

Integration of the Bottom of the Pyramid in the Business Models of Indonesian MNCs

New ways of thinking about Corporate Social Responsibility

Double Degree

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List of abbreviations

BoP	Bottom of the Pyramid
CSR	Corporate Social Responsibility
CSV	Creating Shared Value
FMCG	Fast Moving Consumer Goods
IDR	Indonesian Rupiah
KPI	Key Performance Indicators
LED	Local Economic Development
MBI	Multi Bintang Indonesia
MNC	Multinational Corporation
NGO	Non-Governmental Organization
ROI	Return On Investment
SA	Sampang Agung

Abstract

This report focuses mainly on how the Bottom of the Pyramid is integrated in the value chain of MNCs in a local setting. The aim is to find strategies that MNCs can implement that are beneficial for MNCs and the Bottom of the Pyramid. This report will advocate MNCs should continue in CSR and investing in BoP approaches since with investments like these MNCs will secure their future market which consists of millions of people now living at the BoP. CSR is about conquering the future market. Research was done at four Indonesian FMCG (Fast Moving Consumer Goods) MNCs respectively Multi Bintang Indonesia (MBI), L'Oréal Indonesia, Unilever Indonesia and Nestlé Indonesia. This research will give us new insights in the role of MNCs in Local Economic Development.

This report proposes to help the Bottom of the Pyramid now and conquer the market in the long term by integrating the BoP market into the value chain is still an argument; which shows that CSR is not window dressing by only going for profits and use it as a marketing tool. However it is a more important issue for profits for MNCs and profit for BoP in the light of Local Economic Development.

Numerous examples are found in the interviews about how the needs of the BoP can be integrated in the Business Models. It can be made concrete in the MNC's Business Models without calling it CSR. But the point is that CSR is moving from a marketing tool and to render a better return on investments aiming on financial measures more to an MNC that is intrinsically, from within, engaged in their community and well-being of the BoP. And in here Leadership in LED aspects play an important role. It is a new way of thinking of CSR.

Keywords: MNC; Bottom of the Pyramid (BoP); Corporate Social Responsibility (CSR); Sustainable Strategies and Business Models; Leadership; Local Economic Development.

Preface

Firstly, all this work is my interpretation of the information collected. I am accountable for the way I interpreted the information and not the people that are interviewed by me. Company names in this report are used; however persons interviewed for this research are left anonymous as requested by some.

Secondly, I would thank the following people that made my research possible and helped me by giving me advice in The Netherlands and Indonesia. They helped me with theoretical and practical matters: In Groningen my supervisor Dr. B.J.W. (Bartjan) Pennink and in Jakarta Dwi Melasari, Hesty Pratama, Dian Irawati, Ingmar van den Brink and Dr. Sari Wahyuni. Furthermore, from Yogyakarta Pak Bambang Sumbodo and family.

I have been very fortunate that I have been able to work on a research project for my Double Degree MSc International Business Management and International Finance Management that fits all my interests: which are Indonesia, sustainability, humanity, culture, internationality, language and travel. Moreover I could use my experience, knowledge and local contacts of my voluntary work in Indonesia that I have done previously.

1 Introduction

In today's world nearly half of the people live in absolute poverty (www.globalissues.org). Poverty is still growing in the world, especially growing strong in urban areas and this jeopardizes a harmonious urban growth (Unhabitat, p2). Some companies have thought about making innovative Business Models to reach these poor people living at the Bottom of the Pyramid (BoP) and enlarge their market share and profit at the same time (Jenkins and Ishikawa, 2009:5).

Corporations nowadays all have Corporate Social Responsibility (CSR) departments in order to be compliant with the broader society. However, in recent years the MNCs are blamed and put in an unfavorable light for their irresponsible behavior which causes environmental, social and economic problems in local communities, regions and countries (Porter & Kramer, 2011: 64; Chavez, 2011: 48). The burden of this behavior is being paid by the broad community and taxpayers instead of companies themselves. Ironically, benefits are not shared with the broad community (Porter & Kramer, 2011:64).

One author who elaborates on this issue is Farag Nagi (2012). She investigated which strategies and Business Models Unilever in Egypt uses to help the people living in the Bottom of the Pyramid and to realize profit for Unilever Egypt. She presented her results in a matrix that was applicable for this MNC in Egypt. These strategies were not only benefiting the local community with philanthropy, but also being profitable for the MNCs. CSR is integrated in the Business Model and has an intrinsic and sustainable character. So CSR is part of the companies' Business Model and part of the core business.

I build upon her work and research how the Bottom of the Pyramid is integrated in the value chain of MNCs in Indonesia. I use the components of the strategy matrix that came out of her research question: What are the strategies that are used by the respective MNCs to secure the future market and increase well-being of the Bottom of the Pyramid?

So which strategies and/or Business Model are in favor of the MNC and which are in favor for the BoP? And which combination of strategies results in profits for the MNC and improve the living conditions of the BoP in a sustainable way, so for both? How can the Bottom of the Pyramid be integrated in the value chain of MNCs in a local setting? This report will advocate MNCs should continue in CSR and investing in BoP approaches since with investments like these MNCs will secure their future market which consists of millions of people now living at the BoP. The best combination of strategies for both the MNC and BoP is about conquering the future market and this way it becomes a relative new way of Corporate Social Responsibility. CSR is about conquering the future market.

1.1 Research objective

This paper will investigate how MNCs increase their chance of profit by integrating the Bottom of the Pyramid in their strategies in such a way that it will help to raise the living conditions and/or wealth of the poor and at the same time secures their future market which is the Bottom of the Pyramid.

To answer this question, research was done in Indonesia with the FMCG (Fast Moving Consumer Goods) multinationals Multi Bintang Indonesia (MBI), L'Oréal Indonesia, Unilever Indonesia and Nestlé Indonesia. FMCG have a broad base in a country since everybody is familiar with some of their products and everybody has a direct or indirect connection with those products or companies. Research was done by means of qualitative research among managers of the MNCs and community of factories to find out if certain strategies are used to help the local community and being profitable for the company at the same time. The whole setting is seen from the perspective of Local Economic Development (LED).

I made use of the adapted conceptual model adapted from Stimson, Stough and Salazar (2009) and Farag Nagi (2012) (Figure 1). On the left side of the model there are the quasi-independent variables, the input. The needs of the BoP or the community surrounding the MNC taken from an urban perspective. Needs that one can think of is money, education, health, infrastructure, recognition. Below are the business capabilities that have an influence on the scale and power. How many factories the MNC has and how many employees.

The needs of the market are identified and business capabilities will be taken in consideration. The Needs of the BoP can be fulfilled by MNCs by bringing them prosperity and by selling and innovative co-creation at the BoP. And great economic power of the BoP can be unleashed and is potential for profit.

Following in the center of the model a combination of possible strategies beneficial for MNCs and BoP emerge that can be integrated in the MNC's value chain, these are the intervening variables. Strategies range from not only selling to the BoP but also integrate the BoP in the value chain of the MNC, in the distribution, in the post-consumer waste. All of these strategies work for the benefit of Local Economic Development (LED). Strategies that are particular important are strategies that benefit the MNC and BoP. These strategies will be investigated in this report. Some are already found by Farag Nagi (2012) in her strategy matrix (lower the price of products and increase availability of products).

The development of those strategies is coordinated by good Leadership. Farag Nagi, (2012) makes use of the model of Stimson et al., (2009) who says with proper Leadership in a region the region will be economically developed and competitive. Leadership is embodied by the MNC in terms of local economic development (Farag Nagi, 2012:9) Elements that have a positive influence on the development of those strategies are already known in literature and are tested in the 4 cases in Indonesia. The leader should have power and capabilities to be the leader and to be accepted as a leader.

A MNC with strong Leadership means the MNC is capable of using their resources well and is able to increase entrepreneurial activities. Furthermore change institutional factors like rules, law, business practices and norms. Consecutively, enhance the wealth of the BoP and secure the future market for the MNC.

MNCs can embody the Leadership actor and are capable of adjusting institutional factors and together foster entrepreneurship in a region. Fostering entrepreneurship embodies innovation at the MNC side, improving techniques, cheaper processing, innovation of certain processes, and innovation of existing or new Business Models. Improving standards, new views on integration of BoP in the supply chain, complying to international standards, and let communities make use of company resources.

On the right side of the model the dependent variables are found; profit is provided for the urban BoP or community and MNC in the long run. Profit for the community is not only denominated in money but also in well-being of the people. It does not generate money for the MNC instantly, but in the long run. It helps building the image of the MNCs, and attracts consumers and motivated employees to work for the MNCs.

The return on investments will be measured in profit for the company in the long term and profit or increase in wealth for the BoP or community. It is up to now hard to put numbers to this measures which are not uniformly measured.

In other words: future profit for companies and the local economic development for the society around MNCs by applying the right strategies that are beneficial for the MNC and the BoP.

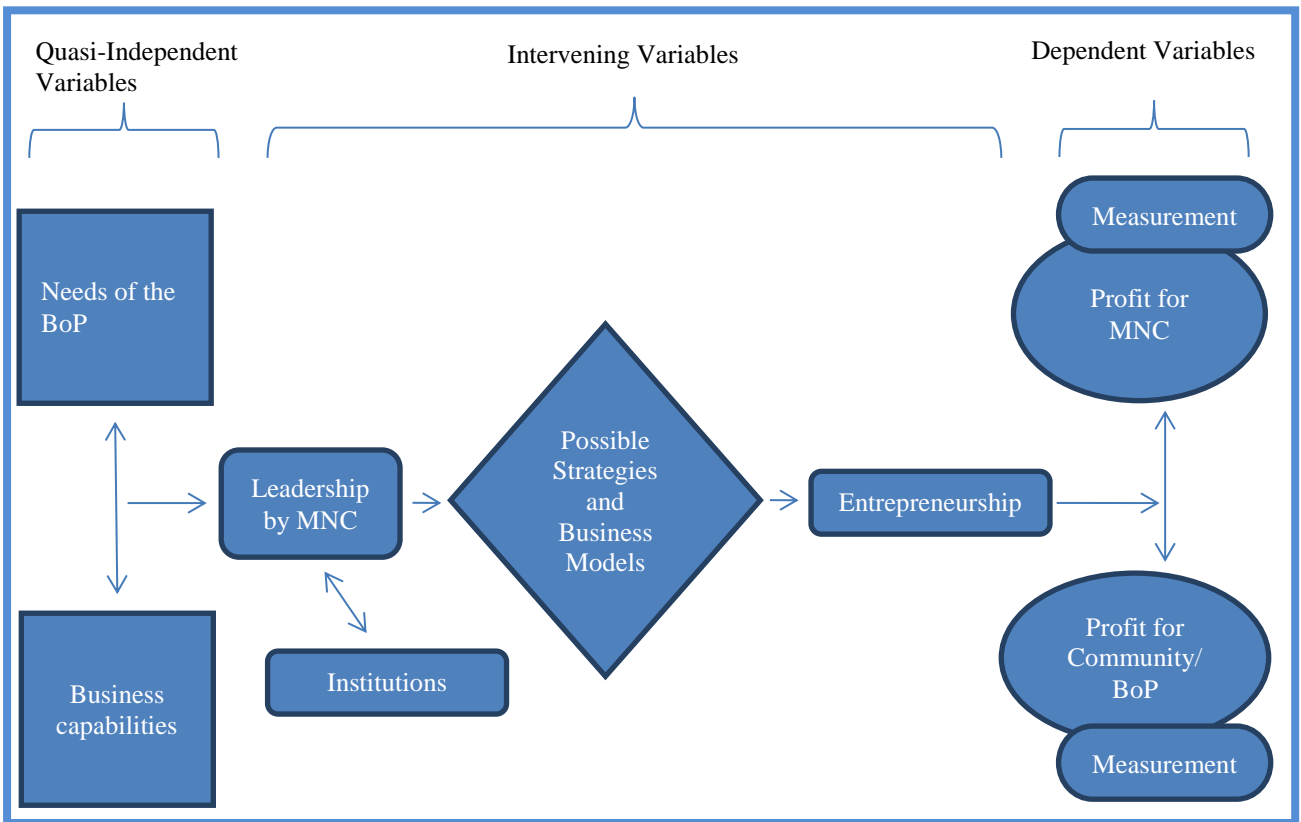


Figure 1: Adapted Conceptual Model adapted from Stimson et al., (2009) and Farag Nagi (2012)

1.2 Research questions

Sub questions are extracted from the adapted conceptual model adapted from Stimson et al., (2009) and Farag Nagi (2012) (Figure 1) and will be a guideline through the report and also a guideline in the fieldwork. These are the following questions:

1. What are the needs of the local communities surrounding the MNCs?
2. What are the business capabilities of the MNCs?
3. What are strategies that are used by the MNCs that provide profit for MNC and BoP?
4. What return on investments measurements are in place regarding to measure profit for MNC and profit (improvement of well-being and wealth) for the BoP (community) in a broad sense?
5. What is the influence of Leadership on the strategies?
6. Does Leadership influence institutional factors?

With this model (Figure 1) and above sub questions new findings will emerge concerning strategies for CSR of the MNCs to investigate the combinations of strategies that benefit the MNC and the BoP and how Leadership plays a role in that. Looking from the perspective what the BoP needs are and what strategies are used by MNCs to make a combination between profit for MNC and profit for BoP and how for this is integrated in the MNC's Business Model. This will give us also new insights in the role of MNCs in Local Economic Development.

2 Literature

This chapter starts with describing a general background on the relevant issues with MNCs, followed by describing Corporate Social Responsibility. After that the original Local Economic Development model of Stimson et al., (2009) is explained with the variables: institutions, Leadership and entrepreneurship. Then the theory of Stimson et al., (2009) and Farag Nagi (2012) will be combined with MNCs as leaders in LED, and the Bottom of the Pyramid is elaborated upon. Following with strategies that MNCs can engage in and finally the Return on Investment of those strategies will be treated.

2.1 Background

In the 90s, a lot of mal exposures in the value chains of MNCs asked for codes of conduct (Chavez, 2011), to prevent unethical behavior in supplier chains. There seems to be a trend from, how MNCs gain only profits and causing social and economic problems, to how the MNCs can be part of the solution to alleviate poverty and have a positive influence on social and economic factors (Ansari, Munir and Gregg, 2012).

Increasingly more and more companies have Corporate Social Responsibility departments in order to put themselves under a veil of willingness, but underneath, it could be that it is just all about making money and exploiting the poor in countries where there is no consumer protection and where there are only weak institutions. One can read numerous examples in the news like Barclays who engages in microfinance projects in Africa (<http://plan-international.org>) to battle poverty but at the same time that company made a profit of 500 million Pounds in 2010 and 2011 on food price speculation; and driving food prices up (<http://independent.co.uk> and Jenkins, 2009).

Companies use CSR merely as a marketing tool to adhere to the general public in order not to lose out on market share (Porter and Kramer, 2011). Companies are clung to the social responsibility mindset and do not perceive it as a core issue. Thus, social responsibility remains at the periphery (Porter and Kramer, 2011: 64). However, this is more a philanthropy endeavor (Porter and Kramer, 2011: 64). Giving is only a temporary solution and the gap between the poor and the rich is still not closed. According to Easterly (2006) the western world gave \$2.3 trillion to foreign aid in the last 5 decades. This is neither profitable nor sustainable according to Prahalad (2006:16). What is needed are sustainable strategies and Business Models to help the people living at the Bottom of the Pyramid and these have to be at the same time profitable.

However, MNCs should and can be part of the regional or local society and their development, when they are perceived and motivated as leaders and drivers of

institutional change and empowerment of the BoP according to Farag Nagi (2012). Dozens of successful examples are already described in literature (Prahalad, 2006). Unfortunately, a large part has failed as well (Simanis, 2012). Factors that are of crucial importance are still not clear and there is much debate about it. This report will help to reveal those factors.

2.2 Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a broad term which has not a single clear definition. It is used in media, business and popular culture. Although it is omnipresent there are disputes about the content of the term and the value of the term (Schwartz and Saia, 2012: 2). The exact content depends on the nature and scope of the company's responsibilities and the "one solution fits all" idea should be forgotten. Instead various definitions should be accepted according to the ambition, awareness and development of the company (Marrewijk, 2003: 95).

Dahlsrud (2006: 4) did a study and analyzed various definitions and found that there are five dimensions in CSR which are: The stakeholder dimension, the social dimension, the economic dimension, the voluntariness dimension and the environmental dimension. According to Dahlsrud (2006: 7) companies should not try to define the definition but understand the phenomenon which is described by the dimensions and how this is socially integrated in society and how it should be cared of when defining business strategies.

The European Commission published in 2011 a new policy in which is stated that companies should, in order to fully meet their responsibilities, integrate ethical and human rights, social aspects and environment in their Business Models. And collaborate closely with their stakeholders. The goal is to improve and nurture positive impacts by being for example innovative and produce new products or services that benefit society and the company itself. Negative impacts should be prevented or minimized (European Commission, 2011: 6).

Basu and Palazzo (2008:122) define recognized patterns in which companies engage in CSR and they found three fundamental lines of reasoning. CSR is stakeholder driven, CSR is performance driven and CSR is motivation driven. One has to dig deep into the companies to find the determinants of CSR; simply looking for CSR related activities does not reveal any significant differences among companies because of standardization and homogeneity in reporting of CSR. One needs to examine the organizational character.

2.3 Local Economic Development by MNCs

Regional development has product and process aspects (Stimson & Stough, 2008:3). The product aspects are qualitative measures like increase or decrease of income level and wealth, job creation, employment levels, availability of goods and services and financial security improvement. Actors that live, work and invest in the region are most concerned with these factors.

The process aspects embody increasing social capital and financial equity, sustainable development, increasing job opportunities, spread in range in jobs and improvement in the quality of life.

Stimson et al., (2009:1) demonstrate that the combination of proper Leadership, institutions and entrepreneurship and their dynamic interrelationship act as a catalyst to create endogenous development of regions or cities. These intervening variables play a crucial role in the economic development in a sustainable way and ask for a proactive strategic approach. Thus, an MNC can successfully set the vision for the development of the city or region, facilitating institutional change by initiating plan and processes and monitor and evaluate the regional performance. This way the region can remain competitive. Of course the condition must hold that the region's resource endowments and market condition, the quasi- independent variables (Figure 1), must fit.

In the following subchapters the variables will be explained from the model (Figure 1).

Institutions

Institutions provide the principles, standards, laws, regulation in the society. These are deeply rooted in the society and have direct effect on the efficiency and effectiveness of society and how competitiveness a region is. Economic performance is influenced by institutions and the way they evolve through time. They change the rules of the game and the behavior of the players (Stimson et al., 2009:43-46). Institutions can bend exogenous forces positively or negatively for the MNCs. The capacity or ability of institutions to be responsive and flexible to anticipate quickly in the uncertain world is of great value (Stimson et al., 2009:61-62).

Leadership

Leadership can have multiple forms and is a complex issue. In the context of regional development Leadership can be seen as a collective action. It is not traditionally based on the power of one individual; instead it is based on relationships, trust and collaboration

and shared power among stakeholders. These involve public and private sectors and community sectors. Leadership constitutes shared vision or purpose, pro-activity, collaboration and creating change (Stimson et al., 2009: 32-42).

Entrepreneurship

Entrepreneurship in the context of local development is the willing to sustain one's family and business. Not per se profit driven as is in the traditional sense. A number of characteristics of the entrepreneur in the context of Leadership driven development are new industry targets, new methods, new institutions, new finance methods and innovation of physical and institutional infrastructure (Stimson et al., 2009: 64 & 72).

Entrepreneurship is also advocated by Prahalad (2006:2) but it follows out of the fact that he considers the poor as value conscious consumers who are resilient and creative entrepreneurs. Stimson et al., (2009) argue that entrepreneurship flows out of good Leadership. Both recognize there have to be cooperation and they have to work together.

Resource endowments and market fit

It is widely accepted that the performance of a region depends on the resources available and the market conditions. However, institutions and leaders in a region can enhance the resource endowments and so perform better *ceteris paribus* (Stimson et al., 2009: 25). Conversely, a region can perform below its capacity when poor leaders and ineffective institutions are present (Stimson et al., 2009: 26). Taken together, the development of a region's industry and supporting infrastructure should enhance a market fit and opportunities (Stimson et al., 2009:30).

2.4 Expansion of Stimson's model by incorporation of the MNC as leader

According to Stimson et al., (2009), Leadership is a factor that is needed for the Local Economic Development. Farag Nagi (2012:9) says MNCs embody the Leadership concept in Stimson's model. Strong Leadership means a company is capable of using their resources well and is able to increase entrepreneurial activities and change institutional factors to enhance the wealth of the BoP. MNCs can embody the Leadership actor and adjust institutional factors and together foster entrepreneurship in a region. This will provide profit for community and MNC. A leader should have three qualities to conquer the economic and political challenges: These are farsight vision, pragmatic openness and conscious presence (Saddi, 2010). Furthermore, Leadership is not based on traditional hierarchy (Stimson et al., 2009), but on collaborative relationships among

institutional actors working in public, private and community sectors and is based on co-operation and mutual trust.

Graham (2012:4) found out in an interview with William J. O'Rourke, former head of Alcoa Russia that it pays off to stand ground in your business ethics. You should not participate with corrupt officers and let corruption prevail, if your company is big it has enough slack and can handle slowdowns. Eventually the value chain will move again without corruption and demands for payments disappear. The same is true for safety standards, by complying to these standards you also evoke disruptions and investigations that take place when incidents happen. It is best to live up to your company values everywhere and at all times.

Another factor is openness and an egalitarian approach (Graham, 2012:5). When leaders are consistent in their integrity, honest and open, people will follow their lead. And the last factor is personal conviction; values and virtue drive the correct behavior, more than just following the rules and to be compliant with the law.

To fill in this Leadership role is to match the MNC's own strategies with strategies that benefit the BoP and local community. Not only looking at the Return of Investment in financial terms which benefit the MNC but the leader of LED should also look at the Return on Investment for the BoP or community surrounding the MNCs. This can be seen as a new way of constructing the business and CSR. This results in an improvement for Local Economic Development.

2.5 Bottom of the Pyramid

2.5.1 Needs of the BoP market

Around four billion people live of less than \$2 a day, spread over different countries in the world, they represent different cultures, needs and capacities and can be segmented in different ways (Prahalad 2010:6).

There is some debate about what the needs are of the BoP market and to what extend companies should or should not decide what the BoP market needs. There is a moral dilemma in what products and services companies should bring to the BoP market. According to Karnani (2007:97) some products and services make the poor worse off and they have a negative influence on their wealth. The poor are poorly educated and poorly informed consumers. An example is whitener body lotion which is used by women to make their skin whiter. Because it is on the BoP market, women want to use it since a white skin is considered as being wealthy and it will give better opportunities. Consequently, the poor will spend money on this instead of spending it on higher priority needs such as education and nutrition.

Another example is producing smaller bottles of alcohol which have a lower price, so more people can buy alcohol now. However, this results in more money spent on this product that doesn't increase wealth and research shows it imposed burdens on economic and social factors, because it reduces work performance and health, increases child neglect and accidents.

Karnani (2007:97) is against Prahalad: Prahalad (2006) says companies do not have the right to decide what consumers can and cannot buy. The poor have the right to determine how they spend their income; they can decide for themselves how they can get the biggest utility out of their limited money.

2.5.2 Urban Bottom of the Pyramid

Anderson, Markides and Kupp (2010:6) recognized there are three types of markets or environments. Urban slums, deep rural areas and conflict zones. All differ in terms of characteristics and need different strategies in order to be approached by companies.

People living in urban areas have different needs compared to people living in rural areas. In urban areas there is insufficient drinking water and bad hygiene and sanitation. Also bad quality housing, overcrowded and insecure residential status (Anderson et al., 2010:6). People living in these urban slums have marginal economic power and are socially marginalized as well. People do not own the land on which they live and do not have secure tenures which excludes them from access to credit and public services (Anderson et al., 2010:6).

In rural areas there is lack of infrastructure and electricity. These regions are isolated and underdeveloped. It poses challenges for companies who want to do business here in this rural area (Anderson et al., 2010:6). This means there are no opportunities to work and buy luxurious items. Education and health institutions are also scarce in rural areas.

Conflict zones are regions where conflicts are like war, severe lawlessness and insurgency against the constituted authority. This poses threats to companies like robbery, theft, kidnapping and physical assault (Anderson et al., 2010:7).

This report will focus on urban BoP areas to keep it in line with the previous research of Farag Nagi (2012) because there are significant differences in environments and require different strategies for companies.

