Achieving Sustainable Strategic Advantage Through Inclusive Business: Reflections from Selected Cases

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Abstract

The 'inclusive business' concept has significantly influenced the way companies operate and do business in emerging and developing markets over the last few years. Inclusive business's fundamental assumption is that it contributes to solving global development issues and helps improve company profitability. The current article, which is based on an analysis of three inclusive business cases in emerging and developing markets, aims to identify how an inclusive business can contribute to a company's sustainable strategic advantage. The paper verifies that innovative, inclusive business interventions have, by solving development problems, helped companies successfully develop a strategic advantage.

Keywords: *Inclusive Business, Developing Market, Strategic Advantage.*

Introduction

Business's changing role from being philanthropic, or 'doing no harm,' to being an active partner in addressing development issues gave rise to the 'inclusive business' concept. The business sector is now globally recognized as an important player in the solving of major development challenges (BIF and IAP, 2011).Inclusive businesses have recently both grown and had a great global impact, as reflected in the Inclusive Business Action Network (IBAN) website. IBAN comprises 72 listings, 875 profiles, and 398 inclusive businesses collected from different international agencies and other initiatives (IBAN, n.d.). Businesses find inclusive business attractive, because it not only helps enhance effective operational access in emerging and developing markets, but also brings desired innovation and ultimately contributes to profitability (BIF and IAP, 2011, ibid.). The question is, however, whether inclusive business is a source of strategic advantage for businesses.

During last three decades, the concepts competitive advantage, sustainable competitive advantage, and strategic advantage seem to have overwhelmed the world of business strategy. Since the publication of Porter's (1985) book on competitive advantage, which triggered a significant shift in strategic analysis's focus from the industry level to the firm level, scholars and practitioners have found new ways of understanding and interpreting how a competitive advantage can be gained to sustain firms' performance. Nevertheless, despite the volume of available knowledge, many successful business giants have failed to sustainably maintain their profit level and market share. With the current changing global development priorities, many businesses have applied the successful strategy of doing business inclusively by extending opportunities for the poor, disadvantaged, and all those at the bottom of the pyramid (Prahlad and Hart, 2002). These companies have developed innovative models that include the poor in their value chain as employees, suppliers, consumers,

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middlemen, etc. Consequently, these companies help the poor grow economically and, simultaneously, enhance their profitability. For example, Coca Cola's distribution innovation in East Africa through its Manual Distribution Centre (MDC) has contributed to generating 12,000 new jobs with an estimated impact on 48,000 dependents. The MDC has not only helped extend the company's reach to rural and un served areas, but has also significantly helped promote entrepreneurship, employment generation, and female empowerment (Nelson, Ishikawa and Geaneote, 2009). It is evident that, with such types of inclusive innovations, companies help promote development and also create an eco-system for their sustained operational performance in the long-term, which increases their strategic advantage.

This paper aims to answer the broader question of how inclusive business models do so. More specifically, the article attempts to the following questions:

a. Which companies are successful models of inclusive businesses?
b. How can inclusive businesses help promote sustainable development?
c. In which ways does inclusive business contribute to a company's sustainable strategic advantage?

The article is based on an analysis of secondary data and is aimed at triggering research on sustainable strategic advantages and sustainable development by means of inclusive business.

Literature Review and Emerging Insights

The World Bank describes inclusive business companies as those: "*that develop innovative ways to do commercially viable business with people living at the base of the pyramid (BOP) and to expand access to basic products and services* (World Bank, n.d.)." However, there are different degrees of inclusiveness in terms of the Bottom of the Pyramid's (BoP's) relationship with business, of companies' financial return expectations, and of their primary funding type. Inclusive business models differ from inclusive business activities, or social enterprises. In an inclusive business model, the BoP is part of the core value chain, the company expects a market return, and the primary funding type is a commercial one (IFC, 2015, p.10). This article only focuses on inclusive business models and not on social enterprises, or inclusive business activities.

