

“Study of effectiveness of social networks for economic development at Bottom of Pyramid in Pune City”

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Abstract

The BOP proposition is indeed too good to be true. It is seductively appealing, but it is riddled with fallacies. This research will argue that the BOP proposition is both logically flawed and inconsistent with the empirical evidence. This has serious implications for both firm strategies and public policy.

Researcher will propose an alternative perspective on how the private sector, NGO and other social networks can help alleviate poverty. The only way to alleviate poverty is to raise the real income of the poor. The poor are often geographically dispersed (except for the urban poor concentrated into slums) and culturally heterogeneous. This increases distribution and marketing costs and makes it difficult to exploit economies of scale. Virmani (2006), an economist with the elite Planning Commission of the Government of India, concedes that the improvement in social indicators in India has not kept pace with economic growth and poverty decline. While there has been a distinct shift in political ideology of the world towards an increasing role of the market (as opposed to the government), providing the above functions still needs to be in the public domain, especially in the context of the poor.

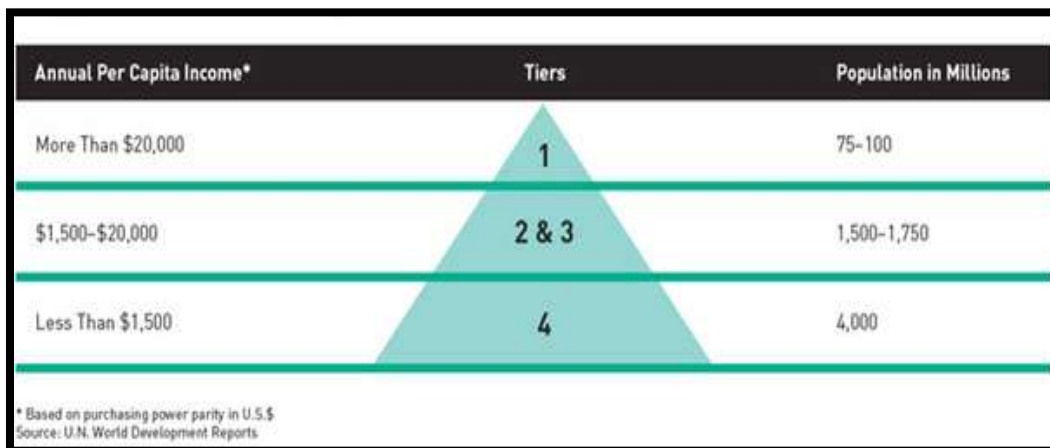
This research intends to analyze the significance and contribution of Social Networks for development of BOP level.

Key Word: BOP, economies of scale, economic growth market, public domain

Introduction

In economics, the **bottom of the pyramid** is the largest, but poorest socio-economic group. In global terms, this is the 4 billion people who live on less than US\$2.50 per day. Widespread poverty is an economic, social, political and moral problem. Eradicating, or at least alleviating, poverty is an urgent challenge. For many decades, various institutions have tried to address this challenge: local governments, developed country governments, international organizations (such as the World Bank and the United Nations), aid foundations and non-governmental organizations. So far, the intellectual discourse has been largely in the fields of public policy and development economics.

World Economic Pyramid



A social network (SN) is defined as set of interconnected people or things representing social entities: humans, organizations, departments etc. In this research, our networks would include corporate, NGO's, Cooperatives, Social organizations and entrepreneurs who are different verticals of social network. Simultaneously, we have some virtual networks such as social websites, platforms and social media which is working strongly for communities at large. Many nonprofit enterprises taking advantage of social media to raise money, garner new supporters, and increase visibility. There are also poverty reducing benefits if multi-nationals work with civil society organizations and local governments to create new local business models.

While NGOs pursue social equity, private companies aim for scale and profits. In fact, both parties can form a powerful alliance to promote these dual aims. NGOs or nonprofits can harness the entrepreneurial expertise of for-profit executives to help BOP clients develop effective business

enterprises. Private companies, on the other hand, can hire expertise from NGOs to reach BOP consumers. By delivering innovative, technology-based solutions to the BOP, social entrepreneurs enhance the quality of life at the BOP.

