Institutional Interconnections and Cross-Boundary Cooperation in Inclusive Business

Case Studies from India and Africa

Edited by

Yoshitaka Okada • Sumire Stanislawski

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Preface

Sustainable development of the world is facing increasing difficulties and challenges in solving global social issues. Active participation, cooperation, and creativity of people are indispensable to finding solutions to these issues. Difficulties in alleviating poverty and inequality while maintaining business sustainability through inclusive business (IB) are especially felt over the issues of creatively developing partnerships among companies, other organizations, and the poor. Given the complexity and seriousness of poverty, this research project has taken a challenging approach to search for solutions to these issues by empirically asking: what are successful and failing cases and why are they so? The research framework took a comprehensive approach by relying heavily on empirical findings and by avoiding restrictions inherent to generally conceived notions of IB. This project invited academics with diverse specializations (business, anthropology, sociology, and development) to investigate IB from different perspectives, and selected IB cases conducted by companies and organizations from diverse national origins (the EU, North America, and Japan) including the local (India and Ghana). Sincere appreciation is given to the three core researchers and four partners for participating in this challenging project and struggling together to find solutions to various difficult issues.

Although this book covers seven IB cases, our survey covered 24 projects in total. We are grateful to not only the managers of those seven companies and organizations reported in this book but also those others whose projects are not reported here. We were especially moved by the sincere willingness of some managers to provide valuable information despite the unfavorable outcomes they were facing in their projects. Such information enriched our analyses of the seven cases in this book.

Another important challenge of this project was to interview active participants from the poverty sector so that we could really understand what each IB project meant to them. We also interviewed local partners, who provided different perspectives for us. We would like to express our appreciation to the 29 active participants and 27 local partners involved in the 24 projects, who kindly accepted our interviews. Further analyses of these data will be forthcoming.

This undertaking turned out to be the first research project developed in the newly established Institute for International Strategy (IIS) at Tokyo International University (TIU), greatly owing to timely funding provided by the Japan Society for the Promotion of Science (JSPS), the Government of Japan, as Kaken Grant

Number 16H05707. The administrative support of TIU for this Kaken project is also appreciated.

In the process of developing contacts to companies, Mr. Tetsuo Kondo, Director, United Nations Development Programme (UNDP) Representation Office in Tokyo, kindly facilitated contacts to some companies via UNDP Istanbul International Center for Private Sector in Development (IICPSD). Also, as a process of putting chapters together for this book, we organized an international conference in Tokyo. Mr. Hiroshi Sato of the Institute of Developing Economies (IDE-JETRO) kindly arranged to have his organization partner with us to host this joint international conference. We are also grateful to the two anonymous reviewers of our book draft, whose comments helped us improve the content, while Mr. Niall Kennedy, the Commissioning Editor, and other members of Emerald Publishing guided us through the time-consuming process for publishing this book. Needless to say, no one mentioned above bears any responsibility for the content of each chapter other than its author(s).

Yoshitaka Okada would like to express special appreciation to his wife, Hideko, who provided caring support, knowing fully well of the tortuous process of writing and organizing a book. And in this difficult period, interventions of his grandchildren, Honoka, Gaku, and Sawa, asking to play were highly appreciated for creating breathing moments that refreshed his mind for clear thinking.

Sumire Stanislawski would like to express her appreciation to her husband, Justin, for all his work and support throughout the project. She would also like to thank her mother, Junko, for her love and encouragement.

Yoshitaka Okada and Sumire Stanislawski
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Chapter 1

Introduction*

Yoshitaka Okada and Sumire Stanislawski

Abstract

Inclusive business (IB) is becoming increasingly important as a means to alleviate poverty and inequality in the world, one of the most significant goals set forth by the Sustainable Development Goals (SDGs). Many companies have been engaging in IB projects. Even so, why are only a limited number of projects reported to be successful? IB involves complex situations, since it tries to achieve contradictory goals of solving social issues and generating a decent level of profit for sustainability. This often requires partnering with social-issue-oriented organizations by developing cross-boundary cooperation, as well as the need to associate with local partners and the poor in developing countries, who have different institutional backgrounds from multinational corporation (MNC) managers in developed countries. IB clearly involves people with diverse institutional backgrounds to develop cooperative relations. The biggest cause of IB failures seems to be MNCs' difficulties in overcoming institutional differences vis-à-vis local partners and the poor, and interconnecting different institutions among diverse partners in an IB project. By conducting case studies of seven relatively successful IB projects in India, Ghana, and Tanzania, this book explores answers as to how companies overcome institutional differences, interconnect diverse institutions, develop cross-boundary cooperation, and successfully fuse business and social goals, namely, how they develop institutional interconnections. This chapter also briefly introduces the book's structure and presented cases.

