

Business World Insight <http://www.biz-insight.co.kr>

published by FKI-Media <http://www.fkimedia.co.kr>

the affiliated organization of the Federation of Korean Industries (FKI)

<http://www.fki.or.kr/en>

Global CSR Trend <http://biz-insight.co.kr/220263705267>

in the CSR Insight Section of the February 2015 Issue

From 'Exclusive' to 'Inclusive', Global Paradigm Is Changing

Seize both social values and economic values at the same time through 'Inclusive Business'

Are you tired of corporate social contribution, not distinctive, even though its excessive efforts? Are you pursuing for more sustainable development of its beneficiaries? Then, try to support 'Inclusive Business' by investing the people at the base of the pyramid (BoP) to improve both social values and economic values through CSR(Corporate Social Responsibility) and CSV(Creating Shared Value). 'Inclusive Business' develops new markets as well as new consumers and generates the suppliers who can give benefits to companies and the society. However, you should keep this in mind. It is totally different from traditional corporate philanthropy activities. Philanthropy is philanthropy, 'Inclusive Business' is business.

By Angela Joo-Hyun Kang

Founder and Executive President

GCEF (Global Competitiveness Empowerment Forum)

www.g-cef.org

Let's suppose that someone says to you, "This is the exclusive service, only for you." Everyone may love to hear this, the exclusive service that one can only enjoy. That's why people join the exclusive membership group or prefer luxury goods. Something that is used or owned by only a special person or group and not shared with anyone else is called 'Exclusive'.

However, the world is trying to go to the opposite side, 'Inclusive', by pursuing the development of 'Inclusive Economy', through 'Inclusive Growth', enabled by 'Inclusive Business'.

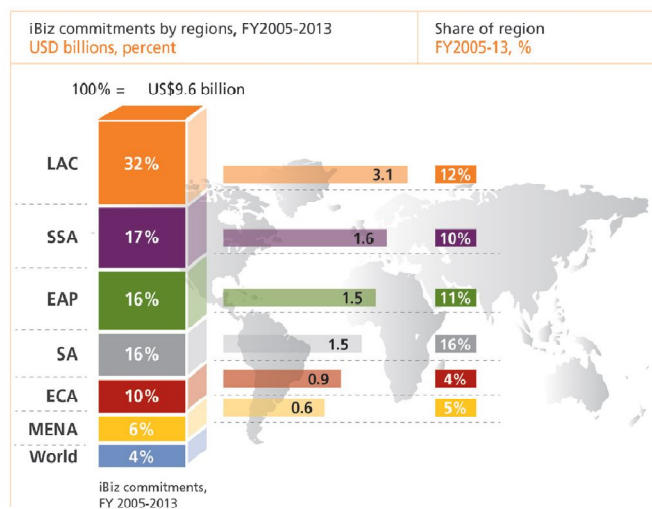
The core agenda of global summits, 'Inclusiveness'

In the G20 Leaders' Communiqué of the Brisbane Summit in 2014¹, 'Inclusive Growth' was treated as an important policy issue. One of the three priority agenda of Turkey G20 Summit 2015² is 'Inclusiveness', urging that alleviation of inequality and poverty at the state or global level is essential for global sustainable development. 'Economic Growth and Social Inclusion'³ was also one of the major agenda of the World Economic Forum, held in Davos of Switzerland in January 2015.

From 2005 to 2014, IFC (International Finance Corporation)⁴, has committed more than \$11 billion in the form of investment or loans to 682 'Inclusive Business' models⁵ of over 400 inclusive businesses in more than 80 countries. Supporting areas are diverse - microcredit, microinsurance, agriculture, education, health, housing, clothing, footwear, energy, water utility, sanitation, internet and mobile technology etc. IFC also issues Inclusive Business Bonds⁶ to support 'Inclusive Business'.



IFC's Inclusive Business Commitments



Source: IFC Inclusive Business Models Group

¹ The word of 'Inclusive Growth' was only mentioned in Article 3 and Article 11 in the G20 Leaders' Communiqué of the Brisbane Summit 2014, but solving economic imbalance and pursuing balanced development are strongly emphasized overall.

