12 BoP Businesses of Multinational Corporations and Sustainability

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Abstract

Pessimism about the effects of official development assistance (ODA) on the poorest countries (base of the pyramid; BoP) has raised expectations of social business by multinational corporations (MNCs) since the end of the twentieth century. First, this chapter summarizes the historical developments focused on the role of MNCs in alleviating poverty at the BoP (Sustainable Development Goals [SDGs] 1, 3, and 6) through delivery of affordable products and services, following activities of non-governmental organizations, growing awareness of corporate social responsibility, and framing of development goals by United Nations agencies. Next, it discusses BoP's shift from its role as a marketplace to a production base or source of innovation, as MNCs have established global production networks. We argue that this has changed the BoP business toward contributing to the achievement of SDGs 5, 8, and 9. Finally, MNCs are required to address not only social challenges at the BoP, but also environmental challenges (SDGs 13) in both emerging and developed countries. To balance these overall SDG-related challenges with MNCs' own interests, BoP business is further evolving into SDG business management, and MNCs will be increasingly required to redefine their role from a sustainability perspective.

Keywords

Base/bottom of the pyramid (BoP) · Inclusive business · Multinational corporation (MNC) · Triple bottom line

12.1 Introduction

This chapter discusses the role that multinational corporations (MNCs) can play in addressing the social challenges faced by the poor in developing countries. Initially, MNCs' businesses with the poor started as targeting poverty alleviation by delivering products and services to them that they could afford: of the 17 Sustainable Development Goals (SDGs), Goals 1 (no poverty), 3 (good health and well-being), and 6 (clean water and sanitation) were their direct targets. Subsequently, however, there was a growing realization that other goals were also important social agendas for the poor, such as Goals 5 (gender equality), 8 (decent work and economic growth), and 9 (industry, innovation, and infrastructure), and that pursuing them would also serve MNCs' interests. This led to significant changes in MNCs' businesses in those countries. More recently, their businesses have even embraced

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environmental challenges, including Goals 13 (climate action), and are now developing into ambitious initiatives that encompass the broad areas of the SDGs on a global scale, including developed as well as developing countries.

12.2 What is the BoP Business?

The bottom of the pyramid (BoP) refers to those people who are regarded as the poorest in the socioeconomic strata, and the business activities of companies, particularly MNCs, targeting such people are called BoP businesses. Prahalad and Hart (1999, 2002) first introduced the term BoP, which placed the poorest people at the bottom of a pyramid structure based on socioeconomic stratification by income. Although the term BoP itself has not changed, the term "bottom" is considered to carry discriminatory overtones, and consequently, "base" is used more frequently instead. More recently, the United Nations (UN) and other international organizations have tended to prefer the term "inclusive business" instead of BoP business, arguing that using the term "base" or "bottom" to distinguish a business is not the way to solve related social problems.[1]

Specifically, the BoP is defined as a population group with an annual per capita consumption expenditure (or income) of less than $3000 in purchasing power parity (PPP) in 2002 (Hammond et al. 2007).[2] As Fig. 12.1 shows, there are 4 billion people at the BoP, representing 71.7% of the 5.575 billion people recorded by available national household surveys worldwide,[3] with an overall market size estimated to reach $5 trillion. At the middle of the pyramid (MoP), there are 1.4 billion people with income between $3000 and $20,000, representing 25.1% of the survey population. The top of the pyramid (ToP) comprises mature markets, mainly in the developed countries, with annual per capita income of over $20,000 and a population of 0.18 billion, or only 3.1% of the total surveyed. The area of each segment in the figure is shown according to its actual share, making it easier to understand how the BoP group accounts for a large part of the total, whereas the ToP is a tiny part.

Figure 12.2, which presents a bar chart showing the distribution of the population arranged according to actual income level (established from Free data from Gapminder.org: gapm.io/d_incm_v2), does not have a neat shape compared to the pyramid in Fig. 12.1. The upper part of the distribution is narrow due to the lowest number of high-income earners, and the lowest part is wide due to the highest number of low-income earners, with the population increasing at a non-proportional rate as it approaches the bottom. The vertical axis could be set much higher; however, it is limited to $100 a day in the interest of convenience and clarity.

Typically, a corporate BoP business is regarded as the business activity of a company that simultaneously satisfies the following three conditions:

1. People belonging to the BoP segment play one or more of the following roles: consumer, supplier, worker, producer, seller, or manager.
2. Business activities improve one or more of the social or environmental challenges faced by the BoP.
3. A private company or its subsidiaries carry out business activities to increase profits.

In other words, the corporate BoP business represents a form of "creative capitalism" (Kinsley and Clarke 2008), wherein business is

[1] According to UNDP, an inclusive business (model) is defined as "including the poor into a company's supply chains as employees, producers and business owners or develop affordable goods and services needed by the poor" (UNDP 2010).

[2] PPP is a ratio of currencies calculated so that the purchasing power (quantity of goods and services that can be purchased) of each currency is equal. An income of $3000 in PPP terms in 2002 means people with an income amount that would allow them to go to the USA in 2002 and make $3000 worth of purchases. This definition was given in a report prepared jointly by the World Bank Group's International Finance Corporation (IFC) and the World Resource Institute.

[3] Data are derived from national income and consumption surveys conducted by national statistics offices in 110 countries. See Appendix A in Hammond et al. (2007).

