



Inclusive Business Models as Drivers of Sustainable Growth and Social Progress

Andrea Radas^a

Abstract

Given the challenges we face today, inclusive business models represent the future of sustainable development and a means to help achieve the Millennium Development Goals (MDGs). These models, through their strategic focus on inclusivity, integrate low-income communities into their value chains. By doing so, they not only address social and economic inequalities but also promote sustainable growth. Inclusive business models create opportunities for marginalized groups, offering them access to markets, jobs, and essential services. By fostering inclusivity, these models help bridge the gap between economic development and social progress, contributing to long-term solutions for poverty reduction and the empowerment of underserved populations. This can be achieved by employing a variety of strategies, all of which share two common principles: the recognition of stakeholders and the adaptation of products to the needs of the target market. Inclusive business models acknowledge the importance of engaging all relevant stakeholders—particularly those from low-income communities—and tailor products and services to meet the specific demands of these markets. By doing so, they create mutual value for both businesses and underserved populations. This paper presents an analysis of inclusive markets, examining how these strategies work in practice and exploring their potential to drive sustainable growth while fostering social and economic inclusion. The research results reveal the global distribution of inclusive businesses, the types of organizations involved, sector coverage, and their contributions to the Millennium Development Goals (MDGs). Additionally, the findings highlight the specific methods through which low-income communities are integrated into the value chains of these businesses. The primary aim is to demonstrate how inclusive business models not only benefit low-income communities by providing economic opportunities and access to resources, but also create advantages for the companies that adopt this approach. By fostering inclusivity, companies can tap into new markets, enhance innovation, and build stronger, more resilient business ecosystems that support long-term growth and sustainability.

Keywords: Inclusive Business, Sustainable Development, Millennium Development Goals

JEL Codes: O35, M14, Q01

1. INTRODUCTION

As businesses expand, their demand for supplies naturally increases, creating a need to engage other parts of the global economy. By doing so, they generate business opportunities for populations in lower-income societies, often referred to as the base of the pyramid (BoP). The private sector is therefore actively seeking growth while promoting the sustainable inclusion of nearly 4 billion people living at the base of the pyramid. These individuals can be integrated into value chains as suppliers, producers, customers, or entrepreneurs. Through this inclusion, they gain access to economic opportunities that help them escape poverty and improve their quality of life. By leveraging the potential of BoP communities, businesses not only contribute to social and economic development but also create more diverse and resilient supply chains. The typical business services that the private sector can offer to lower-income communities include essential areas such as healthcare (hospitals, pharmaceutical supplies), telecommunications, electrical power, clean water, education (schools, universities), and financial services (microcredits, loans). By integrating low-income communities into their value chains, businesses can benefit from access to untapped markets and the profits generated from these new ventures. This approach not only helps meet the needs of underserved populations but also opens new revenue streams for companies. Businesses that operate in this way, promoting inclusivity and providing opportunities for low-income communities, are referred to as inclusive businesses. These companies recognize the dual benefits of social impact and financial success, creating sustainable business models that support both their own growth and the development of disadvantaged communities.

For companies to succeed in inclusive business models, they must be innovative and creative. Managers need to overcome traditional stereotypes about base of the pyramid (BoP) communities, adopting an open-minded, proactive approach, and being prepared to tackle new challenges. Beyond the corporate economic benefits, this approach helps to reduce social inequality by providing opportunities for those in underserved communities. To thrive in these markets, companies must adapt their products and processes to meet the specific needs of BoP communities. While other innovation strategies may focus on filling market gaps or engaging additional stakeholders, adapting products or processes allows businesses to navigate constraints independently. This approach is particularly effective in dealing with challenges like ineffective regulatory environments or inadequate physical infrastructure, which can be difficult to change (UNDP, 2008:45). By tailoring their offerings to the unique conditions of BoP markets, companies can overcome barriers and unlock new

^a Department of Economics and Tourism, Juraj Dobrila University of Pula, Croatia

opportunities for growth and social impact. The authors conducted a research study aimed at identifying and mapping companies that are operating under the inclusive business model. This research was further enhanced by analyzing the sectors in which these companies operate, the specific role that low-income communities play within their business models, and their contributions to achieving the Millennium Development Goals (MDGs). The findings are organized and presented by region, with regional separation serving as the primary criterion. This approach allows for a clearer understanding of how inclusive business practices vary across different parts of the world, highlighting both the geographic distribution of such models and the unique ways in which companies in each region are working to integrate the poor into their value chains.