² Turkey G20 Summit 2015 has three major agenda; Inclusiveness, implementation and investment for growth.

³ <https://agenda.weforum.org/topic/global-issues/economic-growth-and-social-inclusion>

⁴ As a member of the World Bank Group, IFC promotes development of developing countries through investment, loan and advisory services.

⁵ In 2010, Inclusive Business Models Group was established within IFC for intensive support for 'Inclusive Business'.

⁶ In 2014, an inaugural bond sold to Japanese retail and institutional investors.

Give your attention to BoP (The Bottom of the Pyramid)

Then, why are 'Inclusive Business', 'Inclusive Growth' and 'Inclusive Economy' so important to companies?

Firstly, 'Inclusive Business' can create new markets and consumers in the midst of recession and slow growth. This means that companies can obtain direct economic values. 'Inclusive Business' aims to develop the people in the BoP (The Bottom of the Pyramid)⁷, 70% of the world's low-income population with the average annual income under \$ 3,000. They are regarded as high potential consumers, despite of their low consumption per capita, since their growth potential toward the middle class group is expected positively. Especially, India and China with rapid economic growth receive high attention.

For 'Inclusive Business', company needs to have a new definition of BoP 'People'. They should be treated as independent consumers, not just as beneficiaries of CSR. By redefining products and markets⁸, Tata group has launched the world's cheapest car, 'Nano'⁹, which costs only 2.4 million Korean Won at unbelievably low "Price" and the low-cost house, 'Nano House'¹⁰ at 600,000 Korean Won by helping the homeless population dream for their own houses.

Secondly, if 'Inclusive Business' models are made by investing to BoP 'People', companies can implement CSV by creating shared values of both economic and social values. Especially, companies can find the ways to overcome their weakness. Hindustan Unilever Ltd. trained millions of women in rural India to sell their products, through Project Shakti¹¹. In other words, Hindustan Unilever Ltd. changed BoP 'People' into independent 'Suppliers' and overcame its weakness of regional distribution, 'Place'. Nespresso of Nestle¹², with its 30% annual growth rate since 2000, had a two-bird-one-stone solution, obtaining both income increase of farmers and stable supply of good quality coffee, by directly supporting coffee farmers in Africa and South America through innovation of purchase and operation 'Process'.¹³

⁷ BoP was conceptualized by C.K. Prahalad of University of Michigan and Stuart L. Hart of Cornell University.

⁸ Reconceiving products and markets is the first direction of CSV strategy by Michael E. Porter, Professor of Harvard Business School.

⁹ <http://www.tatanano.com> However, motorcycles or used cars have been used instead of Nano cars, since drivers don't have enough money. Still, the Wall Street Journal expects the rise of Tata Motors' stock price, because gasoline price is falling and growth friendly Indian government promises to build highways with a huge investment.

¹⁰ <http://www.dnaindia.com/money/report-after-nano-tata-plans-rs32000-house-1566154>

¹¹ <http://www.hul.co.in/sustainable-living-2014/casestudies/Casecategory/Project-Shakti.aspx>

¹² <http://www.nestle-nespresso.com/sustainability/creating-shared-value>

¹³ Redefining productivity in the value chain is the second direction of CSV strategy by Michael E. Porter, Professor of Harvard Business School. Enabling local cluster development is the third direction. Supporting coffee farmers is related with the second direction. If it is scaled up, it can be developed as a coffee farming cluster, applicable to the third direction.

Lastly, 'Inclusive Business' can change CSR costs into CSV investment, by empowering capacities of beneficiaries. It can generate economic values continuously as well as social values clearly.

Martins Retail University, the CSR Case for MSMEs with a small retail margin

Recently, social values and SROI (Social ROI) are the emerging issues in the field of corporate social contribution. However, they are limited to evaluate performance of corporate social contribution programs for their beneficiaries. If a company supports BoP through 'Inclusive Business' type of CSR, a company can get feasible benefits in its P&L as well as SROI.