Inclusive business models integrate the poor into situations where markets, or other public-sector interventions, have failed. *They introduce innovation into business models, processes, products, and services, such that they become more affordable and/or better tailored to the needs of the poor* (GIZ, 2014). Inclusive business models offer different mechanisms with which to integrate the BoP into value-chain operations and provide resources to develop the target BoP in order to effectively engage them.

International Financial Corporation (IFC, n.d.) describes inclusive business models as *"those which integrate low-income consumers, suppliers, retailers or distributors into their core business operations, on a commercially viable basis."*Inclusive business is similar to normal business as it also aims to achieve commercially viable operations for the participants and the company. However, it also differs from normal business operations by introducing innovation into a product, process, or the target group's engagement in the value chain (BIF-IAP, 2011, op. cit.).

The above imply that to ensure they provide inclusive businesses, companies must (in terms of contributions):

i. Integrate the poor, or other socially or economically disadvantaged people, into the value-chain as consumers, suppliers, or intermediaries (C1);
ii. The poor, or other beneficiary target groups, must directly participate in the core business operations(C2);
iii. Introduceinnovation into the products, processes, or engagement mechanism for the target group (C3); and
iv. Focus on the commercial viability of their actions for the target group (ii above) in some or other form (C4).

By adopting inclusive businesses, companies could help address global development issues in many ways, for example, by building the capacity of low-income farmers and entrepreneurs; increasing suppliers and consumers 'access to financing; creating or adapting products to meet local needs; and developing innovative distribution approaches to hard-to-reach communities (IFC, n.d., ibid.). While engaging in inclusive business, companies could thus create an eco-system that is difficult to imitate, thus creating distinct advantage for them.

Companies only realize sustained success through distinct advantages that are difficult to imitate. The same applies to inclusive business model. However, to understand whether an inclusive business model contributes to sustainable advantage, we must first understand what contributes to the sustainability of competitive or strategic advantages. Ghemawat (1986) raised this issue by stressing the need to explore the advantages that tend to be sustainable and the reasons for this, instead of emphasizing the benefits of competitive advantage. In his introductory note, Porter (1998) re-stresses the need to clearly understand what leads to competitive advantage. This raises two fundamental questions: first, what is the source of a competitive advantage? Second, what makes competitive advantage sustainable?

Porter (1985 and 1998, ibid) emphasizes value chain activity (or a set of activities) to ensure low costs and/or a differentiation advantage for the firm in a unique configuration. Ghemawat (1986, ibid) further explores the issue of sustainable advantage and suggests that size over time and in relation to experience could be a source of advantage. He also emphasizes the importance of access to resources and markets, concluding that each of these has its own vulnerability. In the era of open and easy knowledge accessibility, developing a sustainable competitive advantage, which is none other than a long-term strategic advantage, requires a unique value chain configuration to bring positive changes in access, size, and/or flexibility in responding to customer needs. Based on this, we propose analyzing the sustainable advantage contribution of inclusive businesses, using the following parameters:

i. Contribution to the low operational costs and/ or to the operation's differentiation in terms of quality, delivery, and flexibility (SA 1);
ii. Contribution to the revenue and market share growth (SA2);
iii. Contribution to greater market or resource access (SA3); and
iv. Contribution to the unique value-chain configuration, which is difficult to imitate (SA4)

All of the above parameters are inter-linked and inter-dependent, but we treat them as independent contribution areas in our analysis of inclusive business models.

Inclusive businesses' impact on global development issues can be assessed in terms of their contribution to United Nations Sustainable Development Goals (SDGs). The 17 SDGs and 169 indicators (UN, n.d.) thus form a comprehensive set of measure with which to assess inclusive business's contribution to SDG priorities.

The conceptual framework above indicates that the eco-system created through the interaction between the development goals and the company advantages is likely to trigger long-term sustainable strategic advantage.

We next present an analysis of three cases in the next section. Following Yin's (2003, pp. 110-125) principles of analysis, we analyzed these cases according to all three the parameters in the conceptual framework. The main objective of the analysis was to find answers to the research questions.