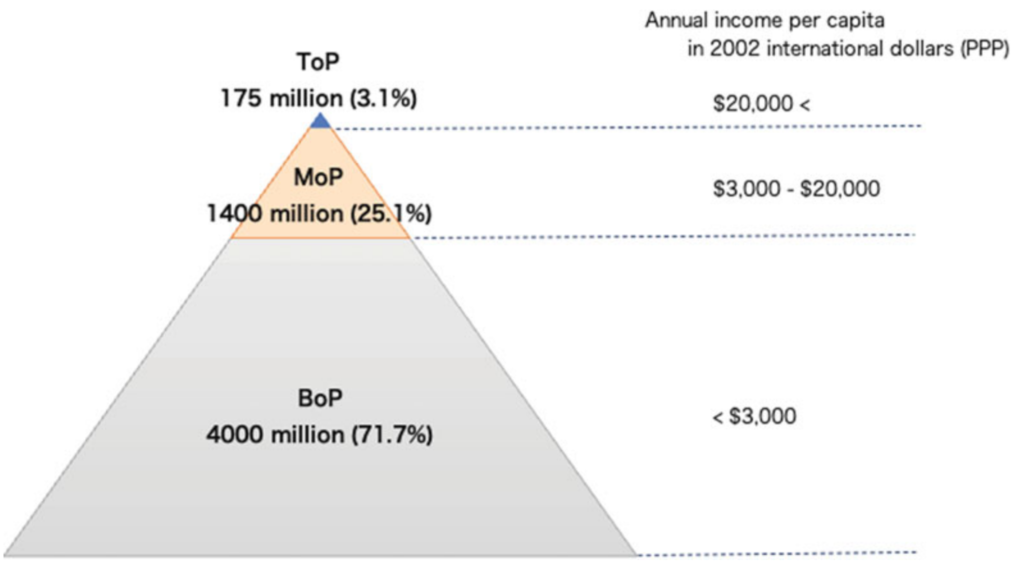
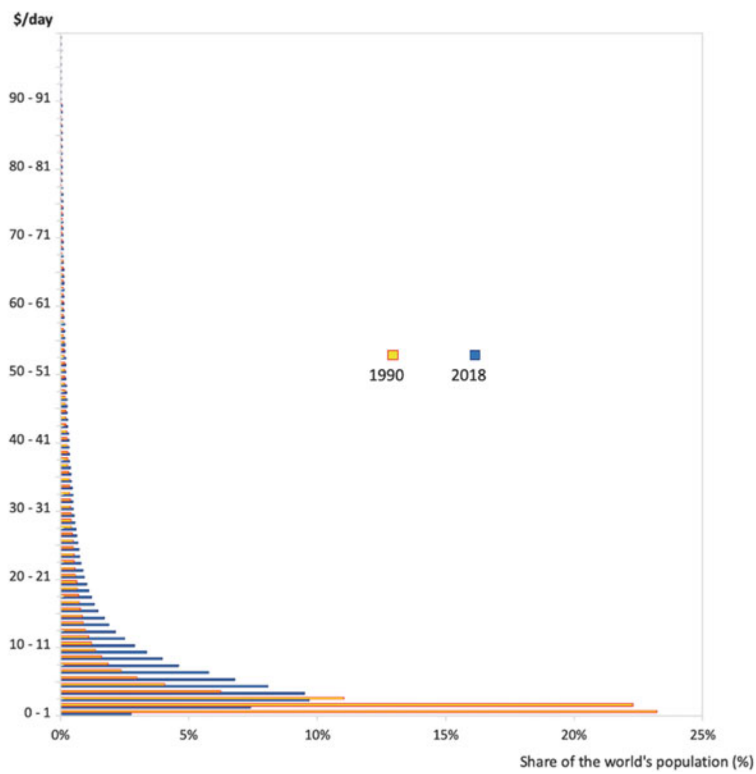


Fig. 12.1 Pyramid of the world's population by income group

Fig. 12.2 Percentage of the world's population in different income groups in 2018 and 1990



conducted with the dual intention of pursuing economic outcomes by opening up new high-growth markets and social outcomes by solving critical social problems in those markets.

As mentioned previously, the most commonly used quantitative definition of BoP is an annual income of less than $3000; dividing this number by 365, we obtain the daily income of people in the BoP as less than $8.2. Therefore, in Fig. 12.2, the bottom nine bars, that is, the area below the red-dotted line, roughly correspond to the BoP.[4] This shows that in 2018, the BoP group accounted for 58.6% of the world's population (yellow bars) compared to 75.6% in 1990 (blue bars) and that the volume zone moved up slightly from the bottom. In particular, the number of people living in "extreme poverty"—those earning less than $1.9 per day (World Bank 2016), or the bottom two bars—has fallen dramatically in the three decades since 1990. Although a large proportion of the population still belongs to this segment, part of this upward shift in the volume zone can be considered to be a result of BoP businesses.

12.3 Birth of the BoP Business

During the post-war period to the 1970s, when the "Global North and Global South" were raised, there was criticism that the expansion of MNCs from developed to developing countries would lead to the exploitation of the poor. A growing trend of resource nationalism has emerged among the newly independent countries to reclaim for themselves the natural resources that MNCs had once controlled during the new imperialist era, which came into conflict with the interests of MNCs. In 1962, the UN General Assembly explicitly declared the Permanent Sovereignty over Natural Resources, which led to the nationalization of extraction facilities of MNCs in many developing countries in the Middle East and South America. In 1964, the UN Conference on Trade and Development (UNCTAD) was established to redress the North–South divide through the promotion of economic development of developing countries; at the same time, the Group of 77 (G77), a coalition to increase the voice of developing countries, was founded, and various cartels were formed by producer countries in oil, copper, bauxite, and other resources. The Declaration for the Establishment of a New International Economic Order (NIEO), adopted in 1974 by the UN Sixth Special Session of the General Assembly on Raw Materials and Development, included the right of host countries to regulate and supervise the activities of MNCs. In the 1980s, when it was widely recognized that foreign direct investment (FDI) could contribute to the economic development of developing countries, many of these countries turned their stance toward accepting FDI, and shortly afterward, some emerging countries became even more welcoming. However, MNCs continued to operate with an imperialist mindset, viewing developing countries as places to sell their old products or squeeze profits out of their sunset technologies (Prahalad and Lieberthal 2003).

During this period, various social challenges faced by low-income groups, including poverty, were addressed through grant aid, preferential loans, technical assistance, provision of relief supplies, donations, or volunteer activities by public bodies such as governments of developed countries, UN agencies, the World Bank, the Asian Development Bank (ADB), the African Development Bank (AfDB), and other non-governmental organizations (NGOs). In the 1990s, however, after years of official development assistance (ODA) failed to produce the desired results in poverty alleviation while breeding graft and corruption, developed countries experienced "aid fatigue," and key members of the OECD Development Assistance Committee (DAC) began to reduce their ODA spending. Concurrently, the concept of private finance initiatives (PFI) took root as Western countries sought to move toward smaller governments, raising the expectation that the private sector could finance public services to a greater extent. This trend was reflected in development aid to developing countries, wherein the importance of public–private partnerships (P3) was emphasized. Moreover, as the development needs of developing countries diversify from dealing with debt crises and structural economic reforms to

[4] Since the Gapminder income data set is calculated using PPP for the benchmark year 2011, there will be some discrepancies in the definition of BoP when measured in PPP terms in 2002. This means that the number and share of people belonging to the BoP group estimated here may be somewhat underestimated.

broader social issues, such as poverty, hunger, health, the environment, education, and human rights, it is increasingly recognized that the administrative approach of governments and international organizations is limited. In other words, the prevailing view is that development projects can be conducted more efficiently by using private finance and technology, particularly with the help of MNCs.