Tribanco is a financial institution established by Grupo Martins, the largest wholesaler and distributor in Brazil.¹⁴ It implemented CSR through Martins Retail University, the mixture of MSME capacity building and short-term & long-term loan programs, in order not to delist MSMEs with a small retail margin by training them about store management and 'Conscious Use of Credit'. Also, Tribanco issued Tricard, the credit card that can be used at specific stores, as a part of customer support services for MSMEs to enhance their social and economic values. Multi-faceted efforts of Tribanco made multi-dimensional impacts. More than 33,400 MSMEs¹⁵ received loan benefits. Also, their capacities and profitability were increased. 5 million Tricards were issued and 675,000 are used by shoppers at over 8,500 retail stores. Not only those MSMEs but also Tribanco acquired benefits. Thanks to its efforts to consider and support MSMEs in the competitive distribution industry, Grupo Martins was able to obtain its competitive advantage compared to other wholesalers.

Find New Growth Opportunity of South Korean companies through 'Inclusive Business'

Let's suppose that someone says to you, "This service is all inclusive. No more charge." Everyone may love to hear this, all 'Inclusive' service, containing everything. At the same time, 'Inclusive' is the word that makes people think about equality of opportunity by embracing everyone, not anyone marginalized unfairly.

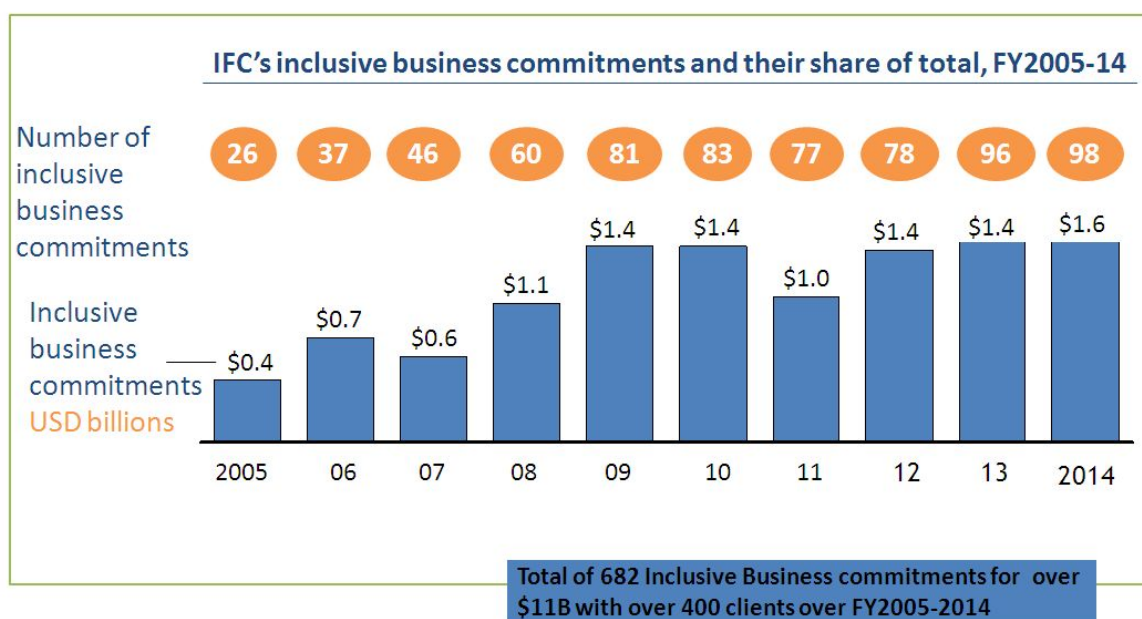
¹⁴ <http://www.ifc.org/wps/wcm/connect/7763430046153d5bafebbf9916182e35/TribancoOct2014.pdf?MOD=AJPERES>

¹⁵ About 50% of these MSMEs fall under the BoP criteria.