Conceptual Framework and Research Methodology

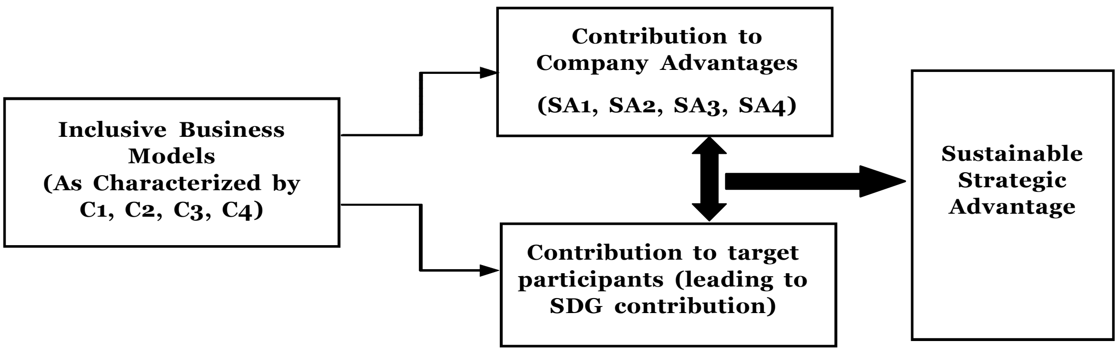

Figure 1: Conceptual Framework of the Study

Analysis of the Selected Cases

The analysis of three cases of inclusive businesses selected from a recent IFC report (IFC, 2016, ibid.) and presented in Table 1. The cases do not always have all the required information, but we are confident that the available information is fairly acceptable, if not ideal, to answer the study's research questions. The analysis includes a brief description of the case and its contribution to global development priorities, as well as to company. See the IFC report for details of the cases.

Table 1: Selected Cases and Contribution to SDG and Company Advantages

SI No	Case Description	Contribution to SDGs	Contribution to company advantages
1	Probiotech (IFC, 2016, pp. 53-64): The poultry industry in Nepal suffered from a lack of quality poultry feed at an affordable price. Probiotech, a venture emerging from the family-owned company NIMBUS and which had earlier imported poultry feed, studied the situation and identified it as an opportunity. Probiotech subsequently started producing poultry feed by engaging and technically training small-scale maize farmers. Relying on its distribution chain, Probiotech serves more than 12,000 poultry producers, building the capacity and technical training of maize farmers and poultry producers. After examining the business's potential, the IFC and Global Agriculture Food Security Program (GAFSP) invested $3.8 million in the company.	The company directly contributes to SDG 1–zero poverty– and SDG 12 – sustainable production and consumption. Its partnership with the IFC and GAFSP is an example of how innovative partnerships can contribute to SDG 17– sustainable development.	The intervention has not only helped the company grow in size, but also provides improved access to inputs and markets. The innovative business process engagement contributes to the development of an eco-system that will provide the company with a long-term advantage.
2.	MicroEnsure (IFC, 2016, pp. 33-42): Delivering an insurance claim within 72 hours turn-around time with minimum paperwork to people living on a few dollars a day income seems no more than a dream. Micro Ensure, a profit-making venture, emerging from a non-profit Micro Insurance Agency (MIA), does this. The company, which grew with the initial support of the Bill and Melinda Gates Foundation, now has the IFC and the French insurance giant AXA as shareholder. The company, with a customer base15 million, designs and delivers a range of insurance products in partnership with mobile service providers and other credible partners. It thus, eliminates agents in the micro insurance value chain. The partnership has also helped mobile companies increase their customer loyalty. The company has expanded to a number of African and South Asian countries. The journey continues with a target of insuring 130 million micro lenders across the globe.	The company directly contributes to SDG 1 – zero poverty. It also contributes to SDG 8 – decent work and economic growth. SDG 17 – global partnership for sustainable development – is the foundation of the company's success.	The intervention has been mainly through innovation in the product and business process. The company has developed a distinct market access advantage through innovative distribution partnerships, contributing to the company's increasing share and size.
3.	Bridge International Academies (IFC, 2016, pp. 21 - 32): Bridge International Academies was established with the objective of improving the quality of primary and nursery education in underserved poverty areas. Bridge developed an affordable primary education service at an average monthly fee of $6.6 (including learning materials). Using the technology, Bridge provides localized learning material with global quality standards to promote effective learning at the primary level. Bridge has grown from two academies in Kenya with 300 students in 2009 to almost 100,000 students in over 470 locations in Kenya, Uganda, Nigeria, and India. Initially grown with the support of IFC funding and other development grants, Bridge appears to be in strong competitive position to take over the management of inefficient public-sector schools in developing and emerging countries.	The company directly contributes to SDG 4 – quality education. SDG 17 – global partnership for sustainable development – contributes to Bridge's success, not only in terms of initial funding support, but also in terms of profit-making public-private partnerships in managing public schools.	The bridge model's major contribution is its innovation in service. However, the organization also has a unique advantage in terms of combining technology for customized local learning solutions that meet global standards. The company's expansion and growth in different areas of primary education delivery and management add to its advantage.