2.6 Strategies of MNCs

Prahalad (2010:7) has identified BoP markets as a growth area for innovation. Managers should be aware of the dimensions awareness, affordability, availability and access. These create the capacity to consume in the BoP market. Critical aspect is to take care of

the fact that the cash flow of people living in the BoP markets are variable which make it hard to access more traditional products and service equal to top of the pyramid (Prahalad 2006:18).

Awareness should be created so that consumers know that the product or service is out there and how to use it. The product or service should be accessible to all the consumers in the targeted area. The product or service should be affordable. This is often an issue because it should be of high quality, although not luxurious, and prices low enough for the targeted consumers to purchase.

The product or service should be available. Trust should be built at the Bottom of the Pyramid to ensure an uninterrupted supply of the product or service.

Technology must be translated to a form that has value for the people living in the Bottom of the Pyramid. Not only the product or service should be innovative, but the whole Business Model (Prahalad, 2010:6). The whole Business Model must consist of all the aspects a normal Business Model has as well like logistics, manufacturing, distribution and supply (Prahalad, 2010:8). And successful innovation in BoP markets is all about working with constraints like broken infrastructure, media dark areas etc. (Prahalad, 2010:7).

Innovation in developing markets challenges the beaten path of thinking. And the BoP can become a source of new innovative products and services which can also be used in the developed market (Prahalad, 2006:27). MNCs that want to stay ahead of competition should not underestimate the importance of this BoP market and experiment with innovation (Prahalad, 2006:27).

Eyring, Johnson and Nair (2011:3) believe MNCs struggle with their existing Business Models because they take their domestic Business Model to an emerging market and they are unable to create viable solutions. They try to lower their variable costs but the overhead costs stay unchanged, even as the fundamental profit calculation and operation method. Eyring, Johnson and Nair (2011:4) argue for MNCs to start in the middle of the market with people with some income, but still struggle with facilities taken for granted in Western markets. MNCs must identify the needs of those markets that are not yet saturated and devise a relative new Business Model for those needs. Consumers spent already money to get the job done, thus you have to give them a better alternative.

Seelos (2007: 59&61) argues differently, it is more likely to use existing sub systems to make a viable Business Model instead of combining numerous new elements that must be simultaneous combined. Using existing sub systems is more efficient and effective and there is no need to radically rethink the whole Business Model.

Seelos (2007:61) argues when scaling social organizations it provides them more social value from their resources and simultaneously give economic leverage to their partnership companies. Limited partner companies are available when it comes to BoP Business Models and to find suitable business partners according to Muhammad Yunus, founder of Grameen Bank (Seelos, 2007:61). Being a first mover may preempt access to the market and gives your company first mover advantages (Seelos, 2007:61).

So the BoP is a large market for companies to expand their market, but this asks for different strategies (Prahalad, 2010:6). Firms have to understand the dynamics of these untapped markets and adapt the innovations accordingly (Prahalad 2010:6).

Many MNCs have found that those Western world products, services and business strategies do not work in BoP markets. BoP markets are heterogeneous, for instance India has different BoP markets than Mexico; solutions must be adapted accordingly. MNCs have to balance global standards with local responsiveness (Prahalad, 2010:10).

The BoP market is very limited in financial spending power so the constraints are not that the people do not want to pay but they cannot pay, this challenges the companies in designing the products and services (Seelos et al., 2007).

Managers of top of the pyramid products are blinded and biased by their doing business procedures. They rely on existing technology, relations, partners and products which they try to leverage. This prevents the acquiring of local knowledge which is deemed to be so important in order to be successful in the market (London and Hart, 2004:360).

London and Hart (2004:361) found in their research that companies entering the Bottom of the Pyramid market need to understand this social context and this can only be achieved by cooperating with non-traditional partners. Non-traditional partners are NGOs, local communities, community chiefs and village level government. Traditional partners are large local companies already established in that particular country. These traditional partners are in terms of *business knowledge of low income markets* as distant as the company that tries to launch a product in the low income market.

In the light of alleviating poverty, Karnani (2007) views the BoP as producers rather than consumers in order to get them higher in the pyramid. London and Hart (2004:361) argue that co-inventing and customizing solutions are successful strategies. The product or service must be innovated and modified by the user and the product must be seen in terms of its functionality. This involves often multiple parties before the product or service is being sold on the market.

Also provide training to local entrepreneurs, view gaps in local infrastructure as an opportunity instead of something that has to be overcome. And recognize value in local institutions instead of view them as missing (London and Hart, 2004:361).

Simanis and Hart argue with their Protocol (2008: 20) that MNCs should start by having a dialogue with the BoP market and identify what the market needs and listen to unheard voices, because MNCs do not per se know and understand what the market wants. The Protocol argues even that MNCs' representatives should live for awhile in the BoP market, to submerge in the local life. And find out what the needs are.

2.7 Measuring ROI of strategies

Besides the discussion about how to measure the impact of CSR endeavors on local communities and their social value of business initiatives (Ansari et al, 2012), also there seems to be a gap in the literature about how to measure the outcome of CSR investments in terms of financial measurements. Moore, de Silva and Hartmann (2012:120) could not make conclusive details. Companies had too many variables and could not track ROI. They asked three companies about how they measure their return on investments. Moore et al., (2012:120) propose to search for data points that are necessary to calculate ROI.

London (2009:107) also says that companies and non-profit organizations do not have reliable assessment tools to gauge their efficiency in measuring the poverty alleviation and how well the people are reached. Now they measure their success on how much money is spend or how much goods are distributed; without knowing the complete picture and impact at the Bottom of the Pyramid.

According to (Simnett, Vantraelen, and Chua, 2009) non-financial information is hard to measure since the measurement of such information started around one decade ago. The measuring is still very primitive and there is a lack of agreed upon sets of common measures.

After this literature review I hope to investigate how there is integration of the needs of the BoP and the needs of the MNCs which makes a combination that benefits both the MNC and the BoP. In short what strategies the MNCs are using. And furthermore, how and what role Leadership takes in here.

In the following chapter I will discuss how I came to the sample of the 4 MNCs and how the process took place to find the data, concerning how the needs of the BoP are catered by strategies that MNCs use in their Business Model. In the chapters following I show how the combination between needs of the BoP and strategies of the 4 MNCs are combined in real life cases in the 4 MNCs in Indonesia and discuss the results. I discuss how the right combination increases the well-being (in other words profit) for community and profit for MNC and what role Leadership plays in that.

3 Methodology

What does the BoP need and what strategies fit to benefit the MNCs and BoP? How is this integrated in the Business Model of MNCs and what role does Leadership plays with that? To find answers to these questions I made use of the Grounded Theory Research of Glaser and Straus (1967). Benefits of this research method are ecological validity and novelty. This means you find fresh, new and innovative results in a real life setting and results are close to where the data actually is generated. It is context specific and detailed.

I did research at multiple sites of MNCs; however, the sample is not big enough to do cross case comparison in a systematical manner. I can only find isolated factors that can be worthy enough to discuss (Yin, 1983: p62). I enlarged the sample, analyzed multiple cases, as argued by Eisenhardt and Graebner (2007:27), to create a more robust foundation and make the evidence more generalizable and deeply grounded compared to a single case research. Therefore I have used a sample size of four MNCs.

I contacted Corporate Social Responsibility departments in Indonesian MNCs; and did research on how the Bottom of the Pyramid is integrated in the value chain of MNCs in a local setting. The interviews with managers of the MNCs were arranged by the HR department of the respective MNCs. I did set up a questionnaire as a guideline for myself to steer the conversation in the right direction.

It depended on the willingness of the MNC if I could have a second interview with somebody from the company or if I could visit a different office or factory. Once I got 2 appointments with MNCs in the FMCG industry, I decided to push for more appointments in the FMCG industry because this makes the results more robust. Depending on outcomes from research I made a new plan or steered towards a goal (Flick, 2006). MNCs that I also tried to get in touch with were Aqua Danone, Frisian Flag, Kraft Foods and Mondelēz.

At some MNCs I was able to talk with three managers and at some MNCs I was able to talk with only one. It was hard to get an appointment; in total I spoke with 7 managers from 4 MNCs. Before the appointment the managers received a list with topics that I would talk about. Topics discussed with managers of MNCs were the themes found in the conceptual model: Bottom of the Pyramid needs and challenges, Business Capabilities of the MNC, Strategies and Business Models, Leadership and (Financial) Measurement. The complete questionnaire for MNCs can be found in the Appendix.

Conversations with people from the communities were more subtle organized. I just had a little chat with them and steered the conversation into a certain direction. If I had told them that I am researcher then there would have been a chance that the Indonesian people would have been reluctant to criticize other people or companies. Or not telling the truth to avoid being rude in the in-depth interviews. At that would make the qualitative responses less reliable. Topics discussed with communities and people living in the neighborhood of the company were made and were intended to give some structure. The complete topic list for the community can also be found in the Appendix. The topics for people from the community are derived from the literature of Prahalad (2006) and Karnani (2007) who talk about the rights of MNCs to push products and services to the BoP market.

Coding schemes are recommended according to the literature; however, the sample is not that big so it is not burdensome to write down the whole interview. Problems that will be encountered will be reduced due the following methods (Yin, 1983: p60): The narrative should be organized around questions, propositions or activities and there should be flexibility to modify during the process. Answers from different respondents regarding the same topic should be integrated in one paragraph and assembled together.

A survey among the community is not realistic; you enter a (sub) culture and ask sensitive questions. That is not possible, at least you should emerge yourself in the local culture before you can say anything. Simanis and Hart argue also in their Protocol (2008: 20) that you should first emerge yourself in a certain situation before you can understand anything.

With the help from my Indonesian connections I spoke with people in the communities. This can function as a proxy and according to my impression of the situation and the impression of my Indonesian translator's impression it was written down.

In the next chapter I show the results and I will try to give an overview of the most important or most salient strategies to integrate the BoP into the MNC's Business Model and how Leadership is concerned with that integration.

4 Results

This chapter will answer the separate sub research questions. The four different MNCs are treated separately. The results come from the interviews, unless stated differently. The research question is how the MNCs increase their chance of profit by integrating the Bottom of the Pyramid in their strategies and Business Models. That help raise the living conditions and/or wealth of the poor. And at the same time secures their future market which is now the Bottom of the Pyramid.

The sub questions are the following:

1. What are the needs of the local communities surrounding the MNCs?
2. What are the business capabilities of the MNCs?
3. What are strategies that are used by the MNCs that provide profit for MNC and BoP?
4. What return on investments measurements are in place regarding to measure profit for MNC and profit (improvement of well-being and wealth) for the BoP (community) in a broad sense?
5. What is the influence of Leadership on the strategies?
6. Does Leadership influence institutional factors?

So how does the integration looks like in the 4 cases? Below you find the empirical results structured in a table (Table 1) to give a quick overview on the results. How far are the MNCs succeeded in making a match between the strategies that benefit the MNCs and BoP. And at the same time concentrate on what the BoP needs and what strategies the MNC uses to make a combination that benefits the MNC and the BoP. Furthermore, the role of Leadership of an MNC to make the integration happen. A more complete picture of all the interview results can be found in the Appendix.

In the table below you find the results as a quick overview. The rows represent the 6 sub questions and the columns the 4 MNCs. The paragraphs after the table are a description of results. In chapter 5 I will discuss the results and put them in perspective.

	MBI	L'Oréal	Unilever	Nestlé
The needs of the BoP	Jobs and education, garbage waste disposal system, sewage system, fresh drinking water.	Food, water, clothing and a place to sleep. Labor skills and education for community. BoP needs capital to engage in entrepreneurship.	Balanced food, basic health and hygiene. Education and mobile phone. Continuous action programs.	The BoP market varies in different regions and cities. Information on needs of the BoP is supplied by NGOs.
Business capabilities	2 factories, 500 direct employees, 20.000 indirect employees. The vision of the company is to be a leading and responsible brewer in Indonesia. CSR program small and oriented towards community.	1 factory, 800 direct employees. The vision is to be a great business, the number one beauty company in the world and exclusively focus on beauty. Helps BoP with employment, CSR and sub distribution.	7 factories, 6000 direct employees, 300.000 indirect employees in 2005. The vision of the company is to create a better life every day. Unilever has conservative shareholders	4 factories, 3000 direct employees. The vision of the company is nurturing a healthier life for Indonesians. Creating Shared Value (CSV).
Strategies that benefit MNC and BoP	The BoP is not recognized as a profitable target group Does not integrate the poor people in the value chain. Resources are all imported from outside the region or country. Engages in small scale philanthropy but focus is on synergy. Has close relation with community. Connections with universities. Non skilled workers come from community. Use recently Heineken standards.	Collaboration with NGO gives advice. Gives one day labor per year per worker back to community. L'Oréal is not actively targeting the BoP. Selling small sachet of products. Use sub- distributor model to reach more BoP markets. BoP is not integrated in Business Model. Marketing is localized. Increase local sourcing.	The BoP is not per se recognized as a profitable target group. Unilever introduces innovative products. Products kept affordable. Community waste programs. Unilever Foundation aligns the business and community. The BoP is not seen as a producer or distributor of Unilever, only the distribution component of the value chain is integrated. Connections with NGOs.	CSV in rural areas is non-branded and coordinates long term relations. Nestlé works together with local farmers through a cooperation/ partnership. Collaboration with NGO. Water, rural development and nutrition is what Nestlé focusses upon, improving the BoP is a side effect. Entrepreneurship is an important element.
ROI measurement	CSR is an operational cost. No CSR ROI and Fixed CSR budgets. There is indirect profit for community but not measured. Some KPIs for bonus system CSR managers.	CSR programs are seen as investments and costs. ROI for MNC is media reach and good stories in media. ROI for community do not consist of hard targets. CSR bonus system is based on individual performance.	CSR function is integrated and hard to measure. KPIs in place but accountability shared. CSR are costs for the brands under the Unilever flag. The Foundation has KPIs on sustainability. No ROI for community, only measure the image of Unilever.	CSV is part of Nestlé legacy and is not linked to sales figures. No bonus system for managers. KPI for community reach.

	MBI	L'Oréal	Unilever	Nestlé
Influence of Leadership on the strategies	Does not act as a leader and does not influence well-being of community. Farsight vision qualities are not present. Pragmatic openness becomes present. Personal conviction is very important, to do good flows down to lower company layers. Managers should report and it should be monitored	Pragmatic openness is present. Conscious of their presence. There is a clear vision where they are going in the next decade. Cultural sensitivity is very important. Trust in the supply chain. Personal conviction and relationship on personal level is important.	Leader in CSR and sustainability. Roots are already in place and good reputation. Conscious presence, aware of the risks. Trust in value chain and the workforce is very solid. Best practices are shared. Believe in empowerment of employees. Personal conviction important and needs to support in good and bad times.	Sensitize employees for CSV. Trust among suppliers is great. Farsight vision is present and is aware of their presence. Nestlé is very egalitarian, voices are heard bottom up. Integrity, set examples and transparency.
Influence on institutional factors	Has not yet the power to bring about change in LED. Has no power to change institutional factors. MBI is a follower. Due to the sensitive product alcohol in a Muslim area. However, Multi Bintang is a leader regarding CSR in area.	L'Oréal is not a follower nor very powerful to change, but goes hand in hand with the government.	Unilever is regarded as an example and asked about input for CSR laws and regulations. Unilever engages in a dialogue and brings it in perspective when ridiculous laws are implemented. Is active in trade associations and government.	The company does act as a leader in the context of community development. Nestlé blends the local knowledge of the community with the Nestlé knowledge; it is a hard task that takes a long time to develop.

Table 1: Overview results

4.1 The needs of the local communities surrounding the MNCs

Multi Bintang

The Multi Bintang factory has close connections with the local community and so the factory will be protected and defended by the people surrounding the factory. The CSR manager has a long term close personal relationship with the community, in that way Multi Bintang will not be exploited or refused. In “return” the factory engages in philanthropy towards the community. The CSR factory manager of Multi Bintang knows what the local community need and what they expect. The Multi Bintang headquarters does not know what the BoP needs surrounding the factory and no research is initiated by headquarters yet. The CSR factory manager goes to the villages and proposes Multi Bintang’s plans and asks the villagers their expectations.

There are not really poor people living around the factory. Although they are below the middle income class, an average family earns 1 to 1.5 million IDR per month (€80 to €120); what the people need are jobs and education.

Furthermore, in the BoP area there is no adequate garbage waste disposal system and sewage system. Fresh drinking water is a problem as well. In general Indonesia is a water stressed area.

L'Oréal

The important items the BoP market needs are food, water, clothing and a place to sleep. There are also many underprivileged women in Indonesia. They are from low economy classes, are disabled or widow and are dependent on others. People living in the neighborhood of the factories need labor skills and education. L'Oréal says they can help people who want to open a salon in the BoP market, although the people living in the BoP need to take the initiative themselves and they also require some capital as well.

The shape of the pyramid changes from a pyramid to a diamond in Indonesia. The annual growth the last year of the middle class in Indonesia was 14%. The typical jobs the people in the BoP market have are in labor, working for others. Other typical jobs are selling food on the streets for instance selling 'Bakso', 'Nasi goreng' with their 'Kaki Lima' (five legs) and being a maid in a household. This is very common in Indonesia.

Forty three percent of the people that live in Indonesia live in the lower part of the pyramid.

Unilever

In 5 or 10 years the lower part of the BoP market will move towards the higher part of the Pyramid. Right now you see already in the last 5 to 10 years a migration from the lower class to the middle class. The biggest part of the pyramid is the middle class. The priority items that the BoP need are food, balanced food, even though it will be very small. After that, basic needs like a shelter or basic house. Furthermore, basic health and hygiene. Education follows next, or a mobile phone, because staying in touch with each other is very important. Hygiene products like shampoo, soap and toothpaste are bought mostly. An inhabitant of the village next to the Unilever factory we spoke with bought usually Unilever products like Pepsodent (toothpaste), soap, detergent etc. Because the quality of the products is good so he buys those products.

The people living at the BoP work as labor force, they are not so much involved as entrepreneurs. When they show progress as an entrepreneur they are no longer part of the BoP. Examples of common jobs are an ice-cream salesman who goes around on foot or bike.

Someone in the village next to the Unilever factory thinks that the big companies around Pasir Limus village are supposed to know what the community needs. What the people

need the most are opportunities for a job. Upon arriving in Pasir Limus village, we noticed much garbage on the side of the road. There was no program to clean the garbage or to recycle it which is initiated by the big companies like Unilever. The person in the village said that none of the companies cared; the garbage is cleaned up by the people. There are companies besides Unilever that support the community by giving financial support to the orphans every month. And there is a company that supports them by fixing the roads.

A teacher in a school said that Unilever should give more contributions to the people and children. What is needed is continuous action with each activity, it should be held regular. That is better for the children. The activities were a 'Pepsodent' (toothpaste) jingle singing contest and Unilever realized a hand-washing day; one of Unilever's programs to teach the children how to wash their hands properly. These were one time events and should be held more periodically. He said that there were no events held by Unilever this year, there was only one last year. The event was not completely un-useful, but the duration of the program was too short. Unilever gave them only one toothbrush, one toothpaste (Pepsodent) and one bar of soap (Lifebuoy).

Nestlé

The BoP market varies between cities like Jakarta, Surabaya, Medan etc. The World Bank has information about the characteristics of the BoP market. Nestlé does not do mapping of the BoP market. The Nestlé marketing department should know more about that. Bappenas and The World Bank have information about income and percentage of people living in the BoP. Nestlé just copies those numbers. Nestlé also uses the information and knowledge of NGOs for that. When a program is developed a needs assessment is done by a NGO.

4.2 What are the business capabilities of the MNCs?

Multi Bintang

Multi Bintang has their headquarters in Jakarta, and two factories on Java. One factory near Jakarta, in Tangerang and one near Surabaya, in Sampang Agung. The vision of the company is to be a leading and responsible brewer in Indonesia.

The factory in Sampang Agung produces only Bintang beer in bottles. The area of the factory is 36 hectare big but not everything is used. The Bintang factory was first situated in Surabaya, but because of regulations in the center hampered the factory activities and

because of water shortage, the factory was moved. Forty people from the 400 people that worked over there moved to this new location.

In the area where the brewery is located are some other factories. For instance there is a paper factory that produces paper. There is a stone factory, they fabricate bricks and break stones for building roads and houses.

MBI is part of Heineken, and Heineken has strict policies and these are getting tighter. So there will be increasing regulations for safety, health and environment. Multi Bintang is working according to the Heineken policy and that one is stricter than just following the rules of the local government. They still keep being competitive because they do not have that many competitors in Indonesia.

Multi Bintang Sampang Agung has 100 workers on the payroll and has between 150 and 200 workers that work part time. Multi Bintang in Tangerang has more workers. Multi Bintang Indonesia has 500 employees in total including the headquarters. The impact for the labor market is around 20.000 jobs that are created direct and indirect by Multi Bintang Indonesia.

Beer is mostly drunk in Bali, the tourism areas, Kalimantan and Irian Jaya. Most of the Indonesians are Muslim and they are not allowed to drink beer. Multi Bintang sells to expats, tourists and affluent Indonesians. The market on Java is small. Beer is a luxury product. Heineken, parent of Multi Bintang, is only targeting the top of the market. Heineken has a high standard so it is not possible to produce at low cost. The target group is the middle income group, and they are growing in Indonesia.

MBI recognizes that CSR has become more robust since the last 5 years; now it is recognized that it is beyond social, it is more broad. However the CSR program is still relatively small and is oriented towards the community.

L'Oréal

L'Oréal sells its products everywhere in Indonesia. However some areas are hard to reach, because internet and electricity is not everywhere. The vision of the company consists of 3 pillars to make sure that the company has a good reputation. The vision of the company is:

- 1) To be a great business, the best people are working for L'Oréal and L'Oréal gives them the best facilities. There are training centers. Breastfeed rooms for mothers that work at L'Oréal. In house salon rooms to train people who work in Salons. Employees have opportunities to grow. Works together with universities. The best student can go to Paris for a special program.

- 2) The number one beauty company in the world, where no other products are manufactured; for instance detergents, like competitors do.
- 3) Focus fully on beauty

The largest factory of L'Oréal is located in Indonesia. The new factory is LEED certified, which is the first in Indonesia, originated from the U.S. The factory and its design are completely green. L'Oréal has one factory in Indonesia with 800 workers. The 3 pillars are the core of the company. Every worker at L'Oréal Indonesia has the same facilities. Most of its employees are brought in from its old factory and they are mostly from Java. L'Oréal wants to reach 100 million more consumers in the next few years; it is already planned in the company's blueprint. L'Oréal combines local strategy with global strategy.

L'Oréal has no direct association with the BoP market. Although there are 3 things L'Oréal does to help the BoP:

- 1) Employment, because L'Oréal opened the biggest factory in the world in Indonesia Jababeka and they require people for that.
- 2) CSR, investment in sustainability.
- 3) Distribution to smaller cities and outer islands.

Unilever

Unilever serves across the segments. In the rural area the product penetration is already around 90%. The statistics show that you can find at least one Unilever product in every household.

The direct employment that is created by Unilever Indonesia is more than six thousand; this includes the factories and offices of Unilever Indonesia. This number is not including the business partners like distribution centers.

Each province has a selling office which has connections with local distributors. Unilever has seven factories; the two bigger factories are located in Cikarang, near Jakarta and Rungkut, near Surabaya. The one in Rungkut produces soap and toothpaste. The one in Cikarang produces ice cream, detergent, skincare and liquids. The revenues of Unilever are 2 billion Dollars per year. The impact of Unilever Indonesia is great. In 2005, the equivalent of 300.000 fulltime jobs was created throughout the whole value chain.

The vision of the company is to create a better everyday life. This ambition is catered by producing and selling various products on the market in the category health, hygiene and detergents. Unilever has conservative shareholders and the shares are not frequently traded.

Nestlé

Direct employment of Nestlé Indonesia consists of 3.000 people, in sales offices and factories. Nestlé has 3 factories and the 4th will start up this year. There is one for milk, coffee and confectionery. Nestlé is doing good and so the social impact is great, regarding all the programs Nestlé has with the farmers. People that are with the company for a long time, like 10 years, see a significant improvement economically and socially in East- Java in some communities. There are 30.000 dairy farmers working with Nestlé and so their lives have improved.

The vision of Nestlé Indonesia is “Nurturing a healthier life for Indonesians”. In concrete terms this means setting up cooperations. What Nestlé wants to achieve with CSV and supply chains is Creating Shared Value. The aim is in ten years to have more farmers of all product groups and more beneficiaries. And Nestlé hopes in ten years that all the farmers have their own bio gas installation so they all have a source of renewable energy.