2. LITERATURE REVIEW

Inclusive business models work by expanding access to goods, services, and livelihood opportunities for those at the base of the pyramid (BoP) in commercially viable and scalable ways. These models enable companies to transform underserved populations into vibrant consumer markets and diverse sources of supply. By engaging with BoP communities, companies are not only addressing social and economic challenges but also driving product, service, and business model innovations that can provide a competitive edge in more established markets. As Jenkins et al. (2011) note, these innovations have the potential to shift the balance of competitive advantage, benefiting both emerging and mature markets. Inclusive business models, therefore, represent a dual opportunity: advancing social inclusion while unlocking new avenues for business growth and market differentiation. The concept of inclusive business requires companies to adopt new approaches and foster innovation in how they operate. It emphasizes the creation of new employment opportunities, the development of untapped markets, and the provision of affordable products and services that cater to low-income communities. By doing so, inclusive business models not only spur economic growth but also encourage entrepreneurship, empowering individuals at the base of the pyramid to participate actively in the economy (Bonnell and Veglio, 2011). This approach drives both business success and social progress, generating mutual benefits for companies and underserved populations alike.

Inclusive business models aim to contribute to poverty alleviation by incorporating lower-income communities into their value chains while maintaining the fundamental goal of generating profits (WBCSD and SNV, 2006: 2). These entrepreneurial initiatives are both economically profitable and socially and environmentally responsible. Rooted in the philosophy of creating mutual value, inclusive businesses work to improve the quality of life for low-income communities by integrating them as key stakeholders in the value chain. This can occur in various roles, such as suppliers of services or raw materials, distributors of goods or services, or as consumers, with businesses offering affordable goods and services that meet their essential needs (WBCSD and SNV, 2011: 10). This approach not only drives profitability but also fosters social development and economic inclusion.

Conducting business in an inclusive manner is fundamentally grounded in the social responsibility of a company. Without a commitment to social responsibility, it would be impossible for a company to follow an inclusive business model. Corporate social responsibility (CSR) encompasses the integration of economic, ecological, and social dimensions into a company's operations. It refers to a broadening agenda of voluntary initiatives and various forms of private regulation, where non-state actors play a pivotal role in setting standards for the workplace, the environment, human rights, and in promoting and overseeing their implementation. CSR typically addresses issues such as working conditions, eco-efficiency, community support, and anti-corruption measures (United Nations Research Institute for Social Development, 2010: 234).

Inclusive business models take CSR a step further by actively engaging with low-income communities, helping them overcome poverty, and providing access to vital information, goods, and services at prices they can afford. These models focus on people with limited economic resources, making them the primary target for inclusive businesses. Within these models, low-income individuals are integrated into the value chain as customers, suppliers, or distributors. This multifaceted integration not only addresses social inequality but also drives business growth through the development of new markets and opportunities. The concept is often illustrated by a value chain model, showing how low-income communities participate at various stages, contributing to the inclusive nature of the business.

There are compelling reasons why companies should include the nearly 4 billion people at the base of the pyramid in their value chain. The economic and social benefits are significant, both for the companies and the societies in which they operate. These benefits can be categorized into macro and micro advantages. On the macro level, inclusive business leads to increased profitability for companies by reducing supply costs, expanding markets through the inclusion of low-income sectors, and enhancing the sustainability of business activities. On the societal side, it helps improve living conditions for poorer populations by increasing their incomes and providing greater access to essential goods, services, or infrastructure (WBCSD and SNV, 2006: 2). When focusing on the micro-level benefits, it is important to note that the motivation for engaging with low-income communities is not always immediate profitability. Instead, companies often see longer-term advantages such as growth and competitiveness driven by innovation. For multinational corporations, innovation is essential for remaining competitive and expanding into new markets. The products, services, and business models developed for low-income markets can often be adapted and successfully transferred to developed markets, attracting consumers and enhancing the company's overall portfolio.

