but only a few were international.

The Japan Inclusive Business Support Center³⁴ started operation in 2010, carrying out activities in which industry, government, and the academy, along with NGOs and nonprofits, work together, with METI playing a central role³⁵. While these also constitute an important domain, they are a subject for future research.

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32 Uniqlo calls this “social business.”

33 Cabinet Office of Japan nonprofits website <<http://www.npo-homepage.go.jp/data/pref.html>>

34 Japan Inclusive Business Support Center website <<https://www.bop.go.jp/>>

35 Trade Finance and Economic Cooperation Division, Trade and Economic Cooperation Bureau, METI, ed. (2010), pp. 52–54.

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