South Korean companies are struggling in catching up leading companies and competing with fast following companies in the global market in economic recession. Contributing to development of 'Inclusive Economy' through 'Inclusive Growth' by supporting 'Inclusive Business' can be a new driving force to South Korean companies struggling in global competition.

The more important point is that the companies of other countries have already paid attention to develop BoP for years before, and have actively participated in supporting 'Inclusive Business'. In other words, they utilize it as the strategy to create new business opportunities, which could surpass staggering economic growth, beyond just good work. If South Korean companies don't care about it, they will lose new chances in the global environment, with the survival of the fittest nature.

Since 2005, IFC has committed over \$11 billion in more than 400 inclusive businesses across 80+ countries around the world



SOURCE: IFC internal data, team analysis. Provided by Mr. Toshiya Masuoka of IFC.

If South Korean companies want to develop new markets and opportunities through 'Inclusive Business' type of CSV and CSR, they have to implement the following three things.

Firstly, they have to realize that economic and social values are not mutually exclusive. Economic values and social values can be intertwined as a plus sum game, not a zero-sum game. In other words, social issues and social values are not the problems or the obstacles to avoid, but the business issues and the foundation to create economic values.

Secondly, they should utilize their business sense for CSV and CSR inclusively¹⁶. In South Korea, business people consider CSR as charity or expenses, since CSR¹⁷ has been focused on corporate employee volunteering or social contribution activities. Furthermore, connecting CSR with business has been regarded as an impure act in the South Korean society, like a taboo. Therefore, business people have not used their corporate and business strategy sense enough for CSV and CSR.

However, it is changing now. Social enterprises that CSR programs supports, aiming for independence of beneficiaries, are spotlighted. Interests in CSV are rising explosively. In global environment, competitors of South Korean companies support 'Inclusive Business' more and more. 'Inclusive Business' type of CSV and CSR should combine both - not only social issues and social values but also highly-specialized strategy connected with core business or economic values.

Especially, through the new definition of BoP 'People', South Korean companies should have a view point of CSV and implement CSV in new 'Product' and service development, 'Price', 'Place' and 'Process', by embracing social and economic values together.¹⁸

Third, they have to give the 'Inclusive Opportunity' to BoP 'People' genuinely. They are not just recipients, the beneficiaries of donation, who need financial aids passively without economic competence. Depending on corporate efforts, they can be changed into independent 'Consumers' with capacities and self-esteem, furthermore, into self-reliant 'Suppliers'.

If South Korean companies can give more inclusive and equal opportunities through 'Inclusive Business' to BoP people and include them into economic development, they can contribute for global society and are able to have more energy in global competition through their worthwhile and meaningful efforts.

Written by Angela Joo-Hyun Kang : Ms. Kang is the Founder and Executive President of Global Competitiveness Empowerment Forum (GCEF), holding a bachelor's degree of English Language and Literature from Yonsei University and a mid career master's degree of Public Administration from Harvard Kennedy School. She was an Evaluation Group Member for Leadership and Responsible Practices of State Owned Enterprises appointed by the Ministry of Strategy and Finance and an Advisor of Presidential Council of Nation Branding. She currently serves a Global CSR Advisor of Korea Trade Promotion Agency (KOTRA) and a Regulation Reform Committee Member of the Ministry of Trade, Industry and Energy (MOTIE).

¹⁶ In this context of this phrase, 'Comprehensive' is more commonly used than 'Inclusive'. However, 'Inclusive' was used here, in order to emphasize mindset change of business people for 'Inclusive Business' type of CSV and CSR.

¹⁷ In South Korea, CSR means corporate social contribution, in a narrow concept. In a broad concept, comprehensive responsibility of a company covering ethical, economic, social, environmental responsibilities. In this article, a narrow concept is used, in order to encourage supporting 'Inclusive Business' by changing BoP people from beneficiaries to independent consumers and self-reliant suppliers.

¹⁸ Like marketing mix through 4P, this can be called 'Inclusive Business' mix through 5P.