Keywords: Sustainable development goals (SDGs); inclusive business (IB); social contribution; institutional differences; institutional voids; institutional interconnections; cross-boundary cooperation; business sustainability; scale; case study analysis

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Alleviating poverty and inequality are considered important target areas to achieve the United Nations' sustainable development goals (SDGs). Businesses, which have been key engines for advancing global integration of markets, have embraced inclusive business (IB) as a means to contribute to the SDGs. IB is a type of business that contributes to solving social issues related to poverty while maintaining profit, as profit is indispensable for sustaining business activities. Some multinational corporations (MNCs) have been playing leading roles in IB.

Given global movements toward achieving the SDGs, more companies now recognize that fulfilling implicit social contracts to minimize negative social impacts and maximize social gains is increasingly important (Lantos, 2001). In the past, such views led companies to engage in CSR activities, but these were often discontinued due to insufficient funds or shifts in targeted activities. Yet, IB has attracted the attention of many actors because it allows for profit-making. This enables projects to be self-sustaining, thus continuously contributing to solving social issues.

This new movement has developed an unprecedented era of addressing social issues through business activities. Previously uncrossed boundaries have fused to create openings for new business activities with new value orientations and management practices. The result is a new field fusing development and business activity with special focus on helping solve social issues in developing countries. Poverty caused by low income is an acute issue in developing countries, resulting in low-quality education and healthcare, malnourishment, and poor mental health (Patel & Kleinman, 2003; Sachs, 2004). This book focuses on the newly arising field of IB related to poverty in developing countries.

Although the potential and importance of IB is recognized by international organizations, management and development scholars, and some leading MNCs, the number of successful cases is unfortunately not particularly high. Rather, serious problems of failure and withdrawal are frequently reported, and general interest toward IB seems to be waning (Simanis & Duke, 2014). This is largely due to difficulties in finding appropriate ways of undertaking IB—especially in relation to failures to generate scale for sustainability. Despite the potential for enormous benefits to both the poor and to companies, why are IB projects not developing as projected earlier (Hammond et al., 2007)?

IB involves three complex situations. First is the project goal. IB aims to combine the two goals of contributing to solving social issues and generating a decent level of profit to sustain business activities. These two goals may create contradictions and conflicts in management. Second is the need to have access to village communities. For this, IB often establishes partnerships with social-issue-oriented organizations (e.g., NGOs), requiring cross-boundary cooperation. Third is the need for such cross-boundary cooperation to focus on partners' institutional backgrounds, especially as the poor have different sets of institutions from those in developed countries. Institutions are defined as "rules, enforcement characteristics of rules, and norms of behavior that structure repeated human interaction" (North, 1989, p. 1321). The poor in developing countries often differ in their ways of thinking, systems of values, and behavioral orientations from managers of MNCs from developed countries. IB is clearly a situation where people with diverse institutional backgrounds have to work cooperatively to achieve shared goals.

The most important, as well as the most difficult, issue in IB is overcoming institutional differences. Unless IB managers succeed in overcoming them, it is extremely difficult to generate cross-boundary cooperation to fuse the two goals of social contribution and profit-making. As such, IB requires companies to cultivate new ways of thinking and management. How do companies overcome such institutional differences, develop cross-boundary cooperation, and successfully fuse business and social goals?

Focusing on institutional differences, some scholars argue that MNCs' institutional exclusivity of the poor in business activities (institutional exclusion) is one of the causes of poverty in developing countries (McMullen, 2011). This is also explained as the poor either not having proper institutions to participate in market activities (institutional void), or as having a different set of institutions (institutional discrepancy) (Webb et al., 2010). Such institutional concepts have strongly influenced the propagation of IB, especially in relation to MNCs, which have been designated as a key actor for achieving sustainable development. MNCs are expected to play the role of institutional entrepreneurs to change the institutions of the poor.