Largely researcher aim to measure the level of effectiveness of these social networks for economic development of this segment.



Social Networks

Origin of research problem:

Karnani has suggests that the only way to alleviate poverty is to focus on the poor as producers, rather than as a market of consumers. Hart and his colleague Erik Simanis at Cornell University's Center for Sustainable Global Enterprise advance another approach, one that focuses on the poor as business partners and innovators, rather than just as potential producers or consumers. Hart and Simanis have led the development of the Base of the Pyramid Protocol, an entrepreneurial process that guides companies in developing business partnerships with income-poor communities in order to "co-create businesses and markets that mutually benefit the companies and the communities".

A libertarian movement that emphasizes free markets to reduce poverty has grown strong in recent years attracting the attention of business executive, academics and public officials. This approach explicitly views the poor as "resilient and creative entrepreneurs and value-conscious consumers". This romanticized view of the poor is far from the truth and harms the poor in two ways. First, it results in too little emphasis on legal, regulatory, and social mechanisms to protect the poor who are vulnerable

as consumers. Second, it results in overemphasis on micro credit and under emphasis on fostering modern enterprises that could provide decent employment opportunities for the poor. Support for the BOP proposition is intellectually problematic while the implications of the BOP proposition are morally problematic.

Interdisciplinary relevance:

The bottom of the pyramid approaches to urban sustainability is based on two fundamental principles, one that is market-centric and another that is production-centric. Both approaches ultimately lead to a common goal; i.e. reduction of urban poverty through economic and social empowerment, and access to goods and services for all.

This research involves combination of more than one academic discipline. It attempts to create something new by crossing boundaries, and thinking across them. The following table describes the interdisciplinary nature of the proposed study



Objectives:

- To analyze the different networks and their reach to BOP in Pune
- To study whether networks addressing the felt needs of the poor when providing goods and services, or rather exploit marketing tactics to promote any potentially profitable product?
- To study the impact of social websites and platforms reaching out to BOP.
- Compare and analyze the targeted and actual effectiveness of social networks

Review of research and development in the subject:**(a) International status**

Philippines (Zobel): Supplying water 24/7. Before Manila Water Company was privatized in 1997, only 3 million of Manila's 5 million residents had access to water, and those who did had it for only six hours per day. (Those who lacked water often had to pay middlemen ten times the price for water.) Since privatizing Manila Water, 99% of Manila's citizens can now access water 24/7. Manila Water, which retained 97% of its employees after going private, produces 15% to 20% operating margins, resulting in profits of \$50 million per year; its market capitalization has grown from 2 billion to 132 billion pesos.

China (Tao): Wiring the countryside with cell phone telecommunications. The base of the pyramid in China consists of 800 to 950 million residents, some of whom live in cities but many of whom are farmers living in the country's 600,000 villages. Currently, China Mobile (owned 75% by the government and 25% by investors), the world's largest telecom company, has 400 million customers, 150 million of whom live in the countryside. Use of mobile phones has given these people at the bottom of the pyramid access to information and the ability to communicate

South Africa (Tshabalala): Bringing banking to the people. Mr. Tshabalala is CEO of Standard Bank, South Africa's largest bank, with assets of \$180 billion, operations in 38 countries (18 in Africa), and strong profits. Standard Bank is using innovative means to target customers at the base of the pyramid, a right the company feels it has earned through the success it has achieved in operating its existing business.

Mexico (Labarthe): Empowering female entrepreneurs through microfinancing. Mr. Labarthe and his brothers founded Compartamos Bank as a nonprofit in 1990. Compartamos is a specialty bank that just does micro-finance. Its average loan is \$450 and 98% of its loans go to women who use the funds for working capital. Now it is a publicly traded company with 1 million clients, 300 offices, and 50% profit growth and return on equity each year for the past decade

Kash Rangan is the Malcolm P. McNair Professor of Marketing and director of Research. A member of the HBS faculty since 1983, he previously served as the chairman of the Marketing unit (1998–2002). He is now cochair of the Social Enterprise Initiative

Rangan is a coauthor of *Going to Market*, which deals with distribution systems for industrial products, and *Business Marketing Strategy*, which presents approaches for managing industrial products and markets over their life cycle. Rangan's book *Transforming Your Go-to-Market Strategy* presents a

framework on how to evolve a firm's goto-market strategy with the changing needs of customers. His most recent book is *Business Solutions for the Global Poor: Creating Social and Economic Value*.

