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INTRODUCTION

This book is about organizations that positively impact the lives of the poor through their businesses. Therefore, I call their business models *inclusive.*[1] Normally, businesses are not supposed to worry about poverty. The raison d'être of businesses, by which I imply for-profit commercial enterprises, is to maximize shareholders' wealth. We assume that it is the responsibility of the government and some not-for-profit organizations to address the needs of the poor. Therefore, the organizations that are the subject matter of the book are a relatively new breed and somewhat paradoxical – they want to solve one of mankind's toughest problems, poverty, by deploying business principles. They want to create a positive social impact without depending on grants or charities; they want to maintain financial sustainability without maximizing profitability. What is the need for such organizations, how they can achieve, if at all, this dual objective and what have been the challenges in their journeys so far are worth knowing, debating and disseminating because this innovative organization form might just be an answer to many of the open questions that the world faces today in its battle with growing economic inequality despite rising global prosperity.

This book is mostly written in the context of India with one case study from Nepal and a few references to Bangladesh. However, I have discussed the subject matter of this book with several international audiences and most of them could derive insights from these that could be translated to their own

[1] I do not claim any originality here. I was introduced to the idea that businesses can be inclusive through a chance assignment that I had received from the United Nations Development Programme (UNDP).

contexts, such as Connecticut, Johannesburg, Sao Paolo or Seville. Therefore, I am hopeful that the inclusive business models that I describe and analyse in this book will have important lessons for anyone who wants to engage with the problem of poverty, irrespective of their geographic location.

INDIA TODAY: POISED FOR A DEMOGRAPHIC DIVIDEND OR A DEMOGRAPHIC DISASTER?

India has made rapid economic progress during the last 25 years, post the liberalization of its economy. However, one problem that remains intractable is that of poverty. While estimates vary, there are still a significant number of people in India who are below or live perilously close to the poverty line. It was assumed that with the economic progress of the country, levels of poverty would reduce through the *trickle-down effect*.[2] During the past 25 years, poverty in India has reduced in absolute terms, but it has not reduced enough.[3] India is home to nearly half of the world's malnourished children, with 1.7 million of them dying even before reaching the age of one. Our primary education system is derelict, resulting in India having the largest number of illiterate adults in the world,[4] since less than 40 per cent of Indian children complete school education and only 75 per cent reach middle school (standard V). Moreover, data from recent studies indicate that even students who attend

2 Loosely stated, this implies that when the economically privileged gain in an economy, their increased income and wealth eventually filter down to all sections of the society, benefitting even the economically underprivileged.

3 According to the International Labour Organization's *India Wage Report* 2018, during the period 1993–2014, India's gross domestic product (GDP) increased four times but the average daily wage adjusted for inflation increased only twice (Das 2019).

4 Given India's population, it is not too difficult to become 'world leading' in any of these parameters. However, it points to the fact that India is the worst performing among nations of comparable characteristics, notably China (size) and the United States (form of government – democracy).

school develop proficiencies in reading, writing and mathematics that are far below students from other comparable Asian countries. While 65 per cent of India's population lives in villages, contribution of agriculture to the gross domestic product (GDP) has declined to 17 per cent, indicating a high degree of explicit and disguised unemployment in rural India. This results in millions migrating from villages to cities every year in search of odd jobs, contributing to India's large pool of informal labour, who do not have any social security, are often at the receiving end of the law and, being exploited by opportunistic contractors, have little chance of breaking through the vicious cycle of poverty. In the absence of weather forecasting tools or risk hedging mechanisms, Indian farmers need to depend on the vagaries of nature to grow their crops. Even when they are lucky to have a good harvest, inefficient supply chains, characterized by multiple intermediation and wastages, result in the farmers receiving a very small percentage of the price paid by the consumer.

Historically, India viewed its large population to be a disadvantage, given its limited resource position. However, towards the latter part of the last century, the narrative about India's population took a positive turn. India realized that a large portion of the population was young, comprising people who would earn a living to support not only themselves, but also the children and the elderly. While a large population can be a burden, a young population can be an advantage in driving the economic growth of a nation. Therefore, India started talking about 'demographic dividend' and it was estimated that by 2030, India would be the only country in the world to have a favourable demographic ratio, where the working age population would outnumber those that it needed to support. However, what got lost in this narrative was the fact that a large young population does not get automatically translated into a productive workforce. Enough opportunities need to be created in the economy and the young population needs to be healthy, educated and skilled to take advantage of such opportunities before the demography can start paying dividends in terms of economic growth. The employment and livelihood generation scenario in India at present is far from encouraging, with a growing gap between the number of jobs being created in the economy and number of people joining the labour force. With healthcare and education systems that fail to effectively reach a large section of the population, the potential demographic advantage can turn into a demographic disaster.