However, these concepts seem to lack an important sense of fairness and equality, since primary importance is placed on the institutions of developed countries—namely the "rules of games" as exercised in developed countries. Thus, IB is one-sidedly perceived as a means to provide business opportunities to the poor and include them in formal mechanisms based on developed countries' perspectives and institutions, which are mainly dominated by MNCs. However, an institutional void does not necessarily justify interventions to force the poor to accept behaviors and operations of institutions followed in developed countries. In fact, such institutional orientations may lead to failure instead.

To solve issues related to poverty in developing countries, it is important to not only nurture people's capabilities but also stimulate self-initiated activities in the local context. Unless self-initiated activities are well developed, sustainable development of local economies will prove difficult and will hinder poverty alleviation in developing countries. Undeniably, foreign investors and MNCs may be able to provide opportunities to build capabilities and introduce ways of conducting business, but they cannot fulfill such goals unless they succeed in operating IB projects satisfactorily. A failure at this fundamental level is likely to mean they cannot help the poor to engage in their own self-initiatives.

This leads to the question, "When are the poor likely to engage in self-initiative?" According to North (1993), institutions need to have "the credible commitment of people" to function properly. It is indispensable to have credible commitment to an IB project's newly established institutions (namely shared values, goals, and behaviors) for an IB project to solicit the poor's participation in business activities. Thus, a neutral position of accepting institutions of both developed countries and those of the poor in developing nations is important from an institutional perspective. Also, IB needs to achieve a balance between providing opportunities for the poor to participate in formal economic activities based on developed country institutions, and helping the poor to nurture their capability for self-initiated economic activities.

Such business can also be called bottom/base of the pyramid (BOP) (Prahalad, 2005; Prahalad & Hart, 2002) or social business (Yunus, 2007, 2010). The former emphasizes that successful business targeting those at the base of the income pyramid can generate both benefits for the poor and profit for companies. Business activities at the BOP are assumed to contribute to solving social issues. In social business, generated surplus is required to be used for recovering investments and making future investments in business activities—not for dividend payment. In contrast, IB engages in profit-making for sustaining business activities while helping to solve social issues related to poverty. The goals of poverty alleviation and generating profits for business sustainability must be achieved simultaneously. Despite such definitional differences, the reality of operations is far more ambiguous in demarcation.

The authors believe that IB success or failure depends on the relative ability or inability to create interconnections among diverse actors with different sets of institutions. Such interconnections are called institutional interconnections, defined as the ways an organization engages in diverse practices or activities to develop linkages and connections to different actors who have fairly different institutional backgrounds in order to realize targeted goals. In IB, the goal is to develop sustainable businesses for poverty alleviation. From such a perspective, differences among IB, BOP, and social business are considered simply as different approaches to generating institutional interconnections. Hence, the concept of IB includes BOP and social business. However, one significant new addition to this approach is an understanding that the poor have their own institutions to which they credibly commit (North, 1993), and that they are important, valuable, and dignified stakeholders or partners in an IB project. Thus, a basic question asked in this research project is how institutional interconnections can be developed to help alleviate poverty through business activities in developing countries.

Conceptual orientations of what inclusion means can act to restrict the value orientation of an IB project and its management practices. By giving more weight to institutions of the poor, it is also possible to understand that some local companies may actually engage in IB by involving the poor as part of their regular business activities. Such businesses may struggle less to overcome institutional differences. In the past, such local companies were not necessarily considered as companies engaging in IB.

Similarly, some MNCs engage in business activities involving the poor in developing countries with less intention of contributing to solving social issues—even though they actually have enormous impact. Although they remain in the realm of their own institutional orientation, they connect so well to the local setting that they actually develop effective institutional interconnections. Inclusion of such cases in this research contributes to the understanding of diversity in generating institutional interconnections. Such a perspective has never been argued and confirmed by analyzing IB projects.

This book is based on a research project carried out from 2016 to 2019 by an international team of seven professors from Japan, the United States, Ghana, and India. Three core members belonging to the same research institute at a Japanese university secured funding for this research from the Japan Society for the Promotion of Science (JSPS) under the Government of Japan.

Based on the backgrounds of the research members, India and African nations were targeted as the host countries of IB projects. North American, EU, and Japanese MNCs—along with local companies—were selected as the home countries of companies undertaking IB projects. After developing a list of potential companies engaged in IB projects, three groups of industries were selected: (1) food/agriculture; (2) drinking water/solar energy; and (3) health products & services/healthcare.