4.3 What are strategies that are used by the MNCs that provide profit for MNC and BoP?

Multi Bintang

The BoP is not recognized as a profitable target group. There is no research done what the BoP needs. Multi Bintang sells to expats, tourists and affluent Indonesians. The BoP market does not buy beer; it is heavily taxed and expensive. The BoP market is not actively targeted by Multi Bintang, there is no potential in it. From the value chain perspective the sales segment is not represented in the BoP market. Multi Bintang does not integrate the poor people in the value chain, except easy tasks, since they have no skills and knowledge.

Resources are all imported from outside the region or country, yeast comes from the Netherlands, from Heineken. Malt is imported from Heineken as well to preserve the taste, this comes from the U.K. or U.S. Malt and Hop cannot grow in sub tropic areas so this is imported as well. Water that is used comes from natural sourcing out of the environment. Marketing and sales agencies are from Jakarta. Only the residue waste water is put back in the rivers after treatment and quality control. Organic malt waste is sold to local famers for their cattle. Paper labels are sold to the paper factory, around 20 kilometers from the Multi Bintang factory. Paper is recycled and is used for other products that can be produced from old paper. Oil is sold to a factory nearby as well. Bottles are imported, in the past they used glass from Indonesia, but the quality was too

bad. After 3 rounds of using the bottles cracked. They do not want to focus on improving the local glass factory because they only focus on the beer.

Different projects are running to educate and increase well-being in general. Recently Multi Bintang started education and training programs for retail channel's employees about minimum drinking age.

Another program is the soil fertility program. It is a small scale program. They are small tubes and can be inserted in gardens and it can be filled with organic waste. This makes the soil more fertile, prevents floods and reduces organic waste in the general garbage. Multi Bintang is offering courses now to the universities and sponsors material. Students will work in hospitality or become entrepreneur and hopefully they can benefit from this program and increase the awareness for the product and increase market share.

Three hectares of land that is not used by MBI SA is rented out cheaply to the families of the community in the first priority to plant rice. Every year different families will rent the land for a period of 1 year. There are sewing classes and electronic classes. They consist of 12 people and are given for free for the young people once per two year. Multi Bintang does not keep track of the students after they finish the course.

Multi Bintang is exploring to let local people be involved with the fermentation process. Multi Bintang has the resources and knowledge. This can help some local entrepreneurs fermenting food which they can sell. In the future farmers will be involved as well for the resources, however with the women only, they are more responsible.

MBI SA wants to be a good neighbor in their community and have a close relation with the community. Be compliant to laws and regulations. And make sure people will not disrupt the factory processes by for instance blockades and demonstrations. Multi Bintang set up a systematic community program and now the problems are almost gone. Now there is a synergy between the company and the community. Beer is a sensitive product here in Indonesia and in the past a target for Islamic activists. The Multi Bintang factory uses different kinds of employees: Factory workers are from the community. Gardening, cleaning, loading and unloading employees are outsourced and are from the community. Security is outsourced as well but provided by the headquarters. Office employees need competencies and skills so they are from all over Indonesia. They cannot be found in the environment.

Every year a CSR budget will be set up, divided into different segments. The first one is general. Activities included are: The Mosque renovation, public facilities like road and gutter renovation, electric power supply, school renovations. Special events like Independence Day of Indonesia, Ritual ceremonies, Muhammad prophet birthday, Lebaran Haj and security. And contributing to lost villager's income from the land.

The second segment is Adult and Eldery, activities that are included are sympathy care for old people, package for Lebaran, health program and food additives.

The third segment is Youth and Children, activities that are included are sympathy care for orphans and scholarship, circumcision, sport activities and educational programs.

The fourth segment is relationship, included are special events for military anniversary, the village of Mojokerto's anniversary, police anniversary. Lunches and dinners together with the leader of the village and with government related persons.

Bintang will only sponsor 30% of a renovation project because then the local community feels responsible and maintains it later as well. If you give all the money, building material will not be bought but disappears due to corruption. The community programs can only exist when there are synergies. The company and the community have to support each other. Managers have close connections with the local community the factory will be protected and defended by the people surrounding. The managers need to have a close personal relationship with the community in order not to be exploited or refused. In "return" the factory engages in philanthropy. Activities that have nothing to do directly with Multi Bintang like restoration of the Mosque and education, building a road, help the local government, school supplies. Multi Bintang also engaged in a strategic philanthropy to give blood to soldiers, of course for defending purposes. However if the situation will change in the future the factory can be moved if this is deemed necessary.

Benefits for the community around the factory is the creation of jobs. If this area had no problems since the beginning of this factory, for instance, or if the area of the brewery would not be a Muslim community or there were no demonstrations. Multi Bintang would not invest into the local community by restoring schools etc. The community program did not come intrinsically from the Multi Bintang factory. In the future the brewery should be energy and water neutral and this will benefit the broader society.

Corporate Social Responsibility has changed in the last 5 years, it has become more robust. It is more than philanthropy alone; it is integrated in the business and is strategy. The top of the company knows this, the Board is aware of this. However the problem is that the layers below have difficulty with this changing concept. Employees still think it only means to be on time at work.

Multi Bintang pays more than what deemed necessary and they check if the hired companies pay their people enough and do not keep money behind. Multi Bintang increased the use of gloves, shoes and safety glasses. So this can maybe be set as the standard in the surrounding area.

L'Oréal

The BoP market is not recognized as a profitable market, they do not use L'Oréal products that much so the BoP is not a great target. However, L'Oréal still wants to reach those people. This is done by selling small sachets; those are around 50 dollar cents. The sachets are handled through the regular distribution methods like in the traditional markets. However the sachets are not profitable for the company, there will not be revenues from these sachets.

L'Oréal started Citizen Day since the year 2010, this program entails that every worker of the office and factory spends one day per year for the community. The aim is to give something back to the community. This year the program was on unprivileged schools for the age 0-4 years old, various schools were reached around Jakarta. Activities that were done were painting the schools, built a toilet and repair water pipes and systems. Toys were offered for the children and tools for the teachers. L'Oréal works together with the NGO Agora Foundation who has an advisory role. L'Oréal consults them about what they can do for the community; L'Oréal doesn't monitor the schools directly.

Citizen Day is used for internal communication. Internal resources are used for the community. Media is not invited, so it is not really marketing, although this is not a strict rule not to do so. There is no target, neither targets about how much media coverage has to be reached.

Benefits of investing in the local community are to fulfill their responsibility towards the local community, and to give back to the community. Since L'Oréal also took from the community by selling the products.

L'Oréal considers if the product is affordable and accessible in BoP markets. To secure the future market share of L'Oréal they make their products as accessible as possible and that with the best quality possible. Only some brands are available for the BoP market. The sachets are available in all traditional markets which are called "Pasar" in Indonesia. The face cream women use in Indonesia is specially developed for the needs of the women in Indonesia. The majority is Muslim and prays 5 times a day. So the Indonesian women need a cream they can apply often. The shampoo that is sold in small sachets in Indonesia is actually developed in India by L'Oréal. The creation of sachets for the BoP market is fairly new. It is not the main strategy; they will not get high revenues from that. And last, they use local people in advertisements to stay close to the society.

The sachets of L'Oréal are recyclable and they can be recycled by other companies, but L'Oréal is not involved in that. In the informal market people collect the waste and sell it to entrepreneurs that see economic value in the waste. The foil of the sachets can be recycled. There is no relationship between the waste disposal entrepreneur and L'Oréal.

L'Oréal is not particular increasing the competitiveness of a region by local endogenous development. It is limited to labor opportunities, CSR and sub- distribution to stimulate local businesses.

L'Oréal is not actively targeting the BoP. Some of the higher part of the BoP are already reached, but not the lower part of the BoP.

The global strategy is to localize. L'Oréal is close with the needs of the Indonesians. Right now 55% of materials are sourced locally from Indonesia. Where those factories get their raw materials from is not clear. The local sourcing target will be 75% within the next 2 years. To use local sources they make their commitment stronger. They make products for Indonesians from Indonesia. The factory is producing products that are for 70% used by the people of Indonesia, and 30% is exported.

Labor opportunities are given to people living in the surrounding of the factory that have no skills and low education, they call it hard labor. Those people work in packaging, manufacturing, moving of material. Their percentage of hard labor is quite big and is hired through 3rd party outsourcing.

L'Oréal has distribution to smaller cities in Indonesia and to the outer islands; this generates work for people. An example is Ternate, on the Maluku Islands. In that area L'Oréal uses a sub-distribution model. Since recently, 1 year, people can buy the L'Oréal products now on this smaller island. In the past the distribution of L'Oréal products was only arranged to and on the bigger islands like Sumatra and Java.

L'Oréal says they can help people who want to open a salon in the BoP market, although the people living in the BoP need to take the initiative themselves and they also require some capital as well. L'Oréal does not look actively to start up salons in the slums or smaller cities. L'Oréal only invests through the sub-distribution system to reach the BoP market and through their school programs that give schools laboratory equipment to teach. They give the tools to catch fish, not the fish.

The products that are sold by L'Oréal are by nature not demanded by the BoP market. It is not their target market. Skincare products are now sold in sachets as well, in the past only hair care products. The BoP market fosters innovation and also distribution. In the past they had only one distributor and the distributor decided where the products went. Now they use the sub- distributor model and have deeper penetration in Indonesia.

L'Oréal built a Mosque that is available for the community around the factory and for the factory workers. They plan to make a kindergarten school as well. Not high level education, primary or secondary education. L'Oréal Indonesia has not the resources to do all the planning that is needed with education higher then kindergarten. A kindergarten school is just a start. Probably they work together again with the Agora Foundation. Investment in higher education is more difficult, they don't know yet if they want to

invest in that. They have to find a larger place to build and work together with the Ministry of Education to list it. It is still too far away now in order to start this.

The core of the company is science. The priority tasks of the CSR department are to stay in line with science. There are 3 CSR programs:

- 1) Four Women in science: They give young women who are researchers and under 37 year old who make the world a better place a sponsorship. To help finding cures for diseases like cancer and diabetes. It consists of Life science and Material science. This is a Global program and outside the scope of the company core business. So not beauty related.
- 2) Science lab: Investments in laboratories in schools in Indonesia that have a lab but don't have anything in it. L'Oréal supplies the tools and charts for the school's lab. These labs can be biology or chemistry. For every school there is 75 million IDR available. Ten schools per years in Indonesia can participate.
- 3) Beauty for a beautiful life (has still to be implemented): PEKKA, a large NGO in Indonesia, selected 15.000 underprivileged women. They are from low economy classes, are disabled or widow. L'Oréal gives training to let those women gain skills so they can work in a salon in their own society. They learn techniques like straightening hair, but also English. The women can in the end make money for themselves and be empowered. The empowered women will not be integrated in L'Oréal business strategies. The program is implemented just to make those women independent.

Empower women that are underprivileged is very important in Indonesia. It is a problem in Indonesia. Once a woman is widow or divorced she has no rights according to the government. They are secondary citizen, women are there to cook and take care of kids.

L'Oréal has in-house training rooms for salon professionals that use their products in the higher range. The professionals are invited from all over Indonesia. There are no salons in the BoP markets and so there are no people invited from the BoP market. The cheapest price for a salon treatment is around 100.000 IDR (€8,-) with the cheapest brands of L'Oréal, so that is not affordable for the BoP market. The consumer brands can be bought by people in the BoP but there is no special treatment.

Improvement of the living conditions of the BoP is only done through CSR, not through L'Oréal's Business Models.

Unilever

The BoP is not per se recognized as a profitable target group. Although products are sold to the BoP at a fair price. Unilever will not sell something at a loss; then they would run out of business. The scale is what matters, here are many people living in the BoP and

Unilever wants them to have access to the Unilever products as well. Unilever makes use of social mapping and makes sure the product is affordable for all classes of the society. To make it affordable they use the price or product type, for example by changing the quality or features and simplify. Although there will be always a certain standard quality.

Unilever Indonesia has a Consumer Insight team that works together with market survey companies to research the market and look for potential. Consumer insight scans the consumers, society, economic feasibility and potential. Products will never be launched without consulting this team. When a product is launched Unilever knows exactly which group is being catered by that product.

Malnutrition and unsafe drinking water are big issues in the world today. Unilever created a framework to double the business by 2020 but halving the impact on the environment while doing business as usual. Reducing waste, water use and emissions. The biggest footprint is in the consumption of the product. Unilever introduces innovative products that use less water and Unilever educates on how to use the product. Unilever has for instance a one rinse detergent for washing clothes that saves water. Unilever fosters innovation by finding ways to reduce the waste. However, not specifically created for the BoP market.

Unilever is not specifically serving the BoP market. Unilever does not make a specific innovation for the BoP market; products are kept general and affordable for all the income layers. Thus the BoP can afford the products as well. It is not economically viable to create something only for the BoP market. When the lives of the people living in the BoP improve and they can afford more, they will buy other Unilever products. Because they already know Unilever's products.

There are innovations like looking at how the sachets can be made recyclable or convertible, but this is not really specific in the interest of the BoP market, but for the community at large. Nowadays the sachets are of a different material than bottles and the sachets have less economic value and the collectability of them is not enough to collect them by the informal market. The waste infrastructure is not yet established by the government and yet Unilever cannot yet regulate the waste. In the past 2 or 3 years, Unilever has been looking for methods to convert the sachets back into oil.

Already many communities are cleaner because of the community waste programs of Unilever. Unilever is working together with Nestlé, Aqua Danone, Tetra Pack and Coca Cola to look for solutions on post- consumer waste issues and best practices in sustainability are shared.

Unilever's strategy is to sell every product for a fair price. If somebody wants to spend a small amount of money on shampoo there is a type of shampoo in a certain package that

caters the person's needs. Unilever does not believe in giving the products away. It is not a philanthropic organization, at least not in a product sense. In education Unilever is philanthropic. The government is there to facilitate those at the BoP and to help them.

Various brands of Unilever did sporadic engagements with the communities in the past, not yet linked to what has been done before and has an ad-hoc character, every year again without looking back to projects done before. The Unilever Foundation is raised because the endeavors of the Unilever brands must be all aligned with each other and has now a more holistic and synergetic character. The ultimate objective of the Foundation that was established in 2000 is bridging the business with the community in a holistic way. Integrate all the things that individual brands do to one Unilever umbrella and nurture relationships. Leverage common elements among brands and act better and more towards what the community needs. Put a framework in place and have a clear approach that goes across the whole value chain. Raw materials, manufacturing processes, manage brands and make connections with the community/consumers.

Unilever makes no difference between the community and consumers; they are the same group of people. Unilever targets everybody; however the brands in Unilever target specific groups.

Programs that are diploid have to have relevance both to the business and the needs of the community. There is no point in looking only at the business side and push things towards the community. It is not philanthropy, there has to be profit as well. However, the point is in how they do business and how they utilize their profit. There are more elements that are at stake, like social and environmental issues. If they neglect social and environmental issues and focus on profit it will be a matter of time before there will be a clash with some parties or regulations. And this means Unilever has to abandon certain operations. Social sanctions will arise. Unilever is in the consumer goods so Unilever has to be connected to the consumers through their brands.

With price differentiation and presence of community programs this is done. Consumers in the BoP see that Unilever is a company that is doing more for their families.

There are three examples that reflect the presence of Unilever in the middle and lower part of the pyramid where people are not only served by product but also by programs. Unilever goes to the 33 provinces in Indonesia with their global hand washing and tooth pasting program of Lifebuoy at primary public schools and "Posyandu" (community help post in a village, run voluntarily by local women, initiated long time ago by government). Unilever trains people and they can pass the knowledge on to other people.

Unilever sells at a reasonable price for a reasonable profit. The principle of affordability is very important. There are two aspects: Price, the segmentation, which relates to the

different package sizes. Product type, formulate the product in a simpler way. So still deliver the basic needs of that product category. So you pay a fair price for the product, relative to the quality and size. The standard minimum quality is the same everywhere although from time to time the materials and ingredients are reformulated since prices go only up and they look for alternatives or substitute raw materials and packaging.

The Foundation creates a mechanism to get all the stakeholders together. Global people survey is done every year and the opinion of employees is asked about various topics. Topics are whether employees are aware of the sustainability programs, what they think of it, if they value it and see it as a good thing. And it got a good score. Unilever has a lot of awards and with the internal communication system that is in place the information is shared with employees. Many awards are made possible by the sustainability team.

There is no specific endogenous development plan for the local community around the factories to make the area more competitive. Local talents are absorbed by Unilever. Provide opportunities for people with internships. Per year 30 to 50 people per factory get a scholarship. Sometimes people from the BoP are also given a scholarship, those who have skills. Unilever does not decide everything themselves, but they consult village heads. Factory managers have contacts with the community. General workforce is outsourced and they are absorbed from the community.

There is an active group of volunteers in the factory who reach out to schools and talk about health and hygiene, drugs and HIV. Spread knowledge about environment issues.

Local community is defending Unilever when there are disruptions from outside the area. Ever since the beginning the factory works together with the people of the community and this is where the families get their money from. There is a continuous interaction for instance with celebrations. The volunteer program enables Unilever to nurture the relation with the community.

Disruptions are of industry broad nature for instance from the unions. There are no conflicting issues because of the products, everybody uses the products and the products are accepted by the Indonesian society.

The BoP is not seen as a producer or distributor of Unilever. However, often a salesman who is intelligent and has skills can work himself up as a stock point entrepreneur. Unilever and distributors are always looking for distribution extensions. There are always opportunities to cover untapped areas. Jobs can be created. The same is true for drivers that deliver the products. Extended partners of Unilever work in the BoP markets. Basic education is necessary to activate the skills. One skill is the Indonesian language; you need to speak that at least.

Unilever is securing the market by updating/innovating products that are needed by the market. Also the resources internally need to be prepared in terms of capabilities to secure growth. So the infrastructure must be in place. And Unilever has to make sure they

can grow sustainable. Make sure whatever they do must be in line with local environment agendas and work together with stakeholders.

Unilever believes if you make the BoP aware about hygiene and health eventually the BoP will get stronger and this is also for the benefit of Unilever because more products will be sold. Only the distribution component of the value chain is integrated in the BoP market and creates opportunities for the BoP because Unilever is looking for talented employees and distribution opportunities.

The Unilever Foundation cannot reach everywhere at once but looks for areas where it can make a difference and be successful and this also activates a ripple effect towards other areas. Then they move on to the next area by taking some of their resources off previous projects gradually, but remain in contact with the previous, now independent areas with minimum support. Progress of the Unilever Foundation is tracked every month.

Unilever does not use the word Corporate Social Responsibility, but the Unilever Indonesia Foundation. The work covers Unilever's Sustainability Living Plan, USLP. It covers two aspects, the business in the community and at the community; and working with international and national NGO partners. To deploy economic and social programs that depends on the needs of the country. It is not just CSR, it is CSR embedded in business operations. CSR only focusses on certain aspects, while Unilever has a more holistic approach. The Foundation helps to let Unilever reach their targets and takes initiatives in terms of social and environmental issues for the targets of 2020. So it is beyond CSR, it is integrated in the Business Models. More deeper, holistic and relevant to each of the business functions. For the outside world, government and public organizations we still call it CSR since that term rings a bell, but in practice it is far more evolved as a sustainability agenda.

An inhabitant of the village Pasir Limus next to the Unilever factory said that Unilever supported the people quite often. Sometimes Unilever had free medical service for the people, but not continuously. Sometimes Unilever gave them free ice creams on Independence Day. A relative of the person was working for Unilever. He said that Unilever is a good company to work for. He is able to earn a good salary and Unilever routinely supplies each employee a package of its Unilever products every month. Items such as toothpaste, detergent, soap, etc. So the employees do not have to buy those household products anymore.

Unilever also gives allowances like house allowances, and some allowances for the wives and children. He said that the allowances Unilever gives are better than they receive from the civil service. The procedures between Unilever and the people in order to give support to them is that Unilever usually comes to the village chief and proposes the activities Unilever is going to undertake and asks for permits.

Nestlé

Diagrammatically, the Corporate Social Responsibility looks like a Pyramid. First Compliance at the bottom, then Sustainability in the middle and on top of that Creating Shared Value (CSV). Nestlé Global has three focuses: Water, rural development and nutrition. Improving the living conditions of the urban BoP is a side effect of these focusses. The target of CSV is rural development.

It is harder to incorporate the urban part into this Business Model. Although it overlaps with the nutrition programs and this will benefit in the long term of course for example children who become healthier. There is a side effect of the CSV for people living in the BoP but the target are people living in the urban area. The water and nutrition program is benefiting the urban area as well, like water treatment projects. There is a spin-off of course with the programs but it is a bit far-fetched, children will be part of a healthy labor force later on.

Nestlé does not have their own farms, so they work together with local farmers. These farmers are part of a collective or cooperation that sells the products to Nestlé. The cooperation is not owned by Nestlé and so Nestlé has to pay a good price for the milk otherwise the cooperation is free to sell to somebody else. It is like a partnership; however Nestlé has not the sole right to buy.

With the cooperation there is ownership of the community, this would not be the case if Nestlé had their own farms. It would maybe be cheaper for Nestlé but there is no Creation of Shared Value.

Entrepreneurial skills have to come from the community now, for instance the food for the cattle is now taken care of by the community. So they do not only sell the milk but are responsible as well.

Nestlé builds 5.000 bio gas installations for the farmers for them to make electricity; this is already possible for small scale farmers with three cows. Nestlé works together with NGOs, like Hivos. This project is sponsored partly by Nestlé and Hivos.

In this way they provide economic development through their model. And this is only through milk. There are similar programs with coffee, in Lampung. Nestlé gives them training in all the facets of the coffee farming and drying process. The farmers are part of a cooperation as well. Other NGOs are involved like WWF, they make sure the area is conserved and advice Nestlé.

Economically, the farmers' lives have improved already. You can see that from the infrastructure and houses of the farmers. They live in a better way.

The Business Model for coffee production is not yet that developed as that one with the milk.

Nestlé exports some of the coffee. Nestlé also started with cacao farmers and works together with the community and builds their capacity. Give trainings and monitoring. However, another U.K. based company buys the beans and Nestlé buys from them again. With the milk and coffee bean Nestlé aims to give the cooperation an international certification, so the price will be higher for the products; which means more income. Here the entrepreneurship comes in into the conceptual model that is used by this report. 50% of the daily supply comes directly from the farmers in the cooperation.

Milk procurement and daily development is a business unit of which Nestlé provides storage and refrigerators. Every day Nestlé pays the cooperation in cash, the cooperation will disperse the money to the farmers. The milk will go to the factory of Nestlé. Nestlé does not own farms, but works together with local farmers. Nestlé has to make sure the supply chain is working so Nestlé has to invest in building capacity of the farmers. In Indonesia, Nestlé works directly with the farmers through cooperation and builds the system together with the cooperation.

The urban area is not part of the focus of Nestlé, but of course with the nutrition program “Nestlé healthy kids” they reach the urban area as well. But of course you cannot do everything. Nestlé fights obesity and malnutrition. Learn children in schools about good nutrition. In an economic development sense there is no relation, it fits the marketing strategy better. Nestlé builds a good relation with the buyer and community. Strategies are selling sachets and smaller packages, price segmentation, and niche market. Cheaper products are sold but with the same nutrition.

From a CSV side they are working with a coalition of other parties in urban areas, for instance HIV programs. Those are oriented towards the urban setting. The group of FMCG companies collaborate in the process of post-consumer waste. To come up with solutions about waste and packaging problems. It is recently introduced, just about a year ago.

In the future Nestlé will just follow the chosen path and expand this strategy. People in the urban areas will have ad-hoc basic improvements, because of regular donations, for instance to orphanages and to the community. However it is a very small percentage. About ten orphanages in the area around Jakarta receive regular donations. Although every community surrounding the individual factory has their own program. They go into the community and give women for instance empowerment programs, like sewing etc. It is at a factory level. In absolute numbers it is not reported back to the headquarters. When it is on an ad-hoc basis it is not part of CSV. The factories do not build up economic prosperity for the community; they just maintain good relationship between the factory and community. It is more community relation than CSR.

CSV is non-branded, separate brands use CSR but with the intention of brand recognition, marketing and promotion.

Nestlé as a company uses CSV, this is non-branded, and they do not use sampling of brands. The individual brands under the Nestlé umbrella are not obliged to set money aside for CSV; they all set their budgets separately for CSV and CSR.

4.4 What return on investments measurements are in place?

Multi Bintang

The expenses of CSR per factory will be checked and budgets will be adjusted according to those expenses. In economic downturn budgets will not be cut because the amount that is reserved for that is relatively small. Budgets for CSR are seen as investments at the finance department. But in the financial reports it is likely stated as an operational cost. An investment should be tangible, and that is not the case with CSR.

Multi Bintang does not track return on investments since it cannot give any amount or value to the CSR endeavors.

Although CRS is beyond charity, there are budgets for it. It is still important to help neighbors of the factories and communities.

