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國際學碩士學位論文

Creating Shared Value in the Bottom of the Pyramid Markets:

Analyzing the Strategies of Korean and Japanese Firms

한국과 일본기업의 공유가치창출 전략 분석

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서울大學校 國際大學院

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李 妍 雨

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Abstract

Creating Shared Value in the Bottom of the Pyramid Markets: Analyzing the Strategies of Korean and Japanese Firms

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With rising discontentment on capitalism, society is demanding greater responsibility and a changed role for business, mainly for large corporations. Under efforts to resolve the economic ambivalence, the proper role of ethics or social responsibility has been suggested by many great thinkers through concepts such as creative capitalism, Bottom of the Pyramid (BoP), Corporate Social Responsibility (CSR), or Creating Shared Value (CSV). Before applying these concepts to business practices, this paper will first highlight the related concepts and provide the integral message embedded in all concepts by introducing the framework constructed as the extended model to CSV. The later part of the paper will analyze the top electronics and automobile corporations in Korea and Japan. The ultimate purpose of this paper is to assess whether business operations of the selected corporations have been smart, not only good.

Keywords: Creating Shared Value (CSV), Corporate Social Responsibility (CSR), Bottom of the Pyramid (BoP), Smart Corporation

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Table of Contents

| | |
|--|-----|
| Abstract | i |
| Table of Contents | ii |
| Table of Figures and Tables | iii |
| 1. INTRODUCTION..... | 1 |
| 2. LITERATURE REVIEW | 4 |
| 2.1 Background | 4 |
| 2.2 Fortune at the Bottom of the Pyramid..... | 5 |
| 2.3 Creative Capitalism..... | 8 |
| 2.4 Creating Shared Value..... | 9 |
| 2.5 Extension of Creating Shared Value | 12 |
| 3. CREATING SHARED VALUE IN THE BoP MARKET | 16 |
| 3.1 The Significance of the BoP Market | 16 |
| 3.2 Overview of Japan | 18 |
| 3.3 Overview of Korea | 19 |
| 3.4 Evaluating the CSV Strategies in the BoP Market | 21 |
| 4. EVALUATION OF JAPANESE FIRMS IN THE BoP MARKET..... | 24 |
| 4.1 The Electronics Company: Sony, Sharp and Toshiba | 24 |
| 4.2 The Automobile Company: Honda, Nissan and Toyota | 29 |
| 5. EVALUATION OF KOREAN FIRMS IN THE BoP MARKET..... | 34 |
| 5.1 The Electronics Company: LG and Samsung..... | 34 |
| 5.2 The Automobile Company: Hyundai-KIA | 38 |
| 6. CONCLUSION | 41 |
| 6.1 Comparative Analysis of Korean and Japanese Companies..... | 41 |
| 6.2 Implications | 43 |
| REFERENCE | 45 |
| 국문초록 | 49 |

List of Figures and Tables

| | |
|---|----|
| [Figure 1] The World Economic Pyramid by Income ----- | 5 |
| [Figure 2] Types of Corporations ----- | 14 |
| | |
| [Table 1] The Four Strategies for the Bottom of the Pyramid ----- | 7 |
| [Table 2] Comparison of Original and Extended CSV Strategy ----- | 13 |
| [Table 3] The Evaluation and Categorization for the 4 Strategies of CSV ----- | 22 |
| [Table 4] Assessment of Sony, Sharp, Toshiba ----- | 28 |
| [Table 5] Assessment of Honda, Nissan and Toyota ----- | 33 |
| [Table 6] Assessment of LG and Samsung ----- | 37 |
| [Table 7] Assessment of Hyundai-Kia ----- | 40 |

1. INTRODUCTION

The world on average has become more affluent and peaceful since the fall of Soviet Union, thus alluring people of the victory of capitalism. However, during the fall of 2011, the business streets of New York City was occupied and entrenched by young activists who were protesting against the backlash of capitalism, especially against the rich one percent who seemingly gained most wealth at the cost of the other 99 percent of the people. People angrily became aware of the inequality, the unjust distribution that capitalism has seemed to bring. With reports that highlighted the top 1% of the wealthy who more than doubled their share of national income since the 1970s, the clash grew ever worse (The New York Times, 2011).

On top of the growing aversion to capitalism and market orientation, the Occupy Wall Street (OWS) movements were able to gain diversified support due to the 2008 World Economic Recession. The fact that crisis originated from the most powerful capitalist country – the United States – was what stirred most doubt and concern on capitalism. The public could no longer trust business that only seeks private interest as well as the government that partners with business leaders for political support.

The two main skepticisms on capitalism - the growing disparity and financial instability - actually come down to a single question – can capitalism really fix these problems? History tells that many economists and governments

have concurred on the theory of Adam Smith's invisible hand as the ultimate form of market, but is it truly the best economic system? Can capitalism fix the moral insensitivity, endless greed, and egoism that make this world a cold-blooded materialistic world?

The world is now calling for the redirection of capitalism where it embraces the economic disparity and instability it had given rise to. This new path that should be addressed is actually not different from the fundamentals constructed by the father of capitalism, Adam Smith.

By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.

Man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and show them that it is for their own advantage to do for him what he requires of them. (Smith, 1776)

The above quotes suggest that man has the benevolent intention to act for the benefit of others as long as the man himself can also benefit from the good will. What the society now needs is for the corporations to reexamine the societal needs and incorporate them into business practice. Business can continue to seek self-interest. Since business can make most profit where

demand is most accommodated, the next essential step would be to analyze the market with the most unmet needs and to provide decisive products or services (Kinsley, 2008).

Today, there are many companies that deliberately carry out social responsibility at their own expense in order to gain support and reputation. This has been criticized by capitalists as a mere eleemosynary practice and socialism (Friedman, 1970). However, the important conclusion to be drawn from the above quotes by Adam Smith in today's world is that business should still continue to put financial benefit first, but most importantly search for ways that can bring benefit to the community as well. This type of business is the better solution to the problem capitalism now faces. This win-win strategy will ultimately prove that capitalism embodies self-interest as well as the good of the greater society, thus enhancing the life of every participating individual.

This is the importance of Creating Shared Value (CSV) – the evolutionary process from Corporate Social Responsibility. If the latter sought to appease the public discontent at the expense of corporate budget, the CSV developed by Porter and Kramer (1999, 2006, 2011) guides business to earn profit while providing benefit for society, thus becoming a smart corporation.