INCLUSIVE BUSINESSES FILL INSTITUTIONAL VOID

What is the way out of this potential disaster? Surely, there is no silver bullet, no single solution. Many institutions will need to work assiduously and collaboratively for India to deal with these myriad challenges. Traditionally, markets, the domain of for-profit organizations, fail to address the needs of the poor because of a combination of factors, such as their objective of profit maximization and the limited ability of the poor to pay. Thus, it is the government who is expected to serve the needs of the poor, for example, by running free schools and hospitals or by giving highly subsidized fertilizers. But the government is not able to meet all the needs of the poor, and charitable institutions or not-for-profits step in those areas, either on their own or in collaboration with the government. The charitable institutions have their own methods of raising money and many such institutions have been doing commendable work in India, serving various economic and social needs of the poor, during the past several decades. However, even they are not enough to serve the needs of the poor in a large country like India. Apart from a growing demand for their services, charitable organizations are also feeling pressure from their traditional sources of funding – the donors. Donors are increasingly raising questions about the way their funds are being deployed by the not-for-profits and about the kind of impact that is being created. International donors and foundations are also wondering whether India is the best country for them to deploy funds, given India's economic progress during the past decades. Is their money better deserved by a country like India that boasts a USD 3 trillion economy and has 11 of world's 50 richest people, or should they donate money to charitable organizations working for the poor in nations such as Ethiopia, Nepal and Haiti?

In his book *The White Man's Burden*, the author William Easterly (2007), a fierce critic of foreign aid to Third World countries, comes up with an interesting comparison. He writes that the developed world has spent trillions of dollars in foreign aid over several decades trying to eradicate malaria, which essentially involves reaching medicine worth 12 cents to the mother of a newborn. Yet they have not been able to win the war over malaria.[5] On the other hand, on a single day of 16 July 2005, the publisher of *Harry Potter* books delivered 9 million copies of the sixth edition to eager fans in the United States of America (USA) and the United Kingdom (UK). At some level, this comparison seems preposterous. The developed markets are geographically concentrated, have easier accessibility and the *Harry Potter* fans had access to information so that they could be at the right place at the right time. The mothers in sub-Saharan Africa, where most of the malarial deaths persist, are much more difficult to reach and might even need a fair bit of convincing to get those medicines. Such differences notwithstanding, both of these – delivery of 9 million copies of books on a single day across the world and supplying medicines for malaria to mothers – are complex supply chain problems that involve multiple handoffs and coordination between different organizations. While the for-profit commercial organization seems to be doing it well, the results are mixed for the development sector. And the problem is not the lack of financial resources. At least in this case, there seems to be enough donor money being spent to solve the problem.

What then is the real problem? It may be that of accountability. The hierarchy of for-profit organizations makes every individual accountable for a measurable aspect of work and there are financial incentives for achieving their assigned tasks. One can assume that in managing the supply chain of malaria medicines, accountability might be diffused and while there are several individuals who are highly motivated to eradicate malaria, in the absence of financial incentives and penalties, it is difficult to control the behaviour of those who are not so motivated or those who are prone to being opportunistic. This is not to suggest that everything that is done by the for-profit commercial enterprises achieves success, and complex coordination can always be achieved through hierarchies and financial incentives. However, there are *certain aspects* of the for-profit enterprises, especially those pertaining to efficiency and

5 About 200 million cases of malaria are reported every year resulting in 500,000 deaths (Desmon 2018). About 70 per cent malarial deaths occur in children below 5 years of age (WHO 2019).

complex coordination, that the development sector can learn from and deploy to achieve their objectives. To a large extent, inclusive business models intend to do that. By imposing on themselves the discipline of financial sustainability akin to for-profit enterprises, they intend to adopt those aspects of business that can make them more efficient in leveraging their resources and more effective in achieving their objectives.