Heineken has policies to which Multi Bintang Indonesia has to answer but it is challenging. Policies are not linked to the KPI measures yet, so it is not audited, so it remains just a policy.

Reporting is very new, reporting is very narrow and there are no measurement instruments. GRI program is used, The Global Reporting Initiative. It helps to guide sustainable reporting standards

The parent company, Heineken, states a certain vision, but every subsidiary is free how to implement it. Since every environment is different. They report back how much money and hours are invested. However CSR was never compulsory so the definition of CSR is not clear.

The money that is spent for CSR will not flow back to the company. Every 6 months the CSR strategies are evaluated and there are meetings with headquarters.

There are no measurements, although CSR can be measured as the time and money that was lost in the period when still blockings and disruptions existed. CSR budgets that are given by headquarters should be respected.

Indirect profits will be there because of this CSR programs. But you cannot measure it.

Also indirect community profit is there for the people that had an education from Multi Bintang like sewing, computer or electronic class. They can start a company and can be hired by Multi Bintang later.

Multi Bintang offers courses in universities and sponsors materials, this to help the universities and students become eventually entrepreneur and work in hospitality and thereby increase market the share for Multi Bintang.

The CSR department consists of one person in the brewery SA. There is a bonus system; the bonus will be 1 to 3 times a month's salary. It is based on 6 KPI indicators.

These indicators are: The amount of complaints from the environment, staying within the budget, compliance of regulations and permits, complains regarding HR, fights or accidents and safety conditions. This will be monitored by the CSR director from headquarters.

15% to 30% of the salary for managers can be gained as bonus, regarding energy and water savings.

The budgets are defined in the headquarters. Due to the CSR programs, MBI SA has no demonstrations anymore. There are KPI measures in development to measure the impact, this is done by Heineken. With these measures you also have a viable argument towards the higher level in the organization when you need more money for your programs. But right now here at Multi Bintang they do not use them. In the future it will be implemented.

L'Oréal

The CSR department tracks ROI by media reach or media coverage. There is no measurement on how much profit there will be for the community or for the business in the long run. It is not like a commercial or advertisement that they show today and sell tomorrow more products. They give something now, but get a return in the years that will come. It is not measurable.

L'Oréal knows that they are doing good when people talk about them and tell good stories in the media. The main goal is that people have trust in their company.

They see the CSR programs as investments, but also as an expense or costs. The investment is not about getting the money back, but to have a great reputation. The PR department does not bring money into the company like sales and marketing do.

There are also no measurements that will help the decision making process for new projects or adjustments of Business Models.

The CSR department has a bonus system. The bonus is calculated based on individual performance of the CSR worker and calculated on the programs that are run. It depends

on how successful the program was and how much coverage it received in the media. PR values are calculated every month and are compared to the previous years.

An example of measurement for profit that goes to the community or BoP is “The 4 women in science” program. There are 25 women in Indonesia that got the 75 million IDR grant. L’Oréal keeps in touch and asks them how the program is running. But L’Oréal does not expect hard targets. The research that the women are doing could help people in the future.

If the CSR department needs more money, they have to ask more money from the brands that are under L’Oréal flag. So if the CSR program becomes bigger they have to work together with the divisions within L’Oréal. Every brand has its own budgets.

Unilever

The budgets for CSR have never been cut. Every year the Unilever Foundation wants to become bigger in terms of deliverables; it can never be less. However, budgets increase only a little, so the Foundation needs to be more efficient.

A component of the costs of CRS is embedded in each brand, since the improvement in sustainability is in the production process of the brands. The brands pay for this. Also brands communicate like PR to the public and this are also costs in the books of the brand.

If you want to calculate the costs then you have to calculate everything because it is very much integrated. You cannot tell the costs of the CSR function, it is too much embedded. There are no tangible deliverables.

The Foundation has KPIs, however the accountability is shared. The Unilever Foundation is not the only one who is responsible for missed targets. How the business performs is not in the Foundation’s hands, the success in the community is in the hands of the Foundation. The Foundation has KPIs on sustainability.

Return on investment for the local community is not tracked, because there is no way to do it. However it can be measured in a different way. Unilever is the most desirable company to work for and the most recognized company in sustainability. That is assessed by independent monitor companies. This is an external measurement and this tells them they are on track and this increases the image of Unilever.

The bonus structure is the same as any other employee has, targets that have to be reached are linked to their goals. Also personal development goals. An example for a KPI is getting the development program working in ten locations. Every division has its own monitoring system.

Every year there is a budget that cannot be exceeded, there are mechanics in place that monitor it every month.

Nestlé

Nestlé doesn't use percentages for CSV, since they are not mandated to do. So they do not set money aside. CSV is part of Nestlé legacy so it doesn't have to do with sales. Nestlé is committed to it and has to keep it.

CSV budgets are defined on the evaluation of how a certain project is doing. For some projects the money increases, for some projects it remains the same. But when they have made a commitment to a certain project, they do not take their hands off it.

The commitment to CSV is not linked to the amount of sales. Even in a sales downturn they still have to keep doing the CSV projects. If fluctuated every year, with sales for instance, there would be no long term focus.

There is no bonus structure for CSR managers. There is a regular evaluation for the targets every year. It is not like a sales department that when you for instance sell more the bonus will be bigger. Nestlé is not that aggressive in their bonus structures, it is not like in the U.S. In the CSR department the target consists of KPIs. If you reach the KPIs you get the bonus. However the company structure is very flat so it is hard to move up or down very quickly. So every year you have to reach your set of KPIs like reaching the budget targets for spending in communities. Another KPI is successfully run a certain CSV event. Develop certain platforms for intern or external communications like newsletters.

Measurements are built in the supply chains. Nestlé enhanced the economic situation and the well-being of the community and now they are also able to produce good quality products in time. This also makes sure the supply to Nestlé is not disturbed.

4.5 What is the influence of Leadership on the strategies?

Multi Bintang

Multi Bintang does not really act as a leader and does not influence the well-being of the local community that much. Multi Bintang has not yet the power to bring about a change in Local Economic Development. If Multi Bintang wants to be sustainable they also have to make sure the community is sustainable; also in terms of profitability for community surrounding the factory. But this must still be studied by Multi Bintang.

Farsight vision qualities are not present at Multi Bintang, moreover the company is still questioning what and where they will be in one decade. It depends on the neighbors as well. If the area is developing as a residential area the factory of Multi Bintang should move. More guidelines from headquarters are necessary to get farsight vision.

Pragmatic openness is also not abundantly present right now. The manager met others in Asia but it is not up to that point yet. Most activities are ad-hoc. Now with Heineken as a parent pragmatic openness is present in the company, for everything there are models and benchmarks supplied by Heineken. There are peer groups that compare where you stand in the industry. Multi Bintang is conscious of their presence; there is a good relation with the environment and village heads. The right amount of taxes to the local tax authorities is paid and relations with the government from which they buy the water from are present. Multi Bintang provides employment for the local community. There is no local sourcing for raw materials.

The company is a listed firm this means it has to give full disclosure. It gives openness when in transition about what will happen with the change of structure. It gives full transparency in social activities. Auditors will record it and publish.

The President Director has a personal conviction and places great value on CSR projects and wants to be more involved.

At manager level there is great trust. A lot of meetings are conducted to share ideas of plans and to ask advice. When there are programs and activities some managers will be invited; mostly 2 or 3 of the 6 managers of the higher level. Not all managers will be invited because this will disturb the production. Multi Bintang has a good reputation and good supply chain vision with strict targets. Multi Bintang sells only to licensed partners. The Sustainability Program has targets for environment and energy consumption. It goes further than the "Kyoto protocol". There is a good atmosphere in the team and all the employees are a member of a labor union, there are meetings with everybody a couple of times a year.

Personal conviction is very important. If the person at the top is intrinsically motivated to do good, it flows automatically down to the lower layers. However if you are a middle or lower manager and you want to do good, but the top does not want it, there is no possibility. They see that at Heineken as well, Heineken is very motivated to be responsible and this flows or cascades down to lower levels. Heineken is a family business; certainly it would be different if it was a public company with stocks.

Other Leadership factors that are important are that managers should report and it should be monitored. Without monitoring it will not work. It also needs to be inspiring; for example with movies that also inspires workers. Heineken has a clear vision how they want it to be.

L'Oréal

L'Oréal has farsight vision and strategy; this is seen by strong targets and strategy. The vision of the company is very important. L'Oréal has a plan for the next 5 to 15 years. There is a clear vision where they are going to.

Pragmatic openness is present; the country manager of L'Oréal is from India. Furthermore managers are going around to different subsidiaries. Plenty of managers already worked for L'Oréal in Paris.

L'Oréal is conscious of its presence. Ten years ago it was not as developed as nowadays, and prospects are better now. The perception of Indonesia shifted in the last few years by Paris and Indonesia became more important. Demand of sales is high in Indonesia and they know they have a good location in Indonesia. There are no problems at all with the religion in this country and L'Oréal's products, which are make-up and shampoos. Cultural sensitivity is very important. Good market understanding and know who the consumer is. L'Oréal combines local strategy with global strategy. L'Oréal is open to pragmatic openness as long as it is in line with Indonesia. Differences are for instance in terms of communication and product specification; different shampoos and different advertisements. The brands still keep their image but it is changed a little bit according to the culture's needs.

There is Citizen Day, different events, Christmas parties and free movie evenings for workers; which fosters trust among employees. There is a mix of people that work for L'Oréal for a long time and new people that are hired since the expansion of L'Oréal Indonesia. The people that start in the company still have to build trust with the company. The older generation employees have already trust in each other. There is a lot of trust among suppliers at L'Oréal. There are fixed terms of payments and so on; it is systematic now.

Personal conviction is present by the country manager of L'Oréal and is important for the leader. In Eastern countries you also need a good relationship on a personal level with your relationship. When there is a change in leader or a leader is replaced they feel the impact instantly. The country manager has worked here since January 2012 and worked for L'Oréal India at a different division previously. The markets of India and Indonesia are similar. He also took part of the Citizen Day and he is engaging with the government. Managers are open to their subordinates. When there are concerns about the job, the company urges the managers to be open. Hierarchy at L'Oréal is like a spiral. People have to grow organically and take initiative. There is a pyramid like in every company, but here employees should develop their own tasks.

L'Oréal reduces poverty by having the big factory. This creates labor and thus combats poverty in the area. There is a high demand in products in Indonesia, so in the future they need more workers and will increase the skills of workers by giving them training as well.

The leader should have integrity, because the business in Indonesia has to be sustainable. People who work in management have proven tracked records. The average age of managers is much lower than in other companies. L'Oréal gives opportunities to young people and who have a fresh view and have good prospects.

Unilever

The vision of the company is to be in Indonesia for the long run. And embrace the consumers throughout the consumer life. So to be sustainable will be very important. It can be seen from two angles. Good products, so looking at functionality. But also connectivity to the consumers and accompany them day in and day out. The company hopes to be recognized as a company that does good for the family and environment. Best practices are shared, also in the form of awards mechanism, in aspects of brand activation, brand innovation, sustainability, hygiene, environment and responsible sourcing. They share information among countries by the internal website of Unilever.

Unilever Indonesia is one of the few companies that are leader in CSR and sustainability. Unilever has a good reputation in business performance, social and on governance. This is because the roots of Unilever are already in place, and Unilever has good local talents. So many consumers think Unilever is a local company. Unilever is increasing the wealth and well-being of local communities.

The CEO has a strong Leadership vision and farsight vision. Every quarter there is a senior Leadership forum and seniors come together to decide where the company should go and make a strategy and implement it. Unilever also didn't lay off employees in the economic crisis in 1997- 1998 because they believed they should maintain their staff to get back on their feet. The workforce is very solid.

Pragmatic openness, Unilever Indonesia developed a market development model how to activate local market and create more opportunities for the existing business and this is now used as best practice and distributed and adopted all over the world.

Unilever is conscious about their presence; it brings impact but also risk. Unilever is very cautious about the risk and does not want to play games and jeopardize its image. Actions are done in a calculated way with minimum risk to the company.

There is trust in the value chain, it is a trustworthy supplier and suppliers grew with the organization since they were small. Once there is a partnership with a supplier that supplier should be kept for the long run. Some distributors have already been there 20 to 30 years.

Unilever is a public listed company and all the reports are available; progress and market performance are reported.

Concerning egalitarian approach, there are in 3 layers of forums in the company and information is, because of these forums, also going bottom-up. Easy access and speed is important. Unilever wants to cut bureaucracy and is focused on action.

Unilever's top management believes they need to empower the people. The employees are given authority but are held accountable as well. Personal conviction of the leaders is very important, there is one big goal and that cascades down in the divisional levels, team levels and individual level.

Good Leadership needs to be seen by the company employees during good and bad times, since Unilever is famous for strong teamwork. Values that are in the company are in line with the rich local Indonesian culture and of course some values like teamwork are retraceable to the Dutch culture.

Nestlé

Nestlé is similar as other MNCs. They have extensive programs for Leadership. For example programs that improve the capacity of employees. International trainees, possibilities to develop yourself and training related to your function.

It is related to CSV in a sense that there is employer engagement. It is about sensitize them for sustainable endeavors that are in line with CSV.

Improvement in well-being in the urban area can thought of affordable products, however Nestlé receives less profit from those products. They can be seen as a leader because people in the BoP receive the right nutrition.

Farsight vision is present, the CEO is very visionary. He is talking about zero accidents, safety regulations and he promotes CSV. He really implements what he talks about.

Pragmatic openness is hard to answer but you really have to comply and also comply to international rules. Search for the highest standard of the compliance.

Nestlé is aware of its presence in the society. However it must be seen in context. For instance in the lives of the farmers Nestlé is very present and has a great impact. As well as the other beneficiaries those are the cacao and coffee farmers.

On a much greater scale the presence of Nestlé is experienced. People use dairy products since they were young; Nestlé is part of the lives of Indonesians.

People in the organization have trust among them and in the organization. There is transparency, an open system and there are opportunities to develop yourself.

Trust among suppliers is great. Every year Nestlé is buying more milk from the farmers, this means they trust Nestlé.

Nestlé is very egalitarian, each business unit is independent and has great freedom to make decisions. It is not necessary a top down approach, voices are heard on the bottom as well.

There is zero tolerance against corruption, because Nestlé adopts the highest standard. They use the one of Switzerland. Another important aspect of Leadership is integrity; set examples and transparency.

People ask Nestlé sometimes why it does not buy its own cows, which is much cheaper. There is critic about and disbelieve that the CSV program is for Nestlé's own good instead of the community. Nestlé sets examples and people start to follow them after a while.

4.6 Does Leadership influence institutional factors?

Multi Bintang

Multi Bintang does not really act as a leader and does not influence the well-being of the local community. Multi Bintang has not yet the power to bring about a change in Local Economic Development. If Multi Bintang wants to be sustainable it also has to make sure the community is sustainable in terms of profitability for community surrounding the factory.

The government who actually is defining rules for alcohol consumption is not aware of the market. When accidents happen in which alcohol is involved the finger is pointed at Multi Bintang, even when strong illegal spirits are involved, that are distilled by local people. So Multi Bintang has a task to educate and make the government aware of different kinds of alcoholic drinks. The government sees no benefit in defending Multi Bintang apart from some tax incomes.

The Bintang factory can be seen as a leader regarding CSR. Other factories in the neighborhood ask the CSR managers advice. When there is a competition of CSR programs of East Java Multi Bintang will be invited as a representative of the CSR programs, "Kabo paten Mojokarta region". In broad terms the factory is definitely not the leader, it has to stay low profile to evade problems, since they produce beer.

MBI has no power to change institutional factors. Bintang is a follower. Due to the sensitive product alcohol in a Muslim area. Maybe the coffee creamer factory has more power. Of course Indonesia has a stake in it due to the great amount of taxes that is paid by MBI.

With Heineken as parent of Multi Bintang, has more influence on institutional changes, it is a foreign company with certain high standards and officials are impressed.

L'Oréal

L'Oréal is the only company of its kind in Indonesia and it is accepted because it listens to the needs of the Indonesians. The company acts as a leader in increasing the well-being of the local community. However, it also increases well-being of people of other parts in Indonesia. It spans all the social classes. L'Oréal helped workers of the factory in getting a place to live. Moreover, what important is in order to be a leader and accepted, is to localize. Listen to your market and stay close to your consumers. Build products based on what the market wants. Localize is of utmost importance if you are a multinational. As well as to be open, and engaging with consumers.

Leadership has an influence on institutional change. L'Oréal wants to be a great business. L'Oréal obeys the rules of the government. L'Oréal is not a follower nor it is very powerful to change, but goes hand in hand with the government. L'Oréal is engaged with government, local government and Ministry of Industry.

L'Oréal has a full commitment to Indonesia by investing in the new large factory in Indonesia which produces products for Indonesia and export. Indonesia has a high demand of their products.

Unilever

Unilever is very active in trade associations and provides input for the ministry of environment and industry. Unilever is taken as an example and asked about input for CSR laws and regulations. Unilever helps the regulators understand CSR and why there need to be laws since CSR is voluntary. And if laws are implemented for an industry, for instance on waste disposal, Unilever will argue for things that are needed to be done from the government's side as well, otherwise how can a company comply to a rule if for instance the infrastructure is not there. Unilever engages in a dialogue and brings it in perspective when ridiculous laws are implemented. Unilever has a lot of power in that sense.

Nestlé

The company does act as a leader in the context of community development. However, it is very hard to convince the community that you need for instance certain standards in order for Nestlé to produce milk. The community is stuck in their methods, which are not in line with what Nestlé need in terms of standard quality of the milk. With respect to, for instance, bacteria and hygiene. It is a long process, you need to blend the local knowledge of the community with the Nestlé knowledge; it is a hard task that takes a long time to develop.

5 Discussion

5.1 Discussion of the sub questions of the model

In this chapter I will discuss the sub questions and give an interpretation of the results from the previous chapter. I try to give some perspective to the findings that I found on what the needs of the BoP are and how strategies caters those needs in the Business Models of MNCs and how Leadership influences the integration. Then, I give some implications for the model (Figure 1) and how the model can be adapted with further research. Besides, I give some salient issues that I found which are interesting.

1. What are the needs of the local communities surrounding the MNCs?

None of the MNCs had a clear idea of what the community needs. The way MNCs get information about the BoP is different. The CSR manager of the factory of MBI has a personal relationship with the community surrounding the factory; this is not coordinated from headquarters. Unilever and Nestlé have set up an overarching program which is coordinated from headquarters. It seems that partnerships with NGOs are important; they are the eyes and ears for the MNCs, like Nestlé and Unilever.

What the BoP needs most, are job opportunities and education to train and educate people. Next to that food and water. This is mostly the opinion from the point of the MNCs. To really know what the BoP needs in a particular area you have to live among the people. As is advocated by Simanis and Hart (2008), they say people from companies should live in homestays and focus on living the daily lives, not looking for business opportunities; it is purely about building trust and a relationship with the BoP.

Issues that are salient throughout Indonesia are fresh water shortage and garbage system. MNCs tend to stay with their CSR endeavors in line with their capabilities and where they have the capabilities for. Unilever gives education about using soap for hand washing and brushing teeth since they sell those products. Nestlé has also education programs about nutrition.

The Indonesian economy is improving every year. Unilever, Nestlé and L'Oréal say that the Pyramid shape transforms into a diamond. The BoP market becomes smaller and the middle class bigger.

2. What are the business capabilities of the MNCs?

The MNCs that are researched are in the FMCG industry, their reach is very broad. And their products are well known by people. Their products are in everybody's life, except

for MBI. The MNCs have, from 1 factory (L'Oréal) to 7 factories (Unilever). MBI has 2 factories/breweries on Java. And Nestlé has 3 factories. L'Oréal has just located its biggest factory of Asia in Indonesia and is located near Jakarta. Every MNC has hundreds to thousands of workers that are working directly for the MNC in sales offices, offices and factories. Besides, there is an indirect employment of tens of thousands per MNC. That is being generated by the MNCs which are in distribution, business partners and co-operations with farmers for instance.

3. What are strategies that are used by the MNCs that provide profit for MNC and BoP?

Nestlé and Unilever put academic examples in practice. They are integrating doing good and running the business in a sustainable way. A distinction can be made between the reach of different CSR endeavors. This report was intended to look at local level around the MNCs and partly regional as well. Education, community development, garbage disposal, health programs and local distribution partners. And about how MNCs could economically develop their surrounding. However, some CSR endeavors are for the benefit of the nation. For instance MNCs that use local resources, this means the materials are produced in Indonesia. Also use milk from Indonesian cows, use Indonesian crops; this will benefit the nation. Even as products that have excellent nutrition values and tested thoroughly. So all endeavors will increase the well-being of the BoP but it is not exclusive designed for the BoP market.

A big difference with those MNCs is that the BoP market is seen as co-producers instead of consumers, this is what is argued by Porter and Kramer (2011) and Karnani (2007). L'Oréal and MBI do not see the BoP integrated in their value chain. And the BoP is not seen as a market. There are also no opportunities seen by them to integrate the BoP market into their value chain. The reason for this could be that the history or intrinsic values of the other MNCs, Unilever and Nestlé, is fixed in their legacy. Unilever and Nestlé are both have well for their ambition to produce products for daily use and nutritious. MBI and L'Oréal produce beer and beauty products. It is in the nature of those products to be at a certain distance of the BoP market.

A holistic or overarching department like a Foundation or CSR department has to coordinate all the endeavors to connect all the ad-hoc programs and make it a sustainable program. This is what Unilever and Nestlé have implemented. All the MNCs have CSR and all have the common arsenal of doing good for community programs, education programs for schools and women, health programs and philanthropy. But the difference is the scale, reach and coordination of all these ad-hoc activities. Furthermore all the MNCs understand the importance of the issues not only focus CSR on the marketing part of the

value chain but on the whole value chain. Knowing where your sources come from and knowing where the post consumer waste is ending up. MNCs cooperate already in doing tests with recycling plastic and foil packaging.

But the reasons behind the CSR endeavors are different. Unilever and Nestlé have it in their legacy to be a good company and go for long term view and profit in the long run. MBI goes for profit or preventing of losses on short term. This has to do with the nature of the products being produced, beer. However, Multi Bintang Indonesia is now part of Heineken and falls under the strict rules of Heineken and will make enormous positive advances in their targets regarding environmental friendly and energy neutral issues. These Heineken standards will benefit a much broader area and on a national level.

L'Oréal has no strategies for the BoP market; the people will automatically come to L'Oréal. Once people of the BoP become affluent and get in touch with the media; L'Oréal will be ready with marketing and advertisement. Indonesia's economy is growing and the market of L'Oréal will become automatically bigger. The strategy L'Oréal follows is to localize and it reaches some of the BoP by advertising that is used in general for the Indonesian people. L'Oréal has women empowerment programs for the unprivileged of the society. The women are from low economy classes, are disabled or widow. L'Oréal gives training to let those women gain skills so they can work in a salon in their own society. However this is nation broad and not specifically oriented towards LED.

CSR budgets will not be cut, although it is not sure since CSR is fairly new and in economic downturn sales rose for MBI. And if the surrounding is changing the factory will likely be moved. So 100% certainty for local economic/social development is not present. Personal relations are crucial in order to legitimate the factory.

MBI SA does not integrate the BoP into the Business Model. The community of MBI should ask or demand for some CSR endeavors otherwise there will be no community development. The philanthropy is not intrinsically coming from the factory itself.

4. What return on investments measurements are in place regarding to measure profit for MNC and profit (improvement of well-being and wealth) for the BoP (community) in a broad sense?

Measuring profit in a sense that one can add up the CSR expenditures and relate them to sales in the traditional way is not possible or done by the MNCs. Since the MNCs are moving towards an integrated model of doing good activities and improvements in processes are integrated in Business Models and become part of what the company stands for, it is impossible to retrace and decompose the exact CSR activities. The CSR

departments have certain budgets, but they also advise different business units to invest in certain processes. The burden of these improvements comes to the specific Business Unit and not to the CSR department. However this is more the case in MNCs where there exists a CSR department/foundation that has a coordination function. The department is in that case also involved in strategy decisions and these costs are hard to pinpoint. When CSR departments are small, CSR activities are ad-hoc and costs can be retraced easily. As Moore et al., (2012:120) found out in their research, there are many variables in the companies and it is hard to make conclusive details. Different companies have different methods though.

Sales and profit measures cannot be used like you traditionally measure performance. KPI measurements are used specifically for environment, amount of complaints, safety conditions and accidents. Profit for the long run can be measured in media coverage and popularity or desirability to work for the company. It can also be measured in the amount of 'the prevention of the costs of a disruption in the value chain'. But in general the MNC does not track the return on investments for CSR. CSR is also not audited; every company just has its own policies. A problem with this measure of CSR, or better to say, the outcome of CSR endeavors is highly uncertain. However, the cost or reduction in profit can be seen or calculated directly. So for the short term the reduction in profit is visible, conversely the profit for well-being of society is vague (Wargo, 2010).

