

Inclusive Business in the Emergence of New Economy System

AB Susanto

Chairman of The Jakarta Consulting Group, Jakarta, Indonesia, ✉ absusanto@jakartaconsulting.com

Abstract

Business world nowadays is not only generating profit for the company, but it is demanded to contribute to the society, poverty alleviation and community empowerment. Inclusive business is a method that can be adapted for a business to empower the unfortunate people in order to enhance equality among people and society. The objective of this paper is to show what inclusive business is all about and how it creates value for business and society by expanding the economic opportunity

Keywords: inclusive business

Introduction

Today, the business world is demanded to not only creating financial profit, but also to contributing to the welfare of the society, poverty alleviation and community empowerment. In other words, companies should include poor and vulnerable people, such as those with disabilities and minority background, to their business process, be them as producers, employees, or consumers. This enhances equality among people and society, not only the poor but also those who are marginalized in terms of gender, geographical location, ethnicity, disability, and faith (Gerobin, 2016). This is what we call an inclusive business. World Business Council for Sustainable Development defines inclusive business as “a sustainable business that benefits low-income communities. It is a business initiative that, keeping its for-profit nature, contributes to poverty reduction through the inclusion of low-income communities in its value chain. In simple words, inclusive business is all about including the poor in the business process be it as producers, entrepreneurs or consumers”. From this definition, we can see that business goals such as maximizing profits and increasing shareholder values do not contradict to the development goals, which include income equality and community environment.

The target of an inclusive business is mainly those who are relatively poor and very poor. Relatively poor comprises of 4 billion people, or 61 percent of the world population, while the very poor comprises of 1.2 billion people or 15 percent of the world population. These very poor people earn less than USD 1 per day. These people are called The Base of the Pyramid. However, income is just one parameter of poverty. Poverty is multi-dimensional. The actual number of people living without access to basic goods, services, and opportunities for income generation is much higher than the 4 billion people identified by the income threshold alone.

Certain population groups are disproportionately represented among the poor, and face additional constraints in escaping poverty. These include women, persons with disabilities, children, rural populations, and migrants. Businesses have the opportunity to proactively take measures to address constraints faced by these groups and leverage their unique perspectives and contributions as consumers, employees, entrepreneurs and workers in the value-chain, and community-members. Inclusive business operates in the middle of rapid development of the new economy. What is new economy? New economy is new industries, such as biotechnology or artificial intelligence that are characterized by cutting-edge technology and high growth.

Since the technology boom in the 1990's, we have seen the growth of many new and exciting subsectors in technology. These include the sharing economy, Internet of Thing (IoT), cloud computing, big data and artificial intelligence. The companies involved in technology, such as Google, Facebook, Apple, have overtaken most companies in the world in terms of market capitalization. More and more of the traditional manufacturing economy is being automated using innovations coming out of the technology sector. Of course, we still buy and sell products, but the service economy, again enabled by technology, is becoming an ever growing part of the global

economy. Less people are employed in direct manufacturing, we are more anxious of being replaced by a machine than being outsourced.

However, despite this rapid development, there are many people who are still not exposed to the new economy, particularly “The Base of the Pyramid” group. For these people, the main priorities are poverty alleviation, basic necessities, and decent income. Most of these people live in the area in which infrastructures such as roads, electricity, and internet connection are still underdeveloped. Therefore, before introducing the new economy to these groups, the most important thing to do is improve their wellbeing by providing them the basic necessities.

For the business world, another reason for moving towards inclusive business is Corporate Social Responsibility (CSR). Elkington (1997) introduced Triple Bottom Line Concept (John, 1997). According to him, a socially responsible company will focus on the improvement of company’s quality (profit), society (people), and environment (planet). CSR comprises internal and external responsibilities (Susanto, 2009). Internally, CSR is directed towards shareholders in terms of profit and growth; and towards employees in terms of employment and career challenges which are mutually beneficial. Externally, company serves as tax payer and quality job provider. It has a moral obligation and also in our own interest to enhance the welfare and competence of the society, as well as to preserve the environment of the future generation. By consistently implementing CSR, a company’s reputation will be enhanced in the long term. I call this idea a ‘Reputation-driven CSR’.