One may argue that it is impossible to selectively adopt some of the business principles of for-profits and yet maximize social impact instead of maximizing shareholders' wealth. Such half-way houses eventually get stuck in the middle! The examples that we will be talking about in this book will show that, at least in some cases, it is possible. Is it difficult? Of course it is, possibly more difficult than running either a for-profit or a not-for-profit organization? That is the reason why accounts of these organizations must be told. They are innovative, they have taken the untrodden path and their difficult journeys are inspirations in themselves, irrespective of where they are able to reach. But that alone is not the purpose of this book. The insights that we will derive from these cases should be useful for anyone interested in or engaged with the social sector to understand both the usefulness and limitations of applying business principles in solving problems of the poor. Such insights and learning should also be useful for students of management and business practitioners to understand the role of various institutions and economic agents in the larger ecosystem comprising businesses, government and society. To employ management terminology, the only difference between an inclusive business model and a for-profit commercial model is a reversal of objective functions. While the objective function of the for-profit is to maximize financial profitability without doing any harm to society, the objective function of inclusive business is to maximize social welfare without making financial losses.

BOTTOM OF THE PYRAMID: OPPORTUNITIES AND CONTROVERSIES

Dr M. Yunus and Dr C. K. Prahlad are among the pioneers of the idea of addressing the needs of the poor in a financially sustainable manner. Yunus, whose contribution we will discuss in detail in a later chapter on inclusive finance, created Grameen Bank in Bangladesh that adopted an innovative model for lending to the poor, mostly women (Yunus and Jolis 1998). Traditionally, the poor were viewed as highly risky to lend to and, therefore, no bank would like to have them as their customers. Through Grameen Bank, Yunus showed the world that not only were the poor bankable, but they were often better in paying back their loans than the traditional well-off customers of the banks. More interestingly, Grameen Bank was a financially sustainable bank that received no grants or donor money after 1998, proving the point that one can run a micro-lending organization addressing the financial needs of the poor in a business-like for-profit mode. Inspired by their success, Grameen and Yunus went on to create many other social businesses in domains as diverse as telecommunication and dairy, some of which succeeded while others failed. However, Yunus became a firm believer and an evangelist of the inclusive business model, which, he believed, addressed many of the shortcomings of grant-based and philanthropic organizations.

According to Yunus, grants and philanthropies create a relationship of dependency between the giver and the receiver, and thus reduce the sense of responsibility and ownership. People who receive charity spend a lot of time chasing things that were given for free rather than spending their energy and skill on doing things on their own. Such relationships also encourage corruption, suppress voice, accountability and transparency, and make the poor vulnerable to exploitation. On the other hand, inclusive businesses make better use of resources at their disposal. He also saw a lot of value in motivating for-profit enterprises to pursue social objectives by structuring such initiatives in a business-like manner, rather than asking them for grants and donations. In the book *Creating a World Without Poverty*, Yunus (2007) described how the French multinational Danone got motivated to create nutrition fortified yogurt that would be sold to the poor in Bangladesh. Because making yogurt was well aligned with Danone's main line of business, they took it as a business challenge rather than doing charity and were able to tap into the wealth of talent and knowledge that existed within Danone for the project. The initiative also created a powerful meaning of work for the employees of Danone when they realized how their work was going to address a larger societal problem of nutrition and hunger in a country like Bangladesh. Such experiments made

Yunus conclude that inclusive business models, when applied within the context of for-profit organizations, can be a powerful way of leveraging their talent and keeping their employees motivated. In Chapter 11, I describe a similar initiative undertaken by an Indian public sector company, Gujarat Narmada Valley Fertilizers & Chemicals (GNFC), which has been able to create a small inclusive business within itself that is creating livelihood opportunity for half a million men and women who are economically underprivileged.

Prahlad was a Professor of Strategy at Ross School of Business at the University of Michigan when he wrote an influential book titled *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits* (Prahlad 2004). CK, as he was fondly called, became globally renowned for his *Harvard Business Review* paper written with G. Hamel, 'The Core Competency of the Organization', and subsequently was an advisor to several multinational corporations in the USA. Towards the end of the last century, these corporations realized that their traditional customer bases in North America and Western Europe were no longer growing and they needed to look for new markets in nations such as Brazil, India and China. CK, having grown up in India and travelled extensively in these countries, understood that while these markets were indeed large, they presented a very different kind of opportunity because a significant number of people in these countries were poor. His calculations indicated that there were about 4 billion people in these markets who earned less than USD 1,500 annually, which he called the 'bottom of the (economic) pyramid'. He hypothesized that if for-profit enterprises could create products and services suitable for these people, it would present them with a huge opportunity. Even if consumers at the bottom of the pyramid could not individually pay high prices for the products and services, they represented a 'fortune' because by their sheer numbers, they would enable organizations to make enough profit. And in the process, such consumers, who until then were underserved, would get the benefit of having products and services of high quality.

