

Sustainable Development, Frontier of Business, and Its Application to Tohoku-disaster Reconstruction

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I. Introduction

- Since the 1980s, emerging new values, such as globalization and sustainable development, resulted in changing the world and creating complex institutions and socio-economic structures.
- In the 1990s, globalization based on market principles aggravated socio-economic problems, especially poverty issues, threatening the sustainability of the world.
- As ways of correcting the negative effects, strong movements, such as “poverty-reducing business activities” called base of the pyramid (BOP) and “corporate social responsibility (CSR)” became conspicuous.

I. Introduction

- These movements were to correct socio-economic problems without reversing the movements of globalization or even making use of market principles, and resulted in changing the roles of companies, governments, and civil society and creating new institutions with very ambiguous boundaries.
- Consequence is the creation of unprecedented fields of business activities, possibly suggesting an arrival of new business world.

I. Introduction

- Especially BOP is considered as an important means for solving the problems of poverty by mobilizing the knowledge possessed by the poor through market mechanisms.
- BOP is considered as inclusive business by including the poor as important market actors, instead of excluding them from the market.
- Also, with the recent slowdown of developed countries' economies, people in the BOP market are considered as the future potential customers when economic development takes place in developing countries (estimated to be \$5 trillion market for those who earn less than \$3,000 per year).

I. Introduction

- Why do BOP activities become dynamic in the world?
- I shall first briefly present the underlying logic of BOP by making use of institutional economics, and explain new values, new institutions, and BOP business models.
- It is simply because this interpretation is the very source where I tried to develop reconstruction projects in the disaster-stricken Tohoku area.

I. Introduction

Annual Income based on the Purchasing Power Parity (US\$) and Estimated Population

Annual Income (PPP US\$)	Estimated Population
\$20,000 <	0.075-0.1 billion people (Market for MNCs)
\$1,500 – \$20,000	1.5 -1.75 billion people
< \$1,500	4 billion (Unexplored Market)

(from Prahalad and Hart, 2002)

II. Theoretical Framework

A. Institutional Transformation and BOP Businesses

- Why can building institutions for sustainable development and mobilizing the knowledge of the poor through market mechanisms generate a viable BOP business?
- Institutions are “the rules of games and the enforcement characteristics of rules of games in repeated human behavior (North).”

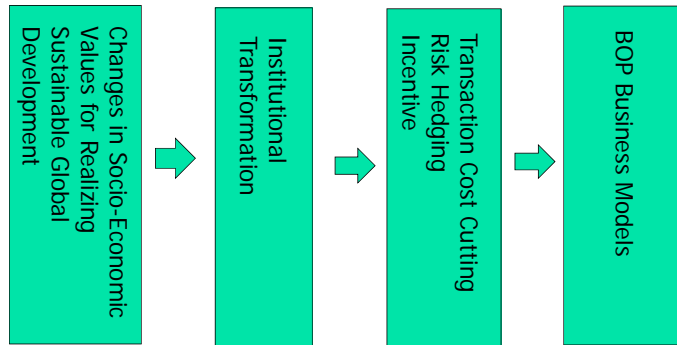
II. Theoretical Framework

A. Institutional Transformation and BOP Businesses

- New values (rules of games) change repeated human behavior and transform institutions.
- When organizational choices (business models) match institutional and other conditions, organizations can reduce risks and transaction costs and generate rational conditions for business activities (Williamson).

II. Theoretical Framework

A. Institutional Transformation and BOP Businesses



II. Theoretical Framework

B. Changes in Socio-Economic Values

- A. Complementary collaboration for sustainable development
- B. From market partiality to the inclusion of social fairness
- C. From system exclusion to the inclusion of excluded people
- D. Human rights: From the responsibilities of governments to the obligations of individuals and corporations
- E. Social Responsibilities: From environments to social and human rights problems
- F. Relative corporate ethics to universal standards
- G. Solutions to development problems: From aid to value creation by corporations

II. Theoretical Framework

C. Risk/Uncertainty vs. Business Opportunities



Figure 5: Technological Advancements, Institutional Transformation, Transaction Cost Reduction and Business Model

III. Factors Enabling BOP Business Models

A. Multi-stakeholder and Cross-boundary Collaboration Approaches

- Multi-stakeholder Approach (Considering the interests of stockowners, employees, suppliers, consumers, microfinances, NGOs, aid agencies, etc.)
- Cross-boundary Collaboration (Risk sharing and hedging and transaction cost cutting by collaboration with microfinances, NGOs, aid agencies, etc.
 - a. understanding needs of each stakeholder and developing an win-win business model
 - b. mutually sharing values despite interest and position differences
 - c. right evaluation of capabilities derived from position differences
 - d. mutual recognition of differences in risks
 - e. mutual sharing of know-how and reduced cost and risks
 - f. complementary partnerships for achieving goals (joint product development, market research, etc.)