So, we can say that although the new economy has changed how people do their business activities in many ways, inclusive business will always be relevant since there are always people live in a poor and marginalized condition. In fact, inclusive business can serve as a mean to introduce a new economy.

The world is growing closer to achieving eradication of global poverty and experiencing an explosion of the middle classes. The size of the Asian middle class has been rising, “leading to ever-greater conditions for convergence between nations (Kishore, 2014). Great Convergence is made possible by huge sections of humanity making it to the middle class. This can be attributed largely to the effects of education, and the elites changing their mind sets.

In economic term, convergence means is the hypothesis that poorer economies per capita incomes will tend to grow at faster rates than richer economies. As a result, all economies should eventually converge in terms of per capita income. Poorer countries can replicate the production methods, technologies, and institutions of developed countries. However, the fact that a country is poor does not guarantee that catch-up growth will be achieved. There are some prerequisites that have to be met, namely an ability to absorb new technology, attract capital and participate in global markets; as well as productivity techniques.

Inclusive business can help poorer economies to speed up the convergence by helping the poor people in these countries raise their income level by exploring new markets; introducing new skills and knowledge, promoting new technology; injecting new capital; and the most importantly, empowering their potentials.

Being an inclusive business creates many benefits for the company. First, Enhancing Company’s performance through accessing new market, increasing market share, strengthening supply chain, achieving innovation, and competitive advantage. Second, inclusive business reduces the reputational risk from environmental disaster, suppressed community, high employee turnover and absentee due to poor working condition, and low employee commitment. Third, expanding the labour pool, since there is a large source in the base of the pyramid that are in need to be utilized. With adequate training and well-targeted recruiting and training, the poor can deliver high-quality products and services. Or their local knowledge and connections may place them well to serve other poor consumers in their communities.

For the “Base of the Pyramid Group”, inclusive business will help create jobs and income, by including poor people in value chains as customers, employees, producers and small-business owners. Basic needs such as food, clean water, sanitation, electricity and health-related services will be much

easier to access. The productivity of the poor people will also increase, through access to products and services—from electricity to mobile telephony, from agricultural equipment to credit and insurance.

Although the interest in inclusive business concept and practice is growing bigger, obviously many companies have practiced this inclusive business concept for quite a long. For example, there are some Japanese companies which have done it. Ajinomoto is one of them. Ajinomoto launched the **Ghana Nutrition Improvement Project** in 2009 as part of the Group's centenary celebrations. The project aims to help improve nutrition in developing countries, especially for children; malnutrition in the first two years of life often results in failure to thrive, with little chance of catch-up growth. The traditional, corn-based weaning food in Ghana, *koko*, is deficient in energy, protein, and micronutrients. To set local children on a firmer path towards long-term health, Ajinomoto decided to boost the nutritional value of its baby food through the development, production, and sales of **KOKO Plus** amino acid supplements.

Unique conditions in developing countries often make it difficult for companies to pursue projects alone. So Ajinomoto fostered partnerships with multiple stakeholders to develop a viable social business for its Ghana Nutrition Improvement Project. The company worked with the Ghanaian government and the University of Ghana to satisfy local policies, rules and needs; Dutch company **DSM** helped commercialize KOKO Plus, which was then produced by local partner **Yedent**. On the retailing side, Ajinomoto partnered with international NGOs such as **CARE**, focused on the empowerment of local women. Together, the team developed a remarkable new distribution system, with local women selling products at each village to ensure last-mile delivery.