CK's thesis caught the imagination of the for-profit organizations because he was able to talk their language, such as markets and profitability, even while he argued that their products would serve the needs of the poor and thus eradicate poverty. He cited examples of Aravind Eye Hospital (we will discuss the Aravind model in the chapter on inclusive healthcare) doing thousands of cataract surgeries free of cost for the poor even while being financially profitable and organizations creating one-rupee shampoo sachets that enabled a village girl to use it for a single wash of her hair. Very often, the poor have a cash-flow problem and are, therefore, unable to afford a full bottle of shampoo. But, CK argued, if organizations are innovative in creating single-serve products like the shampoo sachet, many consumers at the bottom of the pyramid will be able to afford it. CK was careful to tell the organizations that accessing such markets would not be easy because these markets were characterized by poor infrastructure, information asymmetry and absence of enabling institutions, such as banks and financial institutions. Therefore, over and above customizing their products, organizations planning to address these markets will need to worry about improving access, influencing aspirations and catalysing buying power. Despite such investments, he argued, organizations will be able to make profits as the numerous examples that he cited in his book proved.

While the for-profit organizations became excited by CK's dream of eradicating poverty through profits, CK received a fair share of criticism for being unrealistic. His colleague Professor Anil Karnani (2007) described CK's hypothesis as a combination of 'harmless illusion and dangerous delusion'. He argued that for none of the businesses that CK cited was there evidence that they were profitable on their own. Many of CK's examples, such as that of single-serve, increased convenience and not affordability and CK failed to consider their real costs, such as environmental damage caused by small plastic pouches. Moreover, unleashing the sleek marketing machinery of for-profit enterprises on an economically vulnerable population might unnecessarily increase their desire for products that they do not need, resulting in them making poor choices. Thus, while there should be no objection to for-profit enterprises trying to be innovative in addressing the markets at the bottom of the pyramid, it was wrong to say that such activities would help to eradicate poverty. Though it is difficult to discount Professor Karnani's well-researched and analytically rooted criticisms, CK must be credited for his ability to make poverty a board room discussion topic for for-profit enterprises, which motivated many of them to seriously look at these markets in a more realistic manner.

PLAN FOR THIS BOOK

Where do we stand now, almost two decades after Yunus and CK laid before the world a blueprint for addressing the needs of the poor in a financially sustainable manner? We have not found a universally effective model, neither have we found any easy solutions. However, there have been innumerable experiments by organizations and entrepreneurs to marry these two seemingly disparate objectives of creating social impact and achieving financial sustainability, which have refined our understanding of what is possible and what is not. The case studies in this book are testimony to that. I have personally written most of the case studies that I discuss in this book, which involved in-depth interviews with the founders, employees and other stakeholders. I had known some, such as Harish Hande of SELCO, even before I had heard of and started to understand inclusive business models, while others, such as Ram and Smita of Rang De, have become good friends. This has enabled me to see their organizations evolve, from social start-ups to social enterprises, and has given me the opportunity to know about their challenges, struggles and triumphs from close quarters. I have tried to bring all of that to you so that you appreciate the complexities of creating and managing businesses with such hybrid objectives even while you get inspired by the journeys of these extraordinary men and women who created businesses not with the objective of making money but with the sole desire and passion for making this world a better place for its most vulnerable and neglected population, the poor.

As I do in my course of a similar name, I devote each of the chapters to a specific sector, such as healthcare, education and informal labour, and describe the challenges of creating an inclusive business model in that sector through an anchor case study. An introductory section provides some macro-level information about the sector, which is followed by a detailed case study. Most of the cases are written such that the readers are able to understand the evolution of the organization, the various decisions that it took along its journey, the challenges that it faced and how it was able to overcome those challenges, if at all. I end each of the chapters with some discussion about how the organization added value, what the key drivers of its success were and what might be some of its challenges in the future. In some cases, I compare the anchor organization with some other inclusive businesses.