2. LITERATURE REVIEW

2.1 Background

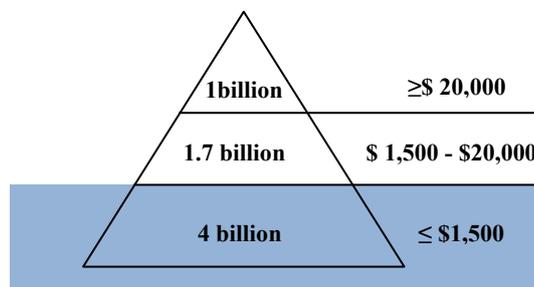
The debate on corporate responsibility and ethics became most common in the 1980s in academia and real practice although the first notable scholar named Howard Bowen introduced this idea in 1953. Since then there have been many definitions of Corporate Social Responsibility (CSR), however the most normative definition was phrased by the World Business Council for Sustainable Development (WBCSD) as:

“...the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (WBCSD, 2005).

Since then many scholars have conceptualized this idea and have contributed to promote business ethics and corporate responsibility. Among many remarkable studies, ideas by Prahalad and Hart (2009), Gates (2008), Porter and Kramer (2011), Moon, Parc, Yim and Park (2011), Moon (2012) would be further examined in this paper. The central message advocated by these five studies is the facilitation of market and social values without yielding any precedence of its importance and provide the means to fulfill both values.

2.2 The Fortune at the Bottom of the Pyramid

First developed in 1998 by C.K. Prahalad of University of Michigan, this paper was one of the first studies to address the needs and the potential of the poor in the developing world by dividing the world population by different segments of income groups. Figure 1 represents the world economic pyramid by income. The top of the world economic pyramid is composed of 75 to 100 million people from the rich consumer group. Labeled as Tier 1, this cosmopolitan group is composed of middle and upper income group in developed countries and the few rich elites from the developing world. The middle of the pyramid labeled as Tier 2 and 3 are the poor customers in developed nations as well as the emerging middle classes in developing countries.



Source: Prahalad (2009)

[Figure 1] The World Economic Pyramid by Income

This Tier 2 and 3 have also been the latest target consumers of the Multinational companies (MNCs). The last Tier 4 is the group where the four billion – approximately 60% of entire world population – people fit into. This is

also the group where the people earn less than the basic income to sustain a quality life (Prahalad and Stuart, 2009).

With this finding, Prahalad (2009) emphasizes the multitrillion-dollar market the last tier represents. The World Bank (WB) projections demonstrate that the population in Tier 4 will increase to 6 billion people over the next 40 years. Since this is where population growth occurs most rapidly, the market potential and the desperate need of this group is notably significant (Prahalad and Hammond, 2002).

The second important implication for both the people and the MNCs despite the huge opportunity Tier 4 markets hold for business is the technological innovation that can benefit both the company and the society (Hammond et al., 2007). By localizing business, MNCs can facilitate education, training, infrastructure building, job opening, leapfrogging technology and most importantly, winning potential loyal consumers (Brugmann and Prahalad, 2007). It is important to stress that people belonging to this group consume basic, indispensable products that they purchase at periodic intervals.

As strategic guideline in this market, Prahalad and Stuart (2009) suggested low cost, good quality, sustainability and profitability as the four major elements that MNCs must take into account in order to succeed – they are price performance, views of quality, sustainability and profitability. As in Table 1, the detailed descriptions of each four elements can be viewed.

The four strategies by Prahalad and Stuart can be further divided into

two main branches. First is the necessity to localize the needs and capacity by maintaining low cost, and tolerance to local conditions. Second is similar to the concepts from sustainable development where business incorporates environment and economic advantages at the same time (Prahalad, 2009).

| Views of Quality | Price | Sustainability | Profitability |
|--|--|--|---|
| <ul style="list-style-type: none"> - New delivery formats - Creation of robust products for harsh conditions | <ul style="list-style-type: none"> - Product development - Manufacturing - Distribution | <ul style="list-style-type: none"> - Reduction in resource intensity - Recyclability - Renewable energy | <ul style="list-style-type: none"> - Investment intensity - Margins - Volume |

[Table 1] The Four Strategies for the Bottom of the Pyramid

Although these four strategies are in line with the global efforts to reduce poverty and protect environment, there are four main problems that can be depicted. First, each of the four strategies does not thoroughly outline what companies should do in order to succeed. In other words, these strategies do not specifically provide a step-by-step strategy for companies to assemble their business model in the Bottom of the Pyramid (BoP) market. Second, the four strategies do not clearly advise how companies should focus on their competitiveness, it only advises companies to be local. Thirdly, Prahalad (2009) only considers the environmental impact within the sustainability strategy. There are other important social values including environment that companies

should be aware of. Most importantly, the strategies fail to address the need to cooperate and form clusters with other economic actors in order to effectively serve in the market (Prahalad and Stuart, 2009).

2.3 Creative Capitalism

In 2008, Bill Gates gave a speech at the World Economic Forum (WEF) and talked about the new approach to capitalism, coining this as creative capitalism – an approach where governments, business, and nonprofits work together to stretch the reach of market forces so that more people can make a profit, or gain recognition, doing work that eases the world’s inequalities (Kinsley, 2008).

As one of the most successful business figure in the 21st century, Bill Gates affirms his faith in the capitalist system as well as the founder Adam Smith by introducing the very first lines in *Wealth of Nations*. Similar to Adam Smith, Gates also appeals to the basic human nature - the good will embedded in all human instincts (Kinsley, 2008). Gates protests there are two great forces of human nature which are self-interest and caring for others, and firmly advocates the application of profit incentive to make the society sustainable. However distinguishable from other scholars or social entrepreneurs is that Bill Gates draws a clear line between corporate philanthropy and creative capitalism by demonstrating the greatest impact of Microsoft or any other company was when they do not to simply distribute free or inexpensive products. The important highlight of his message was that business should show how to use

technology to create solutions for social problems and unmet needs. In return, the profit for all participating economic actors in this refined capitalist system would bring sustainability which is one of the important agendas of this century (Kinsley, 2008).

Since Bill Gates' creative capitalism is neither a theoretical concept nor a set of strategies for companies to follow. What can be inferred from this concept is the importance of cooperation, market incentive, serving the wider interest, and meeting the social needs that what capitalism was original constructed for (Kiviat and Gates, 2008). This again stresses the important role of business to interact with societal agents in creating greater good for the public benefit.

Creative capitalism and the BoP strategies both redefine the role of business sector especially in targeting the less privileged population in the world. Prahalad and Stuart (2009) tried to lay out the business strategies of MNCs to effectively do business in the BoP market. The following two literatures on CSV exhibit more theoretical and in-depth analyses on corporate strategy in reducing poverty and social problems.