The project evolved over three stages. The first phase, from 2009 to 2011, included market research, product development, and partnership building. The second phase, from 2011 onwards, involved opening a factory and launching production. Then, from February 2013 through March 2015, Ajinomoto conducted tests with its partners to confirm the nutritional benefits of KOKO Plus in approximately 1,000 subjects in 40 communities. These tests clearly showed that KOKO Plus, with its mix of protein, amino acids and micronutrients, was an effective way to improve nutrition and prevent stunted growth or anemia in small children during weaning.

However, retailing supplements in developing areas is difficult, even for a recognized, effective product. Unlike regular foodstuffs, the sale of nutritional supplements involves educating users about nutrition, convincing them of the benefits, and getting them to experience those benefits for themselves. Ajinomoto conducted one-year pilots to ascertain the most appropriate distribution model. In poor areas of northern Ghana, CARE helped teach people about nutrition and organize community cooking classes, while local saleswomen talked face-to-face with customers; in the commercial districts of southern Ghana, Ajinomoto held promotion campaigns about nutrition and supplements in facilities operated by the Ghana's Ministry of Health, and advertised products on radio and other media. One year on, the rate of regular KOKO Plus use stood at 62 percent in the deprived northern areas and 11 percent in the commercial southern region, proving the need for a continuous marketing approach tailored to economic conditions in each region.

The project is currently in phase three: preparing for full-fledged production and retail. Ajinomoto is looking to extend its retail reach and expand the number of infants using its supplements and the amount used. The company is also hoping to use KOKO Plus channels to promote nutritional products for mothers.

Ajinomoto is indeed not the only one which has applied an inclusive business concept. Many businesses in various industries have applied inclusive business concept. Another Japanese company that applies Inclusive business is MUJI. MUJI is a Japanese retail company which sells a wide variety of household and consumer goods. Muji is distinguished by its design minimalism, emphasis on recycling, avoidance of waste in production and packaging, and no-logo or "no-brand" policy.

MUJI started with 40 products during the 1980s, their products range from stationery, and clothing for men and women, to food items and major kitchen appliances and has even included an automobile. Its primary business includes Café Muji, Meal Muji, Muji Campsite, florist and home furnishing; the company has also engaged in architectural project such as the Muji houses. By the end

of the 2000's, Muji was selling more than 7,000 products. It is positioned as a "reasonably priced" brand, keeping the retail prices of products "lower than usual" by the materials it selects, streamlining its manufacturing processes, and minimising packaging.

MUJI began sourcing wool felt products from small suppliers in Kyrgyzstan and Kenya on a small scale. In doing their inclusive business, MUJI collaborated with JICA in terms of product development, manufacturing technology and training with a commitment to develop the capacity of local artisans and producers, the company has now expanded its market worldwide including China, Taiwan, Hong Kong, Indonesia, Singapore, the United States, Germany and the UK. They have also worked to expand and build local capacity in other areas, including Cambodia. In 2013, MUJI received an Inclusive Business Leader Award at the Inclusive Business Leaders Forum 2013, organized by International Finance Corporation (hereinafter, "IFC", a member of the World Bank).

In Indonesia, many batik Industries, such as Museum Batik Yogyakarta (MBY) has been in existence since 1973, founded by the late Mr Hadi Nugroho and Mrs Dewi Sukaningsih in their private home as a non for profit organization. It houses one of the biggest Batik collections in the country with more than 800 pieces of antique batiks with different styles and origins including Strait Chinese Batik (Batik Peranakan). MBY works with batik artists, who provide new and innovative motives. Most of these artists come from lower income families. By empowering these batik artists, MBY preserves the traditional process of creating batik. This traditional batik process has been inscribed by the UNESCO as one of the World Intangible Cultural Heritage in Humanity since 2 October 2009.