III. Factors Enabling BOP Business Models

B. Governance Approach for Business Development

- For soliciting the participation of the poor and building trustful relations with them, a governance approach is important to realize transparency, accountability, equality, and fairness.
 - a. For its effective implementation, it is important to understand the behavioral principles of the poor, requiring an action-oriented approach.
 - b. Understanding their perceived risks and uncertainty is important, especially not to exploit information asymmetry, but rather to disclose information to the poor
 - c. Providing incentives as a support for the poor to overcome restrictive factors is important.
 - d. Incentives for changing organizational structures and relations are often an important initial attempt (Stiglitz).

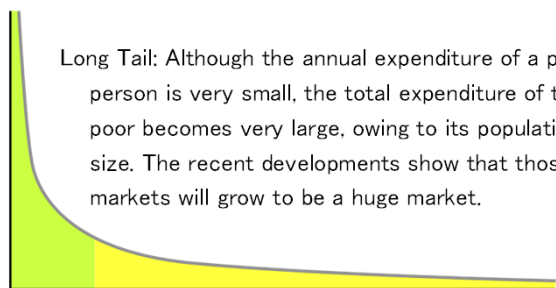
III. Factors Enabling BOP Business Models

C. Focusing on Knowledge of the Poor as BOP2.0 (Hart)

- Merging participatory development and grassroots innovations (business-building business)
- Long-term business-nurturing model, based on local needs exploration, local resource application, and local management authority delegation
- A long-term development support model to ventures by the poor
- Instead of wealth redistribution through aid, value-added activities by the BOP are considered as an important development mechanism.

III. Factors Enabling BOP Business Models

D. New Markets Making Use of Long Tail



Source: <http://ja.wikipedia.org/wiki/%E3%83%AD%E3%83%B3%E3%82%B0%E3%83%86%E3%83%BC%E3%83%AB>

III. Factors Enabling BOP Business Models

E. Contributions of Common Business Sense

1. Providing a higher payment by realizing efficiency
2. Application of franchise model to the poor
3. Solving problems and reducing production costs
4. Cost cutting and cross-subsidization to support the poor
5. Providing services to the poor with price discrimination
6. Developing a rational collection system of small amount production by establishing a cooperative
7. Transferring technology and design capability to craftsmen and soliciting their commitment by allowing partial ownership

IV. BOP Cases

A. Risk Hedging and Transaction Cost Reduction (Hindustan Unilever (HUL), Shakti Program (SP))

- SP of HUL is to empower village ladies, as Shakti means empowerment, by training Empowered Mothers' (EM) with NGOs, having them sell HUL single-serve products, increasing income, uplifting the standard of living, propagating the concept of public health to the poor, and creating the market for the poor with very low cost.
- SP started due to losing competition to a local firm (Nirma).
- By the end of the 2000s and in 50,000 villages, SP created 12,000 lady entrepreneurs and collaborated with 300 NGOs.
- In SP in the early 2000s, with a very small investment, HUL earned \$2.6 millions and provided an EM income of about \$60-150 per month.

IV. BOP Cases

A. Risk Hedging and Transaction Cost Reduction (Hindustan Unilever (HUL), Shakti Program (SP))

- SP started in 1999 by having three employees living in a remote village for about a year to investigate strategies.
- Self-help groups (SHGs), consisted of 10-15 people, following the Grameen Bank Model, was the key for SP's success.
- Members save money, and once the saved amount reaches to a certain level, a microfinance of the AP Government (APG) lends money to one or two people.
- HUL trains only selected lady entrepreneurs for three months, recommended by the APG, who borrow money from the APG's microfinance and purchase HUL products inexpensively.
- EMs sell products, generating about Rp.700 monthly income, out of which Rp. 200 is to pay for the loan.
- Business Coaches visit villages to provide advises.