2.4 Creating Shared Value

In 2011, Michael Porter and Mark Kramer provided an alternative to earlier CSR, coining it the Creating Shared Value (CSV). The purpose was that with diminished trust in business, business is now caught in a vicious circle where

the purpose of corporations must be redefined to unleash a wave of innovation and growth. The main point of CSV is that by building a coherent value between business and society, both will be able to profit and develop.

CSV was designed by Porter and Kramer (2011) in order to supplement the existing theory on corporate ethics and morality. CSR which was imparted prior to CSV focused on the role of corporations to contribute and to give back to the society that they accumulated growth from. Thus, CSR was more focused on corporate citizenship and philanthropy. Moreover, since the role of business was to look after the less served sector in the society using their private profit, CSR mostly dealt with donations and grants offered by business. Although this made some of the firms look philanthropic and benevolent, there were a lot of criticisms on the role of business which is profit maximization.

With rising controversy on CSR, the first significance of CSV is that it logically and convincingly superseded the CSR activities of business by properly combining the two ultimate goals (to produce and sell) of business in the capitalist system. The second significance of this theory is its contribution in devising the three essential strategies in achieving CSV - reconceiving products and markets, redefining productivity in the value chain, and enabling local cluster development. The three key ways that companies can actually create and contribute received much attention from notable scholars, government, as well as business leaders. Especially since each of these three distinct ways propelled synergy effect with other two elements – meaning, reconceived products and

market gave rise to subsequent opportunities in the value chain and cluster development- CSV is being credited as the best form of market mechanism.

Elaborating on the three key ways in more specific, reconceiving products and market means designing products and market that directly tackles the societal needs. Also, the underserved market, which is similar to the BoP market, can actually create greater opportunities (Porter and Kramer, 2011). Since societal needs are most severe in the underserved communities both in developed and developing countries, business does not always have to turn to foreign developing markets but look for the unmet needs within their domestic markets. In this respect, since the needs of the underserved markets are often different, this is where the importance of redesigned products or different distribution methods comes in as the first key strategy (Porter and Kramer, 2011).

Redefining productivity in the value chain is the next important strategy that needs to be aligned with redesigned products because addressing societal problems could cause financial cost in the value chain. It is believed that synergy effect occurs when companies engage in CSV by establishing new ways of manufacturing, employee output, distribution, and etc. The last key element is to enable local cluster development. This goes in hand with Gates' Creative Capitalism where the collaboration of different sectors and actors are encouraged. Companies can more effectively accomplish CSV by forming clusters which can help in reducing the internal costs of the companies.

The three key ways in shared value have been quite accurate in guiding companies to accomplish CSV. However, limitation to localization and too much emphasis on societal needs (rather than company's competence) raise some important questions (Moon et al., 2011).

2.5 Extension of Creating Shared Value

In the late 2011, an extended version of the CSV was constructed by Moon et al. (2011) which added one more key strategy in addition to the earlier three key ways. In the extended model, the fourth key strategy introduced was to define the core competence of business. If examined according to Porter's Diamond Model, this fourth step that goes under the rivalry context that focuses on the strategy side (Porter and Kramer, 2006). The important implication the added variable gives to business is not "how" but 'what' to do. Although the original CSV strategy mentions reconceiving products and markets, it only pertains to the needs of the society rather than the company's comparative advantage (Moon et al., 2011). According to Moon et al., (2011), a company may slightly modify their product, but they should still produce commodities they are most competent at— meaning which they possess comparative advantage. This was seen critical especially due to the number of Korean and Asian firms that only focus on donations and community services (such as Kimchee and rice distributions during the Christmas seasons) as CSR (Moon, 2012).

In addition to adding the fourth strategic step to Porter and Kramer's

original concept, the extended model also re-delineates each of the three key factors. Table 2 has summarized the changes and compared the differences between the two concepts on CSV.

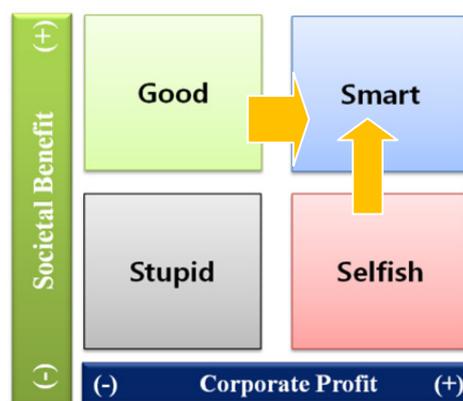
| Author | | Strategies for CSV | | |
|------------------------|--------------------------|--|------------------------------------|--|
| Porter & Kramer (2011) | X | Redefining productivity in the value chain | Reconceiving products and markets | Enabling local cluster development |
| Moon et al. (2011) | Defining core competence | Redefining productivity in the value chain from both externality and internality factors | Reconceiving comprehensive targets | Enabling local or global cluster development |

[Table 2] Comparison of Original and Extended CSV Strategy

In addition to the building core competence, the Moon et al. (2011) the extended version emphasizes the balanced and healthy value chain from both externality and internality factors. Cases were illustrated as example to demonstrate how companies were able to overcome their weakness through CSV. Finally, the last strategy is the one that received most concern and remark for change. Porter and Kramer (2011) have argued localization, but internationalization of global business such as outsourcing and foreign production was largely overlooked. The profit from internationalization can often time offset high transportation costs.

Other than the four strategies of CSV reconstructed by Moon et al.

(2011), a new framework for CSV was introduced that deserves careful examination. It is the typology of corporations – from good to smart (Moon et al., 2011) (Moon, 2012). What this framework strived to achieve was to position individual companies onto the grid as in Figure 2. Company’s business activities are evaluated through the two important criteria: company profit and social benefit. Depending on how much they followed business ethics as well as business strategy, companies will belong to any one of the four classifications. Out of the four classifications, of course the most successful CSV business would be the smart company.



Source: Moon, Parc, Yim, and Park (2011)

[Figure 2] Types of Corporations

Out of the four types of companies, the most important distinction is between “Good” and “Smart”. The fundamental difference can actually be

compared to how CSR developed into CSV (Moon, 2012). Good corporations are the ones that donate money out of philanthropic purposes regardless of the business return. Many companies that fall under this breed are engaged in event-like activities such as donation, distributing food, employees preparing meals at soup kitchens, and et cetera.

A smart company, on the other hand, looks for business opportunities at the same time (Moon, 2012). Companies that are positioned in this section of the grid actually pursue activities that actualize increase in profit, market share, and competitiveness. The classification of companies into these four types is important because companies can be easily compared and measured in terms of CSV. Also, since it shows the ultimate direction of a corporation through the two pillars of company profit and public benefit, anyone can clearly visualize which element the company lacks and needs improvements on.