CSR management bonus systems are in place, these are based on individual performance and personal development goals that every employee has and overall CSR performance. For instance, media coverage of an activity, certain amount of events or complaints from the community. There are no hard KPIs.

5. What is the influence of Leadership on the strategies?

The literature gives the following terms that characterize Leadership. These are farsight vision, pragmatic openness, conscious presence, trust, openness and egalitarian approach and personal conviction. These can have a positive effect on the strategies that the company is taking in increasing the well-being of the BoP.

Farsight vision is not present at MBI, it is not clear where the factory will be in a decade and they are dependent on regulations and acceptance by the community. In Unilever, L'Oréal and Nestlé farsight vision is more present.

Pragmatic openness seems to be everywhere in the MNCs. Managers have possibilities to travel around and visit other locations of the company in the world. And they use benchmarks and models provided by parent companies.

Conscious presence is about the benefit and risk the company brings. Benefits are labor in all the cases. Unilever is aware of the impact the business has on the society and knows it cannot prevent risks and damage; however they have strict goals to lower the burden on the environment by 2020.

Openness and full disclosure is found and is defined by that the companies have to give financial disclosure and they all proudly present their CSR programs. However openness goes deeper and MNC have big stakes in a country so there will be lobbying about use of chemicals, nutrition values, contents of products, labeling issues, environmental issues, expenditures, bones structures and electricity and pollution levels (Wargo, 2010). Unfortunately, those more profound topics and highly sensitive information did not come to the table.

Personal conviction is very important for the implementation of the right strategies. If the person at the top is intrinsically motivated to do good, it will flow down to the lower layers automatically.

Trust among employees and suppliers is important. Trust among suppliers is formed by having fixed terms of payments and long term relationships with suppliers. Trust among employees can be increased by having unions.

There is lack of structure and more research needs to be done to decide what a good strategy is all about and how far can they be traced back to Leadership and which aspects of Leadership.

6. Does Leadership influence institutional factors?

When a company has strategically important products for society, it can have an influence on institutional factors. Also the image of those companies becomes better and can form an example or best practice. Society will see this as well and a new standard will be set. Laws and regulations can be tightened or improved to protect the well-being of impoverished people.

MBI has the best CSR community development plan of the factories in the region. Other companies ask MBI advice how to organize a community program. Government officials are also impressed with this style of having a community development program. However on a national level, MBI has no power and is just a follower of rules. Now that Heineken took over MBI, MBI is following even stricter rules of Heineken. The Indonesian government is just fine with that.

L'Oréal is not a follower nor it is very powerful to change institutional factors, but go hand in hand with the government. L'Oréal is engaged with government, local government and the Ministry of Industry, and has a full commitment to Indonesia since they opened their biggest factory in Indonesia.

Unilever is very active in trade associations and provides input for the ministry of Environment and Industry. Unilever helps the government to design rules and regulations regarding CSR, and is in dialogue with the government about ridiculous laws that are being implemented, and put things in perspective for the rule makers. Unilever has in that sense a lot of power to bring institutional change.

Nestlé talked a lot about institutional change and methods of changing production style and quality. On a local level farmers stick to their own way of producing a product, which does not meet the strict quality measures for mass production. Local people have to be convinced that certain methods are needed to gain more production and profit.

The model (Figure 1), initially proposed that Leadership can have an influence on institutional change, however Leadership is not exclusive the one that can change institutions. I propose another link between Strategies and Business Models and institutional change. By implementing new strategies, new methods, rules and laws, norms and value, best practice will emerge.

Strategies and Business Models that are put in place for instance improve the use of safety measures for workers in factories in the MBI. Use the highest standard that is used in the world. This could have a ripple effect to other domestic factories in the surrounding. Nestlé introduces certain standards with the production of milk which increases the efficiency. Once farmers get familiar with this it becomes the new best practice. When MNCs start interfere with post consumer waste recycling because they feel responsible like Unilever does, other companies could be activated to do so as well. And this could trigger the government ns facilitating garbage disposal systems. Also, Unilever is involved in the decision-making process of laws and regulations. There is a certain industry standard that every company needs to have CSR and do ad-hoc actions at the minimum. However this is not specifically for the BoP but more broad.

5.2 Implications for the model

What became clear during the research is that the actor 'MNC as a leader' is not well defined. MNC as a leader in the context of LED versus Leadership in a company and what characteristics a leader should have. But also a leader in embarking on certain

strategies and a leader is being the most powerful body. In the model we should look at what characteristics an MNC should have in order to act as a leader and not to the characteristics of a leader in order to pursue strategies that provide profit for MNC and community. We should make a distinction between those.

It seems that NGOs play an important role in the partnership with MNCs. They supply the MNCs of information and advice in where to put the focus. This is seen with Unilever, Nestlé and L'Oréal very distinctively. The actor NGO should be added to the model, NGOs are of crucial importance and are in some sense the eyes and ears and advisor of MNCs.

I propose another link between Strategies and Business models and Institutional change. By implementing new strategies, new methods, rules and laws, norms and value, best practice will emerge. Because certain strategies are in place the surrounding will react on that. An example is MBI implementing the obligation to use goggles and work gloves and Nestlé implementing strict quality controls and training how to make production more efficient. These endeavors are replacing existing standards and norms.

Below, in Figure 2, the new model with the link from Possible Strategies and Business Models to Institutions and a link from NGOs towards Possible Strategies and Business Models.

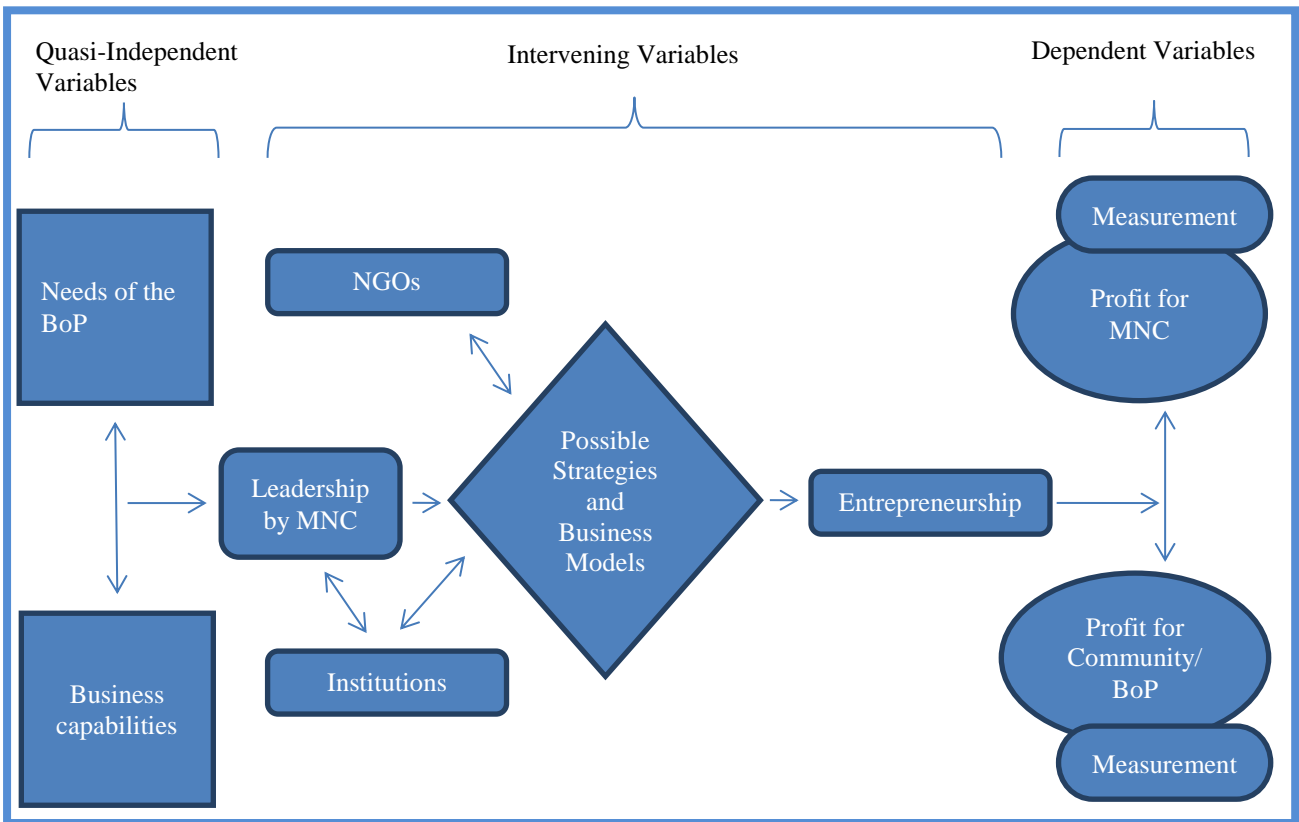


Figure 2: Proposed Conceptual Model adapted from Figure 1

5.3 Salient issues

Factors that have an influence on the outcome of the strategies are politics, government, corruption, institutions, product or service type, legacy of the MNC and macroeconomic factors. And they play a significant role in the outcome of strategies.

Are the strategies the same everywhere? Can we make a general conclusion? Does it depend on environment, region or industry? Do factors like politics, corruption and institutions play a significant role?

If your company sells compliant goods you should localize and adapt your market according to what the market wants. You give something back to the community by integrating sales and product research in the society. If your company is producing products that are not accepted, like beer, you should invest in making your business complained and accepted by the local community by making yourself a good neighbor and give them a reason to accept you.

Smaller packaging is the most superficial and taken for granted way to reach the BoP, in the literature this is called BoP 1.0. Integrating the BoP market in the value chain is a different story and takes more coordination and effort. The MNCs are aware of this concept but practical implication is a more difficult task.

In the Multi Bintang factory they use skilled labor from far away for example. Why can they not invest in local people and train them? There should be living smart people as well in the community. Probably this is a money issue. When a factory is just new it is logical to bring people from far away, but as the years pass you should see a blend of local people to engage in LED.

Companies seek for the highest possible compliance but this has to do with environmental regulations and openness. No regulations are set to increase the well-being of the BoP.

The BoP in the slums is only involved in the distribution process. Ad-hoc philanthropy is given by certain programs. However this is not of structural nature.

There is another distinction between the urban and rural BoP. The BoP in the rural area consists of mainly farmers and is integrated through cooperation. Integration of strategies in rural area is better possible with farmers. MNCs see more possibilities in integrating the rural BoP into their value chain than urban BoP. Anderson et al., (2010:6) already recognized that and said urban and rural areas differ in characteristics and need different strategies. Unilever has for instance re-use of garbage programs but it is not integrated and is ad-hoc. Waste problem is still there and for sachets there is not yet a clean systematic disposal system.

We found much garbage on the side of the road in Pasar Limus, the village next to the Unilever factory. None of the big companies cared according to an inhabitant of the village. However Unilever advocated they care about their direct communities and clean up garbage (Unilever Indonesian Foundation, 2011). This is kind of contradicting and makes the line between marketing and CSR vague.

Unilever believes that if you make the BoP aware about hygiene and health eventually the BoP will get stronger and this is also for the benefit of Unilever. Because then more products are being sold. Unilever makes no difference between the community and consumers; they are the same group of people.

6 Conclusion

This report explored how the Bottom of the Pyramid is integrated in the value chain of MNCs in a local setting thereby realizing profit for community and profit for MNCs located in Indonesia. Looking from the perspective of the needs of the BoP and how the MNC caters their need by integrating them in their Business Model by having certain strategies. So what can we say about that? Real life cases are hard to put in a box, literature can be very black and white about this topic, but once you do real life research in companies you see that is not that black and white but full of nuances and gray areas.

The most salient conclusion if we look at the model and the main theme of how the Bottom of the Pyramid is integrated in the value chain of MNCs in a local setting is that Nestlé and Unilever have a Foundation or holistic department that coordinates all the CSR endeavors in the company. This cannot be seen very clearly in L'Oréal and MBI. The Foundation coordinates the endeavors and money that is needed and advises the brands under the umbrella of the company.

The matrix that is used in Farag Nagi (2012) her report can be produced for all MNCs that are researched in this report. There are many CSR endeavors that a company undertakes that are increasing the well-being of the local community.

All companies recognize CSR should be integrated in the value chain of the company but the scale and focus and potential of the BoP is different. We can see that MNCs try to have sustainable Business Models; which means they have evolved from having green activities or philanthropy, mostly ad-hoc and are used for marketing purposes mostly, towards a real sustainable company. That raises living conditions in whatever aspect of the people's lives and builds this future market, in for example, one decade from now. MBI and L'Oréal see less potential in the BoP than Unilever and Nestlé. This can be attributed to the product nature, acceptance of the product and history of the company. Besides that, the factory needs to have a close relation with the community.

It is hard to for the MNCs to measure what the profit is for the community and/or MNC itself. Negative measurement of CSR costs, which measures how much money is saved by no disruption in the supply chain is sometimes used. MNCs know what direction it goes but there is not a strict scale. But scale matters, when a company says that they are investing in a community by giving free education, there is a difference. Giving free education to 8 students every 2 years or 8 students every month is a big difference. This is often not clear in the CSR information books and in the communication.

The government receives taxes from the companies so actually the government should take care for the BoP. The government should take care of roads, schools, drinking water and garbage disposal systems.

However, Indonesia is known for governmental corruption and money does not reach the BoP. Here the MNCs should step in with their strict Western regulations and zero tolerance against corruption. MNCs should help the nation because they also are situated in that country and all the MNCs want to be good citizens; they are powerful.

The Leadership variable in the Stimson et al., (2009) model should be reviewed. As discussed, the Leadership by MNCs is a different concept than Leadership in traditional ways. It is not yet clear what makes an MNC a critical factor in Local Economic Development. Good Leadership by MNCs will be enhanced as well by social capital and knowledge but this will be outside the scope of this paper.

Concluding with the proposed effect is by helping poor people now and you conquer the market in the long term. Integrating the BoP market into the value chain is still an argument which can show that CSR is not window dressing by only going for profits and use it as a marketing tool. But it is a more important issue for profits for MNCs and profit for Local Economic Development.

Numerous examples can be found in the interviews about how the needs of the BoP can be integrated in the Business Models. It can be made concrete in the MNCs' Business Model without calling it CSR. The point is that CSR can change from a marketing tool, and to render a better return on investments aiming on short term financial measures. Towards an MNC that is intrinsically, from within, engaged in their community and the well-being of the BoP. And here, Leadership in LED aspects plays an important role. It is a new way of thinking of CSR.

7 Limitations and Further research

What drives a company to be intrinsically motivated to invest in the BoP? Research should be done on that topic. This report found that it could be in the company's history and legacy. Also the leader of the company should be intrinsically motivated to do good; but this should be researched on a bigger scale.

Who decides where to go? Who sets the standard? As could be seen in the report, companies just copy each other. MBI is an example for the region regarding their CSR community development program. Unilever is on a national scale (and also on a global scale) an example for their CSR program. But how are the strategies developed over time?

What are the implications of social capital and local knowledge? Relationships between companies and communities are of enormous importance. These factors were omitted in the model but should be put in the model next to institutional factors.

Also universities are not integrated in the model (Figure 1). MBI has clear connections with universities; MBI gives courses and provides material for brewing classes. Research should be in the BoP market together with the company, local community and university. I think this is an underlying source of real Local Economic Development. And what is the (social) impact when a factory is relocated, while the MNC is acting as a leader in LED.

Profit measurements for MNCs and 'profit' measurements for community are, after interviewing some managers, still not clear. Answers that came up were KPI indices, media coverage and finishing the budgets in time. I propose a separate research on this topic for one case. Pick a company with tracked records on CSR and pick a community and discuss together with the head of the region, village head, community head a strategy to have qualitative interviews/ small talks. Part of the sample from the community/region should be factory managers, police, small entrepreneurs, schools, universities, market salesmen, churches/mosques. In this way we can find a clearer picture of the impact the MNCs have with their CSR programs and strategies. And extract measure points to engage in quantitative research further on.

Leadership concepts are hard to define and should be reconsidered. Moreover they are hard to measure. What could be measure points to engage in quantitative and qualitative research? And is there a relationship between whether be a follower or a leader in institutional change regarding the type of product or service you deliver? And is there a relationship between whether you are intrinsically motivated to engage in community development regarding the product or service you deliver?

Furthermore, Leadership can be seen on different levels. At one level, the one that is used in the conceptual model (Figure 1), the MNC is seen as a leader in LED. However, at another level, in this research I found out along the way that I was asking about managers' skills that are needed to run an MNC. Thus, concepts are not well defined or there is a lack of definition.

The same is true for institutional factors. Sometimes you speak about national level and sometimes about local level. If there is no information about national level it does not mean there is no information. It just means you are not at the right source.

As discussed I propose another link between Strategies and Business models and institutional change. By implementing new strategies, new methods, rules and laws, norms and values, best practices are emerging. These have to be adapted in the model and tested.

What is needed to invest in the BoP market and what is a prerequisite to start integrating the BoP into the value chain? Just by saying the BoP market is enormous so you should invest now is not enough to convince companies. Somehow it should be intrinsically there in the company. In its legacy or in their leader which is the driving force that wants to do good.

It would be interesting to see how much slack/ free money is still in the company that could be 'invested' in the BoP without significantly jeopardizing the daily business. Indonesia's economy grows every year, part of that profit can be given back to the community. As L'Oréal already does one day per year in its CSR program. There was no economic downturn in Indonesia as there was in Western Europe, so these macroeconomic factors can act as a driver to integrate the BoP in a new sense. With creativity and willpower, the MNCs can carry this burden. This is an issue for MNCs that feel the need to look further than governmental tax expenses and complying to weak laws that require minimal MNC efforts.

Would the results of the interviews be different if the word CSR had not been used and you would only talk with strategy makers in a company instead of CSR departments, Public Relations or Corporate Affairs? This report can be regarded as a step towards taking a look inside the 'kitchen' of the MNCs.

MNCs have labor requirements in terms of skills of employees. Let us take as a starting point that factories and companies want to invest in community development, so why not train them better and invest in long term programs to make employees from the

community suitable for higher functions instead of only non-skilled worker functions. This would be an improvement in the light of LED.

Business capabilities should be measured more precise. Employment numbers are now measured among the MNCs in two scales. Some have a distinction between direct and indirect employment. Some include workers in distribution centers with total employment, others not. This gives significant differences.

And one of the most important issues that cannot be overlooked is where to draw the line between CSR, philanthropy, community development, LED, and integration in Business Models. It is outside the scope of this paper but this would be an interesting question.

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Appendix A: Multi Bintang Indonesia

Multi Bintang HQ Jakarta CSR manager

BoP needs and challenges

Multi Bintang did not do research in the local communities living in the surrounding of the factories, regarding the opinion of the local community about MBI. Neither does MBI know what the BoP needs. Multi Bintang acknowledges that they have to take surveys but this must be done in secrecy because they do not want to give the local community false hopes or expectations; it is bad for the dynamics. Of course the community will say they need money and education. But it is hard to find the underlying factors. MBI is planning to do so in the future because it is important; maybe they can work together with researchers or universities. However, Multi Bintang just started a couple of years ago with the CSR department and there is still a lot to do and to learn. The Bottom of the Pyramid is not recognized as a profitable target group. Most beer is drunk by tourists and expats instead of Indonesians.

Business Capabilities

Multi Bintang has its headquarters in Jakarta, and two factories on Java. One factory near Jakarta, in Tangerang and one near Surabaya, in Sampang Agung. The vision of the company is to be a leading and responsible brewer in Indonesia.

Corporate Social Responsibility has changed. It is more than philanthropy alone; it is integrated in the business and is strategic. The top of the company knows this and the Board is aware of this. However the problem is that the layers below in the organization have difficulty with this changing concept. Employees still think it only means to be on time at work.

In the past Multi Bintang helped people that were living next to the factory. People lived on the street and had illegal jobs and avoided paying taxes. However, it is a mentality problem. People that were working in the factory were actually lazy and did not have a work mentality. They said: “if you come to my land you have to give us money”. Smart entrepreneurs do not live in the BoP, they are only limited because of a lack of capital.

The CSR manager said that CSR has changed a lot in recent years. Since the past 5 years it has become more robust. However, most Indonesians still think it has to do with charity work. It takes time to change the mindset of the workers internally to make it more strategically integrated in the Business Model.

Corporate Responsibility would be a preferred term said the manager; it is beyond social. It is also about solving the problem of packaging material of MNCs floating in the rivers.

Underlying problem is that Indonesia has no proper garbage disposal system. Separated garbage is taken together at once and put in one landfill in the end. There is no use for separating. It is the government's responsibility to come with a proper garbage disposal system, not the company's. From the year 2008 and 2009 on, Multi Bintang stated to be a responsible brewer. It means responsible across the Board and in different divisions. Multi Bintang has 5 pillars that come up at every meeting.

Nestlé Indonesia, Unilever Indonesia, and Frisian Flag Indonesia have integrated their CSR into their business operations according to the Multi Bintang CSR manager.

Strategies and Business models

The BoP market is not actively targeted by Multi Bintang; there is no potential in it. Resources are all imported from outside the region or country, yeast comes from the Netherlands. Water for the beer is bought in from the government's water supply. Even marketing and sales agencies are from Jakarta. Only the residue waste water is put back in the rivers after treatment and quality control. Organic malt waste is sold to local farmers for their cattle. The waste water is of better quality than the water in the river because there are a lot of factories that do not purify their waste water.

The factories have a close relation with the local community. Factory managers have been in the business for years and are moderators between the Multi Bintang factory and local community. In this way the factory is socially accepted. This is needed because the factory is often target of Islamic organizations, Muslim activists that claim the factory has no right to be there. This happens once or twice a year. However, since the managers have close connections with the local community the factory will be protected and defended by the people in the surrounding area. The managers need to have a close personal relationship with the community in order not to be exploited or refused by the community. In "return" the factory engages in philanthropy. Activities that have nothing to do directly with Multi Bintang like restoration of the Mosque, education, building a road, help the local government, and buying school supplies. Multi Bintang also engaged in a strategic philanthropy to give blood to soldiers, of course this is for defending purposes. However, if the situation will change in the future the factory can be moved if this is deemed necessary.

Recently Multi Bintang started education and training programs for retail channel's employees. The target market for beer is 21 years and older, but the retail outlets just sell to everybody in order, for example, to reach their daily targets. There are no state regulations that require you to have an identity card with you and this faces problems for the management of the retail store and Multi Bintang.

Another project that Multi Bintang succeeded in and the government did not is the soil fertility program Biopori, although it is only small scale. It makes use of certain small

holes in the ground of the garden in which you put organic waste. The project is done at employees' houses and in the brewery area. This project prevents floods because capacity of the soil to absorb water increases and organic waste can now be deposited in your own garden and is decomposed within some days. Moreover, it reduces the amount and of garbage.

Multi Bintang choses to do education as community building, because it gives opportunities for Multi Bintang's business and stay close to hospitality and tourism industries. Universities had no access to the industry in the past, although they had beer brewing courses. Multi Bintang is offering courses now to the universities and sponsors materials. Students will work in hospitality or become entrepreneur and hopefully they can benefit from this program and increase the awareness for the product and increase market share.

Multi Bintang is exploring how to let local people be involved with the fermentation process, since Multi Bintang has already the resources and knowledge with in-house. This can help some local entrepreneurs with fermenting foods which they can sell. In the future farmers will be involved as well for the resources, however, only the women; they are more responsible.

Leadership

Multi Bintang does not really act as a leader and does not influence the well-being of the local community. Multi Bintang has not yet the power to bring about a change in Local Economic Development. If Multi Bintang wants to be sustainable they also have to make sure the community will be sustainable in terms of profitability for community surrounding the factory. However, this still has to be studied by Multi Bintang Indonesia.

Farsight vision qualities are not present at Bintang, moreover, the company is still questioning what and where they will be in one decade. It depends on neighbors of the factories as well. If the area develops as a residential area the factory of Multi Bintang will have to move.

Pragmatic openness is also not abundantly present. The manager met others in Asia but it is not up to that point yet. Most activities are ad-hoc.

Conscious presence is limited to paying the right amount of taxes to the local tax authorities, and having relations with the government from which MBI buys the water. Multi Bintang provides employment for the local community. MBI is also aware of that they have no local sources for their raw materials.

The company is a listed firm; this means they have to give full disclosure. They give openness during transition about what will happen with regarding change of structure.

They give full transparency in social activities. Auditors will record it and it is being published.