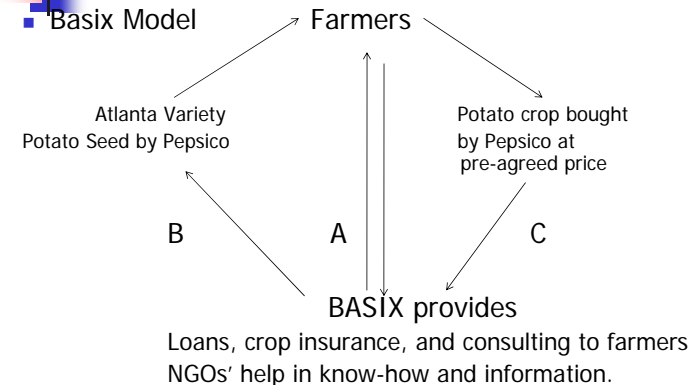
IV. BOP Cases

B. Governance Approach for Business Development (E-Chopal)

- Problems of Mandi monopoly in the crop market
- One Sanchalak established in 5 km radius, covering about 10 villages and 600 farmers with a computer and internet capability to obtain market information
- A person in charge of Sanchalak is paid by E-chopal, but swears to work for the benefit of villagers, declaring good governance and trust as the principle.
- E-Chopal offers accurate measurement, storage facility, quality testing, efficiency, shorter process time, quick payment, and opportunities for farmers to participate in the market pricing.
- E-Chopal by eliminating intermediary exploitation and implementing efficient operations succeeded to pay in an average 2.5%(US\$6/t) higher amount than before.

IV. BOP Cases

C. Grassroots Innovation: Business Constructing Network like Japanese General Trading Company in Meiji Era



IV. BOP Cases

C. Grassroots Innovation: Business Constructing Network like Japanese General Trading Company in Meiji Era

- Risk Hedging Support to Farmers by BASIX
 - a. Risk hedging for farmers with crop insurance (income for BASIX by selling the insurance)
 - b. Covering any business risk by BASIX (investment, purchases, negotiation, contract, training, R&D, etc.)
 - c. Income for BASIX (interest for loans, price difference between purchasing and selling, etc.)
 - d. Low cost technology licensing and consulting by its NGO

Bridge for Tohoku-disaster Reconstruction

DSIA/CSR Watch Joint Project

I. Implementing Organizations

1. Ippan Shadan Hojin DSIA (Durable Social Innovation Asia)

- DSIA was established in 2009 to promote social transformation by promoting sustainable social innovations in Asia in cooperation with diverse Asian organizations.
- DSIA develops networks with social entrepreneurs, provide know-how of operating social businesses, obtain funds for achieving its goal, and operate the fund.
- Yoshitaka Okada is a board member in charge of "Bridge for Tohoku Reconstruction."
- Okada obtained operational funds from the American Chamber of Commerce and a U.S. NGO GlobalGiving.

I. Implementing Organizations

2. CSR Watch

- "CSRWatch" is Okada's study group at Sophia University, organized by those who belong to companies, NGOs and international organizations, interested in studying about corporate social responsibilities (CSR) in developing countries and BOP business activities.
- Most of them participated in the "Business and Development Seminar" conducted every year by Yoshitaka Okada, organized by the Foundation for Advanced Studies in International Development (FASID), funded by the Ministry of Foreign Affairs, since 1997.
- CSR Watch has a network reaching to about 600 people in 2011, involved in the FASID Seminar and the CSR Watch.



II. Project's Basic Mechanism

- a. To link expressed needs by disaster-stricken local people and resources found in non-disaster area.
- b. CSR Watch searches for supporters of diverse projects through the CSR Watch network as well as information networks offered by the UN Global Compact Japan Network and the Caux Round Table Japan Committee.
- c. These networks did not function well.
- d. Then, Okada made use of direct personal contacts in both identifying local needs and resource providers.