Since the late 1990s, there has been growing momentum for corporate social responsibility (CSR), which posits that companies have a responsibility to return profits from their business to have a positive (or avoid a negative) impact on the environment and all stakeholders, including consumers, employees, investors, and local communities. CSR used to be regarded as self-regulatory and voluntary decisions at the individual firm level, although its interpretation and evaluation varied between countries and regions. However, CSR has evolved to include mandatory schemes at national, regional, and international levels as national governments and international organizations have pushed companies to develop sustainable practices, laws, and regulations, and stakeholders have increasingly demanded it. Some examples of these programs are the following. First was the ISO 14000 series of environmental management standards issued in 1996 in response to the Earth Summit of 1992; second, the widespread adoption of the concept of the triple bottom line (TBL) (i.e., the social [people], environmental [planet], and economic [profit] bottom lines) in accounting and auditing procedures; and third, the Global Reporting Initiative (GRI), an NGO launched in 1997 to develop international standard guidelines for sustainability reporting by companies and other organizations.

The UN "Global Compact" (UNGC), a non-binding charter announced by the then-UN Secretary-General at the World Economic Forum in 1999 and launched in July 2000 with the signature of 7,700 companies from 130 countries, required companies to act in a socially, environmentally, and ethically responsible manner. Signatories were requested to integrate the ten principles outlined in the UNGC in four areas, namely human rights, labor, environment, and anti-corruption.[5] Private companies, recognized as an essential force in achieving the development goals set by the UN for developing countries, were expected to act as catalysts through their actions in support of these goals. In September 2000, with the enactment of the UN Millennium Development Goals (MDGs), eight international goals were set with specific targets to be achieved by 2015 to solve the problems of developing countries. One of these targets was to reduce the number of people suffering from extreme poverty and hunger by half compared to 1990. To achieve these challenging development goals on time, the traditional approach of relying on ODA from developed countries or support and donations from international organizations and NGOs was insufficient, and expectations of the role that business activities could play had become increasingly important. In response, MNCs and entrepreneurs sought to address poverty reduction from a business perspective by providing products and services that meet the needs of developing countries. This led to the emergence of BoP businesses.

12.4 First-Generation BoP Strategies—BoP 1.0

The BoP businesses that emerged in the early years were essentially attempts by MNCs to modify existing goods and services and offer them at lower prices so that people in the BoP markets could afford them. Poverty was defined as the deprivation of basic needs such as food and water, clothing, shelter, sanitation, health, and electricity. Accordingly, poverty-stricken people were regarded as suffering from various disadvantages known as the "BoP penalty" (Prahalad 2010), which referred to higher costs of living due to poverty, including transport, utilities, food, and medicine, among others.

Thus, the role of the BoP business was considered as elimination of the BoP penalty to

[5] As of February 23, 2022, the number of signatories has grown to 19,616 companies and organizations in 164 countries. For more information, see UNGC (2022).

enable people to meet their basic needs. To this end, modifications of existing business models, such as the small packaging strategy, were suggested to eliminate the BoP penalty and achieve the 3As—affordability, access, and availability (Prahalad 2010). The idea is that this will create a fair market for the poor, improve the standard of living of the BoP, raise their income, and, consequently, help them move to the next volume zone (Hammond et al. 2007), opening up new market opportunities for MNCs. Thus, the BoP business can be considered a sustainable strategy for companies. As the “base” part of the pyramid shifts upward, it may no longer be a pyramid structure but a diamond-shaped structure with a thicker mid-layer. This approach to the BoP market, which seeks to reduce poverty through consumption, was later coined as BoP 1.0 by Simanis et al. (2008).

At the time, MNCs from developed countries did not have much business experience in developing countries, excluding their former resource development and procurement activities. Moreover, MNCs were not accustomed to doing business in the developing areas of the world, where markets—a network in which buyers and sellers interact to exchange goods and services for money—were essentially nonexistent or poorly functioning compared to those of developed countries with well-functioning market mechanisms. Therefore, MNCs often choose to work with NGOs and entrepreneurs acting on the ground. They believed that without partnerships with this third sector—the civil sector, which is neither public nor private—an approach to the BoP segment, wherein simple aid is ineffective, and markets do not function well, would be infeasible.

Accordingly, BoP 1.0 comprised the following three steps:

1. To identify the BoP segment as potential customers and listen to them deeply to understand their specific needs and wants.
2. To develop promising solutions for the BoP by lowering prices, narrowing down features, redesigning packaging, exploring new distribution channels, and meeting previously unreachable customers’ needs.
3. To partner with local NGOs/NPOs as mediators in implementing BoP solutions.

One well-known example of BoP 1.0 is the purified water business of Procter and Gamble (P&G). As a BoP initiative, P&G launched the Children's Safe Drinking Water (CSDW) program in 2004.[6] It provides safe drinking water for children aged 0–13 years in developing countries. P&G worked with the US Center for Disease Control and Prevention (CDC) to invent a water purification powder and provide sachets of “Purifier of Water” (PUR) to children in rural villages and refugee camps. Sachets were used because the poor could not afford the cost of buying products in bulk. With just 4 g of powder, a bucket, a spoon, and a cloth, 10 L of dirty water could be turned into clean drinkable water in 30 min. P&G did not simply sell the product through its usual distribution network but worked with around 70 organizations, including international organizations such as the Red Cross and UNICEF (United Nations International Children’s Emergency Fund), as well as local NGOs.

Another example is Unilever’s soap business in India. In 2002, Hindustan Lever Limited (HLL), Unilever's subsidiary in India,[7] launched a 5-year health and hygiene education campaign, “Swasthya Chetna” (‘Health Awakening’), to promote Unilever's “ Lifebuoy” brand of hygiene products.[8] The program was launched in eight states of India with the objective of educating around 200 million people in rural and urban areas on the importance of health and hygiene

[6] See P&G (2022).

[7] Unilever set up its first production subsidiary in India, Hindustan Vanaspati Manufacturing Co., in 1931, a year after the merger of the British company Lever Brothers and the Dutch company Margarine Unie to form Unilever. At the time, India was a British colony before gaining independence in 1947. This subsidiary changed its name to Hindustan Lever Limited (HLL) in 1956 and to Hindustan Unilever Limited (HUL) in 2007.

[8] Lifebuoy is a world-leading brand of their hygiene products launched by Lever Brothers in 1895, which includes soap, hand wash, body wash, sanitizer, deodorant, and other products. Although it is no longer seen in developed countries, it is highly recognized in developing countries, and products produced in India are exported to the Asian region.