The President Director has personal conviction and puts a high value on CSR projects and wants to be more involved.

The government who actually is defining rules for alcohol consumption is not aware of the market. When accidents happen, in which alcohol is involved, the finger is pointed at Multi Bintang. Even when illegal spirits are involved, these are distilled by local people. Multi Bintang has a task to educate and make the government aware of different kinds of alcohols. The government sees no benefit in defending Multi Bintang, apart from some tax incomes.

Financial measurement

The expenses of CSR per factory are checked and budgets will be adjusted accordingly. In economic downturn, budgets will not be cut because the amount that is reserved for CSR is relatively small. Budgets for CSR are seen as investments at the finance department. But in the financial reports it is likely stated as an operational cost. An investment should be tangible, which is not the case with CSR.

Multi Bintang does not track ROI since it cannot give any amount or value to the CSR endeavors.

Although CRS is beyond charity, there are budgets for it. It is still important to help neighbors of factories and communities.

Heineken has policies to which Multi Bintang has to comply, however it is challenging. Policies are not linked to the KPI measures yet, so it is not audited; it remains just a policy.

Reporting is very new, reporting is very narrow and there are no measurement instruments. GRI program is used, The Global Reporting Initiative; it helps to guide sustainable reporting standards

The parent company states a certain vision, but every subsidiary is free how to implement it, because every environment is different. MBI reports how much money and hours are invested. However, CSR was never compulsory so the definition of CSR is not clear.

Multi Bintang Sampang Agung CSR manager

BoP needs and challenges

The CSR factory manager knows what the local community needs and what they expect. The manager goes to the villages surrounding the factory and proposes Multi Bintang's plans. And asks the villagers' what their expectations are. There are not really poor people living around the factory. Although they are below the middle income class, an average family earns 1 to 1.5 million IDR per month (€80 to €120).

Business Capabilities

The factory in Sampang Agung produces only Bintang beer in bottles. The area of the factory is 36 hectare big, however not everything is used.

The Multi Bintang factory was first situated in Surabaya, but regulations in the center hampered the factory's activities. Furthermore because of water shortage the factory was moved. Forty people from the 400 people that worked over there moved to this new location.

The BoP market is not actively targeted by Bintang. The people surrounding the factory are not profitable. Beer is mostly drunk in Bali, the tourism areas, Kalimantan and Irian Jaya. There are rich famers who are not Muslin and they drink a lot of Bintang beer. There are a lot of gold factories and fuel resources; people over there are rich. Beer is drunk in Java, but the market is small.

The poor people do not drink because their focus is on nutrition. When they are thirsty they do not drink beer but tea. Only people that have money drink beer. Beer is expensive because it is heavily taxed. It is double taxed: When it leaves the brewery and when it is purchased by the consumer.

The yeast is imported from Heineken. Malt is imported from Heineken as well to preserve the taste, this comes from the U.K. or U.S. Malt and Hops cannot grow in sub tropical areas so this is imported as well. Water that is used comes from natural sources in the environment.

Paper labels are sold to the paper factory, around 20 kilometers from the Multi Bintang factory. Recycled paper is used for other products that can be produced from old paper. Oil is sold to a factory nearby as well. Bottles are imported, in the past they used glass from Indonesia, but the quality was too bad. After been used 3 times the bottles cracked. MBI SA does not want to focus on improving the local glass factory, because they only focus on the beer.

The tasks of the CRS manager are the Community Development Program, take care of the legal permits of the brewery, keep a good external relationship, focus on environment, health, and safety.

They follow the 5 pillars of corporate governance: Community development (make sure that the image of the company is well perceived by the community), environment protection, fair business practices (no bribery), human rights, and good labor practices.

MBI are against bribing, but here are a lot of Chinese companies who bribe. A difficult thing is that a lot of companies bribe to get permits; if you start bribing other parties will come to you as well to ask for money. And it is against their policy to bribe and if they do they are not compliant to the law and rules, both of the local government and Heineken. In general however, bribing becomes less and less.

CRS department is like a bridge between the company and community. The company is proactive to towards the community. The program is aimed to prevent and solve problems, foster partnerships with local organizations and stakeholders. Multi Bintang SA respects the local culture and political issues and joins special events and ceremonies. Having dinners with relations is of immense importance.

Strategies and Business models

Multi Bintang wants to be a good neighbor in their community. Be compliant to laws and regulations. And make sure people will not disrupt the factory processes by for instance blockades and demonstrations. From 1997 to 2001 there were a lot of demonstrations. People complained very much about the smell for instance. Multi Bintang set up a systematic community program and now the problems are almost gone. Now there is a synergy between the company and the community. Although beer is a sensitive product in Indonesia.

Every year a CSR budget will be set up which is divided into different segments.

The first one is General. Activities that are include: Mosque renovation, public facilities like road and gutter renovation, electric power supply, school renovations. Special events like Independence Day of Indonesia, ritual ceremonies, Muhammad prophet birthday, Lebaran Haj, security and contributing to lost villager's income from the land.

The second segment is Adult and Elderly, activities that are included are sympathy care for old people, package for Lebaran, health program and food additives.

The third segment is Youth and Children, activities that are included are sympathy care for orphans and scholarship, circumcision, sport activities and educational programs.

The fourth segment is Relationship. Included are special events for military anniversary, the village of Mojokerto's anniversary, police anniversary. Also lunches and dinners with the leader of the village and with government related persons.

The budget is not that big, only 300 million IDR per year. It depends on the situation if everything can be done for CSR from that budget, so a bigger budget would be better. The budget will only increase max 10% every year. However, it can decrease as well. The headquarters will define the budget.

Multi Bintang will only sponsor 30% of a renovation project because then the local community feels responsible and maintains it later as well. If you give all the money, building material will not be bought and the money disappears due to corruption. The company is also not committed to individual people, if they need help they should go to the village head first (Lurah). The community programs can only exist when there are synergies. The company and the community have to support each other.

The local surrounding of Multi Bintang contains 7 small villages. They are called priority area 1, around that area there are priority areas 2 to 4. The first priority area is closest to the factory, the fourth the farthest.

The Multi Bintang factory uses different kinds of employees: Factory workers are from the community. Gardening, cleaning, loading and unloading are employees that are outsourced and are from the community priority areas 1, 2 or 3. Security is outsourced as well, but provided by the headquarters. Office employees need competencies and skills so they are from all over Indonesia. They cannot be found in the environment.

Buyers of the waste of the beer brewing process come from the community. The waste is used as food for the cows. Multi Bintang sells it to the local people who sell it to the local farmers.

Three hectares of land that is not used by Multi Bintang is rented out cheaply to the families in the community of the first priority to plant rice. Every year different families will rent the land for a period of 1 year. In this way Multi Bintang can claim the land easily back after 1 year, and prevent people from thinking they own the land.

There are sewing classes and electronic classes. They consist of 12 people and are given for free to the young people once in two years. Forty percent of the students will succeed and start a company somewhere. Students are selected by village heads. This is philanthropy and makes the community happy. Multi Bintang does not keep track of the students after they finish the course. There is also computer training but only one person from this training can get a job at Multi Bintang. Education on how to keep fish is also given.

Multi Bintang does not integrate the poor, only community development. Sampoerna, the cigarette factory in Surabaya is completely different. They have small farmers that plant the tobacco and they produce the resources for the cigarettes.

In ten years the goal of the CSR will be the same: be a good neighbor and have a good image to the outside world. The CSR activities will not be integrated in the value chain. There is no potential to integrate the poor people. They have no skills and knowledge. There is no plan to help them. The results of the education programs are not connected to Multi Bintang. Just for the general community; it is like philanthropy. And when a former student of one of Multi Bintang's free training course starts a company they hope it will not disturb Multi Bintang. The CSR activities are different in the Multi Bintang factory in Tangerang, there is a residential area and there is a different culture.

Leadership

The Multi Bintang factory can be seen as a leader regarding CSR. Other factories in the neighborhood ask the CSR managers for advice. For instance the coffee creamer factory wanted to know how to set up the community development program. When there is a

competition of CSR programs of East Java, Multi Bintang will be invited to be representative of the CSR programs in “Kabo paten Mojokarta region”.

When the CSR manager left a month, lots of problems arose. This shows that a personal relation with the local community is very important.

Multi Bintang is increasing the well-being of the local community. More guidelines from headquarters are necessary to get farsight vision. CSR is 3 or 4 years old. The concept community development has existed already, but without concrete plans.

In terms of conscious presence the CSR manager is very important. All the plans should be taken over by the new manager.

On manager level there is great trust. A lot of meetings are hold to share ideas on plans and ask for advice and input. When there are CSR programs and activities some managers will be invited. Mostly 2 or 3 from the 6 managers of the higher level in the factory. Not all managers will be invited because it will disturb the production.

When problems are likely to occur with stench for instance, Multi Bintang will go to the community that will be hit and announces that there will be some trouble, but it will be quickly resolved. In this way they foster trust among the people.

Multi Bintang has no power to change institutional factors. Multi Bintang is a follower, due to the sensitive product of alcohol in a Muslin area. Maybe the coffee creamer factory has more power. Of course Indonesia has a stake in it due the great amount of taxes that is paid by Multi Bintang.

Financial measurement

The money that is spent on CSR will not flow back to the company. Every 6 months the CSR strategies are evaluated and there are meetings with headquarters.

There are no measurements, although CSR can be measured as the time and money that was lost in the period when blockings and disruptions still existed. CSR budgets should be respected that are given by headquarters.

Indirect profits will be there because of this CSR programs. But you cannot measure it.

Also indirect community profit is there for the people that had an education from Multi Bintang. They will start an organization and can be hired by Multi Bintang later on.

CSR is seen as costs in the books; not seen as an investment. The CSR department consists of 1 person at MBI SA. There is a bonus system; the bonus will be 1 to 3 times a month salary. It is based on 6 KPI indicators, these are: Amount of complaints from the environment, staying within the budget, compliance with regulations and permits, complaints regarding HR, fights or accidents and safety conditions. This will be monitored by the CSR director from headquarters.

BoP needs and challenges

There are no young people hanging around in the streets during the day. This means it is going well in the neighborhood and villages around the factory. They all have some sort of job to do.

The BoP is not a profitable target market because they have no money. Beer is a luxury product. Heineken, parent of Multi Bintang, is only targeting the top of the market. Heineken has a high standard so it is not possible to produce low cost beer. The target group is the middle income group, and they are growing in Indonesia.

The BoP first needs to get rid of all the waste and garbage in the streets. Have a proper garbage disposal system and sewage system. Fresh drinking water is a problem for the BoP. Diseases like typhus are still around.

The official poverty rate in Indonesia has dropped. It is about 6% or 7% of the population that lives below the poverty line in Indonesia.

Business Capabilities

A brewery never has a lot of power because it produces no strategically powerful products. Heineken has strict policies which are getting tighter. The regulations for safety, health and environment increase. Multi Bintang is working, according to the Heineken policy, and that one is stricter than just following the rules of the local government. They are still being competitive although they do not have that many competitors here.

Multi Bintang Sampang Agung has 100 workers on the payroll and has between 150 and 200 workers that work part time. Multi Bintang in Tangerang has more workers. Multi Bintang Indonesia has 500 employees in total including the headquarters. The impact for the labor market is around 20.000 jobs that are created direct and indirect by Multi Bintang Indonesia.

The vision of the brewery is to be a responsible brewery; this is shown by Multi Bintang by that they want to comply to all the rules. Also all investments need to be compliant to the rules and law; Multi Bintang takes responsibility.

Benefits for the community around the factory are mainly the creation of jobs. If this area had no problems since the beginning of this factory. In terms of that if the area of the brewery would not be a Muslim community or there were no demonstrations. There would not be any investments in the local community by restoring schools etc. This is what the brewery manager knows for sure. The community program does not come intrinsically from the Multi Bintang factory.

Strategies and Business models

The CSR program for this company is relative small right now, and is mainly oriented towards the villages surrounding the factory. However, this will change in the near future. The biggest problem that the world will encounter is a lack of fresh water. This problem is bigger than the lack of food. Because the brewery is a water user and is located in a water stressed area, the factory needs to be water neutral in the near future. In the near future they will also be energy neutral, because there is enough sun here, so they will work with solar power.

Water sources/wells are made for the community as well. In that way they help the community. In the future there will be water programs to save water and also thermo energy from the earth. The community can share the First Aid services from the factory and they can service the community as well. All employees are also requested to make a report about a near accident or accident. This is part of their bonus salary. In this way a more complete overview will be gained on safety. Furthermore, employees are triggered to think about how to prevent the accident the next time and what other regulations can be made. This makes the employees far more involved in the business and processes.

Integrated strategies for the BoP are not yet implemented here. To secure the future market Multi Bintang does a lot of marketing and advertisement. Bintang “Re-united” is done for the first time. It is an event that was sponsored by Multi Bintang. It was remarkable that many Muslim women came to the event as well. Multi Bintang is trying to get rid of the bad image that alcohol has, the image is that alcohol is the cause of problems. Beer used to have the image to be related to prostitution, this is getting less and less. In the sales representative teams there was a lot of abuse by sales men that sell the Multi Bintang beer. The men also made free use of prostitutes and beer, this problem is taken care of now as well by hiring more professional sales persons and Multi Bintang has a good HR team which employs better people.

The conceptual model from this report is exactly what Heineken wants to do. This model can be implemented but one should take care of the local environment. The important factors are the needs of the people. The government and religion are most important, activities depend on what they already are doing. In Indonesia the focus is on the water programs. More integration of Business Models will be implemented in the future.

Research in the BoP market is not really done here. The CSR manager has relations with the community. Every year there is a budget available and the CSR manager goes into the community to talk about the expenditures and distribution of money that can be used for certain projects. Budgets are set up top down by Heineken. Survey studies are hard to do in a local community.

Leadership

The company is definitely not the leader. Multi Bintang is asked to help to restore houses or do sponsorship. But they cannot be a leader because they should stay low profile otherwise problems would arise due to the fact that they produce beer.

Multi Bintang has a good reputation and a good supply chain vision with strict targets. Sustainability Programs which have targets like environment and energy consumption. It goes further than the “Kyoto protocol”. Actually, Multi Bintang should function as a role model of this but Heineken does not allow that because then you will advertise and promote yourself too much that you are the best. In case the media found something of a malpractice it would be magnified and would have a greater impact on the image of the brand.

Pragmatic openness is present in the company; there are models and benchmarks for everything supplied by Heineken. There are peer groups that compare where you stand in the industry. Multi Bintang is aware of their conscious presence; there is a good relation with the environment and village heads.

There is a lot of trust among employees; there is a good atmosphere in the team. Almost all the employees are member of a Labor Union. There are meetings a couple of times a year and all the teams can present their results and plans. Also the Union makes a presentation. All the employees will be present or there will be multiple sessions.

Trust among the parties in the value chain is not very clear. Everybody tries to earn something. Multi Bintang sells only to legal and formal distributors.

There is complete openness to everybody, the government can come in and see the books and numbers without restrictions. Because of this there is less space for corruption. Personal conviction is very important. If the person at the top is intrinsically motivated to do good, it will flow down to the lower layers automatically. However if you are a middle or lower manager and you want to do good, but the top does not want it, there is no possibility. They see that at Heineken as well. Mrs Heineken is very motivated to be responsible and this flows or cascades down to lower levels. This is a family business; it would be certainly different if they were a public company with stocks.

Other Leadership factors that are important are that managers should report and it should be monitored. Without monitoring it will not work. It also needs to be inspiring; for example with movies that also inspire workers. Mrs Heineken has a clear vision how she wants it to be.

Alcohol has a bad side and there are always cases of abuse caused by alcohol. However, that must be compensated on other aspects like environment etc. Beer is not a product that is necessary in the world, so it should not harm the environment. Heineken wants managers that stay for at least 5 years to avoid short term actions, they avoid short term visions.

Multi Bintang has influence on institutional changes. The company is a foreign company with a certain standard and government officials are impressed. So Multi Bintang can be a benchmark that others can follow. Although they cannot proof it.

Their method of Leadership has an impact on the local community. For different types of work they outsource and they expect that those companies that are hired hire people from the community. This is regarding the non-skilled workers. Multi Bintang pays more than what deemed necessary and they check if the hired companies pay their people enough and do not keep money behind.

Multi Bintang increased the use of gloves, shoes and safety glasses. So this can maybe set as the standard in the surrounding area. People react positive on it, they appreciate it that Multi Bintang cares about their safety. Multi Bintang pays the workers that load and unload 3 million IDR per month. They pay them above the minimum, also to evade protests.

A lot of other companies in the surrounding area of the village Mojosari are probably built illegal since the area is supposed to be used for agriculture. It is possible that bribery is involved.

Financial measurement

15% to 30% of the salary for managers can be gained as bonus, regarding energy and water savings. The budgets are defined in the headquarters. Because of the CSR program they do not have any demonstrations anymore. There are KPI measures in development to measure the impact. With these measures you also have a viable argument towards the higher levels when you need more money for your programs. But right now here at Multi Bintang they do not use them. In the future it will be implemented.

Community and Factory visit Multi Bintang Sampang Agung

Rickshaw driver Mojokerto

The Beer factory has moved from Mojokerto a long time ago, it was from a Dutch guy. It is closed due to financial problems. He did not know people that worked in that factory. This rickshaw driver had lived his whole life in Mojokerto. There are different factories here and they make many products. One makes guitars, one makes shoes and one makes furniture. He thinks in the future the streets will become busier than nowadays.

Inhabitant Mojosari

When people want to work they go to Surabaya to look for a job mostly. Jakarta is better but people prefer to get a job close to their homes. Here in Mojosari there are not as many

factories as in Surabaya. For instance there is a paper factory that produces paper. There is a stone factory where bricks are produced and where stones are broken for building roads and houses.

The beer factory is not a big issue, although the people here are mostly Muslim. There are special places like cafés and bars where you can drink beer. People do not believe the owner is Muslim. Most Muslims are not like this and behave properly. Observation: Bintang beer was being sold on the street by a guy on a rickshaw bike.

Landlord Mojosari

There are not many extremists here in this area. There are some but not many. It is not a problem for Muslims and Christians to live together here. There are not so many problems.

Angkot (Small public bus) passenger 1 Mojosari – Pacet

Some of the people that live around the factory work in the factory.

Office worker MBI SA brewery

The military just finished renovating the kindergarten school in the community Multi Bintang had donated some of the materials. The military donated the manpower.

Tour in community MBI SA by security officer MBI SA

The fish in the river is eatable. You can fish here in this river. The security guy lives in Mojosari himself. The villages and projects that are helped or sponsored by Multi Bintang have the Multi Bintang logo on them.

Village office/ Kantor Desa community MBI SA

The village head says that the people surrounding the factory helped the factory start up. In 1996 they got 50 million IDR sponsored to build part of the village office. Around 2000 or 2001 they build another part. The office was also recently used by a government meeting. If necessary I could ask everything about Multi Bintang because the village is part of Multi Bintang's history. From the very beginning until now they are connected.

School employee community MBI SA

Of the elementary school the gate and gate wall were sponsored by Multi Bintang. The school employee told that everything that is sponsored by Bintang has Bintang's logo on it.

Factory tour MBI SA

The employee has already worked for 5 years in the company. 25% of the employees live in the area surrounding the factory. 50% live in the nearest bigger towns like Mojokerto

and Mojosari, about 15 kilometers from the factory. 10% of the employees live in Surabaya, about 70 km from the factory. It takes one and a half or two hours by car.

When people are feeling sick and are ill in the community the CSR manager of the factory will come to the house of the sick person in the community.

The formal leader of a demonstration that took place in the past is now a team leader of a packaging team in the factory.

Land next to the Multi Bintang Factory is rented out to the community.

When the fish die in the fish pond behind the factory after treating the water, then there is something wrong with the water. The fish however is not nice to eat.

Appendix B: L'Oréal Indonesia

L'Oréal HQ PR manager

BoP needs and challenges

The PR manager gave a personal answer on the question what the BoP market needs. The important items the BoP market needs are food, water, clothing and a place to sleep. This is in some poor areas sometimes just a cardboard or house made of wood. Pushing the product to them is not efficient. The BoP people live on a daily basis and sometimes they do not even have a meal every day.

Business Capabilities

L'Oréal sells its products everywhere in Indonesia. However, some areas are hard to reach. Because internet and electricity is not everywhere. The BoP market is not recognized as a profitable target group. However, they want to reach those people as well. This is done by selling small sachets; those are around 50 dollar cents. The sachets are handled through the regular distribution methods like in the traditional markets. These sachets are not profitable for the company. There are no revenues from these sachets, but L'Oréal wants everybody to be able to have the L'Oréal products. In 2012, L'Oréal started to sell new sachets of the products Total Repair 5.

The vision of the company consists of 3 pillars to make sure that the company has a good reputation. The vision of the company is:

- 1 To be a great business, the best people are working for L'Oréal and L'Oréal gives them the best facilities. There are training centers. Breastfeed rooms for mothers that work at L'Oréal. In house salon rooms to train people who work in salons. Employees have opportunities to grow. Work together with universities and the best student can go to Paris for a special program;
- 2 The number one beauty company in the world, where no other products are manufactured like detergents for instance.
- 3 Focus fully on beauty.

L'Oréal wants to be a great corporate citizen. The largest factory of L'Oréal is located in Indonesia. The new factory is LEED certified, which is the first in Indonesia, LEED is originated from the U.S. The factory and its design are completely green. L'Oréal has one factory in Indonesia with 800 workers. The 3 pillars are the core of the company. In the factory, workers get the same facilities as office workers. The CSR department of L'Oréal consists of 3 people located in the headquarters in Jakarta. No CSR manager is present in the factory. CSR and Corporate Affairs are the same in this company.

Strategies and Business models

L'Oréal started Citizen Day in the year 2010, this program entails that every worker of the office and factory spends one day per year for the community. The aim is to give something back to the community. This year's program was about unprivileged schools for the age group 0-4 years; various schools were reached around Jakarta. Activities that were undertaken were painting the schools, build a toilet and repair watering systems. Toys were offered for the children and tools for the teachers. Every year there is a different focus. Last year it was orphanages. All costs are paid by L'Oréal. L'Oréal works together with the NGO Agora Foundation who has an advisory role. L'Oréal consults them about what they can do for the community; L'Oréal does not monitor the schools directly. The Agora Foundation is monitoring on a monthly basis and L'Oréal follows the advice of the Agora Foundation. So there is not a direct relationship between L'Oréal and the schools. Citizen Day is a global initiative from L'Oréal headquarters in Paris. Citizen Day is used for internal communication. Internal resources are used for the community. The media is not invited, so it is not really marketing, although it is not a strict rule not to do so.

L'Oréal considers if the product is affordable and accessible in BoP markets. Only some brands are available for the BoP market. The sachets are available in all traditional markets which are called "Pasar" in Indonesia.

The global strategy is to localize. L'Oréal is close with the needs of the Indonesians. Hair Spa, a cream for the hair, was specifically developed for the Indonesian market, but now it is also a success in other markets. This product is also available in a sachet. The face cream women use in Indonesia is specially developed for the needs of the women in Indonesia. The majority is Muslim and prays 5 times a day. So the Indonesian women need a cream they can apply often. The shampoo that is sold in small sachets in Indonesia is actually developed in India by L'Oréal and now also available in Indonesia. The creation of sachets for the BoP market is fairly new. It is not the main strategy; they will not get high revenues from that. And last, they use local people in advertisements to stay close to the society. The above mentioned programs are all that L'Oréal Indonesia does.

The strategy of the CSR is that it must expand every year; it must be continuous. The idea comes from the global program at headquarters. L'Oréal Indonesia has the authority to localize since the global program is thought of in a Western world, so it must be localized to Indonesian needs. Thus, there is an information flow from Indonesia to the headquarters of L'Oréal in Europe.

When people encounter problems with one of their products they can call the consumers advisory line and if necessary the people will be picked up and brought to a doctor or dermatologist with whom L'Oréal has relations with. There are still a lot of problems with hair dyeing products. People do not read that they first have to test it on a small spot

to see if there is an allergic reaction. The whitener cream is brought on to the market because through history white women were perceived as beautiful. This has already been true for a long time. In grandmother's time there was already powder from rice, long before the actual whitener body lotion was on the market. Indonesians are influenced by Korea. In Korea, the K-pop culture is very popular, and youth in Asia are following this subculture. Those Korean girls are white and Indonesian girls dream of being as white as them. And the marketing strategy of L'Oréal is to give them this dream.

The local community around the factory in Jababeka, close to Jakarta, consists for the majority of factory workers that were employed at the previous location. Ninety-five percent of the old workers moved together with the factory to Jababeka. L'Oréal helped employees finding a new home and supplied bus transportation. The old factory was small and the demand was growing. The new factory is located in an industrial area in Jababeka. The workers live around half an hour from the factory.