The most critical barrier of this grid would be the comparably difficult quantification of corporate ethics and how much they have contributed to social benefit. Also, it would be difficult to find the exact dividing line between the four sectors. Therefore, further work should be done to be able to quantify business activities and social benefit for better accuracy.

3. CREATING SHARED VALUE IN THE BOTTOM OF THE PYRAMID MARKET

3.1 The Significance of the BoP Market

Although the BoP initiative was developed from the late 1990s, the importance of the BoP markets only heightened after the 2008 Global Financial Crisis. With the shake of the economy, MNCs saw the limit of purchasing power in the developed countries. The demands in these markets were rather steady if not reducing. The weakening economic performances demonstrated in increasing unemployment rate and market fluctuations closed the many wallets in the developed countries. On top of this, the competition between MNCs became fierce and intense. The heightening competition in the high technology area especially required companies to develop more advanced products at faster speed, which soon gets replaced by a new higher-end product within a year (Jeong, 2010).

Developing high-tech products is important for both the company and people; however, the MNCs were indirectly forced to shift their targets to the emerging markets in other parts of the world due to limits in market. The so called BRICs – Brazil, Russia, India and China - plus Indonesia and Turkey are being named as the next important markets with potential (Choe, 2010a). What is significant about these countries is that they are also BoP markets. The general incomes of these regions are low, but due to their huge market size and

potential for growth imply increasing profit that promises a brighter future. According to recent studies, 70% of world population is from the BoP market and account to \$5 trillion market size. Since most population growth occurs in this region, some scholars even estimate that prospective market size will be 5.5 billion people with \$70 trillion by 2030 (METI, 2011).

The people in the BoP market are likely to make less expensive but regular purchases on basic survival goods .Since population and room for growth is immeasurable, the BoP market has been targeted by MNCs as the next niche market. If companies can modify their premium goods into less expensive products, the margin may be relatively lower but there will be greater demand from the people (Choe, 2010a).

The breakdown of market size by region shows that most of the populations reside in the Asian region, followed by South America, East Europe and Africa. Approximately 71.5% of the BoP market is in the Asian region, including countries like China, India and Indonesia. Except Africa, average income within the BoP market is around\$1,500 ~\$3,000. This number is still low compared to mid-income groups in the world, but people in this income range are not in desperate poverty and can make basic earnings to sustain general level of living (Choe, 2010a). If wealth can be generated through stimulating CSV, consumers and factor endowments for business can be secured (Choe, 2010b).

The reason why this paper narrowed the research scope on the BoP

market is because this is the region that can best generate social benefit and economic benefit simultaneously. The wide ranges of problems in these regions are quite apparent and general; the solutions can be easily generated.

3.2 Overview of Japan

Since the late 1990s, the Japanese economy went through a long period of economic stagnation. Many Japanese companies suffered from excess equipment, employment, and debt while economies like European Union and Korea, Taiwan, China from Asia were catching up at an ever-increasing speed. Furthermore, the electronics industry led by powerful companies like Sony, Panasonic, Sharp and Sanyo, which had once been a threat on American electronics products, are now being toppled by companies from Korea (Cheong, 2010a).

Although these occurrences are unfortunate for Japan, one should not neglect that Japan still holds the place of the world's third largest economy, after U.S. and China. Japan's automobile sector, notably with the leadership of Toyota, continues to rank first in terms of production volume in the world. Especially in the BoP markets, the Japanese automobile industry is showing great market share – Suzuki enjoys the top market share of approximately 45% in India (Lee, 2011).

Japan's economy and competitiveness of corporation have weakened, demanding governments of Japan to construct more rigorous, comprehensive

and even aggressive macro-policies that could put Japan back on its position as the economic power. Among many fiscal policies of Japan since the late 2000s, one notable trend has been its focus on the BoP markets (Watanabe et al., 2012). In 2008, in annual policy direction report by the Japanese government, the keyword was “5 billion dollar new market.” The policies recommended targeting the Asian market with three billion people plus the other billion from other less developed countries as the New Market for economic growth (Lee, 2011). In series of annual policy guidelines since then, Japan classified the middle class of the emerging markets as the volume zone in 2009 and for companies to target this market (Sugawara, 2009). Most recently, after the Earthquake Crisis in 2011, Japan’s concern has been the economic restoration but again, the BoP market – mainly Brazil and other MERCOSUR countries – were mentioned as important markets where Japan had most advantage over other companies (METI, 2011). With this government implementation, Japanese companies had active support from the government, mainly the METI, to target specific country (Sakurai, 2009).

3.3 Overview of Korea

To the Korean government and companies the BoP market was not as important as it was to Japan until recently. Starting with Samsung in 1995 soon followed by LG in 1997, Korean electronics companies were the top two companies fighting to win the most market share in India. It was rather the Japanese

electronics industry that was frustrated to increase their pie within this region. However, although Samsung and LG along with Hyundai in the automobile industry are becoming more prominent in the rest of Asian markets, the competition is getting more fierce and aggressive now that more eyes are turning to this part of the world.

Unlike the Japanese government, Korean government does not put much emphasis on addressing the growing needs and potential in the BoP market. Especially since other industries and companies except for the three previously mentioned, Korean companies are not showing much competitiveness, which requires more efforts and encouragements from the Korean government.

In the 2012 government direction outlined by the Lee administration, the BoP markets are named as emerging markets where it recommends businesses to establish 'Business Incubator' in countries like Vietnam and Indonesia where Korea can also secure resources through mutual partnership. Second mention of emerging markets within this policy guideline is to expand the sphere of FTAs and to maximize the benefits. The importance of establishing FTAs in the emerging countries in efforts to securing resources as well as governmental cooperation as means of engaging political partnership is as important national priorities for Korea. The final mention of emerging countries in the guideline is to foster the growth of Small and Medium Enterprises (SMEs). With domestic pressure to support and encourage the SMEs in Korea, the Korean government's primary concern again is to support international activities of

SMEs through funding or establishing network (Greenhouse, 2012).

The different domestic situation and pressure in Korea and Japan resulted in difference in policy directions. Fortunately the top three Korean companies have been performing well in the BoP markets, however, with Japanese government's increasing support and attention on top Korean companies, as well as other industries that lack Korean companies' involvement could mass up as a potential barrier in the long-term growth of Korean business in the BoP markets.

3.4 Evaluating the CSV Strategies in the BoP Market

In order to evaluate the CSV strategies and subsequent practice in the BoP market, this paper has researched and examined the following papers and websites as shown in Table 3.