Overall, there were four home countries (North America, EU, Japan, and local), three industries (food/agriculture, drinking water/solar energy, and health products & services/healthcare), and two host locations (India and African nations). From these categories, 24 IB projects were selected. Chapter 2 expands on the details of case selection and research methods.

This book focuses on case study analysis of relatively successful IB projects to provide insights into IB. Out of the 24 companies interviewed, seven IB projects in India, Ghana, and Tanzania were selected. Through these cases, this book explores the nature and characteristics of institutional interconnections.

This book consists of five sections:

(1) *Introduction and Analytical Framework* (Chapters 1–2)
(2) *Internalized and Externalized Inclusive Business Models* in which IB projects succeeded by either fully making use of multinational's internalization advantages found in mainstream institutions, or by fully delegating operations through externalizing know-how to locals (Chapters 3–4)
(3) *Struggles to Attain Scale through Institutional Interconnections* in which a hybrid NGO and social enterprise engages creatively and exploratorily in developing social enterprises (Chapter 5)
(4) *Cross-Boundary Cooperation at Work* in which diverse formulations of cross-boundary cooperation resulted in success (Chapters 6–8)
(5) *Discussion and Conclusion* (Chapter 9)

Chapter details are as follows:

- Chapter 1: Introduction
- Chapter 2: Institutional Interconnections and Cross-Boundary Cooperation in Inclusive Business: Analytical Framework
- Chapter 3 (Case 1): Novartis AG, an EU MNC in the pharmaceutical business in India (health products and services)

- Chapter 4 (Case 2): Nippon Poly-Glu Co. Ltd., a Japanese small- and medium-sized enterprise in the water purification business in Tanzania (drinking water)
- Chapter 5 (Case 3): United for Hope, an EU-based hybrid NGO and social enterprise in India (solar energy)
- Chapter 6 (Case 4): Aravind Eyecare System, a local hospital-based trust specializing in cataract treatment in India (healthcare)
- Chapter 7 (Case 5): Waterlife India Pvt. Ltd., a local corporation in India (drinking water)
- Chapter 8 (Cases 6–7): Ghana Nuts Company Ltd. and Homefoods Processing & Cannery Ltd., both local companies in Ghana (food)
- Chapter 9: Discussion and Conclusion

Below are brief descriptions of each case presented in this book:

Chapter 3 covers the Arogya Parivar Program, conducted by Novartis as a social business in India. It succeeded in reaching a balance between revenue and cost within 30 months by successfully building up scale. Novartis completely separated the activities of its social and business units. The former engaged in raising villagers' health awareness and encouraged visits to free health camps offered by Novartis, while the latter developed affordable medicine delivered through direct distribution channels to village pharmacies. Connections between these units were made through open and fluid market-type mechanisms, and by appealing to the needs and interests of villagers with incentives. Hence, its IB project is called the synchronized business model. This model was developed partly because Novartis trusted villagers' self-initiated behavior, and more significantly because it used its internalized control and coordination systems with clear goals of social contribution in operating the business unit. Consequently, Novartis achieved economies of scale, sustainability, and social impact.

Chapter 4 presents Nippon Poly-Glu Co. Ltd. (NPG), which successfully launched their drinking water business in poor rural villages in Tanzania in cooperation with a local NGO and village governments. The build-up of this project was based on parent company operations with strict business principles, while operations and future planning were left in the hands of local village water committees. Institutional linkages were created in a sequential manner, except at the initial stage of building the project, by selling water purifiers from Japan. NPG developed a delegated and grass-roots-based approach in cooperation with a trustworthy local NGO. This type of operation based on sequential division of labor is often argued to lead to exploitation by the company (Barringer & Harrison, 2000; London et al., 2006). However, NPG's encouragement of villagers' self-initiated activities (by delegating operations and future planning to locals) and its choice to keep the price of their water purifier as low as possible (by creating economies of scale globally) generated villagers' trust of NPG and little sense of exploitation. This case shows one example of institutional interconnections that deviated from mainstream institution-based operations and stimulated villagers' self-initiated business behavior, consequently contributing to rural development.