In Unilever Indonesia, as part of the Inclusive Business pillar of Unilever Sustainable Living Plan, the company has set ambitious targets to create a positive impact on the lives of 5.5 million people. By 2020, Unilever will have a positive impact on the lives of 5.5 million people by improving the livelihoods of smallholder farmers, improving the incomes of small-scale retailers and increasing the participation of young entrepreneurs in its value chain. In partnership with others, over 2006-2015 Unilever enabled around 600,000 smallholder farmers and 1.8 million small-scale retailers to access initiatives which aimed to improve their agricultural practices or increase their sales. Unilever has found that helping smallholder farmers improve their practices and giving them access to better-quality seeds, training and fertilisers, means they can double or even triple their yields for the crop that is supported by the program.

What constitutes an inclusive business? In other words, when can we call a business an inclusive one? Here are the prerequisites.

First, the business has to be profitable. Profit is always a fundamental goal of any business, no matter what. By making profit, a business can create value for its shareholders, spur further growth, realize its potentials, and utilize its resources potentially. So, we can say that without any profit, there will be no inclusive business. In order to be profitable, an inclusive business should apply an effective business strategy. Therefore, the business needs to do the market research, design effective supply chain, practise sound human capital policy, and apply right marketing strategy, and so on.

Second is empowerment. An inclusive business must not only contribute to the poverty reduction. Instead, it must also be able to empower the society it serves. "Empower" here does not only mean giving charity and reducing the suffering of the poor. Instead, Empowering means helping poor and vulnerable people improve their well-being, by increasing their income, maximizing their individual potential, and instilling their sense of pride of their contribution to the society.

Third, inclusive businesses have to be cautious when selecting local partners, vendors and distributors that can add value to their business. They should work to identify potential local suppliers and retailers, customers, and representatives in the area they serve; and determine how these additional companies and or individual entrepreneurs can add value to the business line. Do they meet a need or offer entry that is otherwise difficult to find? Can they provide distribution for the product or service?

Fourth, inclusive business should maintain ethical practices. When making business decisions, ethical behaviour must not be ignored. Basically, ethics is moral standards about right and wrong,

good and bad (Susanto & Susanto, 2013). For a company, promoting ethical behaviour means avoiding breaking the law, avoiding actions and activities causing a lawsuit from any stakeholders, and avoiding actions and activities that could tarnish the company's image. Ignoring ethical behaviour will bring negative consequences. Employees' morale will deteriorate since they have to carry the psychological burden of working for a company that has a bad reputation. Employees can also feel uncomfortable and experience mental fatigue since they have to answer questions and complaints. The company must also spend a huge amount of money to regain its reputation, which surely reduces efficiency. The public might no longer trust a company exhibiting unethical behaviour. History has shown that ignoring ethical behaviour destroys a company much faster than when it develops and implements a wrong strategy but still adheres to ethical behaviour.

Fifth, minimizing, or even eliminating, environmental impact. An inclusive business model does not have major negative environmental impacts and, at best, contributes directly to environmental sustainability (e.g. by saving resources, reducing carbon emissions, conserving biodiversity, etc.).

Sixth, engaging in policy dialogue with governments. Engaging in policy dialogue is an important part of doing business with the poor, where companies are typically first movers and much of the environment for doing business has yet to be built. Policymaking is complex and continual, and businesses can provide good information about the problems and their possible solutions. Sometimes the individual efforts of entrepreneurs and companies to engage with governments can have large implications, such as changing market structures or even opening new markets.

In addition, government support is needed if the inclusive business wants to succeed. In Japan, The Japan Ministry of Economy, Trade, and Industry (METI) established the Japan Inclusive Business Support Center in October of 2010 in order to provide comprehensive support for inclusive business. The center conducts the activities needed to achieve the following goals for its users, who include corporations, NGOs/NPOs, international organizations, aid agencies, and academic institutions. Japan Inclusive Business Support Center was launched with the aim to help promote inclusive business activities among Japanese companies and other groups. The design, establishment, and operation of the project are carried out through a steering committee, which consist of the key intellectual figures, the practical business leaders, the government officials, and the others.