To evaluate whether the companies had actually focused on their business competitiveness, CSR activities introduced on company website were viewed, or their sustainability reports, annual reports as well as any news articles that mentioned their business practice. For easier display, this paper has used different sets of wordings, in which for this section, defining core competence will be evaluated as "focused"— meaning focused on company's core business area.

Porter and Kramer (2006) constructed the nine activities within the value chain. They are 1) firm infrastructure, 2) human resource management, 3)

technology development, 4) procurement – and these four compose the supporting activities within company value chain. Additional activities are 5) inbound logistics, 6) operations, 7) outbound logistics, 8) marketing and sales, and 9) service– that make up the primary activities of business. Therefore, the productivity of each company will be evaluated according to these segments. The important factor to consider is whether they have tried to solve the weakness in the value chain with the support from the society, thus creating benefits to both parties. This is why the second strategy is categorized as “aligned” to see whether business needs and social needs have been mutually adjusted.

| | Content | Category |
|--|--|-----------------|
| Defining Core Competence | <ul style="list-style-type: none"> - CSR activities on website - Sustainability reports - Annual reports - Press release | Focused |
| Redefining Productivity in the Value Chain | <ul style="list-style-type: none"> - 9 activities in the value chain | Aligned |
| Reconceiving Comprehensive Targets | <ul style="list-style-type: none"> - Reflecting needs in product - Incorporating local concerns & needs into business | Integrated |
| Enabling Cluster Development | <ul style="list-style-type: none"> - Engaging local or global network - Collaboration between different communities regionally | Collaborated |

Source: Based on Moon, Parc, Yim, and Park (2011) and Porter and Kramer (2006) (2011)

[Table 3] The Evaluation and Categorization for the 4 Strategies of CSV

For the third strategy, company's products would be examined the most. This is to see whether they have incorporated the local concerns such as the need to raise trained employees, schools, or tackle certain environment problems. Therefore, company's efforts to resolve social problems will be examined under the category of "integrated" efforts and services.

The fourth strategy will examine if the company had engaged local or global organizations for optimal and comprehensive benefits. Such as through schools, local and international government, civil society or even with other industries or companies, the company's efforts to "collaborate" with others will be evaluated.

The scale of evaluation will range from low, medium to high. Since accurate quantification of the companies' activities is difficult, the assessment will depend on how many of those above descriptions companies had tried and succeeded to fulfill.

4. EVALUATION OF JAPANESE FIRMS IN THE BoP MARKET

4.1 The Electronics Company: Sony, Sharp and Toshiba

With the growing success of Korean electronics companies – mainly Samsung and LG – in the BoP markets, Japanese electronics companies have been benchmarking the global business strategies of Korean MNCs. Since the growth rate of the BoP markets are faster than in the advanced countries, the Japanese companies' concern over the possibility of increasing gap in market share has stimulated radical changes and transformations in the electronics industry of Japan.

Earlier, the Japanese products in electronics appliances were famous for their high price and high quality which unfortunately were seen as barrier for Japanese products in the BoP markets. In order to change this reputation, what Japanese electronics companies initiated as a prior strategy to target the BoP markets was producing less expensive and less premium goods. The problem of so called 'over specifications' of Japanese electronics products were to be addressed, convincing companies to reduce the cost throughout their value chain to the minimal level. However, this is not to be confused with a simple cutback in manufacturing strategy. What Japanese companies sought as solutions was to accurately localize their products and value chain by establishing better clusters with organizations, local sellers, and authorities.

Important strategies Sony demonstrated can be analyzed into three key features – 1) producing localized products 2) maintaining its brand premium but sharply reducing the price and 3) expanding its market share (Lee, 2011). Sony intended to expand their market share through aggressive Supply Chain Management (SCM) where specialty stores like VAIO Shop, DI Shop and Digital Work Shop (DWS) are built by contracting with a local seller. This strategy was taken when they learned that approximately 70% of purchases are made at specialty stores in China. Therefore, by establishing these local chains, Sony sought to engage not only local sellers but also to expose and allow their products to be experienced for consumers.

In order to reduce manufacturing costs significantly, for example, Sony strengthened its affiliation with Electronics Manufacturing Services (EMS) companies like Foxconn on manufacturing sites in Slovakia, Mexico and Brazil. By forming effective outsourcing affiliation, Sony also tried to incorporate local needs into their manufacturing stage effectively.

For Sony, maintaining its brand image as the high quality products was important but also addressing the local needs was another question. Since price competitiveness with small local manufacturers was seen almost impossible, Sony started producing goods with minimized functions or specifications. In India and China, smaller TVs which were analyzed that it will be sold well. Whereas most of Sony's TVs were 40 inch HD TVs, Sony started manufacturing 19 and 26 inch TVs. Korean companies – Samsung and LG –

predominate the Indian market, but market share of Sony TVs steadily increased; becoming the number one seller in the 2nd and 3rd quarters of 2010 although it was soon topped by Samsung and LG in the following quarters.

In case of Panasonic, the core strategy was directed as a more completed form of localization. Panasonic manufactured the Cube Air Conditioner solely for the Indian market by removing less critical accessories and functions like the remote control and air current system, which is less important in countries like India where it is hot throughout the day. By removing these functions, it ultimately helped lower the price to half of those sold in developed countries (Cheong, 2010).

In addition to localizing products to meet actual needs, Panasonic took into account that Indians have high apt at engineering and technology. Panasonic decided to collaborate with the local colleges like the India Institute of Technology (ITT) and building 'Eco Ideas' factory in Jhajjar in 2011; two more 'eco idea' factories are promised to be built in Vietnam and Philippines by 2013 – to train prospective employees through a local channel. When it was reported that the net profit of electronics appliances has grown by 20% in the BoP markets in the year 2010, the president of Panasonic also expressed confidence that with this rate, Panasonic would be able to overturn the Korean companies.

Similar to Sony, Panasonic could not completely abandon its competitiveness in the premium products. However, despite fierce price competition in the BoP market, Panasonic found one breakthrough that shed

light on a more promising turnout. In China, most of the washing machines' price is below 1,500 RMB (aroundUS\$235). It was difficult for Panasonic to compete with their products in this price range but Panasonic succeeds in developing the first grade water saving washing machine in that price range. By developing a water saving washing machine, Panasonic was able to increase its market share in areas in central China where water is less sufficient. This washing machine is a good example where Panasonic's technological advancement was able to secure price competitiveness as well.