Chapter 5 covers the case of United for Hope (UfH), a hybrid NGO and social enterprise that aims to build a prototype for an economically sustainable and progressive "smart village" by creating various social enterprises. While they have served their local community well in helping to solve social issues and create some local employment, they have struggled to achieve scale in their social enterprise activities and ensure sustainability of such contributions. This case analyzes how UfH developed various IB projects and how it changed strategies in its drive to create economically sustainable business models. In its initial start-up stage (which was just ending at the time of interviews), it adapted its strategies multiple times in response to market realities—particularly related to government interference in markets. This case shows that multiple offerings may be one way to spread the higher risk often encountered in IB. It seems UfH has struggled to navigate institutional interconnections as they search for ways to generate scale. To stabilize its operations, UfH may need to further develop diverse institutional interconnections, though the choice between external partners and internal capacity building, along with the need for expectation management of employees and funders, must be properly managed.

Chapter 6 focuses on Aravind Eyecare System's renowned and successful eyecare service delivery in southern India. Using ethnographic narratives, the author pays detailed attention to the processes of achieving cross-boundary cooperation. While healthcare for the poor in India was traditionally a domain of public services, Aravind has uniquely nurtured rich cooperation with various stakeholders in order to make their services inclusive and affordable, of high quality and volume, as well as viable. This chapter focuses on the process of partner selection, achievement of network goals, and cooperative learning, along with how these factors influence inclusivity and affordability in eyecare. It also attempts to understand how values like empathy and compassion, which are integral to healthcare services, get transmitted outside the boundaries of the participating organizations and become embedded in the extended network. The chapter is divided into two narratives. The first describes how Aravind attempted to scale up compassion by partnering with local organizations in Tamil Nadu, the state where it primarily operates. The second describes the process of blurring organizational boundaries, where Aravind extends its services to other hospitals in India and elsewhere. Unlike typical corporations, Aravind has learned the importance of giving away its knowledge to other hospitals, characterizing its uniqueness and strength in building institutional interconnections.

Chapter 7 presents another case of cross-boundary cooperation featuring Waterlife India Pvt. Ltd. (WLIP), a drinking water company based in south India. WLIP successfully sells drinking water in rural and urban slums at a very affordable price. Over the last 13 years of operations, WLIP has evolved to become the largest Indian water company, revenue-wise. Its success in helping solve India's drinking water crisis is based on its ability to create a sustainable business model based on public–private partnerships. These partnerships involve three parties: a corporate sponsor who bears the cost of expensive water filtration equipment; local community bodies which yield a sense of legitimacy to operations; and WLIP as the operating orchestrator of the network. The WLIP business model is quite unique for the following three reasons: (1) introducing suitable incentive mechanisms to align interests of various stakeholders; (2) optimizing plant equipment suitable to community demand and local conditions; and (3) achieving a delicate balance between standardization and customization to operating contexts. The alignment of partner interests is elaborated as the principal differentiator of the WLIP case.

Chapter 8 focuses on two local agro-processing companies in Ghana: Ghana Nuts Company Ltd., and Homefoods Processing & Cannery Ltd. These companies have been conducting regular business activities in the local context, and work closely with poor rural farmers. While basically focusing on their own products and services, they have stimulated the local economy by creating farming opportunities and employment to provide stable incomes to villagers. They also contribute to the community through CSR activities. By itself, regular business activities with a CSR orientation are not sufficient to be recognized as IB. In addition to CSR, these companies constantly expanded output of goods and services, developed new products, and searched for new markets—benefiting poor rural farmers incorporated into their supply chains. Because of these companies' creative and innovative endeavors and CSR contributions, the rural poor embraced the prospect of improving their lives, felt a sense of dignity, and committed to their relations with these companies. Hence, regular local businesses must creatively and innovatively meet villagers' expectations for future economic prospects to be appreciated by the rural poor. Additionally, it is indispensable for companies to have a social philosophy to contribute to society. In short, local companies need to have a good balance of social contribution and future business prospects, not just static business sustenance. This chapter features the various characteristics local companies must have to be recognized as IB.

The concluding chapter compares and analyzes these seven cases from the perspective of institutional interconnections. This chapter endeavors to identify not only the existence of diverse types of IB that mix economic and social effects in different ways but also the existence of various conditions that match such diversity. This chapter aims to identify differing ways of generating complex mixtures of social contribution and profit making for business sustainability in IB, which can be orchestrated by properly developing institutional interconnections that suit both local and international contexts.