As president and CEO of Accion International, a nonprofit corporation dedicated to microfinance, Chu worked to develop financial services for the working poor as a new segment of banking capable of outstanding returns. He participated in founding several microcredit financial institutions and regulated banks throughout Latin America, including Banco Solidario, one of the premier micro lending institutions in the world, which under his chairmanship has been the most profitable bank in Bolivia, and Banco Compartamos, which, after its IPO on the Mexican Stock Exchange in April 2007, has been incorporated as part of the exchange's index

(b) National status

Mr. Sivakumar of ITC is facing more pressure achieving profits along with social value. ITC sources commodities from Indian farmers, but empowering them with information does not always accrue to the company's bottom line. Profitability may come more readily when the firm leverages its infrastructure into new product opportunities.

In 1971 the Committee for Economic Development used a "three concentric circles" approach to depicting CSR. The inner circle included basic economic functions—growth, products, jobs. The intermediate circle suggested that the economic functions must be exercised with a sensitive awareness of changing social values and priorities. The outer circle outlined newly emerging and still amorphous responsibilities that business should assume to become more actively involved in improving the social environment. The social responsiveness movement, therefore, emphasized corporate action, proaction, and implementation of a social role. This was indeed a necessary reorientation

Microsoft has tied up with the NGO Pratham to deliver personal computers to Indian villagers, while Intel and two large Indian information technology firms, Wipro and HCL Infosystems, have launched the Community PC in partnership with other NGOs to do the same. Nestlé has joined hands with health professionals.

For instance, Telenor has teamed up with Grameen Bank to sell cellular telephones to rural consumers. Telenor has taken advantage of the bank's knowledge of rural microcredit groups'

collection and payment system to set up a joint venture, Grameen Phone, in which it has a 62% equity stake.

Research Methodology:

The underlying research work for this study is a qualitative, cross-sectional study of social networks as well as of few selected beneficiaries where these networks are contributing. As NGO, Entrepreneurs and other bodies are working for different schemes and activities in selected areas for a particular time period, researcher selected where most of networks have presence at the same time. Heavily supported by government policy and financing, the social enterprises try to penetrate and contribute to BOP substantially now days in competition with MNC's and Global players. Given this scenario, the intent behind a qualitative approach was to understand and interpret BOP developments pragmatically. Secondary search of technical papers, articles and policy documents supports the research in drawing out conceptual outline, understanding legal framework and perceive popular viewpoints.

Examples of Social Network contributions

The parent organization of **Sakhi Retail** is Mumbai-based Swayam Shikshan Prayog (SSP) – an 18-year old NGO with roots in disaster relief and focus on women empowerment programs. SSP's Prema Gopalan participated in brainstorming sessions with management guru CK Prahalad and his business partner (Jeb Brugmann) to craft a business model that allowed village women to participate in, and benefit from, every aspect of commercial activities they would engage in. These discussions would ultimately result in the creation of two social enterprises (Sakhi Social Enterprise Network in 2006 and Sakhi Retail in 2009), a non-profit micro-finance organization (Sakhi Samudaya Kosh), and a community health trust (Sakhi Arogya Samudaya Trust). Sakhi Retail's distribution network comprises of 830+ female rural retail entrepreneurs (aka *Sakhis*) and seven warehouses with an operating reach of 630 villages in the Beed, Latur, Nanded, Osmanabad, and Solapur districts in Maharashtra. The *Sakhis* have been trained in entrepreneurship, sales and marketing by Sakhi Social Enterprise Network – the training arm of SSP.

