

Public-Private Partnerships with Chinese Characteristics: Co-opting Chinese firms to alleviate rural poverty in China

Genia Kostka & Jianghua Zhou



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Please contact zhoujh.07@sem.tsinghua.edu.cn*

Agenda



- Introduction
- Theoretical background
- Methodology
- Case studies
- Discussion and Conclusion



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Introduction



- The low-income group – the base of the world economic pyramid (BoP) – provides a large potential market with profits, and environmentally and socially contributions to humankind (Prahalad and Hart, 2002).
- Market-based solution to poverty
- In China the government has shifted their poverty alleviation strategy towards increasingly relying on firms



Introduction



- Three main questions

- What are governments' motivations and strategies to increasingly rely on corporate-led poverty alleviation?

- How do governments encourage firms to pursue both profit-maximizing and social-benefit-maximizing strategies?

- How do firms handle this double-role? what methods do they employ to establish successful business models in rural China?



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BOP debate



- BOP group as potential market (Prahalad & Hart, 2002; Prahalad, 2004)
- Firms who want to serve this market must implement a series of reforms and innovations (Nutt and Backoff, 1997)
- Four elements – creating buying power, shaping aspirations, improving access, and tailoring local solutions (Prahalad & Hart, 2002)
- 4 A's: affordability, acceptability, availability and awareness (Anderson and Markides, 2007) .



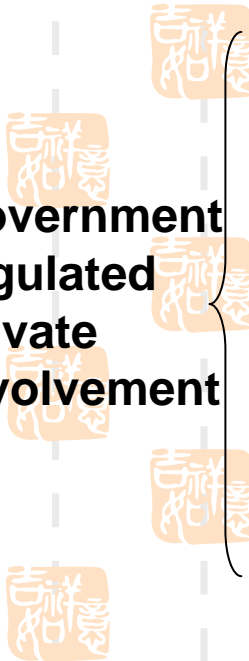
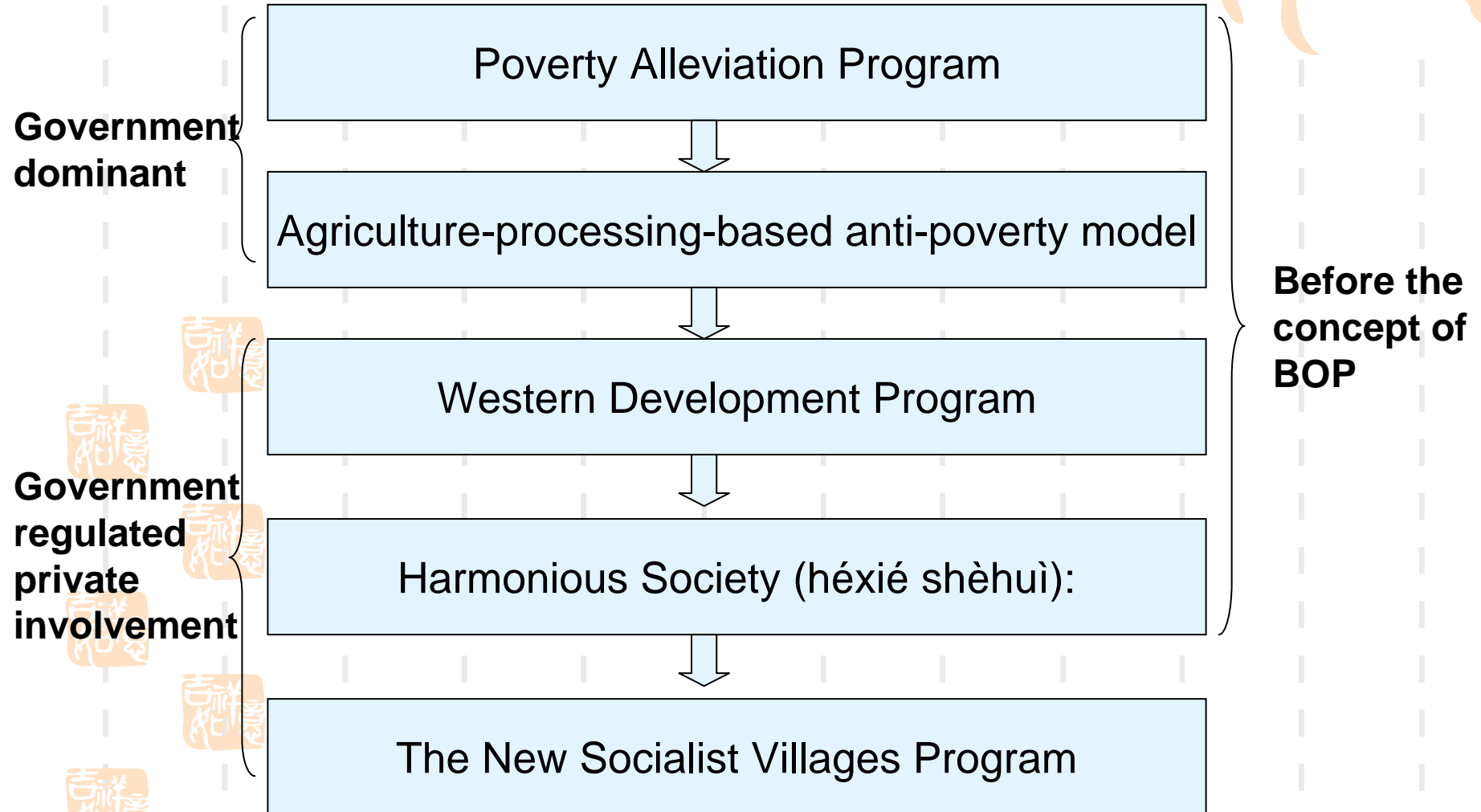
Further BOP debate