(Fernando and Purkayastha 2006). Through demonstrations, interactive visuals, and drama workshops, mainly in primary schools, HLL educated children about the effectiveness of washing hands with soap to prevent diseases. The children would go home and tell their parents about it, who would, in turn, tell their neighbors, relatives, and colleagues. Through this word-of-mouth communication, the concept of sanitation took root in Indian society. Through social marketing, Unilever aimed to cause a behavioral change in two ways: attracting consumers who never used soap and convincing people to use soap more frequently, thus creating more users for its brand. Resultingly, Unilever succeeded in expanding the market for the company's Lifebuoy products, which had been introduced in India long ago but had only been recognized by a small group of wealthy people, while solving a social problem wherein many people were suffering from poor health due to lack of hygiene habits.

12.5 Transformation of BoP Business

12.5.1 Lack of Success of BoP 1.0

Despite many attempts, BoP 1.0 was not as successful as expected. Many businesses were unable to scale or generate satisfactory returns or failed to address the development challenges of the poor adequately. Many others continue to suffer from low profits, small market size, and slow growth, including Grameen Danone's nutritious yogurt development in Bangladesh, Nike's World Shoe project in China, P&G's Nutri Delight (a fortified orange powdered drink) in the Philippines, and Monsanto's sale of genetically modified seeds; some of which have been discontinued. Some assessments suggest that even P&G's PUR and Unilever's soap business, mentioned above, have not performed as expected (Simanis et al. 2008).

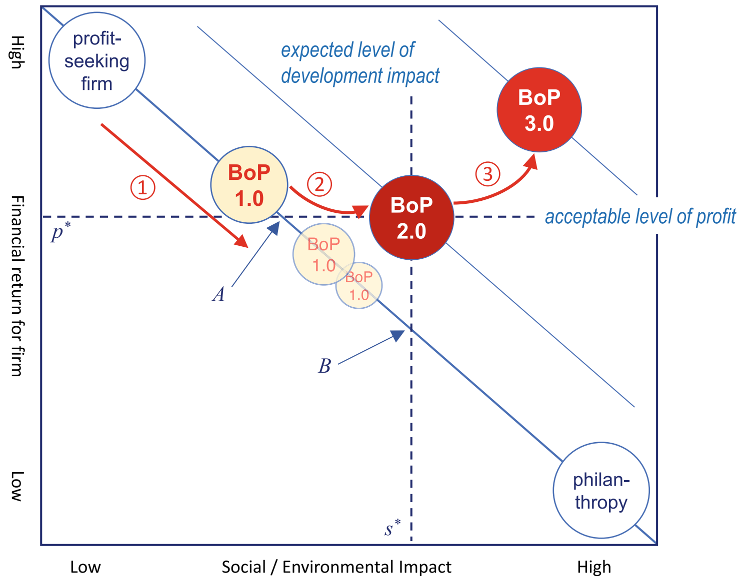
The graph in Fig. 12.3 illustrates the relationships between business and social agenda and helps to understand the background of the poor performance of BoP 1.0 for both companies and society and provides some hints on how to address it. It attempts to capture corporate BoP businesses in a box diagram measured by two dimensions: corporate profit on the vertical axis and development impact on the horizontal axis. Given the trade-off between the two challenges, the strategy a company can adopt lies in the area inside (lower left) the frontier curve, shown by the main diagonal, with the optimal strategy lying at any point on the frontier. If a company, located in the top left corner as a profit-seeking entity, tries to engage in the BoP business, it can achieve development benefits by sliding down along the frontier line from the upper left position, that is, by sacrificing some of its corporate profits. When the BoP1.0 venture does not yield satisfactory profits, it means that the company has moved below point A at the intersection of the frontier line with an acceptable profit level p^*. Further, if the BoP business is unsatisfactory in meeting the development challenge, it means that it has not moved beyond B at the intersection with the expected level of development at d^*. In short, unsuccessful BoP businesses are located somewhere on the line segment AB.

As aforementioned, CSR, UNGC, and the MDGs are the background factors that have encouraged MNCs to engage in BoP business; however, an increase of these exogenous pressures shifts the vertical line set at s^* to the right, such that, ceteris paribus, line segment AB will become even longer, increasing the likelihood that BoP businesses will create only unsatisfactory results.

There is a common feature underlying these unsatisfactory results of many BoP 1.0 ventures: They were outside-in initiatives to increase consumption in the BoP segment by modifying and applying existing products and business models created in developed countries. This was based on the mindset of approaching the unmet needs of poorer people. (Simanis et al. 2008; Cañeque and Hart 2015).

However, several serious problems are associated with this approach. First, people in the BoP segment were viewed as target customers instead of targets of certain development goals.

Fig. 12.3 Relationship between business and social agendas



On the MNCs' side, the BoP business created a boom at the turn of the twenty-first century, with the illusion that it would open up unlimited sales opportunities in markets with huge populations; however, the civil and public sectors, as well as the poor themselves, have sometimes criticized the BoP business as nothing more than a strategy for selling to the poor.

Second, with no existing product market that served as a benchmark, neither firms nor prospective BoP customers had a reference point from which to assess whether a given product or service was "needed" (Simanis et al. 2008). This is why the usual market strategy of understanding potential needs through listening to prospective customers, identifying the market segments to play in, and gaining a competitive advantage could not be applied. While P&G's PUR business initially saw an enormous potential need to solve the social challenge of preventing infectious diseases with clean water, the actual demand generated was so small for the company that the CSDW project had to shift to a philanthropic model of health-related social marketing campaigns in partnership with a global health NPO (Simanis et al. 2008).

Lastly, outside-in initiatives contain paternalistic attitudes and cultural imperialism elements, which sometimes mean a devaluation of tradition and culture in the target country. This is likely to provoke a backlash from non-profit and grassroots organizations, as well as from poor people themselves. In the past, NGOs have often monitored the subsidiaries of MNCs and led boycotts of their products in protests against environmental degradation and child labor in developing countries. With such a history of adversarial relations, the basic needs approach, relying on an outside-in strategy, does not make it easy to forge partnerships with NGOs, which are crucial to the success of the BoP business.