Discussion of the Findings

Probiotech integrates poor small farmers as suppliers of poultry feed (C1) into its core business operations (C3). The company also contributes process innovation in its distribution (C3). The commercial viability of the company and the target groups is also satisfactory. In terms of its contribution to its advantages, Probiotech has introduced a low-cost and quality differentiation advantage by introducing domestically produced poultry feed, which is in stark contrast with the high cost of the previously imported feed (SA1). The company has gained revenue, market share, and has provided inputs and resource access (SA2 and SA3). By simultaneously developing a strong network of small poultry feed input-producing (maize) farmers and linking the supply to an exclusive network of agents, the company has contributed to a unique value-chain configuration

(SA4), which provides Probiotech with a long-term strategic advantage.

Micro ensure integrates the economically disadvantaged BoP by offering them a cost-effective financial security (C1). The target group beneficiaries participate in the core business, as they are main clients (C2). There is clear product innovation in terms of the insurance variants for BoP. The process of distribution by means of mobile service providers and other credible players is also innovative (C3). The product is highly commercially viable in terms of the target group (C4). In terms of contributing to its advantages, the company has developed cost advantages by partnering with mobile service providers. The product is also quite unique (SA1). The market has grown significantly to a client base of 15 million and the innovative partnership allows the model to provide the company with greater market access (SA2 and SA3). The unique collaborative distribution mechanism is difficult to copy and imitate given the scale of Microensure's current operations (SA4). While the company helps address development issues, it is also developing a sustainable long-term advantage across a number of developing countries.

Bridge International Academies clearly integrates socially or economically disadvantaged people as customer for its low-cost, but high-quality, education products (C1). The beneficiaries are part of the business as its customer (C2). The development of learning material in a localized context and delivery through technology arena innovation (C3). The product is cost-effective and, therefore, financially viable for the target groups (C4). In terms of contribution to the company advantage, there is a clear cost and quality differentiation advantage (SA1), which in turn contributes to market growth and larger market access (SA 2 and SA 3). Through its unique value chain configuration of combining learning resources, technology, and local teachers, the company has gained a sustainable advantage in delivering education and managing primary and nursery schools across different country contexts (SA4).

Conclusions

The study of the three selected cases indicated that the inclusive business models help develop a long-term strategic advantage for the firms by creating a unique eco-system and value-chain configuration. The inclusive businesses also contribute significantly by addressing different global development issues as measured against SDG priority areas.

The review of Probiotech, Microensure, and Bridge International Academies provides examples of successful models of inclusive businesses. While analyzing the cases, we found that these businesses contributed directly to SDG 1 – zero poverty – and to other SDG areas, depending on the business's nature. All three the businesses have in common that they have a unique partnership-based eco-system, which confirms that SDG 17 – global partnership for sustainable development – is an essential condition to successfully meet other SDG targets.

By integrating the BoP into long-term business relationships, inclusive businesses develop a long-term strategic advantage that the innovation in the product and processes supports.

Time and budget considerations limited the study'sscope. In addition, the study was only based on secondary sources. However, we hope that it will trigger more studies on the strategy-sustainability issue in future.

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