Right now 55% of materials are sourced locally from Indonesia. Where those factories get their raw materials from is not clear. The local sourcing target will be 75% within the next 2 years. L'Oreal makes their commitment stronger to Indonesia by using local sources. They make products for Indonesians from Indonesia.

L'Oréal made a Mosque that is available for the community around the factory and for the factory workers. They plan to make a kindergarten school as well. Not high level education, primary or secondary education. L'Oréal Indonesia has not the resources to do all the planning that is needed with education higher than kindergarten. A kindergarten school is just a start. Probably they work together again with the Agora Foundation. Investment in higher education is more difficult, they do not know yet if they want to invest in that. They have to find a larger place to build and work together with the Ministry of Education to list it. It is still too far away now in order to start this.

The core of the company is science. The priority tasks of the CSR department are to stay in line with science. There are 3 CSR programs:

- 1 Four Women in science: They give young women who are researchers and under 37 years old who make the world a better place a sponsorship. To help finding cures for diseases like cancer and diabetes. It consists of Life science and Material science. This is a Global program and outside the scope of the company core business. So not beauty related;
- 2 Science lab: Investments in laboratories in schools in Indonesia that have a lab but do not have anything in it. L'Oréal supplies the tools and charts for the school's lab. These labs can be biology or chemistry. For every school there is 75 million IDR available. Per year ten schools in Indonesia can participate;
- 3 Beauty for a beautiful life (has still to be implemented): PEKKA, a large NGO in Indonesia, selected 15.000 underprivileged women. They are from low economy

classes, are disabled or widow. L'Oréal gives training to let those women gain skills so they can work in a salon in their own society. They learn techniques like straightening hair, but also English. The women can in the end make money for themselves and be empowered. The empowered women will not be integrated in L'Oréal business strategies. The program is implemented just to make those women independent.

Empowering women that are underprivileged is very important in Indonesia. It is a problem in Indonesia. Once a woman is widow or divorced she has no rights according to the government. They are secondary citizens, women are there to cook and take care of children.

Leadership

L'Oréal is the only company of its kind in Indonesia and it is accepted because it listens to the needs of the Indonesians. It is fully focused on beauty and this is fully accepted by the society. L'Oréal is not a big conglomerate. L'Oréal plans to make an evaluation center in 2014. Their products can be evaluated based on the needs of people, before the products are introduced to the market.

The company acts as a leader in increasing the well-being of local community. However it also increases well-being of people of other parts in Indonesia. It spans all the social classes. L'Oréal helped workers of the factory in getting a place to live. The factory is producing products that are for 70% used by the people of Indonesia, and 30% is exported.

L'Oréal has farsight vision and strategy; this is seen by strong targets and strategy.

Pragmatic openness is present; the country manager of L'Oréal is from India. Furthermore managers are going around to different subsidiaries. Plenty of managers already worked for L'Oréal in Paris.

L'Oréal is aware of their conscious presence. Demand of sales is high in Indonesia and they know they have a good location in Indonesia. There are no problems at all with the religion in this country and L'Oréal's products, which are make-ups and shampoos.

There is trust among employees; there is Citizen Day, different events, Christmas parties and free movie evenings for workers.

On the topic trust among suppliers the manager had no answer.

Personal conviction is present by the country manager of L'Oréal. He has worked here since January 2012 and worked previously for L'Oréal India at a different division. The markets of India and Indonesia are similar. He also took part of the Citizen Day and he is engaging with the government.

Moreover, what important is in order to be a leader and accepted, is to localize. Listen to your market and stay close to your consumers. Build products based on what the market wants. Localization is of utmost importance if you are an MNC. As well as to be open,

and engaging with consumers. Leadership has an influence on institutional change. L'Oréal wants to be a great business. L'Oréal obeys the rules of the government. L'Oréal is not a follower nor it is very powerful to change, but it goes hand in hand with the government. L'Oréal is engaged with government, local government and the Ministry of Industry.

L'Oréal has a full commitment to Indonesia by investing in the new large factory in Indonesia which produces products for Indonesia and export. Indonesia has a high demand for their products.

L'Oréal reduces poverty by having the big factory. This creates labor and thus combats poverty in the area. There is a high demand in for products in Indonesia, so in the future they need more workers and also will increase the skills of workers by giving them training.

Financial measurement

The CSR department tracks return on investment by the media reach. The ROI of the corporate is about media coverage.

For example with “A Beautiful Life”, it will be about how many people are reached in terms of that they know the company name. It is not like a commercial or advertisement that they show today and sell tomorrow more products. They give something now, but get a return in the years that will come. It is not measurable.

They know that they are doing good if they are known, people talk about them and telling good stories in the media. The main goal is that people have trust in their company.

They see the CSR programs as investments. The investment is not about getting the money back but to have a great reputation. The PR department does not bring money into the company like sales and marketing do.

The CSR department has a bonus system. The bonus is calculated on individual performance of the CSR worker and calculated on the programs that are run. It depends on how successful the program was and how much coverage it received in the media. PR values are calculated every month and are compared to the years before. Every year the target will be increased with 25%.

An example of measurement for profit that goes to the community or BoP is “The 4 women in science” program. There are 25 women in Indonesia that got the 75 million IDR grant. L'Oréal keeps in touch and asks them how the program is running. But L'Oréal does not expect hard targets. The research that the women are doing could help people in the future. The results from the Indonesian female researchers is reported to the CEO President Director of Indonesia. If the research is already on international scale they report it back to “The 4 women in science” team in Paris.

If the CSR department needs more money, they have to ask more money from the brands that are under the L'Oréal flag. So if the CSR program becomes bigger they have to work together with the divisions within L'Oréal. Every brand has its own budgets. Indonesia

was not affected by the economic downturn; everybody wants to invest in Indonesia. That is why L'Oréal is fully committed in Indonesia. CSR budgets have increased 20% since last year.

Employee L'Oréal at headquarters L'Oréal

L'Oréal has in-house training rooms for salon professionals that use their products in the higher range. The professionals are invited from all over Indonesia. There are no salons in the BoP market and so there are no people invited from the BoP market. The cheapest price for a salon treatment is around 100.000 IDR (€8,-) with the cheapest brands of L'Oréal, so that is not affordable for the BoP market. The consumer brands can be bought by people in the BoP but there is no special treatment.

There are some facilities for employees. A learning center for employees that want to know about company rules and information, they can sit and learn privately. There are breastfeeding rooms for mothers to pump their milk for their babies and store the milk in the refrigerator which they can bring home later and use the milk for their baby at home. There are free massage and pedicure treatments for all the workers of L'Oréal, you can book it in advance. It is to refresh people's minds and bodies during work.

L'Oréal HQ Marketing Manager

BoP needs and challenges

The shape of the pyramid changes from a pyramid to a diamond. L'Oréal does not believe that by investing in the lowest part of the BoP, L'Oréal will secure their future market. When the BoP market has some money and look for L'Oréal products they are available. L'Oréal makes sure that the products are available.

The economic growth last year of the middle class in Indonesia was 14%. The typical jobs the people in the BoP market have are in labor, this means working for others. Other typical jobs are selling food on the streets for instance selling 'Bakso', 'Nasi goreng' with their 'Kaki Lima' and being a maid in a household; this is very common in Indonesia.

Forty- three percent of the people that live in Indonesia live in the lower part of the pyramid.

There has not been done any research in the local community about how people perceive L'Oréal; in the future L'Oréal wants to do it, right now only market research is done. L'Oréal wants to have a good image so they will do community research for sure.

Benefits of investing in the local community are to fulfill their responsibility towards the local community, and to give back to the community. Since L'Oréal also took from the society by selling the products to the society.

Business Capabilities

L'Oréal has no direct association with the BoP market. Although there are 3 things L'Oréal does to help the BoP:

- 1) Employment, because L'Oréal opened the biggest factory in the world in Indonesia Jababeka and they require people for that.
- 2) CSR, investment in sustainability.
- 3) Distribution to smaller cities and outer islands of Indonesia.

Strategies and Business models

Labor opportunities are given to people living in the surrounding of the factory that have no skills and low education, they call it hard labor. Those people work in packaging, manufacturing, moving of material. The percentage of laborers is quite big and are hired through 3rd party outsourcing.

L'Oréal has CSR, although the scale is not big. There is Citizen Day, and another CSR program is Beautiful Science. They do not particular aim at the BoP.

The CSR programs are a regular thing they do, every year the employees go to an orphanage or school for the less fortunate children. L'Oréal wants to take the program serious because one of the missions of the company is to participate in the community.

L'Oréal has distribution to smaller cities in Indonesia and to the outer islands; this generates work for people. An example is Ternate, on the Maluku Islands. In that area L'Oréal uses a sub distribution model. Since 1 year, people can buy the L'Oréal products now on this smaller island. In the past the distribution of L'Oréal products was only arranged to and on the bigger islands like Sumatra and Java.

L'Oréal says they can help people who want to open a salon in the BoP market, although the people living in the BoP need to take the initiative themselves and they also require some capital as well. L'Oréal does not look actively to start up salons in the slums or smaller cities. L'Oréal only invests through the sub distribution system to reach the BoP market and through their school programs that give schools laboratory equipment to teach. They give the tool to catch fish, not the fish.

The products that are sold by L'Oréal are by nature not demanded by the BoP market. It is not their target market. Skincare products are now sold in sachets as well, in the past only hair care products.

The BoP market fosters innovation and also distribution. In the past they had only one distributor and the distributor decided where to the products went. Now they use the sub distributor model and have deeper penetration in Indonesia.

The sachets of L'Oréal are recyclable and they can be recycled by other companies, but L'Oréal is not involved in that. In the informal market people collect the waste and sell it to entrepreneurs that see economic value in the waste. The foil of the sachets can be recycled. There is no relationship between the waste disposal entrepreneur and L'Oréal.

L'Oréal is not particularly increasing the competitiveness of a region by local endogenous development. It is limited to labor opportunities, CSR and sub distribution to stimulate local businesses.

L'Oréal is not actively targeting the BoP. Some of the higher part of the BoP is already reached, but not the lower part of the BoP. The nature of L'Oréal products does not ask for it. If L'Oréal were another type of company that sold for instance food or water it would be a different story. The BoP market is not involved as a producer, only as distributor.

To secure the future market share of L'Oréal they make their products as accessible as possible and that with the best quality possible. Improvement of the living conditions of the BoP is only done through CSR, not through L'Oréal's Business Model.

Leadership

- 1) The vision of the company is very important. L'Oréal has a plan for the next 5 to 15 years. There is a clear vision where they are going to.
- 2) Cultural sensitivity is very important. Good market understanding and knowing who the consumer is.
- 3) Integrity, because the business in Indonesia has to be sustainable. People who work in management have proven track records. The average age of managers is much lower than in other companies. L'Oréal gives opportunities to young people who have a fresh view and have good prospects.

L'Oréal wants to reach 100 million more consumers in the next few years; it is already planned in the company's blueprint. But it is not done through investing in the BoP, L'Oréal gets their market share from the middle class. The BoP market will become richer and thus will automatically get in contact with media and sale points. They get in contact with L'Oréal's products and L'Oréal will wait for them to come out of the BoP.

L'Oréal combines local strategy with global strategy. L'Oréal is open to pragmatic openness as long as it is in line with Indonesia. Differences are for instance in terms of communication and product specification; different shampoos and different advertisements. The brands still keep their image but it is changed a little bit according to the cultural demands.

L'Oréal is aware of their presence in Indonesia. Ten years ago it was not as developed as nowadays, and prospects are better now. The perception of Indonesia shifted in the last few years by Paris and Indonesia became more important. L'Oréal invested a lot in the country by having the big factory and localizes products; products are adapted to the needs of the Indonesian people.

Trust among employees is all right, there is a mix of people that work for L'Oréal long time and new people that are hired since the expansion of L'Oréal Indonesia. The people that start in the company still have to build trust with the company. The older generation

employees have trust in each other already. There is a lot of trust among suppliers at L'Oréal. There are fixed terms of payments and so on; It's systematic now.

Managers are open to their subordinates. When there are concerns about the job, the company urges the managers to be open. Hierarchy at L'Oréal is present; people have to grow with the company and take initiative. There is a pyramid, like in every company, but here employees should develop their own tasks.

Personal conviction is important for the leader. In Eastern countries you also need a good relationship on a personal level. When a leader changes or is replaced in the company people feel the impact instantly. L'Oréal has a lot of impact on institutional change.

Financial measurement

There is no measurement on how much profit there will be for the community or for the business on the long run. L'Oréal sees it as an expense. There are also no measurements that will help the decision making process for new projects or adjustments of Business Models.

Community and Factory visit L'Oréal

Pasir Limus village - someone at the Mosque

An inhabitant of Pasar Limus said that L'Oréal is a company aiming on beauty and skin care. He also added that the new L'Oréal factory at Jababeka is not yet open and not yet in operation. There are still some constructions going on, so L'Oréal did not hire any employees yet from the surrounding area. He said that the factory of Unilever that produces beauty products is located in the same area as the L'Oréal factory. As L'Oréal's factory in Jababeka is not yet in operation, we asked whether he knows where L'Oréal's old factory is. However, he said he did not know it. He said L'Oréal's factory at Jababeka is bought and renovated by L'Oréal. According to him the products of L'Oréal are not manufactured here, maybe they are manufactured in France.

Pasir Limus village – School – A teacher in a school

The teacher had heard of L'Oréal before. He said that L'Oréal is in the business of beauty products. The schools here have never been visited by people from L'Oréal and never had any events or programs from L'Oréal in the past.

Pasir Limus village - Clinic

We asked about L'Oréal and she said their factory is new, they just moved from their old location. She never heard about any support given by L'Oréal. We asked whether some people who are living around the area are working at L'Oréal, but she did not really know it. Most of its employees are brought in from its old factory and they are mostly from Java.

Tanah Baru village - Clinic

She said that L'Oréal is a new company in the area which has not yet given any support to the people in the community. Only big companies which gave support are Samsung and PT SOA. No people in the village work for L'Oréal yet, because the factory is still under construction.

Big companies like Samsung and PT SOA generally supported them in the construction of schools. They are quite keen about education. Next to that, big companies often held a free mass circumcision for the boys. They usually cooperated with the village chief and the headman to do their programs in the village. These events were always done by the same companies.

She also added that Samsung used to give scholarships and food supplies to orphans. One of the orphans who got the scholarship was disabled, and Samsung bought him/her artificial legs, but unfortunately that child died because of tuberculosis. So she said that Samsung and PT SOA cared about the people around here.

What the people need and expect from the big companies nowadays is mostly education. Before big companies started to support them, the schools were almost collapsing. And now, almost all the school buildings are restored and renovated by big companies surrounding the village.

Appendix C: Unilever Indonesia

General Manager Unilever Indonesia Foundation

BoP needs and challenges

Unilever Indonesia uses 2 sources to get their numbers of the Bottom of the Pyramid. One of Bappenas; the national planning institution of Indonesia. And the other one of the United Nations. Unilever does not validate the numbers themselves.

The BoP is not per se recognized as a profitable target group. Products are sold to the BoP at a fair price. Unilever will not sell something at a loss; then they would run out of business. The scale is what matters. There are many people living in the BoP and Unilever wants them to have access to the Unilever products. In 5 or 10 years the lower part of the BoP market will move towards the higher part of the Pyramid. Already right now you see, last 5 to 10 years, a migration has taken place from the lower class to the middle class. The biggest part of the pyramid is the middle class. Unilever makes use of social mapping and makes sure the product is affordable for all classes of the society. To make it affordable they use the price or product type, for example by changing the quality or features and simplify; there always will be a certain standard quality.

The priority items that the BoP need are food, balanced food, even though it will be very small. After that, basic needs like a shelter or basic house. Furthermore, basic health and hygiene. Education follows, or a mobile phone. Connectivity is very important.

Hygiene products like shampoo, soap and toothpaste are mostly bought.

Unilever Indonesia has a Consumer Insight team that works together with market survey companies to do research in the market and look for potential. Consumer Insight scans the consumers, society, economic feasibility and potential. Products will never be launched without consulting this team. When a product is launched Unilever knows exactly which group is being catered by a particular product.

The people living at the BoP work as labor force, they are not so much involved as entrepreneurs. When they show progress as an entrepreneur they are no longer part of the BoP. An example of a common job is an ice-cream salesman who goes around on foot or bike.

Business Capabilities

Unilever serves across the segments. In the rural area the product penetration is already around 90%. The statistics show that you can find at least one Unilever product in every household. Everyone uses soap, toothpaste and detergent. Even Pepsodent, a toothpaste brand, is segmented from very cheap to more expensive with better features. Many products are available in different sizes and sachets.

The direct employment that is created by Unilever Indonesia is more than six thousand employees; this includes the employees of factories and offices of Unilever Indonesia. This number does not include the business partners like distribution centers.

Each province has a selling office which has connections with local distributors. Unilever has seven factories; the two bigger ones are located in Cikarang near Jakarta and Rungkut near Surabaya. The one in Rungkut produces soap and toothpaste. The one in Cikarang produces ice cream, detergent, skincare and liquids. The revenues of Unilever are 2 billion IDR per year. The impact of Unilever Indonesia is great. In 2005 300.000 fulltime equivalent jobs were created throughout the whole value chain.

The vision of the company is to create a better life everyday. This ambition is catered by producing and selling various products in the market in the category health, hygiene and detergents. Malnutrition and unsafe drinking water are big issues in the world today. Unilever created a framework which doubles the business by 2020, but halving the impact on the environment. With business as usual, but reducing waste, water use and emissions. The biggest footprint is in the consumption of the product. Unilever introduces innovative products that use less water and Unilever educates on how to use the product. Unilever has for instance a one rinse detergent for washing clothes that saves water. Observation: I haven't seen this one rinse product in the small shops that are common in the areas where the people live.

Unilever fosters innovation by finding ways to reduce the waste. However this is not specifically created for the BoP market. Unilever is not specifically serving the BoP market. Products are kept general. Products are kept being affordable in the place and price ranges the BoP can afford. Otherwise it will not be economically viable when they create something only for the BoP market. When the lives of the people living in the BoP improve, they reach that level to buy other products of Unilever, since they already know Unilever's products.

There are innovations like looking at how the sachets can be made recyclable or convertible, but this is not really specific in the interest of the BoP market, but for the community at large. Nowadays the sachets are of a different material than bottles and the sachets have less economic value and the collectability of them is not enough to collect them by the informal market. The waste infrastructure is not yet established by the government and Unilever cannot yet regulate the waste. In the past 2 or 3 years Unilever has been looking for methods to convert sachets back into oil.

Already many communities are cleaner because of the community waste programs of Unilever. Unilever is working together with Nestlé, Aqua Danone, Tetra Pack and Coca Cola to look for solutions on post- consumer waste issues and best practices in sustainability are shared.

Unilever's strategy is to sell every product for a fair price. If somebody wants to spend a small amount of money on shampoo there is a type of shampoo in a certain package that caters the person's needs. Unilever does not believe in giving the products away against costs. It is not a philanthropic organization, at least not in a product sense. In education Unilever is philanthropic. The government is there to facilitate those at the BoP and to help them.

Strategies and Business models

Various brands of Unilever did sporadic engagements with the communities in the past. However, not yet linked to what has been done before and has an ad-hoc character; every year again without looking back to projects done before. The Unilever Foundation is raised because the endeavors of the Unilever brands must be all aligned with each other and they now have a more holistic and synergetic character. The ultimate objective of the Unilever Foundation, which was established in 2000, is bridging the business with the community in a holistic way. Integrate all the things that individual brands do to one Unilever umbrella and nurture relationships. Leverage common elements among brands and act better and more towards what the community needs. Put a framework in place and have a clear approach that goes across the whole value chain. Raw materials, manufacturing processes, manage brands and make connections with the community/consumers.

Unilever makes no difference between the community and consumers; they are the same group of people. Unilever targets everybody; however the brands in Unilever target specific groups.

Programs that are diploid have to have relevance both to the business and relevance for the needs of the community. There is no point in looking only at the business side and push products towards the community. It is not philanthropy, there has to be profit as well. However the point is in how they do business and how they utilize their profit. There are more elements that have a stake in the whole story, like social and environment issues. If they neglect social and environmental issues and only focus on profit, it will be a matter of time before there will be a clash with some parties or regulations. And this means Unilever has to abandon certain operations. Social sanctions will arise. Unilever is in the consumer goods so Unilever has to be connected to the consumers through their brands.

With price differentiation and presence of community programs this is done. Consumers in the BoP see that Unilever is a company that is doing more for their families.

There are three examples that reflect the presence of Unilever in the middle and lower part of the pyramid where people are not only served by product but also by programs. Unilever goes to the 33 provinces in Indonesia with their global hand washing and tooth

pasting program of Lifebuoy and they visit primary public schools and “Posyandu” (community help post in a village, run voluntarily by local women, initiated a time ago by government). Unilever trains people and they can pass the knowledge on to other people.

Unilever sells at a reasonable price for a reasonable profit. The principle of affordability is very important. There are two aspects: Price, the segmentation, which relates to the different package sizes. And product type, formulate the product in a simpler way. So still deliver the basic needs of that product category; you pay a fair price for the product, relative to the quality and size. The standard minimal quality is the same everywhere although from time to time the materials and ingredients are reformulated since prices go only up and they look for alternatives or substitute raw materials and packaging.

The Unilever Foundation creates a mechanism to get all the stakeholders together. Global people survey is done every year and the opinion of employees is asked about various topics. Topics are whether employees are aware of the sustainability programs, what they think of it, if they value it and see it as a good thing. And it got a good score. Unilever has a lot of awards and with the internal communication system that is in place the information is shared with employees. Many awards are made possible by the sustainability team.

There is no specific endogenous development plan for the local community around the factories to make the area more competitive. Only local talents are brought in with Unilever; and they provide opportunities for people with internships. Per year 30 to 50 people per factory get a scholarship. Sometimes people from the BoP are also given a scholarship, those who have skills. Unilever does not decide everything themselves, but they consult village heads. Factory managers have contacts with the community. General workforce is outsourced and they are recruited from the community.

A group of volunteers is active in the factories and they reach schools and talk about health and hygiene, drugs and HIV. They spread knowledge about environmental issues.

The local community is defending Unilever when there are disruptions from outside the area. Ever since the beginning the factory works together with the people of the community and this is where the families get their money from. There is a continuous interaction for instance with celebrations. The volunteer program enables Unilever to get to nurture relations with the community.

Disruptions are only industry broad of nature, for instance from the unions. There are no conflicting issues because of the products, everybody uses the products and the products are accepted by the Indonesian society.

The BoP is not seen as a producer or distributor of Unilever. However, often a salesman who is intelligent and has skills can work himself up as a stock point entrepreneur.

Unilever and distributors are always looking for distribution extensions. There are always opportunities to cover untapped areas. Jobs can be created. The same is true for drivers that deliver the products. Extended partners of Unilever work in the BoP markets. Basic education is necessary to activate the skills. One essential skill is the Indonesian language; you need to speak that at least.

Unilever is securing the market by having updated/innovated products that are needed by the market. Also the resources internally need to be prepared in terms of capabilities and numbers to accept growth. So the infrastructure must be in place. And Unilever has to make sure they can grow sustainable. Make sure whatever they do must be in line with local environment agendas and work together with stakeholders.

Unilever believes if you make the BoP aware about hygiene and health eventually they will get stronger and this is also for the benefit of Unilever since more products are being sold. Only the distribution component of the value chain is integrated in the BoP market and creates opportunities for the BoP since Unilever is looking for talent and distribution. The Foundation cannot reach everywhere at once, but looks for areas where it can make a difference and have success stories; this triggers a ripple effect towards other areas. Then they move on the next area by taking gradually some of their resources off previous projects. However, remain in contact with the previous, now independent, areas with minimum support. Progress of the Unilever Foundation is tracked every month.

Unilever does not use the word Corporate Social Responsibility, but the Unilever Indonesia Foundation. The work covers Unilever's sustainability plan USLP. It covers 2 aspects, the business in the community and at the community. Working with international and national NGO partners. To deploy economic and social programs that depend on the needs of the country. It is not just CSR, it is CSR embedded in business operations. CSR only focusses on certain aspects, while Unilever has a more holistic approach. The Foundation helps to let Unilever reach their targets and takes initiatives in terms of social and environmental issues for the targets of 2020. So it is beyond CSR, it is integrated in the Business Models. A deeper, more holistic and relevant in each of the business functions. For the outside world, government and public organizations still call it CSR because that term rings a bell, but in practice it is far more evolved as a sustainability agenda.