12.5.2 Advent of BoP 2.0

Reflecting on the modest success of BoP 1.0, the next generation of BoP strategies emerged: BoP 2.0. A key feature of BoP 2.0 is a radically new approach involving the "co-creation" of products and value propositions by partnering with people from underserved communities (London and Hart 2010). Co-creation refers to working together with local companies, low-income communities, and other actors to create a fortune with the BoP, which enables a deep process of social transformation (Nahi 2016). BoP 2.0 not only aims to focus on markets that previously existed but were unrecognized and to turn poor people into customers for its products, as in BoP 1.0 but also encompasses the following three elements:

1. Involving BoP people in the global value chain as producers, suppliers, and distributors and working with them to “co-create” entirely new markets and business models.
2. Providing employment opportunities for the poor to increase their consumption through higher incomes and enhance their human capital and empower them through labor participation, training, and education.
3. Engaging BoP people in creative activities that can generate bottom-up innovation, enabling the development of environmentally sustainable technologies with leapfrogging, and implementing “reverse innovation” (Govindarajan and Trimble 2012), wherein innovative products from the BoP flow back to developed countries.

Thus, theoretically, BoP 2.0 would engender culturally embedded, socially and environmentally sustainable, profitable, and more “inclusive” businesses[9] which is what the BoP people want.

Thus, BoP 2.0, which seeks to commit the poor to the supply chains and innovative activities of MNCs, has been driven by the international fragmentation of production—the pursuit of offshoring strategies by splitting a production process into different steps—and the establishment of global production networks (Ernst and Kim 2002; Jones et al. 2005; Coe et al. 2008). As a result, the role of the BoP has shifted from being a mere marketplace to a production base and even a source of innovation.

Unilever’s Indian subsidiary, HLL's project “Shakti” (meaning empowerment), is often described as the next-generation BoP initiative (Prahalad 2010). Although not yet fully successful in terms of profitability, probably due to Unilever's heavy financial burden and high turnover, the project is considered a BoP 2.0 scheme as it involves “innovation for the last mile”—the penetration of the company's products into traditionally unreachable rural India through direct sales using local women's channels—while simultaneously contributing to society by spreading the concept of hygiene, and thereby, improving health, creating employment, improving human capital, empowering people, and making women more self-reliant and socially empowered.

HLL set up a sales and distribution organization that contracts women, called “Shakti Amma,” as self-employed traders who buy and sell Unilever products on consignment and receive a success fee. This enabled Unilever to penetrate rural areas, where two-thirds of India's population lives, at a cost more than 10% less than traditional sales agents, and promote Unilever products through word of mouth (Rangan and Rajan 2005). In particular, the expansion of sales of “Annapurna Salt,” an iodized salt developed by Unilever in 1995, has had a breakthrough effect in preventing iodine deficiency disorder, which may cause mental retardation in children, and considerably contributed to reducing the health problems of India's low-income population, who do not have access to a balanced diet. Shakti Amma, now comprising more than one million women, has become not only Unilever's favorite customer by enhancing women’s and their family’s livelihoods by enabling them to earn the same level of income as men ($60–150/month), but also an entrepreneurial venture that develops women’s skills through training and on-site practice in product knowledge, revenue and logistics management, and contractual concepts, helping women to become spiritually independent through increased financial independence and dignity. Additionally, HLL has played a complementary role in microfinance by making Shakti Amma a self-help group with joint savings and loans among its members, which, in turn, induces bank loans and new business start-ups. In collaboration with local government agencies and NGOs, the project has effectively recruited and nurtured talented women with local knowledge and a desire to lift themselves out of poverty and become self-reliant.

[9] There is no uniform definition of inclusive business, and people sometimes interpret it differently, but common features are adopting the principle of nondiscrimination, to focus on creating new economic opportunities for low-income populations rather than maximizing corporate profits. See Likoko and Kini (2017) for more details.

Figure 12.3 illustrates the logic behind BoP 2.0, which is realized when a company can further enhance its economic profits or social benefits without sacrificing either. The social contributions brought about by Shakti Amma at Unilever's expense, such as increased employment, poverty alleviation, spread of market-based economy, improved health and sanitation, and women's empowerment, among others, will not necessarily undermine the company's financial bottom line because it will lead to a reduction in distributor commissions, increased productivity through enhanced human capital of Shakti Amma, and increased sales through higher incomes for low-income groups. This means that, as shown in Fig. 12.3, when starting from BoP 1.0, indicated by the large circle, and seeking further to increase the social benefits on the horizontal axis, companies do not need to slide down along the frontier curve (arrow ①), but can reach BoP 2.0, while maintaining corporate profit level $p*$ on the vertical axis (arrow ②). In BoP 2.0, both the acceptable level, $p*$, for corporate profit, and the expected level, $s*$, of social benefit are met, making the business sustainable. Therefore, BoP 2.0 is about internalizing the positive production externalities to create social value through business model innovation, rather than relying on absolute altruism, as in philanthropy, to achieve the same results.

The transition to BoP 2.0 was driven by not only companies' efforts to overcome the flawed BoP 1.0, but also institutional pressures on MNCs to put emphasis on social and environmental aspects. In particular, as Table 12.1 shows, the P3 initiatives in development, successively launched by various international organizations, acted as a "focal point" to encourage companies to be more proactive in fulfilling their social responsibilities owing to their rational choices. Additionally, they helped the private sector find solutions to reconcile its profitability with social development at a higher level in difficult market conditions with high poverty levels by providing specific policy recommendations and illustrating other companies' initiatives as best practices. For example, the 2004 report of the UN Commission on the Private Sector and Development, "*Unleashing Entrepreneurship: Making Business Work for the Poor*," outlined recommendations for building the capacity of the private sector to advance the development process set out in the MDGs, with particular emphasis on providing opportunities for income generation through decent work. The growing inclusive markets (GIM) initiative launched by the United Nations

Table 12.1 Key institutional pressures to engage the private companies in BoP business

1987	UN	Brundtland report
		Sustainable development was first defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs"
1996	NGO	ISO 14000 series
		International standards related to environmental management for organizations to minimize the negative impact of their operations on the environment
1997	NGO/UNEP	Global reporting initiative (GRI)
		An international standards organization to support sustainability reporting by companies and organizations, through developing the GRI guidelines, was first published in 2000 and updated in 2002, 2006, and 2013
1999	NGO/UN	United Nations Global Compact (UNGC)
		A non-binding UN pact to encourage companies to adopt sustainable and socially responsible policies and report on their implementation, calling for compliance with 10 principles on human rights, labor rights, the environment, and anti-corruption
2000	UN	Millennium development goals (MDGs)
		Eight international development goals for 2015 that had been established following the Millennium Summit of the UN in 2000

(continued)

Table 12.1 (continued)