Toshiba has shifted their target business area to Asia from Europe and America as well and was able to increase their net profit by two folds to JY¥ 46 million in the year 2010. What Toshiba did was to introduce a new technology that seemed fit in the Indian market named the Power TV series in 2011. Power TV is the latest innovation where it is said to be the first battery operated TV in case of power failure with its power backup and battery facility by featuring three different models, namely PB1 (Power Booster), PS1 (Power Saver) and PC1 (Power Charger). These TVs were designed and developed to target the Indian market as well as other BoP market where power generation is relatively weak and instable. In efforts to integrate the problem of frequent sudden black outs in these regions, Toshiba developed a battery-powered and auto signal-booster TV which can last two to three hours on battery (Shin, 2012).

In addition to this technological breakthrough, Toshiba also produces TVs to support 18 different languages in India by strengthening the User Interface

LCD TV. Since India official uses 18 different languages, Toshiba decided that this function would be an important component of a TV. Similar to Sony and Panasonic, Toshiba also effectively utilized ODM or OEMs to reduce the manufacturing costs of their products. Slowly expanding their market into areas to South America and Russia, Toshiba has been taking a more expansive role in the global market.

The evaluation of Sony, Panasonic and Toshiba is shown in Table 2. Their level of contribution was measured in line to their financial outputs. Their performances can be analyzed according to their contribution – in meeting the local needs through technological improvement, demonstration of efficient value chain, stipulating local employment and collaboration with other sectors.

| | Sony | Panasonic | Toshiba |
|--------------|-------------|------------------|----------------|
| Focused | Medium | High | High |
| Aligned | Medium | Medium | Medium |
| Integrated | Medium | High | Medium |
| Collaborated | Medium | High | Low |

[Table 3] Assessment of Sony, Panasonic and Toshiba

The three Japanese electronics companies have put forth hopeful and active strategies to win more market share and profit in the BoP markets. All three companies share a similarity that their major concern was to focus on lowering the price whether through outsourcing, employing locally or removing high specification features.

Although these tactics are helpful in increasing their net profit, the competitiveness of these companies is still questionable in the global market against other companies like Samsung, LG or even local producers. Moreover, the target group within the BoP market should be clearly distinguished by products in order to tolerate more diverse income groups as well.

4.2 The Automobile Company: Honda, Nissan and Toyota

As mentioned earlier, the electronics industry in the BoP markets are mostly dominated by the two Korean firms and the market share is actually fairly diverse depending on which product type they belong to. However, in the automobile industry, where there is one single product type (only passenger cars are discussed in this paper), the competition and profitability among products can be analyzed more easily.

The automobile industry of Japan is probably one of the strongest in the world. Especially in BoP markets where there is less influence of European and American cars, Japanese auto-companies have been topping the best turnouts and market share. According to a 2009 research, in Indonesia alone, the market

share of all Japanese cars combined is to be around 90%, giving Japan a strong foothold in the emerging markets in Asia. Especially since the distribution rate of passenger cars are way below (3.9% in India and China) those of other electronic appliances such as TV (33.7% and 96.5%), air conditioner (1.8% and 53%), refrigerator (17.9% and 60.1%) and washing machines (21.1% and 71.4%); this fact hints the potential of car purchasers in these markets in the near future (Lee, 2011).

Honda started manufacturing minivans that can fit nine people by making seats in three by three arrangements. Named the Freed in Japan, this type of minivan is a multi-purpose vehicle that was designed to fit big size families in Indonesia. With the modification in the seating arrangements, the market share increased to 40% since its entrance. Also, by relocating the manufacturing sites to Indonesia in addition to other local sites like Thailand, Honda has sought ways to make the local plants as the new export hubs in the Asian markets. Through this relocation of production sites, Honda could supply not only the cars but components more shiftily from Thailand, Malaysia and Philippines. This helped company save cost, which eventually helped Honda acquire price competitive in the BoP markets. The next target of Honda through these local sites is to establish strengthened networks among these plants, allowing each site to develop their own advantage for more efficient division of labor and specialization.

In case of Nissan, a different set of business solution was implanted.

Whereas Honda focused on localizing the production, Nissan focused on integrating the product segments of the BoP markets with the previous markets in advanced countries. What Nissan did in specific was to combine the design and development teams from both sides and then to produce a new type of car that has never been introduced in developed markets. The example of this strategy is the car named the new March- 4th generation. The birth of this low price compact car is significant as it is nearly the first car to be imported to Japan from Thailand. The reason this reverse innovation is so important is that Japan's auto-companies have kept their tradition of conserving the production site in Japan as the mother factory until then. Through this transition, Nissan was able to find and locate the right personnel at the right place, which helped in increasing company's overall productivity by 40%. By breaking the old tradition of maintaining Japanese sites as the strong headquarter, Nissan could accommodate better knowledge from the field.

In addition to inter-regional collaboration, Nissan also collaborated with local partners to increase their market share. Since 2003, the numbers of purchased Nissan cars have grown from 94,000 to 540,000 in 2008, which increased to one million in 2010. Also, through this collaboration, Dong Feng Nissan was also able to benefit from technology transfer, managerial support in creating a low cost car—first local car brand named Venucia by 2012 (Nissan, 2012).

Lastly, Toyota is the number one auto-maker in the world. Although in the

BoP markets, Toyota's role is not so conspicuously remarkable compared to their performances in advanced markets, Toyota is probably the company that has best aligned their value chain that could encompass these different markets. Toyota's efforts to expand their market size in Asia started rather late. However, once determined to target this group, Toyota has shown fast progress. In 2010, Etios— a four-door sedan and hatchback —was designed and produced exclusively for India and after a year the sales have reached to 100,000 units. Following many positive reviews by selling Etios, Toyota's market share is steadily increasing, threatening the number one seller Suzuki in India and extending its sales to other countries like South Africa. If other auto-companies focused on redesigning their previous models, Toyota's focus has been on creating new product line that will meet the demand in the emerging markets. In South Africa, Toyota has been the top seller for decades and 45% of new cars sold in developing countries are of Toyota's (The Wall Street Journal, 2012).

As a late joiner in the BoP market, Toyota's relatively recent decision to enter the market should be a threat to other auto-companies. In May 2012, Toyota has announced its plan to sell more than one million subcompact cars in more than 100 countries such as Southeast Asia, India and Brazil by 2015 – by introducing eight new models of around JY¥ 1 million (around \$12,500) including Etios through 100% local procurements for cost competitiveness (Automotive News, 2012).