Key Success Factors for an Inclusive Business

To be able to serve the poor and do the business successfully, an inclusive business needs factors that actively contribute to its accomplishment. These factors are: First, **adapt** its products and/or processes. An inclusive business can use technology such as mobile banking and smart cards that are user-friendly both for the business and for the community. Second, **leverage** the poor's potentials. An inclusive business can use the poor as the intermediaries without exploiting them indeed. By doing so, the business helps the poor enhance their skills, knowledge, and self-esteem. For the business itself, it can gain greater access to the market it serves. Third, **invest** in remove market barriers. For example, inclusive business can invest in educating the poor about the benefit of the product in the long term. It can also train the community to engage in the business activities. Fourth, **combine** resources and capabilities with others. An inclusive business often succeeds by engaging other businesses in mutually beneficial partnerships and collaborations. Through partnership and collaborations, an inclusive business can gain access to complementary capabilities and pool resources to work around or remove constraints in the market environment. Fifth, engage in policy dialogue with governments. Engaging in policy dialogue is an important part of doing business with the poor, where companies are typically first movers and much of the environment for doing business has yet to be built. Policymaking is complex and continual, and businesses can provide good information about the problems and their possible solutions. Sometimes the individual efforts of entrepreneurs and companies to engage with governments can have large implications, such as changing market structures or even opening new markets.

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Inclusive Business and Strategic Thinking

In developing an inclusive business, people need a strategic thinking. Strategic thinking is a process that defines the manner in which people think about, assess, view, and create the future for themselves and others. Strategic thinking requires more than the ability to respond to any long term issues, opportunities, and current reality. In fact, someone with a strategic thinking will create the future itself. Why is strategic thinking needed? Because inclusive business requires company executives to not only think about themselves and the company, but also think about people and society as a whole. Any decision they make will have a high value and high impact for the company as well as for the society.

What makes a great strategic thinker? First, he/she has to be sensitive. He/she needs to have a comprehensive point of view when dealing with any issues. He/she has to be able to detect internal and external environment, is eager to explore, have a big curiosity, be vigilant, and open to any new ideas. In the context of inclusive business, he has to realize that the fate of the business will largely rely on its relationship with the surrounding society and environment.

Second is care. He/she must have a strong commitment to make his/her company, as well as the society as a whole, a better place. He/is ready to put the interest of the business and the society above his/her personal one. An inclusive business needs strong commitment since entering a market for poor communities can also very challenging. Inclusive business often knows too little about poor people, their preferences, what they can afford and what products and skills they have to offer. In addition, many markets lack regulatory frameworks that allow business to work. Rules are not enforced and access to a functioning legal system is often lacking. Transportation is constrained by the lack of roads and supporting infrastructure. Water, electricity, sanitation and telecommunications networks are lacking. These phenomena make the business more difficult in creating the strategy to tap the market opportunity. Without a strong commitment, an inclusive business might easily quit.

Third is creative. He/she has to be ready to open to new ideas and is willing to create any breakthrough. If necessary, he/she generates idea that others never think about. The idea should be viable and beneficial indeed. An inclusive business must find a creative way to help poor people become empowered. This because poor consumers may not know the uses and benefits of particular products, or may lack the skills to use them. Suppliers, and retailers may lack the knowledge and skills to participate in supply chains. In this case, an inclusive business must find any creative way to educate them.

Fourth is awareness regarding budget, time and the outcome. A strategic thinker realizes there are limited time and budget. Therefore, he/she has to utilize them in an effective and efficient manner. In addition, he/she have to deliver a satisfactory outcome. An inclusive business has to decide the amount of budget and time allocated to empower poor and vulnerable people suitable with its business characteristics. The decision regarding budget and time could be more challenging since Inclusive business investments may have lower expected rates of return because the cost of doing business in base-of-the-pyramid markets is high, anticipated margins are low and an extended time frame is needed to break even.

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