Leadership

Conscious presence of Unilever Indonesia is described in reports of Oxfam. It is not only about how the company is embarking upon social community development. Also the presence of the business itself has an impact on the community. It is about the overall sustainability framework of social, economic and environment impact.

The vision of the company is to be in Indonesia for the long run. And embrace the consumers throughout their consumer lives. To be sustainable is very important. It can be

seen from 2 angles. Good products, so looking at functionality. But also connectivity to the consumers and accompany them day in and day out. The company hopes to be recognized as a company that does good for the family and environment.

Best practices are shared, also in the form of awards mechanism, in aspects of brand activation, brand innovation, sustainability, hygiene, environment and responsible sourcing. They share information among countries by the internal website of Unilever.

Unilever Indonesia is one of the few companies that is a leader in CSR and sustainability. Unilever has a good reputation in business performance, social performance and governance. This is because the roots of Unilever are already in place, and Unilever has good local talents. As a matter of fact, many consumers think Unilever is a local company. Unilever is increasing the wealth and well-being of local communities.

The CEO has a strong Leadership vision and farsight vision. Every quarter there is a senior Leadership forum and seniors come together to decide where the company should go and make a strategy and implement it. Unilever also did not lay off employees in the economic crisis in 1997- 1998 because they believed they should maintain their staff to get back on their feet. The workforce is very solid.

Concerning pragmatic openness; Unilever Indonesia developed a market development model how to activate local market and create more opportunities for the existing business and this is now used as best practice and distributed and adopted all over the world.

Unilever is conscious about their presence; they bring impact but also risk. Unilever is very cautious about the risk and does not want to play games and jeopardize their image. Actions are done in a calculated way with minimum risk for the company.

There is trust in the value chain, Unilever is a trustworthy supplier and grew with the suppliers since they were small. Once there is a partnership with a supplier that supplier should be kept for the long run. Some distributors have already been 20 to 30 years with Unilever. Unilever is a public listed company and all the reports are available. Progresses and market performance are reported. Unilever has conservative shareholders and the shares are not frequently traded.

Concerning egalitarian approach, there are 3 layers of forums in the company and information is, because of these forums, also going bottom-up. Easy access and speed is important. Unilever wants to cut bureaucracy and is focused on action.

Unilever's top management believes they need to empower the people. The employees are given authority but are held accountable as well. Personal conviction of the leaders is very important, there is one big goal that cascades down in the divisional levels, team levels and individual level.

Good Leadership needs to be seen by the company employees during good and bad times. Unilever is famous for strong teamwork. Values that are in the company are in line

with the rich local Indonesian culture and of course some values like teamwork are retraceable to the Dutch culture.

Unilever is very active in trade associations and provides input for the Ministry of Environment and Industry. Unilever is taken as an example and asked about input for CSR laws and regulations. Unilever helps the regulators understand CSR and why there need to be laws since CSR is voluntary. And if laws are implemented for an industry for instance waste disposal Unilever will argue for things that are needed to be done from the government side as well. How can the company comply otherwise to rules if the infrastructure is not there. Unilever engages in a dialogue and brings it in perspective when ridiculous laws are implemented. Unilever has a lot of power in that sense.

Financial measurement

The budgets for CSR have never been cut. Every year the Foundation wants to become bigger in terms of deliverables. It can never be less. However, budgets increase only a little, so the Foundation needs to be more efficient.

A component of the costs of CRS is in each brand embedded, since the improvement in sustainability is in the production process of the brands. The brand pays for this. Also brands communicate like PR to the public and this are also costs in the books of the brand.

If you want to calculate the costs then you have to calculate everything because it is very much integrated. You cannot tell the costs of the CSR function, it is too much embedded. There are no tangible deliverables.

The Foundation has KPIs, however the accountability is shared. The Unilever Foundation is not the only one who is responsible for missed targets. How the business performs is not in the Foundation's hands, the success in the community is in the hands of the Foundation. The Foundation has KPIs on sustainability.

Return on investment for the local community is not tracked, because there is no way to do it. However it can be measured in a different way. Unilever is the most desirable company to work for and the most recognized company in sustainability. That is assessed by independent monitor companies. This is an external measurement and this tells them they are on track and this increases the image of Unilever.

The bonus structure is the same as any other employee has, targets that have to be reached are linked to their goals. Also personal development goals. An example for a KPI is getting the development program working in ten locations. Every division has its own monitoring system. Every year there is a budget that cannot be exceeded, there are mechanics in place that monitor it every month.

Community visit Unilever

Pasir Limus village - Fried rice seller

The person said he came to the village 6 months ago. He did not go to school anymore and now he is working in the food court. He does not have any relatives working in the Unilever factory, however he knows what kind of products the factory manufactures, products such as detergents. Sometimes Unilever has special programs for them, there were motorbike tours to Jakarta and other towns. He did not know whether Unilever gave products to the people in the surrounding area. Unilever never gave him anything, like products of support of any kind, during the months he had been staying here.

He bought usually Unilever products like Pepsodent (toothpaste), soap bars, detergent, etc. The reason he buys their products is because the quality of the products is good. There was a school behind this food court which was built by a local company, but he was not sure if it was Unilever or another company. The same was true for the Mosque. He thinks Unilever gives many job opportunities for the people living here.

Pasir Limus village - Someone at the Mosque

The mosque was built from money that was given voluntarily. He knew Unilever quite well. He said that Unilever is a multinational company from the Netherlands. Unilever gave support to the people here quite often. Two junior schools around Pasir Limus village were supported. They are located at RT 03 and RT 06. It was unclear whether the schools were built by Unilever or not. Sometimes Unilever gave free medical service for the people, but not continuously. Also, Unilever gave them sometimes free ice creams on Independence Day.

He said that his brother had been working for quite a long time at Unilever. Unilever is a good company to work for in terms of worker welfare. His brother earns a good salary and Unilever supplies each employee with a package of Unilever products every month. Items such as toothpaste, detergent, soap bars, etc. So the employees do not have to buy those household products anymore. Unilever gives allowances like house allowances, and some allowances for the wives and children. He said that the allowances Unilever gives are better than they receive from the civil service.

We asked how the procedures between Unilever and the people are in order to give support to them. He said that Unilever usually came to the village chief and proposed the activities Unilever was going to undertake and asked for permits.

In Pasar Limus village the people need mainly jobs, the big companies know that as well. We asked his expectations from the big companies surrounding the village, he said with a smile that he actually expects a lot of things from the companies but he couldn't mention them.

Unilever never sells their products directly to the people, but most of the people use its products because of the quality and variety of the products. Products that Unilever produces in its factory at Pasir Limus village are detergents and Pepsodent toothpaste.

Upon arriving in Pasir Limus village, we noticed much garbage on the side of road. So we asked whether there is a program to clear the garbage or to recycle it which is initiated by the big companies. The man at the mosque said none of the companies cared; the garbage is cleared by the people living in the village.

We asked whether there are other big companies who support them and what kind of support they give. He said there is another big company who supports them, it is Cikarang Listrindo. It supports them by giving financial support to the orphans every month. Next to them there is another company who support them by fixing the road.

We asked about the people their jobs at Pasir Limus village. He said that most of them rent out some rooms for the employees who work at the factories around Jababeka, especially for employees from other cities.

One medical clinic is located at the head of RT's house and is open ones a month especially for toddlers. This medical clinic is initiated by the people around the village; it is not initiated by the big companies. For other health matters, big companies ever gave a free medical service for the people. And there has been recently a free Cataract surgery which was held by PT. Cikarang Listrindo. Many people were enthusiast about this event; it was held at a local clinic at the village.

Pasir Limus village - School in RT 006

We met one of the teachers in the school. In the beginning we thought that the school was built by PT. Unilever, and then we found an inscription on the wall which said the school was built by PT. Cikarang Listrindo. We entered the teachers' room and talked to the teacher to find more information about Unilever's contribution to the schools in the surrounding area.

Unilever once came to the school to hold an event in October 2011. The activities were a Pepsodent jingle singing contest and Unilever realized a hand-washing day, one of Unilever's programs to teach the children how to wash their hands properly. This event was not periodically held. There were no events held by Unilever this year. There was only one last year.

We asked whether the event was useful to increase their well-being. He said that it was not completely useful, but the duration of the program was too short. The company only gave them one toothbrush, one toothpaste (Pepsodent) and one bar of soap (Lifebuoy). Furthermore there was no consecutive action. Unilever did not sell any products during

the event. In his opinion Unilever used this event to promote their products as well, like Lifebuoy and Pepsodent.

We asked whether he also uses Unilever products or not. He said that he uses them, because most of the products that are available in the stores are Unilever products. So he buys the products. The products are still affordable compared to other products from different companies.

To the question whether Unilever gives enough contributions to the people he said that it is still not enough. What needs to be done is continuous action for each activity.

He does not know why these events are not held continuously. This is discussed by the headmaster and the companies. But he explained when the event was held the first time, Unilever proposed the school through the headmaster to survey and asked for a permit to hold an event at the school. The school thinks this kind of event needs to be held for the students, but it needs to be regularly. But the school never asked Unilever to have another event again since the school thought that this event would be regularly and they considered it as a Unilever's decision.

He does not know about other events from Unilever like Waste Programs or Health Programs. However, there had been recently a free Cataract Surgery, eye surgery, that was given to the people in the surrounding area. But he did not know which company initiated it. Another school here receives regularly financial support from PT. Cikarang Listrindo for orphans; Unilever only did it once. Also there had been a school visit by Hi-Lo recently. The event was a drawing competition.

Pasir Limus village - Clinic

Unilever had never held an event for free medical service or a mass circumcision. PT. Cikarang Listrindo is a company that holds events like that. Unilever has those events but they are held at their own clinic and are usually in cooperation with a hospital. The clinic of Unilever cannot be used by other people; it's only for their employees. The clinic here in the village was completely built by herself without help of the companies.

The roads are usually built by the local government, not by the companies. And other things such as buildings or mosques are usually from money from the people or volunteers. She said there is another clinic that usually cooperates with big companies, it is located in Tanah Baru village.

Tanah Baru village – Clinic

We asked whether this village had ever received any support from big companies surrounding the village. And she answered that basically this clinic used to be an organization and used to cooperate with big companies for their employees' health, but not anymore. Other support that had been given recently by big companies was to a junior school, built by PT. SOA.

Her husband used to do an internship at Unilever in order to get his Degree on K3 (Health and Work Safety).

She said that Unilever products are easy to find and have many products for the household. So many people here use its products. Besides, many people here are also working at Unilever.

Then we asked about the relation between Unilever employees who are staying in the village and Unilever products consumption. She said that each Unilever employee gets a package of its products every month.

Appendix D: Nestlé Indonesia

CSR manager Nestlé Indonesia

BoP needs and challenges

The BoP market varies between cities like Jakarta, Surabaya, Medan etc. The World Bank has information about the characteristics of the BoP market. Nestlé does not do mapping of the BoP market. The Nestlé marketing department should know more about that. Bappenas and The World Bank have information about income and percentage of people living in the BoP. Nestlé just copies those numbers. In the distribution centers they check what products are sold well and which ones could be discontinued.

You cannot say that the BoP can be seen as a profitable target group but Nestlé makes profit, but it is not intended to make big profit out of these types of products. It is part of the Creating Shared Value (CSV).

Nestlé did not do research themselves in what the BoP market thinks of Nestlé. Nestlé uses the information and knowledge of NGOs for that. When a program is developed a needs assessment is done by the NGO and the development master plan is checked. This is more applicable for the rural area. In the urban area, when people have a complaint about a Nestlé product, they can call Nestlé. But this is more a marketing and sales area.

Business Capabilities

Direct employment of Nestlé Indonesia consists of 3.000 people, in sales offices and factories. More information can be found in the CSV booklet of Nestlé.

Nestlé has 3 factories and the 4th will be started up this year. There is one for milk, coffee and confectionery. Nestlé is doing good and so the social impact is great, regarding all the programs Nestlé has with the farmers. People that are with the company a long time, like 10 years, they see a significant improvement economically and socially in East- Java in some communities. There are 30.000 dairy farmers working with Nestlé and their lives have improved.

The vision of Nestlé Indonesia is “Nurturing a healthier life for Indonesians”. In concrete terms this means setting up cooperations. What Nestlé wants to achieve with CSV and supply chains is explained in the CSV booklet of Nestlé. The aim is in ten years to have more farmers of all product groups and more beneficiaries. And Nestlé hopes that all the farmers have their own bio gas installation within ten years, so they all have a source of renewable energy.

Diagrammatically, the Corporate Social Responsibility looks like a Pyramid. First Compliance at the bottom, then Sustainability in the middle and on top of that Creating Shared Value (CSV).

Nestlé Global has three focuses: Water, rural development and nutrition.

Improving the living conditions of the urban BoP is a side effect of these focuses. The target of CSV is rural development.

It is harder to incorporate the urban part into this Business Model. Although it overlaps with the nutrition programs and this will benefit in the long term, it will result in more healthy children. There is a side effect of the CSV for people living in the BoP but the target is the people living in the urban area. The water and nutrition program is benefiting the urban area as well, like water treatment projects. There is a spin-off of course with the programs but it is a bit far-fetched, children will be part of a healthy labor force later on.

Strategies and Business models

Nestlé does not have their own farms, so they work together with local farmers. These farmers are part of a collective or cooperation that sells the products to Nestlé. The cooperation is not owned by Nestlé and so Nestlé has to pay a good price for the milk otherwise the cooperation is free to sell to somebody else. It is like a partnership; however Nestlé has not the sole right to buy.

With the cooperation there is ownership of the community, this would not be the case if Nestlé had their own farms. It would maybe be cheaper for Nestlé but there is no Creation of Shared Value.

Entrepreneurial skills have to come from the community now, for instance the food for the cattle is now taken care of by the community. So they do not only sell the milk but are also responsible.

Nestlé build 5.000 bio gas installations for the farmers for them to make electricity; this is already possible for small scale farmers with three cows. Nestlé works together with NGOs, like Hivos. This project is sponsored partly by Nestlé and Hivos.

In this way they provide economic development through their model. And this is only through milk. There are similar programs with Coffee, in Lampung. Nestlé gives them training in all the facets of the coffee farming and drying process. The farmers are part of a cooperation as well. Other NGOs are involved like WWF, they make sure the area is conserved and advises Nestlé.

Economically seen, the farmers' lives have already improved. You can see that from the infrastructure and houses of the farmers. They live in a better way.

The Business Model of the coffee division is not yet as far developed as that one of the milk.

Nestlé exports some of the coffee. Nestlé also started with cacao farmers and works together with the community and build their capacity. Give trainings and monitoring. However another U.K. based company buys the beans and Nestlé buys from them again. With the milk and the coffee beans Nestlé aims to give the cooperation an international certification, so the price will be higher for the products; which means more income. Here the Entrepreneurship variable from the conceptual model comes in that is used in this report. 50% of the daily supply comes directly from the farmers in the cooperation.

Milk procurement and daily development is a business unit and Nestlé provides storage and refrigerators. Every day Nestlé pays the cooperation in cash, the cooperation will disperse the money to the farmers. The milk will go to the factory of Nestlé. Nestlé does not own farms, but works together with local farmers. Nestlé has to make sure the supply chain is working so Nestlé has to invest in building capacity of the farmers.

In Indonesia, Nestlé works directly with the farmers through a cooperation and builds the system together with the cooperation.

The urban area is not part of the focus of Nestlé, but of course with the nutrition program “Nestlé healthy kids” they reach the urban area as well. Nestlé fights obesities and malnutrition; learn them about good nutrition for the kids. Nestlé goes to schools. In an economic development sense it is not related, but it fits better in the marketing strategy. Nestlé builds a good relation with the buyer and community. Strategies are selling sachets and smaller packages, price segmentation, and niche market. Cheaper products are sold, but with the same nutrition.

From a CSV side they are working with a coalition of other parties in urban areas, for instance HIV programs. Those are oriented towards the urban setting. The group of FMCG have a collaboration on the process of post-consumer waste. To come up with solutions about waste and packaging problems. It is recently introduced, just about a year ago.

In the future Nestlé will just follow the chosen path and expand this strategy. People in the urban areas will have ad-hoc basis improvements, as a result of regular donations, for instance to orphanages and to the community. However it is a very small percentage. About 10 orphanages receive regular donations in the area around Jakarta. Although every community surrounding the individual factories have their own program. They go into the community and give women for instance empowerment programs, like sewing etc. It is at a factory level; it is not reported back to the HQ. When it is on an ad-hoc basis it is not part of CSV. The factories do not built upon economical prosperity for the community, just to keep in good relationship between factory and community. It is more community relation then CSR.

CSV is non-branded, separate brands use CSR but with the intention of brand recognition, marketing and promotion.

Nestlé as a company uses CSV, this is non-branded, and they do not use sampling of brands. The individual brands under the Nestlé umbrella are not obliged to set money aside for CSV; they all set their budgets separately for CSV and CSR.

Leadership

Nestlé is similar as other MNCs. They have extensive programs for Leadership. For example programs that improve the skills of employees, international trainees, possibilities to develop yourself and training related to your function.

It is related to CSV in a sense that there is employer engagement. It is about sensitize them for sustainable endeavors that are in line with CSV.

The company does act as a leader in the context of community development. It is actually very hard to convince the community that you need certain standards for instance in order for Nestlé to produce the milk. The community is stuck in their methods, which are not in line with what Nestlé needs in terms of standard quality of the milk. With respect for instance to bacteria and hygiene; it is a long process. You need to blend the local knowledge of the community with the Nestlé knowledge; it is a hard task that takes a long time to develop.

Increase in well-being in the urban area can thought of affordable products, Nestlé receives less profit from those products. They can be seen as a leader because people in the BoP receive the right nutrition.

Farsight vision is present, the CEO is very visionary. He is talking about zero accidents, safety regulations and he promotes CSV. He really implements what he talks about.

Pragmatic openness is hard to answer but you really have to comply and also comply with international rules. Search for the highest standard of the compliance.

Nestlé is aware of their presence in the society. However it must be seen in context. For instance in the lives of the farmers Nestlé is very present and has a great impact. As well as the other beneficiaries, those are the cacao and coffee farmers.

On a much greater scale the presence of Nestlé is there. People use dairy products since they were young and so they use milk products. Nestlé is part of the lives of Indonesians. People in the organization have trust among them and in the organization. There is transparency, an open system and there are opportunities to develop yourself.

Trust among suppliers is great. Every year Nestlé is buying more milk from the farmers, this means they trust Nestlé.

Nestlé is very egalitarian; each business unit is independent and has great freedom to make decisions. It is not necessary a top down approach, voices are heard on the bottom as well.

There is zero tolerance against corruption, because Nestlé adopts the highest standard. They use the one of Switzerland. Another important aspect of Leadership is integrity; set examples and transparency.

Sometimes people ask Nestlé why they do not buy their own cows, which is much cheaper. There is criticism and some disbelieve that the CSV program is for Nestlé's own good instead of the community. So just set examples and people start to follow after a while.

Financial measurement

There is no bonus structure for CSR managers. Every year there is a regular evaluation for your targets. It is not like a sales department that when you sell more the bonus is bigger for instance. Nestlé is not that aggressive in their bonus structures, not like in America. In the CSR department the target consists of KPI. If you reach the KPIs you get the bonus. However the company structure is very flat so it is hard to move up or down very quickly. So every year you have to reach your set of KPIs like reaching the budget targets for spending in communities. Another KPI is successfully run a certain CSV event. Develop certain platforms for intern or external communications like newsletters. Measurements are built into the supply chains. Nestlé enhanced the economic situation and the well-being of the community and now they are also able to produce good quality products in time. This also makes sure the supply to Nestlé is not disturbed

Nestlé does not use percentages for CSV, since they are not mandated to do. So they do not set money aside. CSV is part of Nestlé's legacy so it does not have to do with sales. Nestlé is committed to it and has to keep it.

CSV budgets are defined on the evaluation of how a certain project is doing. For some projects the money increases, for some projects it remains the same. But they have made a commitment to a certain project and so they do not take their hands off it.

The commitment to CSV is not linked with the amount of sales. Even in a sales downturn they still have to keep doing the CSV projects. If fluctuated every year, with sales for instance, there would be no long term focus.

Appendix E: Topic list for community

Do you perceive that the company is supporting you?
How could the company support you or your family better?
Do you think the companies know what you and your family need?
Did the companies did research about what you need?
What would you wish for if big companies can give you something?
Sense of belonging to the company's product
Do you buy their products because of the name, price or quality?
What brands do you buy? Why?
What is your relation with the company?
Do you know people that have a relationship with the factory?
Are you involved in their production or distribution?
Do you perceive the company as a social company?
Do you know what they do?
What are your daily struggles?
Can you describe me the characteristics of the people living in this area. Think of the number, income, employment, life conditions etc.
What is the priority you spend your money on?
What is your opinion on the environment, pollution, waste, health service, education?
What can be approved?

Appendix F: Questionnaire for MNCs

BoP needs and challenges

1. Can you describe me the characteristics of the Bottom of the Pyramid for your company in urban areas? Think of the number, income, employment, life conditions, and total market share. When do you call them Bottom of the Pyramid?
2. Is this part of society recognized as a profitable target group, elaborate?
3. What does the BoP need according to you? (Priority)
4. Does your company research the Local community about what the people think of your company?

Business Capabilities

1. How big is the company in terms of people working in indonesia?
2. How many factories does your company have?
3. What are the revenues per product group?
4. Is the social impact great? (Labor market, Healthcare, etc concrete)
5. What is the vision of the company? (Concrete action points)
6. Do you see benefits by investing in local community?
7. Does the BoP market foster innovation?
8. What are the priority tasks of the CSR department?
9. Short and Long term goals for CRS programs
10. Does the CRS department create value inside the company?
11. Does the CRS department create value outside the company?
12. Will you cut back on CSR budget in economic downturn? 2003? 2008? Is this a bad thing? (short/ long term) How is it integrated in production chain?
13. Does your company play a role in endogenous regional development?
14. Has your company relations with the local community or are integrated in the value chain.

Strategies and Business Models

1. Is the Bottom of the Pyramid actively targeted by your company, elaborate? If yes, what potential do you see in them?
2. Is the Bottom of the Pyramid involved as a producer of distributor by your company, elaborate? If yes, what potential do you see in them? (Value chain)
3. What are the activities of your company, CSR department or Business Models, to reach the Bottom of the Pyramid (enhance wealth) in urban areas and which of these activities do succeed? Do these activities exist in order to secure your future market?
4. What are the plans for the internal part and what is done internally to make the external part possible and why is that needed?
5. Auclair and Jackohango (2008) have set up three pillars principles to reach the BoP market
 - a. Can the BoP market afford what is offered to them by the market?
 - b. Are goods and services in the market available to the BoP in urban areas?
 - c. Are the goods and services accessible to the BoP in urban areas?
 - d. Does your company consider these questions when your company approaches the BoP market? Is the Business Model created or adapted accordingly?
6. What are the strategies and/or Business Models of your company to secure the future market share?
7. What are the strategies and/or Business Models of your company to improve the living conditions of people living at the BoP?
8. What do you think of the strategy matrix?
9. People in urban areas struggle with the following needs: [FILL IN ACCORDING TO PRELIMINARY CONVERSATIONS] (material, educational, emotional, physical)
10. Are the strategies developed over time? At what intervals?

Leadership

1. In what way does your company implement this model by Stimson et al., (2009) on endogenous regional development? And what happens internally to enhance the Leadership qualities?
2. Does the company act as a leader and influences the wealth and well-being of the local community? What factors should we consider.

Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
1	2	3	4

3. Are following Leadership qualities present at your company?

Farsight Vision:

Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
1	2	3	4

Pragmatic openness:

Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
1	2	3	4

Conscious presence:

Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
1	2	3	4

Trust among employees:

Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
1	2	3	4

Trust among suppliers in value chain:

Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
1	2	3	4

Openness:

Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
1	2	3	4

Egalitarian Approach:

Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
1	2	3	4

Personal conviction:

Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
1	2	3	4

Do you think this are the most important? Are any missing? To what extend?
Top/Bottom levels?

4. Does Leadership have an impact on institutional change?

Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
1	2	3	4

5. Does Leadership have an impact on entrepreneurial activities of the region.

Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
1	2	3	4

6. Are there poverty reducing benefits if work with civil society organizations and local governments to create new local Business Models?

(Financial) Measurement

1. How are budgets defined for CSR programs? Can CSR budgets be exceeded and what happens then? Was it diminished in economic downturn in 2002/2008?

2. Bonus structures CSR managers?

3. How are the budgets classified in the books? As costs or investments or else?

4. Does your company track the return on investments for the company?

5. Does your company track return on investments for community?

8. How to measure Return on Investments of CSR

9. To what extend are the measurements used in the decision process of projects?