Additionally, expanding into poor markets allows firms to capture market share in economies with substantial growth potential. This also helps businesses build brand recognition and loyalty among a growing customer base, ensuring long-term profitability and market presence (UNDP, 2008: 17-18). The benefits of inclusive business strategies are clearly reflected in their capacity to simultaneously drive economic growth and social development. The question of how

inclusive business can be implemented or what practices should be supported is vital for the success of these initiatives. Several models, including those developed by the International Finance Corporation (IFC) in *Accelerating Inclusive Business Opportunities*, offer valuable insights into how businesses can integrate low-income communities into their value chains while maintaining profitability and sustainability. These models emphasize the importance of creating shared value by involving the base of the pyramid (BoP) as producers, suppliers, distributors, or consumers. One key practice involves developing tailored products and services that are affordable and accessible to low-income communities, addressing their specific needs and circumstances. Fostering partnerships with local organizations, governments, and non-profits is another important strategy, as it helps improve market access and builds trust within underserved communities.

Building inclusive supply chains is another essential approach, where businesses engage local suppliers and producers from low-income communities. This creates job opportunities, improves livelihoods, and simultaneously secures a reliable supply base for the business. Leveraging technology to reach low-income consumers and reduce operational costs is another important aspect, particularly in remote or underserved areas where access can be limited. Moreover, providing financial inclusion through micro-financing or flexible payment plans enables low-income consumers to afford essential products and services. This expands market reach while addressing affordability concerns. By adopting these inclusive practices, companies can develop business models that foster both economic growth and social development, ensuring benefits for both the business and the communities they serve. The models outlined by the IFC serve as a guide for businesses looking to create scalable, sustainable, and impactful inclusive business strategies.

3. THE BASE OF THE PYRAMID – WHO THESE PEOPLE ARE?

Understanding the concept of the Base of the Pyramid (BoP) society is crucial, as income levels within this group vary significantly. Around 1.1 billion people earn between US\$ 2-8 per day, and while they are still considered poor, they are beginning to generate a notable amount of discretionary income. In the mid-range, approximately 1.6 billion people earn between US\$ 1-2 per day, with their spending focused primarily on essentials. At the extreme end, 1 billion people live in severe poverty, earning less than US\$ 1 per day, often struggling to meet even their basic needs. These income levels are calculated in Purchasing Power Parity (PPP) dollars. Globally, individuals at these income levels are predominantly found in Asia (68%), followed by Africa (16%) and Latin America (10%), collectively accounting for 94% of the BoP population. Central and Eastern Europe, along with Russia, represent the remaining 6%. Furthermore, 60% of the BoP population is concentrated in India and China. The vast majority of BoP communities live in rural areas, with a global rural population of around 68% (World Economic Forum and Boston Consulting Group, 2009). BoP societies can be segmented based on income levels, and what stands out is the potential for 1.1 billion people to emerge as the future middle class. This projection signals a significant opportunity for multinational companies, encouraging them to engage more deeply with these communities. By integrating these individuals into their value chains, companies can play a role in helping them escape poverty, while also benefiting from the vast market potential these communities represent. In the long run, companies stand to gain through increased profits by tapping into this growing consumer base. Simultaneously, multinationals can create new employment opportunities for these communities, reducing their dependency on external financial aid such as loans and fostering greater economic independence. This mutually beneficial relationship highlights the potential for inclusive business models to drive both social progress and corporate success. The Base of the Pyramid (BoP) society exhibits several salient characteristics that shape their consumer behavior and economic participation (World Economic Forum and Boston Consulting Group, 2009:5). First, financial constraints are a major factor. Individuals within the BoP often have low and fluctuating incomes, along with limited access to credit or insurance. These factors make them smart shoppers and risk-averse investors, seeking out the best value for their limited resources. Second, life challenges are a constant hurdle. Many BoP individuals face domestic constraints, difficult living conditions, and frequently encounter high prices for substandard products or services. These daily challenges drive them to seek out better solutions but often with limited means.

Third, as new customers, BoP consumers often lack information about many commercial products, making them more reliant on trusted sources or direct demonstrations to guide their purchasing decisions. Building trust and providing clear information is therefore critical for businesses targeting these markets. Lastly, quality standards matter greatly to the BoP. Despite their financial challenges, these consumers and workers lead their lives with dignity and expect both respect and quality from service providers and employers. They demand products and services that meet their standards and provide real value, underscoring the importance of not only affordability but also quality and reliability in the offerings businesses provide.