II. Project's Basic Mechanism

- Organizations so far collaborated with Okada for providing resources;
 - a. Japan:
British Chamber of Commerce in Japan, American Chamber of Commerce in Japan, Kanagawa Prefecture Tono Volunteer Center, Sophia University, Refugee International Japan, Niiza Childcare Network, Biomass Forest Network Japan,
 - b. Outside of Japan:
US NGOs (GlobalGiving, Give2Asia), Japan Disaster Relief Fund Boston (JDRFB, mediated by the Japan Society of Boston)
 - c. Resources provided: funding, expert support, proposal writing, network creation



III. Principles of Operations

- To create mechanisms of providing missing links to generate supports to those who are without necessary resources (inclusion of resourceless people into the mechanism of resource allocation)
- Complementary Approach to Local Organizations
 - a. Local needs-based approach (participatory process)
Do needs expressed really come from local people?
No project never moves forward without visiting a local place, interviewing people, and confirming their needs.
 - b. Local operator approach
Does the project have local operators who have extra resources to take care of those who are in needs, since DSIA can operate only from Tokyo?
- Sustainability Approach
Necessary for generating sustainability or possible to generate sustainable evolution for the future



III. Principles of Operations

- Multi-stakeholder and Cross-boundary Collaboration Approaches
 - a. Flexibly choosing diverse local operators, whether NGOs, local governments, or private companies, so that necessary resources can be delivered to those who are in need quickly
 - b. Flexibly choosing resource providers and working with diverse partners, involving different governance approaches, and administrative and accounting procedures.
- Governance Approach
 - a. DSIA's due diligence with foreign NGOs by being open, transparent, accountable, equal, and fair
 - b. Request for local partners' due diligence and governance
 - c. Checking operations a few times a year

IV. Case 1: Building a Temporary Shop Tent in Isatomae, Minami-sanrikucho

- Goal: To rebuild Isatomae community and economy by offering shopping opportunities in Isatomae, instead of people taking a taxi half an hour to Sizugawa Town
- Process: NPO Forest Biomass Network Japan brought the project to Okada, and he searched for partners willing to provide financial support. The British Chamber of Commerce in Japan helped Okada to connect to the Refugee International Japan (RIJ) to establish the tent jointly with the NPO.
- Okada and RIJ spent one day to check the project viability.
- Okada also obtained GlobalGiving donations and reports about its status every three months.

IV. Case 1: Consequences

- The shop tent became the only center of community interaction in Isatomae from October 2011 until the government temporary shops started operating at the end of December.
- A barber shop especially became the center of community information and psychological relief for people in temporary housing.
- The tent provided the first step for rebuilding local economy.
- After the establishment of government's shops, the tent became a place of community activities, business for a few shops without enough money to pay to the government's temporary shops, and children's summer programs operated by a nature school.

IV. Case 2: Creating Shop Maps in Rikuzen Takata

- Discussing needs felt by the Rikuzen Takata Chamber of Commerce in May 2011, they felt most of business organizations, usually small shops, were not ready to start any business activities.
- Knowing that the Kanagawa Prefecture Tono Volunteer Center had IT volunteers, looking for projects. Okada matched a meeting between the two organizations, and generated a project for creating the maps of scattered shops, located in the mountain side of Rikuzen Takata.
- Volunteers created maps for free and delivered them to many people, especially in temporary housing places and also posted them in the homepage of the Chamber of Commerce.

IV. Case 2: Consequences

- Rikuzen Takata was not ready for building an organized place for economic activities, despite UN Global Compact Japan's willingness to help the Chamber of Commerce.
- Local people expressed needs for maps of scattered shops in the mountain side.
- Okada's network created a meeting between the Chamber of Commerce and the Volunteer Center of Kanagawa Prefecture for creating maps.
- Maps were appreciated well, and after the success, the work was transferred to a local NGO.
- The Tono Center took a style of transferring responsibilities to local organizations after a certain outcome was achieved.
- IT experts' volunteering expanded to homepage creations of diverse organizations in the region.



IV. Case 3: Capability Building of Childcare NPO in Rikuzen Takata

- The Niiza Childcare Network (NCN), the most active developer of childcare system in Japan, happened to introduce Okada an NPO called “Kirarin Kids (KK)” in Rikuzen Takata.
- KK started operating even a few weeks after the disaster to provide children a place to get some psychological comfort.
- The NCN requested Okada to find a support to develop the capability of KK’s staff, so that they can develop their future activities.
- Okada wrote a proposal to the Japan Disaster Relief Fund Boston (JDRFB) and successfully obtained funding.
- While Okada was writing a proposal, KK luckily won one of 2011 Yomiura Newspaper Childcare Awards, proving that KK is doing a very important work in the disaster-stricken area.