The CSR programme of the **Thermax** company got a formal structure and a governing body when the Thermax Social Initiative Foundation (TSIF) was formed in March 2007 as a not-for-profit body registered under Section 25 of the Companies Act 1956 (or under Section 8 of the Companies Act 2013). Convinced that education is the best enabler for a better life, the Foundation has decided to primarily focus on initiatives in this crucial area.

The efforts of hundreds of **Syntel** employee volunteers are organized as S'Prayas, with the mission of Enriching Young Minds. **S'Prayas** believes in empowering children to believe in themselves by giving

them the key to open doors to the world outside – that key is education. This mission is carried out through a variety of educational programs teaching computer literacy and real-life skills that will aid in securing a better future. Programs are carried out at Syntel-sponsored learning centers as well as other locations within local communities.

Sudhar Pune is focused on the city of Pune in Maharashtra, India. Pune & Maharashtra have a long history of being at the forefront of reform (Sudhar) in India.

A Local SMS Community Newsletter’ was established in 2005 as a proprietorship firm in Pune with a vision of creating self-employment opportunities for India’s unemployed or unemployable youth, and for empowering local communities with specific and localized information. Through the service, bulk messages are sent within minutes to 1,000 mobile users (who may be using mobiles connections of any service provider) in a community. Field workers or community leaders are responsible for collecting information and news on local happenings in the community; these include cultural programs during festivals and public holidays, water and power shutdowns, and due dates for telephone bills and municipal taxes. In this manner, community members get access to reliable and relevant information. The project has also been successful in achieving its objective of providing a source of income to the rural youth. Its success at promoting “Self-Employment through SMS Communities” was lauded with the Manthan Award under the ‘e-Youth’ category in 2007.

List of NGOs approved in Maharashtra

1. Abled Disabled All People Together (ADAPT)
2. Bombay Natural History Society
3. Ganga Shikshan Prasarak Mandal
4. International Resources for Fairer Trade
5. MESCO (Modern Education Social and Cultural Organisation)
6. Prayas (A Field Action Project of the Tata Institute of Social Services)
7. The Society for Door Step School
8. Kripa Foundation.

Social Research / Corporate Social Responsibility (CSR) Consulting:

As per the recent guidelines issued by the Government of India it is expected that 2% of the net profits need to be spent on carrying CSR activities. Many organizations have not concrete plans or idea on how to carry out sustainable CSR initiatives that will benefit the Society. Many organizations donate money or carry out some activities which may not be need based. Implementing CSR activities among the stakeholders give in return their commitment and loyalty to the organization. This indirectly helps in earning more profits. The CSR initiatives are usually carried out within the area of operation of the plant which covers areas like rural development, health, education, women empowerment, environment, water, pollution and social issues.

The Economic Survey(2015) made some interesting comments saying that price subsidies do not appear to have had a transformative effect on the living standards of the poor, though they have helped poor households to weather inflation and price volatility. It says that a close look at price subsidies, which are estimated to be about 3,78,000 crore rupees, about 4.24 per cent of GDP, reveal that they may not be the government's best weapon for fighting poverty. Dwelling upon various subsidies to the poor, the Survey even stated that price subsidies are often regressive. It said, an analysis of current subsidy scheme indicates that rich households benefit more from the subsidy than a poor household.

The Government of India has instituted the concept of NGO Partnership System to bring about greater partnership between government & the voluntary sector and to foster better transparency, efficiency and accountability. The NGO Partnership System (NGO-PS) is a platform of interface between Voluntary Organization (VO) / Non Governmental Organization (NGO) and key Ministries / Departments / Government Bodies. Later it is proposed to cover all Central Ministries / Departments / Government Bodies.

Discussion:

"Corporate social responsibility (CSR) is a hard-edged business decision. Not because it is a nice thing to do or the government is forcing us to do it but because it is good for business."The above words of Niall Fitzgerald, former CEO, Unilever, brings to fore the vital role that CSR plays today for businesses. With Pimpri Chinchwad and surrounding areas becoming home to some of the biggest national and international corporate like Tata Motors, Volkswagen, KPCL, Cummins, Forbes Marshall etc., the local community has become a focal point of their CSR activities.