The assessment of the Japanese auto-companies is shown in Table 3. The

competitiveness of these companies also depends on their capability to demonstrate technological advancement. Honda and Nissan are doing well in relocating their manufacturing sites directly to the local regions. However, as more environment-friendly cars and the importance of software are increasing, R&D and invest costs in the auto-industry will continue to be high, allowing Toyota to maintain its leverage of competitiveness to be difficult to catch up with.

| | Honda | Nissan | Toyota |
|--------------|--------------|---------------|---------------|
| Focused | High | High | High |
| Aligned | High | Medium | High |
| Integrated | High | High | High |
| Collaborated | Medium | High | High |

[Table 4] Assessment of Honda, Nissan and Toyota

5. KOREA AND CREATING SHARED VALUE IN THE BOTTOM OF THE PYRAMID MARKET

5.1 The Electronics Company: LG and Samsung

For the past decade, the competition for market shares in major BoP markets namely in India and Brazil, is mainly between the two Korean electronics companies – Samsung and LG. (Economy Plus, 2012) Even though Samsung was the first to enter the Indian market, LG has been undefeatable especially in washing machines (28.4% market share compared to 20% by Samsung) and flat TVs (32.5% and 27.5% respectively).

The three strategies LG took were 1) aggressive and decisive investment, 2) strong distribution network and 3) complete localization of products, personnel and management. With these strategies, LG had strived for complete understanding of the local needs and characteristics and incorporated those features in their products. The Jazz LCD TV which was developed for Indian market was produced to satisfy the taste of consumers who favor and value music. Also, because many Indian entertainment services have high musical elements, LG found the importance of increasing the capacity of speakers on TVs. Another best seller in India is LG's refrigerator that uses can change and designate the vegetables compartment in the refrigerator. A famous research strategy by LG is that by monitoring the housewives for three weeks, they found the need to remodel the vegetables shelf. This became a big hit in

India by increasing the productivity by 10%, strengthening LG's position in the electronics market (average productivity of refrigerators is 1%). LG calls these kinds of strategy the 'consumer insight' strategy. Although this strategy was not only to target the BoP markets, it has proved to be effective in addressing the local needs and turning it into the final product.

Other example of LG's success is through KG200 multimedia phone in Pakistan. With the growing market size of mobile phones in Pakistan by 20% annually, LG was one of the few companies to produce cell phones that target the needs rather than focusing on lowering costs. This phone was developed in respect to consumer's taste of enjoying music.

Samsung had defeated Sony in the global market but always stayed behind LG in markets like India and China. Since LG had targeted the middle income population as the target group for TVs, Samsung pursued to target the high income population in India by manufacturing high-end premium products like the Smart TV series. By advertising their brand as being 'Beyond Comparison,' Samsung hoped to install their image as the best quality TV in the market. The premium strategy of Samsung worked in several countries, including China, but only for a short period of time. This strategy turned out as failure in the India market where price sensitivity is high. (Edaily News, 2012)

For India, Samsung had to turn aside from their premium strategy. Increasing the market share in TV sector was difficult but Samsung did see signs of hope in the mobile phone sector. With the increase in cell phone users

in India, Samsung was the first to produce less-premium and low price cell phones in the market. Through large investment in this sector, Samsung's market share has grown to exceed the number one seller Nokia any time soon.

Like the Japanese electronics companies, LG and Samsung are reaching out to relocate their productions. Samsung is even moving further to Vietnam and India from the Chinese production site. The decision to move away from China to Vietnam and India is due to reasons that these two are where labor cost is lower and where demand for smart phones are greater. The total production from these two sites is estimated to be 60% of Samsung's entire mobile phone productions. Also, with active support from the Vietnamese government through tax incentives and tariffs, the importance of plant in Vietnam is considerably greater.

Whereas Samsung is moving to deeper into Asia, LG has expanded globally by building plants in Brazil, Mexico and Poland. Although the two Poland production sites are being reconsidered due to low productivity turnouts and cost competitiveness, LG is expanding their capacity through off-shore production, where more than 60% of LG employees are local people.

The evaluation of LG and Samsung in respect to their CSV efforts can be concluded as in Table 4. Whether it's due to their successful economic performances or their lack of attention in CSV and BoP initiatives, they have done relatively poor on the synthesizing the needs of the market at a more comprehensive level. Although LG has done much to address the needs of the

people by promoting ‘consumer insight’ strategies, their activities has been narrowly focused on meeting the product needs only.

| | LG | Samsung |
|--------------|-----------|----------------|
| Focused | Medium | High |
| Aligned | High | High |
| Integrated | High | Low |
| Collaborated | Medium | Low |

[Table 5] Assessment of LG and Samsung

Unlike the Japanese companies like Panasonic and Toshiba, LG has showed no signs in engaging the community through education or local partnership. If LG wants to improve its image by shifting from a manufacturing company to a marketing and service company, engaging consumers directly through hands-on-experience shops like VAIO Shop of Sony could be a good example.

LG and Samsung both lack in engaging the society through partnership and cooperation. The last two steps in the CSV strategies could have been less important in increasing their market share in India and China. However, if they want to continue or to extend their influence to other BoP markets such as the

lower segments of India or other developing countries like Africa, Eastern Europe or other Asian countries, LG and Samsung should focus more on developing products that the consumers truly need and to form better partnership with the local actors.

The reason why Samsung receive less point in the first category is because Samsung has failed to develop localized products compared to LG. Also, in other two areas of synthesizing and establishing clusters, Samsung received lower points because of their contribution to the local population has been less viable. The employment rate of Samsung was significantly lower as well as efforts to localize products and infrastructures were less distinguishable.

Most importantly, LG and Samsung have not yet addressed the people who actually are in need of electronic supplies. Since Samsung has been troubling with increasing their market size, maybe it's time for them to readdress the population that has yet to purchase TVs. Samsung could do so by improving the infrastructure of the less served regions within India, generating income through job opportunities or in cooperation with other industrial firms. Even though LG and Samsung

5.2 The Automobile Company: Hyundai-Kia

In the global market, Hyundai's business strategy from the very start was to target the mid-low income group. In order to differentiate their lineup to luxurious cars from Europe and U.S., Hyundai had been determined to enter the

global automobile industry with premium in price relative to the product quality. With the series of financial crises and weakening economy, the success of Hyundai was in low price and good fuel efficiency which leads to low maintenance cost. Through effective financial products, Hyundai has been successful in increasing its market share globally – ranking fourth place after Toyota, General Motors and Volkswagen. Hyundai continues to lead in the environmental sustainability space in the automotive industry, particularly when it comes to fuel efficiency. Additionally, its value-for-money proposition continues to differentiate it from more costly competitors (Hankyung, 2012).

Starting from 1998 when Hyundai first began their production in India, they were able to achieve first place in the compact cars division. Back then, India was the only choice for Korean Hyundai because most other countries in South East Asia were dominated by Japanese auto-companies. The initial market was extremely small – only 500 European cars were sold. Due to the small market potential, there was very small influx of foreign cars in India until the early 2000s, where Maruti Suzuki –an Indian domestic automaker invested by Japan’s Suzuki – could maintain their top seller position with a ten-year-old compact car. This is when Hyundai decided to export Santro, a Korean-made compact car, eventually toppling the earlier Suzuki model within years.