4. MANAGING INCLUSIVE BUSINESS – EFFECTIVE STRATEGY IMPLEMENTATION

Businesses aiming to become inclusive need to rethink and transform their strategies to integrate the 4 billion people living at the base of the pyramid (BoP). This shift requires a new approach, where companies ask themselves questions like, "Who can use the product we make?" rather than focusing on "Who can buy the product we make?" (World Economic Forum and The Boston Consulting Group, 2009: 14). The focus must be on understanding the possibilities and needs of diverse communities, rather than merely selling a product without considering its relevance or accessibility to the target market. Companies should prioritize market research to develop products that are not only suitable but also necessary for BoP communities. To do this effectively, they must first familiarize themselves with the key characteristics of BoP societies. These consumers often face low and fluctuating incomes, limited access to information, and logistical challenges due to living in remote, rural areas. Despite these obstacles, they have a strong desire for products and services

that address their specific needs. Businesses must therefore be prepared to overcome the barriers posed by geography and information asymmetry, making it essential to have strong diversity management skills, especially in managing cross-national teams. Different cultural and legislative contexts across countries present unique challenges that require tailored policies and programs to navigate successfully (Mor Barak, 2011: 236).

Furthermore, businesses looking to engage with BoP markets should adhere to key principles of success, which are structured around four core elements of a typical business model: product innovation, supply chains, marketing, and partnerships. These pillars guide the way companies can develop inclusive strategies that align with the unique characteristics of BoP communities, ensuring that products, services, and operations are designed to meet the needs of these consumers while also achieving business sustainability (World Economic Forum and The Boston Consulting Group, 2009: 24). To successfully implement inclusive business strategies, companies need to adopt several key approaches. First, businesses must create life-enhancing offerings by adapting their products and pricing to meet the specific needs of low-income communities. This involves designing products that are affordable, accessible, and directly beneficial to the consumers' lives. Second, companies should reconfigure the product supply chain by sourcing from local producers and leveraging local distribution channels. This helps to overcome infrastructure constraints while fostering economic development within the community. Utilizing local resources and networks creates a more sustainable and resilient supply chain. Third, companies need to educate through marketing and communication, emphasizing the benefits of their products and creating trust and brand identity within the community. Word-of-mouth advocacy is particularly powerful in BoP markets, where trust in brands and products often comes from personal recommendations. Fourth, businesses should collaborate to form non-traditional partnerships, including partnerships with local communities, civil society organizations, and even competitors. Sharing resources, capabilities, and knowledge can strengthen these partnerships, which encourage self-governance and cooperation, leading to mutual benefits for all involved. Finally, companies must unshackle the organization, ensuring senior-level commitment and creating agile structures that provide decision-making authority and autonomy at the local level. This focus on flexibility and accountability helps businesses quickly respond to market needs and challenges. In line with these approaches, the UNDP (2008: 46) outlines similar strategies for overcoming constraints such as lack of market information, regulatory challenges, inadequate infrastructure, and limited access to financial services. These strategies include adapting products and processes to fit local conditions, investing in removing market barriers, leveraging the strengths of the poor by combining resources and capabilities, and engaging in policy dialogue with governments to create a supportive environment for inclusive business. These combined efforts enable businesses to operate more effectively within BoP markets while contributing to long-term social and economic development.

The new strategy, known as the Base of the Pyramid (BoP) strategy, focuses on integrating low-income communities into business operations in a sustainable and inclusive manner. Successful implementation of this strategy is key, but it must also be economically, ecologically, and socially sustainable. This ensures that businesses not only meet their profit goals but also support corporate social responsibility. Another critical aspect of the BoP strategy is stakeholder participation and partnership, which is essential for achieving inclusivity. As businesses shift their focus to low-income markets, they must carefully consider the societies they are entering and the communities in which they will operate. Collaborating with non-traditional partners, such as civil society organizations (CSOs), local entrepreneurs, and community members, is vital. These partnerships provide invaluable local knowledge, potential distribution channels, and a sense of legitimacy, which are crucial for developing products and services that meet the specific needs of BoP communities. By working closely with these local actors, companies can better understand the market, identify opportunities, and build trust within the community.