Rules say corporates shouldn't undertake CSR activities on their own. So corporates are looking for such NGOs and trusts which would undertake these works.

The ministry of corporate affairs is preparing a list of credible organisations working in the social sector that could be engaged by companies for implementing their corporate social responsibility (CSR) initiatives. The list, also containing the track record of NGOs, will be put on the website of Indian Institute of Corporate Affairs. Several big companies had requested the government to rate the NGOs for CSR spending.

Not all major corporations have social responsibility programs and not all of them provide funding for NGOs to address various issues and problems of our society. Such corporations do declare that they have community welfare programs but they do not seem to exist beyond their websites and publicity brochures.

Help Groups in Pune has financially empowered 4,000-odd women living in the city's slums. The women are attached to 205 self-help groups (SHGs) which were formed as part of the scheme. A corpus fund of Rs 1.74 lakh has been generated since the inception of the SHGs, a year ago.

Each group consists of 20 women, and each woman is expected to save at least one rupee a day. The amount collected is deposited in a savings account from which members meet their credit needs. Till a year ago, most of these women had not even ventured into a bank. Credit was available to them in small amounts at an interest rate of 35 per cent. Now, they pay an interest rate of just 1.5 per cent per annum. The women have their own passbooks and are capable of meeting their financial needs.

Assistant municipal commissioner, Ashok Kalamkar, who is also in charge of the UCD programme says: "This simple procedure changed the lives of the members of the SHGs...Their credit needs seldom run to more than a few hundred rupees. Most of them wanted this money to pay for their children's tuition fees."

The constitution of neighbourhood groups has been a major step in the three-tier SHG system evolved by the UCD, which monitors the work of the groups. This three-tier system includes committees, neighbourhood groups and a city development society.

Conclusion:

For the new generation of corporate leaders, **optimisation of profits** is the key, rather than the **maximisation of profit**. Hence there is a shift from accountability to shareholders to accountability to stakeholders (including employees, consumers and affected communities). There is a growing realisation that long-term business success can only be achieved by companies that recognise that the

economy is an "open subsystem of the earth's ecosystem, which is finite, non-growing and materially closed". (Herman E Daily in 'Sustainable Growth? No thank you' in *The Case of the Global Economy*, (Eds.) Jerry Mander, Edward Goldsmith; Sierra Book Club, 1996).

The emerging perspective on corporate social responsibility focuses on responsibility towards stakeholders (shareholders, employees, management, consumers and community) rather than on maximization of profit for shareholders. There is also more stress on long-term sustainability of business and environment and the distribution of well-being.

There is an increasing recognition of the triple-bottom-line: **People, Planet and Profit**. The triple-bottom-line stresses the following:

1. The stakeholders in a business are not just the company's shareholders
2. Sustainable development and economic sustainability
3. Corporate profits to be analyzed in conjunction with social prosperity.

There is a third and growing perspective that shapes the new principles and practice of corporate social responsibility. This is a **rights-based perspective** on corporate responsibility. This perspective stresses that consumers, employees, affected communities and shareholders have a right to know about corporations and their business. Corporations are private initiatives, true, but increasingly they are becoming public institutions whose survival depends on the consumers who buy their products and shareholders who invest in their stocks. This perspective stresses **accountability, transparency and social and environmental investment** as the key aspects of corporate social responsibility.

As technology has diffused, it is now possible to study local community uses that arise organically as community organizations pursue their goals and not only those uses that arise from a distinct project launched to serve people in a locale.

The leading companies have discovered that working together with non-profit and government organisations to solve social problems can give them new insights and approaches to creating business opportunities as well. Solving community needs creates opportunities "to develop ideas and demonstrate business technologies, to find and serve new markets, and to solve longstanding business problems." (Rosabeth Moss Kanter notes in 'From Spare Change to Real Change: The Social Sector as a Beta Site for Business Innovation', *Harvard Business Review*)

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