2004	UN	Report: "unleashing entrepreneurship: making business work for the poor"
		The UN commission on private sector and development proposed how companies can create value for the poor in difficult market conditions with high levels of poverty. Recommendations to enhance the private sector's ability to advance the development process outlined in the MDGs
2006	UNDP	Growing inclusive markets (GIM) initiative
		Presentation of an inclusive business model that brings the poor into the value chain as consumers, producers, employers, or workers
	NGO/UNEP	Principles for responsible investment (PRI) initiative
		A UN-supported network of institutional investors encouraging signatory investors to incorporate ESG issues into their investment practices and require their investees to disclose ESG information based on six non-binding voluntary principles
2007	UNDP	Inclusive market development (IMD) approach
		Providing support for the development of product and service markets and labor markets to provide choices and opportunities for poor people as producers, consumers, and workers
2008	UNDP	Business call to action (BCtA)
		Exploring and promoting business models that can achieve commercial and development objectives simultaneously through membership networks among relevant players (e.g., companies, governments, and development assistance periods)
	NGO	Global impact investing network (GIIN)
		A global network created by the Rockefeller Foundation and other investors to stimulate impact investing by standardizing the social and environmental impact assessment indicators
	UNDP	GIM report: "Creating Value for All: Strategies for Doing Business with the Poor"
		The report identifies constraints and solution strategies for inclusive business models based on 50 case studies
2010	NGO	ISO26000
		The international standard provides guidance for businesses and organizations committed to operating in a socially responsible way and comprises seven aspects: organizational governance, human rights, labor practices, environment, fair business practices, consumer issues, and community involvement and development
2015	UN	Sustainable development goals (SDGs)
		Seventeen global goals designed to be a "blueprint to achieve a better and more sustainable future for all" were set up in 2015 and are intended to be achieved by 2030. The SDGs were developed to succeed the MDGs, which ended in 2015
	NGO/UN	SDG compass
		A five-step action guideline that provides tools and knowledge for companies to place the SDGs at the center of their corporate strategy, published by the UNGC GRI and the world business council for sustainable development (WBCSD)
2016	NPO/UNEP	Global reporting initiative (GRI) standards
		New sustainability reporting standards to replace the previous GRI guidelines
2022	UNDP	SDG impact
		Criteria for assessing the extent to which an investment object has an impact on achieving the SDGs

Development Programme (UNDP) in 2006, and its report, *Creating Value for All*, published in 2008, highlighted the importance of inclusive business, which involves poor populations in global value chains as consumers, producers, employers, and workers, and provided many different examples of good practices in such business. Similarly, other UNDP-led strategies, such as inclusive market development (IMD) in 2007 and business call to action (BCtA) in 2008, have sought to promote private sector engagement in the BoP development process, with recommendations on how to build business models that achieve commercial and development objectives simultaneously. Similar efforts to get companies and NGOs to focus more on development issues at the BoP can be seen in other UN agencies, such as Food and Agriculture Organization (FAO), World Food Programme (WFP), World Health Organization (WHO), and United Nations International Children's Emergency Fund (UNICEF), with each working in its own area of expertise. Thus, all these efforts from international organizations have served as a catalyst for private sector companies to take a more active role in BoP business while maintaining their interests.

12.6 Future of the BoP Business

BoP businesses need to and will evolve further to more effectively address the social challenges faced by the BoP while concurrently ensuring corporate profitability. Against this background, the "BoP 3.0" was recently proposed (Cañeque and Hart 2015). Although this initiative is still in an embryonic stage and the real picture has not yet become clear, some directions can be discerned.

12.6.1 Open Innovation and Frugal Innovation

One such direction is to facilitate further "co-creation," as implemented in BoP 2.0, and move toward "open innovation." As aforementioned, co-creation involves working with local companies and other actors to develop new business models that create value for local communities at the BoP. Furthermore, open innovation is a distributed innovation process based on purposively managed knowledge flows across organizational boundaries (Chesbrough et al. 2014). In contrast, traditional "closed innovation," which is pursued in-house or through vertical integration, is when companies seek to build competitive advantages based on proprietary technology through speeding up new product development. However, increasing silos of technology have made it increasingly difficult to create innovation through in-house research and development (R&D). The boundaries between a firm and its external environment have become more permeable due to lower transaction costs in the marketplace and advances in information and communication technology (ICT). Increasing the transfer of technology and ideas inward and outward between organizations and individuals can be expected to stimulate innovation within the organization, which, in turn, will extend outside the organization (Chesbrough 2003). Technology and ideas should not be confined within an organization but allowed to flow freely to stimulate innovation. Compared to the co-creation emphasized in BoP 2.0, which was a bottom-up innovation that was undertaken with the help of BoP people, open innovation is a more participatory grassroots innovation that harnesses the knowledge of the "cloud" distributed across different sectors and actors—private, government or citizens, or formal or informal—to create solutions that were previously unforeseeable (Cañeque and Hart 2015).

As an extension of this open innovation, "frugal innovation" has attracted growing attention in recent years (Zeschky et al. 2011; Bhatti and Ventresca 2013). It is called "frugal" as it is a way of developing products and services that are more affordable and easily accessible by only implementing necessary features. It is frugal because it meets the basic needs of the BoP in a lean way, thus conserving resources and making societies and the planet more sustainable. Frugal innovation is a locally adaptive solution that develops and provides products and services that are "good enough" and affordable to meet the needs of consumers under severe financial, technological, material, and other resource constraints (Bhatti and Ventresca 2013), meeting the needs of BoP people who would otherwise be unable to afford existing products and services. Frugal innovation is a model of the social contribution that emphasizes the reduction of the global environmental footprint by providing products and services in a resource-saving manner. In other words, frugal innovation reduces public bads (negative externalities), whereas the conventional BoP business aimed to contribute to society by expanding public goods (positive externalities), that is, by alleviating poverty through delivering products and services to the poor.

However, this may not be an easy task for MNCs from developed countries as their business models and organizations are traditionally designed to develop advanced products for the few affluent people at the ToP. To overcome such strategic and organizational barriers and achieve frugal innovation, it is necessary to provide a substantial degree of autonomy to local subsidiaries of MNCs to enable them to deploy open innovation (Zeschky et al. 2011).

12.6.2 Business Ecosystem

The second direction for BoP 3.0 is to use the business ecosystem. A business ecosystem is an economic community comprising many loosely interconnected participants (Clarysse et al. 2014). These participants, organizations or individuals, come together in such a community "in a partially intentional, highly self-organizing, and even somewhat accidental manner" (Moore 1998, p.169). These participants include customers, suppliers, workers, competitors, and other stakeholders, such as financial institutions, trade associations, standards bodies, labor unions, and governmental and quasi-governmental institutions (Moore 1998). In the context of BoP, human resource cultivators, supply chain players, technology and microfinance providers, and even neighboring residents, are constituents of the business ecosystem. Their relationships could be cooperative or competitive, with each participant specializing in a particular activity and depending on each other for their mutual performance. In other words, the collective efforts of many participants create value, but individual efforts have no value outside of the collective effort (Clarysse et al. 2014). Unlike conventional inter-firm networks, which tend to be geographically dense, business ecosystems form value networks distributed globally.