Furthermore, collaboration should extend beyond local communities to include governments, other businesses, and CSOs. This type of multi-stakeholder engagement allows companies to "combine their capacities" to effectively integrate the poor into their value chains, thereby enhancing both business outcomes and social impact (Mahmoud, 2009). By leveraging the strengths of different partners, businesses can navigate the complexities of BoP markets while fostering long-term relationships and creating shared value for all parties involved. Governments play a crucial role in fostering Base of the Pyramid (BoP) business engagement by strengthening policies and providing tax incentives that encourage companies to focus on low-income markets. Collaboration across industries and among various stakeholders, such as non-governmental organizations (NGOs), donors, and governments, can enhance the pooling of shared resources and capabilities, enabling more effective business models. By partnering with these entities, businesses can leverage organizational strengths in ways that benefit all parties involved. Such collaborations help identify viable business models, monitor and evaluate their impact, and share learnings to build momentum for broader adoption of BoP initiatives (World Economic Forum and The Boston Consulting Group, 2009: 7).

A key component of success in BoP markets is managing and understanding the relationships that exist within and around business activities. One useful approach is the Stakeholder Circle methodology, which emphasizes that a business activity can only succeed with the informed consent of its stakeholder community. This methodology aims to manage the relationships between the business and the community to increase the chances of success. The process consists of five critical steps: identifying all stakeholders, prioritizing to determine who holds the most influence, visualizing the stakeholder community for better understanding, engaging through effective communication, and monitoring the impact of this engagement (Bourne, 2009: 43-44).

Incorporating stakeholder thinking into the decision-making process is vital for businesses, especially when their actions significantly impact others. This mindset involves always reasoning in terms of stakeholder concerns and integrating these perspectives into the management process (Carroll and Buchholtz, 2011: 94). However, relationships between

corporations and their stakeholders are dynamic and vary depending on the issue or timeframe, as new classes and configurations of stakeholders may emerge over time as concerns and priorities shift (Post, Preston, and Sauter-Sachs, 2002: 24). Understanding and managing these evolving relationships is key to maintaining successful and responsible BoP business engagement.

5. CONCLUSION

The challenge of inclusive business is steadily gaining traction around the world. While the growth rate of these business models may not be overwhelming, the progress made so far is significant and cannot be overlooked. Inclusive business involves rethinking traditional approaches and adopting new models that integrate low-income communities into the value chain. It requires a shift in mindset, focusing on inclusivity and long-term sustainability. The International Finance Corporation (IFC) has proposed seven distinct models of inclusive business, but these are not the only ones available. Organizations have the flexibility to create their own models of inclusivity, as long as they adhere to the core principles and strategies that underpin inclusive business operations. These principles involve integrating low-income communities as suppliers, customers, or distributors, and ensuring that business practices are both socially responsible and economically sustainable. Among the many strategies available, the Bottom of the Pyramid (BoP) strategy is the most widely recognized and recommended for organizations looking to embrace inclusivity.

The BoP approach encourages businesses to engage with low-income communities in ways that benefit both the business and the communities, fostering mutual growth. By addressing the unique needs and challenges of these communities, businesses can create opportunities for economic development while tapping into a large and underserved market. The Bottom of the Pyramid (BoP) strategy emphasizes several key actions to successfully integrate low-income communities into business operations. First, it highlights the need to adapt products and processes to meet the specific needs of these communities. This ensures that offerings are both affordable and relevant. Second, businesses must invest in removing market constraints, such as lack of infrastructure or access to information, to create a more conducive environment for inclusive business. Third, organizations are encouraged to leverage the strengths of the poor, collaborating with local communities and stakeholders to combine resources and capabilities. Lastly, engaging in policy dialogue with governments is essential to ensure that regulatory frameworks support inclusive business efforts. For effective implementation of this strategy, organizations should take several important steps. First, they need to familiarize themselves with the 4 billion people living at the bottom of the pyramid. Understanding the specific challenges, needs, and opportunities within these communities is critical for developing meaningful and sustainable solutions. Second, companies must manage and understand relationships within and around their business activities.