IV. Case 3: Capability Building of Childcare NPO in Rikuzen Takata

- Working with NCN and KK, local needs in childcare in the disaster-stricken situation was well recognized. Hence, Okada aimed at providing support for evolutionary development of KK by securing funds from the JDRFB for childcare training and from GlobalGiving to provide KK staffs expert training in grief care, child psychology covering such issues as PTSD, and child welfare issues by arranging voluntary collaboration of Sophia University professors.



IV. Case 3: Consequences

- KK in Rikuzen Takata has been performing very well, becoming a center of diverse children-related activities, such as immunization, a seminar on child nutrition, etc.
- But now they are overworked, and started losing staffs. They are now facing a new stage whether they will expand or shrink their operations.
- A difficult decision they now have to make.



IV. Case 4: Kitchen Car Project by Semi- government Kamaishi-Otsuchi Incubation Center

- Goals: To achieve the following four purposes in the area
 - a. To serve warm food inexpensively to people in temporary housing areas, especially in the mountain side;
 - b. To rebuild the restaurant business in the area;
 - c. To rebuild the automobile conversion business; and
 - d. To provide opportunities to create the new FRP business.
- Operations: (1) to purchase a used box car; (2) to convert it to a kitchen car; (3) to rent it for ¥15,000 per month; (4) to produce a decorative table to be placed in front of a kitchen car; (5) to sell food at temporary housing areas; and (6) to dispatch CFRP experts to improve the capability of plastic firms.

IV. Case 4: Kitchen Car Project by Semi-government Kamaishi-Otsuchi Incubation Center

- DSIA obtained ¥15,358,843 from US NGO Give2Asia to finance 3 kitchen cars and 7 mobile panels, after very severe due diligence.
- This idea was originally developed by the Incubation Center and the Chiyoda Platform, and the project is presently operated solely by the Incubation Center, while the Chiyoda Platform provides some technical and management help.
- DSIA provided an opportunity to make it a viable business by increasing the number of kitchen cars.

IV. Case 4: Consequences

- Multi-stake holder approach, serving the needs of many different actors
- Cross-boundary collaboration involving a semi-government organizations, companies, and NGOs
- Needs of multiple local industries to be satisfied
- Strict governance approach by G2A vis-a-vis DSIA, and DSIA vis-a-vis the Kamaishi Incubation Center
- Kitchen cars created places for people in temporary housing areas and construction sites to eat together and drink at night, a part of community building activities.
- Capability building by sending experts on CFRP to target the future of Kamaishi plastic industry

IV. Case 4: Consequences

- Became a ground for creating a new venture by former Honda and Nissan engineers to produce a fancy kitchen cars
- Based on that, Kamaishi is to produce a community center with the first three cars, produced by the venture, to be installed in the center.
- Many new ideas are evolving from a scratch, while a key problem is now human resources, not financial resource.

V. Conclusion

- My research on institutions and BOP is the sole base of developing "Bridge For Tohoku Reconstruction" project.
- Lessons I learned in India are the base of the project.
- Japan has less well established the institutions of networking for disaster relief and reconstruction.
- The networks and matching mechanisms of needs and resources are what I tried to provide.
- This orientation inevitably put me into a mode of multi-stakeholder approach.



V. Conclusion

- Cross-boundary approach was also unavoidable, but in reality working with diverse organizations was something quite difficult to manage. You need to have the accumulation of experiences.
- This difficulty is greatly because governance guidelines are quite different between foreign NGOs and domestic organizational practices.
- This may be why I can be a mediator for providing institutional linkages. If Japanese organizations become familiar with international governance practices, a mediator like me may not be in need.



V. Conclusion

- This suggests that new institutions for building networks in emergency situations and sharing new concepts of governance and due-diligence need to be developed.
- Identifying local needs and satisfying them may not be difficult, especially when those needs are indispensable for living.
- But how can local demands be shifted toward more evolutionary orientation?
- This is a difficult question, especially since many donors do not any more provide financial resources for a project which does not have much surviving prospect.



V. Conclusion

- Since reconstructing the Tohoku-disaster area requires something that can redevelop the region, the evolutionary orientation or sustainable development should be the key concept as my projects are. Unfortunately, finding such promising projects are not easy.
- This is the reason why capability building became an important aspect of the project in addition to a prospect of creating new products or industries.
- The applicability of institutional economics seems to be fairly wide, though this discipline is not popular in Japan, hinting at one of the reasons why BOP business is not yet popular in Japan.