BoP 2.0 emphasized the need to engage people from the BoP community in the local activities of MNCs to promote bottom-up innovation. However, since an ecosystem is a network of actors with many horizontal (Moore 1996) as well as vertical relationships, many of its members fall outside the traditional value chain, which is formed by a linear process from upstream to downstream (Iansiti and Levien 2004). Thus, the innovation model of BoP 2.0 will be unable to tap into the diversity of species inhabiting the ecosystem. For BoP businesses to evolve further, it is necessary to incorporate companies as part of a larger ecosystem (Cañeque and Hart 2015). It is not about involving the BoP people in their global value chain but about the MNCs themselves becoming part of the business ecosystem, locally embedded and extending beyond regional boundaries. Therefore, it is essential to view the business ecosystem as a foundation for innovation to exploit the potential of open innovation discussed above fully.

Innovation in business ecosystems focuses on the customer (demand) side rather than on technological activities; in other words, it aims to generate value for the customer rather than new knowledge (Clarysse et al. 2014). Firms can collaborate with other participants in the business ecosystem to create solutions and deliver value that customers alone cannot create (Moore 1993). Such innovations may involve the creation of new markets and are well suited to the relatively small and poorly defined commercial opportunities that need to be pursued (Clarysse et al. 2014); therefore, it is a suitable model for innovation at the BoP.

At the BoP, the market economy—a network of buyers and sellers interacting to trade goods and services—does not function as it does in developed countries; the participants in the ecosystem include not only companies but a wide range of actors, seamlessly and intricately linked together to form a single business sphere. It is not based on market principles but on the dominant principles of a community—a group whose ties are based on trust through profound human interactions, such as bonds, blood relations, geographical ties, camaraderie, and ethnic cohesion, which are maintained through implicit contracts. Many poor people are engaged in the informal sector and deprived of legal ownership, property rights, and education rights, among others, which are largely beyond the reach of normal means of distribution, credit transactions, and communication.

Therefore, it is essential for MNCs to network with these non-traditional actors, especially if they want to create non-economic and social value. The strength of MNCs is that they can reorganize their ecosystems in a way that is not solely based on customary mechanisms, as in the past, by bringing in transparent market mechanisms. For this purpose, ICT can be used, as it helps to eliminate opportunistic behavior (Williamson 1985)—selfish actions, such as cheating or shirking, which will undermine the potential of the transactions—by reducing information asymmetries between buyers and sellers, thus allowing the market mechanism to function and realize fair trade. Further, ICT can enable joint tasks between organizations and individuals within the business ecosystem through Internet-based technologies in conjunction with face-to-face interaction (Corallo et al. 2007), thus connecting companies and individuals in the same ecosystem across traditional industry sectors and national boundaries. By evolving business ecosystems into digital business ecosystems, each company or individual will be able to exchange digital knowledge with other members and add one or more aspects of product or service value to the value created by the ecosystem (Tapscott et al. 2000), enabling the provision of customized solutions to people at the BoP.

However, the process of building relationships and creating business ecosystems with many different stakeholders is lengthy and path dependent. Moreover, companies need to play a pivotal role in the ecosystem to orchestrate the coordination of interests, conceive a business model that satisfies social needs, and secure their own profits, which can be a daunting task. However, this is precisely why it can be a source of sustained competitive advantage by accumulating resources that are difficult to imitate and prevent others from entering (Barney 1991).

In this respect, solving social problems and pursuing economic interests, which were once thought to be opposites, can now be perfectly aligned. Reflecting on Fig. 12.3, we understand that this situation, wherein companies can increase their economic profits, or rather their sources of competitive advantage, by addressing these social challenges, can be illustrated by the shift of the frontier curve, which shows the feasible combination of the two trade-offs, to the upper right, and the corresponding shift of BoP business to BoP 3.0 (arrow ③). Such a leap can be made through open innovation, which leverages the widely distributed knowledge across BoP communities; frugal innovation, which is resource conserving and genuinely meets the basic needs of BoP people; and inclusive innovation, which comes from embedding companies in ecosystems and building truly inclusive businesses.

12.6.3 Sustainable Development

The third direction for BoP 3.0 is to broaden the perspective of the challenges faced by the BoP, from poverty reduction to sustainable development. Initially, BoP businesses' motivation was focused on alleviating poverty by leveraging the resources and capabilities of the private sector, especially MNCs, to deliver products and services affordable to the BoP population (BoP 1.0), and then providing them with the means to earn a living (BoP 2.0). However, it is becoming increasingly important to consider TBL and incorporate other development challenges such as environmental sustainability.

The SDGs, adopted at the UN Summit in September 2015, set 169 specific targets in 17 areas of development goals for 2016–2030. They were introduced as successors to the MDGs, which expired in 2015 and comprised eight set goals. In addition to poverty, hunger, and health, which were emphasized in the MDGs, the SDGs encompass a wider range of environmental issues, including climate change, energy, and ecological system, as well as other social issues such as human development, decent work, women's empowerment, and inequality. The BoP faces all of these challenges, and overcoming them is defined as an essential condition for sustainability. Hence, the SDGs have a high affinity with the BoP business, and as the SDGs gain ground, companies are likely to become more proactive about engaging in "SDG business management" and incorporating those goals into BoP businesses.

Recently, there has been increasing pressure from investors to enable companies to adopt SDGs in their business. Table 12.1 summarizes some of the major developments. This pressure originally started as socially responsible investing (SRI), an investment practice that requires investee companies to manage their businesses in a CSR-oriented manner. After the manifestation of environmental problems on a global scale since the late 1980s and the spread of the TBL concept in the 1990s, SRI has become more active. Companies have been evaluated in terms of the environment (environmental impact such as global warming and resource destruction) and society (impact on social stakeholders, poverty alleviation, and reduction of inequality), as well as corporate profitability, and investors' decisions have been made based on these three aspects. In 2006, the UN announced the principles for responsible investment (PRI).[10] The subsequent increase in the number of institutional investors signing up to the PRI accelerated the trend toward incorporating an assessment of G (governance: appropriateness of corporate management processes) into their investment decisions, in addition to those on TBL (financial, environmental, and social bottom lines), which has come to be known as "ESG investing"—prioritizing optimal environmental, social, and governance factors or outcomes. In the aftermath of the 2008 financial crisis, ESG investing expanded rapidly (Global Sustainable Investment Alliance 2021) in response to the criticism that excessive capitalism and over-stressing short-term returns caused instability in financial markets. More recently, "impact investing," which places greater emphasis on the impact of social and environmental issues (Brest and Born 2013), has grown even faster than ESG investing. These ESGs and impact investment decisions require investee companies, particularly MNCs, to internalize the positive and negative social externalities they generate as a cost of capital. Concurrently, they are known to place high demands on the financial profitability of investees.[11] In Fig. 12.3, such changes in investors' behavior mean that while maintaining (or even shifting upward) the acceptable level of profitability, $p*$, the expected level of development impact, $s*$, will shift further to the right. Unless the BoP business model is further evolved by integrating it with SDG business management, it will be difficult to achieve a balance between corporate profits and social contribution.