The Stakeholder Circle method can be particularly useful here, as it emphasizes the importance of engaging with stakeholders to ensure mutual success. Additionally, businesses should always bear in mind the stakeholder thinking process, which involves considering the perspectives and interests of all relevant stakeholders throughout the management and decision-making processes. Lastly, companies should take advantage of the various publicly available tools and resources designed to support inclusive business practices. These resources can provide valuable insights and frameworks for implementing the BoP strategy effectively, ensuring that businesses can create positive social and economic impact while also achieving sustainable growth. According to research, 132 organizations globally are operating under various inclusive business models. When examining the regional distribution of these organizations, the majority are based in Sub-Saharan Africa (37 companies), followed by Latin America and the Caribbean (28 companies), and Eastern Europe (22 companies). Among the different types of organizations, Micro, Small, and Medium Enterprises (MSMEs) are the most prevalent, alongside large domestic companies and multinational corporations (MNCs) from developing countries. These organizations are involved in numerous projects worldwide, with a focus on contributing to the achievement of the Millennium Development Goals (MDGs), which were established in 2000. By incorporating low-income communities into their value chains, these companies are playing a vital role in addressing global poverty. Their efforts are primarily aimed at alleviating poverty by providing opportunities for economic inclusion, whether through employment, entrepreneurship, or access to essential goods and services.

This approach fosters social and economic development within disadvantaged communities, ultimately helping to create more sustainable and equitable markets. An analysis of existing inclusive organizations reveals that their operations span a wide array of business sectors. The most prominent sector is agriculture, followed by information and communication technology (ICT), food and beverages, artisanal goods, healthcare, consumer products, energy, biofuels, housing and construction, and microcredit, among others. These sectors play a critical role in driving inclusive business models that integrate low-income communities into the global economy. The inclusion of various stakeholders across these sectors contributes significantly to the advancement of developing countries and marginalized populations. Through these collaborations, inclusive organizations are actively alleviating poverty by providing economic opportunities, improving access to essential services, and fostering sustainable development. This, in turn, promotes global collaboration and underscores the importance of multi-sectoral efforts in realizing the Millennium Development Goals (MDGs). By focusing on sectors that are fundamental to economic growth and human well-being, inclusive businesses help improve living conditions worldwide. Their initiatives not only provide essential goods and services to underserved populations but also create employment opportunities, foster innovation, and drive social progress. As such, inclusive business models are pivotal in promoting sustainable development and improving the overall quality of life for communities at the base of the pyramid.

REFERENCES

- Bonnell, V., & Veglio, F. (2011). Inclusive business for sustainable livelihoods. *Field Actions Science Report*, 5, 1-5.
- Bourne, L. (2009). *Stakeholder relationship management: A maturity model for organisational implementation*. Gower Publishing Limited.
- Carroll, A. B., & Buchholtz, A. K. (2011). *Business and society: Ethics and stakeholder management* (8th ed.). South-Western Cengage Learning.
- Jenkins, B., Ishikawa, J., Geaneotes, A., Baptista, P., & Masuoka, T. (2011). *Accelerating inclusive business opportunities: Business models that make a difference*. International Finance Corporation (IFC).
- Mahmoud, A. (2009). How do we build the inclusive business partnership for the future? Retrieved from NextBillion.
- Mor Barak, M. E. (2011). *Managing diversity: Toward a globally inclusive workplace*. SAGE Publications.
- Post, E. J., Preston, L. E., & Sauter-Sachs, S. (2002). *Redefining the corporation: Stakeholder management and organizational wealth*. Stanford University Press.
- SNV & WBCSD. (2008). *Inclusive business: Profitable business initiatives with impacts on development*. SNV and WBCSD.
- United Nations Development Programme (UNDP). (2008). *Creating value for all: Strategies for doing business with the poor*. UNDP.
- United Nations Research Institute for Social Development (UNRISD). (2010). *Combating poverty and inequality: Structural change, social policy, and politics*. UNRISD.
- WBCSD & SNV. (2006). *Inclusive business: Profitable business for successful development*. WBCSD and SNV.
- WBCSD & SNV. (2011). *Inclusive business: Creating value in Latin America*. WBCSD and SNV.
- WBCSD. (2010). *Inclusive business: Mapping of tools and resources*. WBCSD.
- World Economic Forum & Boston Consulting Group. (2009). *The next billions: Unleashing business potential in untapped markets*. World Economic Forum.