Winning many awards in Poland, Hungary, and Turkey as well as other emerging markets in the Eastern Europe, Hyundai-Kia cars are receiving high recognition from the world. One of the key factors for their remarkable success

is on their strategic localization efforts. In Brazil, Hyundai’s small-SUV, Sportage is run by ethanol fuel. This is because Brazil has been a major producer of hybrid fuel due to its abundant supply of sugarcane which takes up 90% of hybrid fuel cars in Brazil. Hyundai has modified the specifications of cars according to the climate and environment of the local region, which has been one of the main contributive factors for their growth in world market share.

Along with its affiliate company Kia, Hyundai’s market share has grown steadily and this was due to the low cost and good service while featuring function or specification that met the local demand. The ‘in front of your door’ customer service is another feature that receive positive feedbacks from consumers. In assessing the CSV efforts of Hyundai-Kia, the area they lacked the most is on collaboration as in Table 5. Similar to other companies, Hyundai needs to works on forming collaboration inter-connectively as Nissan.

| | Hyundai-Kia |
|--------------|--------------------|
| Focused | Low |
| Aligned | High |
| Integrated | High |
| Collaborated | Medium |

[Table 6] Assessment of Hyundai-Kia

6. CONCLUSION

6.1 Comparative Analysis of Korean and Japanese Companies

There are three important implications that can be drawn– 1) the importance of focusing on company's core competence, 2) the fact that most of the CSV activities are being carried out in the marketing and sales, and service end of the value chain 3) the importance of establishing clusters internationally.

The companies that scored higher than average are the ones that had succeeded in focusing on the competitive product line and services at the same time producing better quality products. Here Toyota, LG and Hyundai-Kia remodeled their product line to meet the local demands. Not only that, these companies developed separate products that could be better utilized in these countries. What is especially different about these companies is that by focusing on producing low cost products, they did not simply concentrate on removing their high-tech features but to integrate their advanced technology in making more efficient products that cost less but still possess substantial level of quality.

By integrating their advanced technology to manufacture breakthrough products would be the biggest challenge and competitiveness against the growing local companies in the electronics and automobile industries. However, this should be done with the cooperation of other sectors throughout the world. Nissan's global team network has succeeded in producing a locally-satisfying model. Also, since the role of software and individual components is growing,

effective clustering with other industries and companies will be essential for successful business.

Until now, the Korean companies have been fairly productive in the BoP markets. All three companies – LG, Samsung and Hyundai-Kia – demonstrated good economic performance and high market share. Most of the Japanese companies have also marked on average or slightly above average. Toyota is the most accomplished company in this matrix. Toyota's secret is that they were able to produce advanced technology cars such as the Prius along with other eight cars manufactured independently as super compact cars to target the BoP markets. In contrast, Samsung's average score is low compared to their high market share and technological edge in the global market. This is mainly due to their low contribution in the BoP markets to reduce poverty through generating income through their service.

In case of Samsung, even with their business performance in the BoP markets, it will be too early to judge that these companies had created societal value and benefit just as much as they profited from these regions. One of the essential elements in assessing the CSV efforts should be to distinguish whether the company had contributed to decreasing poverty while at the same time doing business. Just as Nestlé promoted rural development and non-farming income by effectively applying the CSV framework throughout their value chain, the nine companies should put more focus on long-term and comprehensive targets that could generate benefit for both sides (Nestlé, 2011).

6.2 Implications

In the past, Korean companies had been focused on expanding the market share and productivity at whichever costs necessary. As a result, many Korean companies have been the target of criticism especially in the domestic market. The strong distrust in the Korean companies caused many Korean conglomerates to engage in CSR activities that seemed out-of-place or pretentious, adding another negative deficit without any great change of benefit for the company itself.

CSV was designed as the new direction of capitalism, which has been the center of criticism due to the economic disparity and instability it is being accused of. On top of this, fortune at the BoP was introduced as the next emerging market for global economic growth that also needs business attention (London et al., 2004). Thereby integrating these two important concepts, BoP markets were analyzed as the target areas to most actively apply the CSV framework. Since CSV strategies and the essential elements were introduced way after businesses started operating in the BoP markets, it would not be necessary or fair to criticize the earlier practices. However, with growing concern on world poverty and disparity in addition to heightening doubt on economic confidence of advanced nations, the future economic state of the world will depend upon companies not can accurately address and incorporate the socioeconomic needs into their business strategies.

The purpose of this paper was to analyze how Japanese and Korean

companies are doing in the BoP markets that have the most opportunity to accomplish CSV mechanism. However, the limit to the studies done in this paper lies on the difficulty to quantify the business activities to accurately place the company on the matrix of CSV.

For further studies, a more accurate and numerical assessment would be important to analyze company's performances. Also, since there are different time spans among CSV activities, it will be interesting to classify the CSV targets by different time intervals so that companies can comprehensively carry out short term to longer term targets of CSV. This will be important since companies will be able to disperse their long-term investment and costs.

Also, since there are different time spans among CSV activities, it will be interesting to classify the CSV targets by different time intervals so that companies can comprehensively carry out short term to longer term targets of CSV at the same time. This will be important since companies will be able to disperse their long-term investment and costs, allowing them to reduce the burden that some important yet expensive activities require.

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국문초록

한국과 일본기업의 공유가치창출 전략 분석

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빈부격차와 장기적인 세계 경제 불황 속에 자본주의와 기업은 국민들의 신뢰를 잃었다. 증가하는 불만과 염려 속에 새롭게 등장한 여러 이론들 중 Porter와 Kramer가 소개하는 공유가치창출(Creating Shared Value)은 기업들이 사회적 이익과 더불어 경제적 이익을 동시에 창출해 낼 수 있는 새로운 방향을 제시하고 있다. 이 논문은 기존 Porter가 제안하는 요소들을 확대시킨 문, 박, 임, 박에 의해 제안된 이론과 똑똑한 기업 (smart corporation)을 적용시켜 한국과 일본의 대표 산업인 전자와 자동차 산업의 기업들을 분석하고자 한다. 특히, 이 연구의 범위는 현재 가장 많은 인구와 잠재시장을 보유하고 있는 신흥 국가들로 구성된 Bottom of the Pyramid (BoP) 시장을 기반으로 한다.

중심어: 공유가치창출(CSV), 기업의 사회적 책임(CSR), Bottom of the Pyramid (BoP), 똑똑한 기업 (smart corporation)

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