12.7 Concluding Remarks: Sustainable Societies and MNCs

The development challenges contained in the SDGs are not just for the poor, but many of them need to be addressed by the international community as a whole, including those belonging to the ToP and MoP in developed and emerging countries. As SDGs emphasize the importance of multi-stakeholder partnerships, the resources and capabilities of the private sector, especially those of MNCs, are expected to play a major role in addressing these challenges. In SDG business

[10] As of the end of 2021, the PRI has 4679 signatories in more than 80 countries around the world, up from 81 signatories in 2006. For more information, see PRI (2022).

[11] In 2018, in an effort to attract more private capital into the SDGs, UNDP began developing the SDG impact, a set of criteria for assessing the extent to which an investment object has an impact on achieving the SDGs, which is expected to be operational by the end of 2022. Additionally, in 2020, UNEP FI (UN Environment Programme Finance Initiative) launched a tool for banks to measure the impact of their loan portfolios.

management, as in BoP business, the essential question is how to reconcile social and economic interests. Therefore, an effective approach to SDG business management is to advance the "analytic generalization" (Yin 2017), which describes the logic of the BoP business as a relationship between abstracted key variables and to increase the generalizability of the model in SDG business management. Additionally, it will be possible to provide valuable implications for the BoP business based on the findings of the SDG management analyses.

For example, frugal innovation, which was initially focused on BoP customers, could be applied as a concept to address issues, such as environmental (e.g., global warming, ocean pollution, deforestation), demographic (e.g., aging population, population decline, and explosion), and socioeconomic changes (e.g., widening inequality, increasing cross-border migrations), on a global level (Agarwal and Brem 2017). Moreover, the growing interest in resource-conscious and minimalist consumption in developed countries suggests that the concept of "frugality" may also be applied in these markets. Such application to markets other than BoP may enable the generalization of the theory of frugal innovation beyond just "cheap" innovations to the creation of sustainable innovations that are more "resource efficient" (minimizing the use of resources such as water, electricity, and time) and have a higher value proposition (i.e., better quality, ease of availability). The same holds true for reverse innovation as well. Reverse innovation, which initially emerged as a product of BoP business practices, served as a useful business model in the recovery process in Japan, where the tsunami caused by the Great East Japan Earthquake in March 2011 devastated lifelines (Cañeque and Hart 2015).

A report released by the UN in 2019 warns that while progress toward SDGs has been made in some areas, overall, countries are significantly off track with respect to achieving the goals within the target timeframe (UN 2019). The COVID-19 pandemic, which began in early 2020, has further delayed these efforts, and progress toward these goals has stalled or even regressed in many areas, including poverty, hunger, health care, education, and inequality. However, the pandemic has provided a great opportunity for countries to change the course of this current trend and build recovery plans to change consumption and production patterns for a more sustainable future. In other words, countries should avoid returning to the ways of the pre-pandemic world and redesign their economies and societies to be more sustainable and resilient to build a better world. In the "with COVID-19" period, or toward the "after COVID-19" era, how can we balance business with social challenges such as ensuring public health, establishing a new normal in response to workplace and lifestyle changes, and ensuring equitable distribution among stakeholders? How are we to restore global supply chains disrupted by border blockades and the contagion of economic shocks? (Baldwin and Freeman 2020; Hasegawa 2021) Furthermore, how should we go about developing business continuity planning (BCP)? These are pressing issues for companies globally, and MNCs need to redefine their role in rebuilding their global production network from SDG perspectives.

Shortly after BoP businesses garnered attention, the concept of "creating shared value" (CSV) was proposed as a way for companies to combine the pursuit of economic profit with social contribution (Porter and Kramer 2011). CSV implies that when a company creates social value by addressing social issues and problems, it also creates economic value. Unlike CSR, which is based on the premise that solving social problems and pursuing economic profit are incompatible, and companies must sacrifice profits in the spirit of philanthropy, CSV aims to integrate social contribution and business. According to Porter, CSV is a strategy that allows companies to gain a competitive advantage over their rivals in a differentiated way (Porter and Kramer 2011). By boldly challenging social needs, which were previously left to public bodies or the not-for-profit sector, or abandoned altogether, and meeting those needs in the marketplace, companies can create economic value that their competitors never could. Thus, rather than looking for a compromise between economic and social interests, CSV focuses on creating synergies between the two in a mutually enhancing relationship, which is quite similar to the BoP 3.0 concept.

If the seeds of CSV business lie in unmet social needs (Kramer and Pfitzer 2016), such needs are inexhaustible at the BoP of developing countries and in other regions, including developed countries and emerging economies. Many developed countries are facing social problems such as aging population with declining birthrate, population decline, and increases in cross-border migrations. Issues such as gender inequalities, social disparities, human capital degradation, and lack of decent living are common challenges globally, not just in the BoP market. On a planetary scale, meeting the needs of the world's population, which is expected to reach 9 billion by 2050, while achieving growth without exceeding the available resources (e.g., food, water, and energy) or causing environmental devastation, is an extremely difficult agenda for humanity. CSV, BoP 3.0, and SDG businesses aim to make this possible.

Companies must take the initiative to solve social challenges and gain a competitive advantage. This is what the "new capitalism" based on CSV is all about, and the same is true for BoP 3.0 and SDG business management. If realized, new capitalism will be far more powerful and effective than traditional capitalism, comprising profit-maximizing businesses and wealth-redistributing governments, and will be the engine that drives social change toward sustainability. The question of how to reconcile economic and social interests by integrating findings and insights that have been conceived under different terms and concepts, such as BoP business, SDG business management, CSV, social businesses, and inclusive businesses, among others, is a key issue for business practitioners, scholars, and policymakers and will become increasingly relevant in the coming years.

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