- Low-income group is also a source of innovation and social capital (Luo, 2007; Zhao et al., 2007)
- Non-traditional partners (London & Hart, 2004)
- Alliance between firms and existing BOP initiatives (Seelos & Mair, 2007)
- Social capital in BOP (Sanchez et al., 2005; Woolcock, 2007)
- local context of low-income markets should be considered, for example, China?



BOP and China



BOP and China



- BOP theory was welcomed by Chinese policy makers of considering rural areas as valid sources of expanding aggregate domestic demand.
- Increasingly rely on private sector solution to help rural areas to develop. For example, “Send Appliances and Automobiles to the Countryside”
- A possible Western bias in the interpretation of the theory (Tong, 2007; Tong & Zhou; 2009)



BOP and China



- To narrow the scope of this paper, the focus is on rural areas only
- BOP cannot be understood in a purely economic sense, and it needs “to be sustained by, and anchored in, the social context, particularly the local environment” (Jack & Anderson, 2002: 483)
- In-depth analysis of BOP initiatives in the context of China



Structuration theory



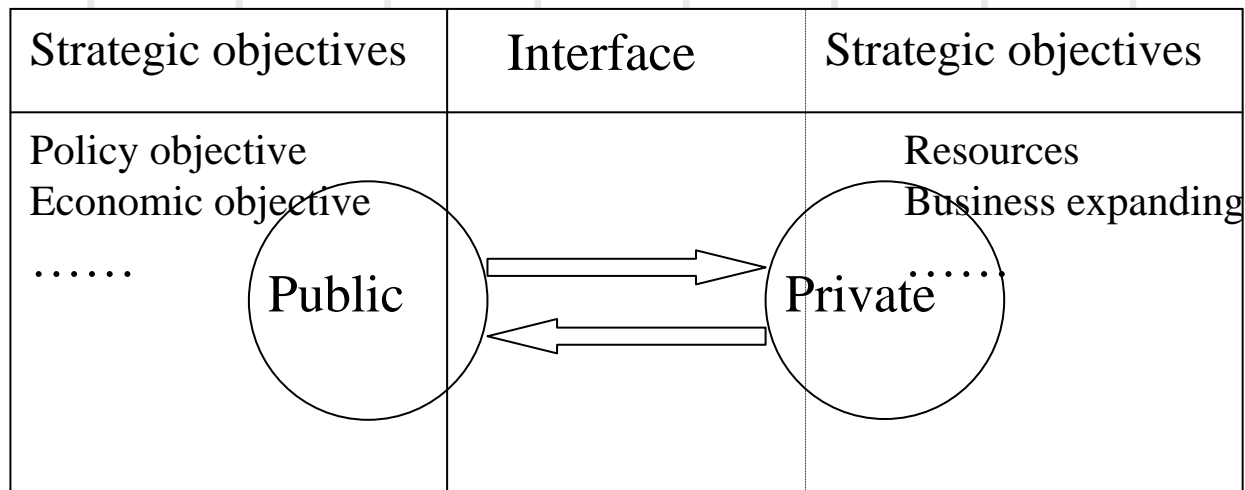
- The interaction between the agents (firms) and the structure (special context of a certain country)
- Chinese structure of BOP
 - Rural population is very large in size, providing extra incentives
 - The involvement of a powerful government can lower or rise barriers of entering BOP markets
 - The involvement of a powerful government will make some existing BOP business model invalid in China





In respond to the specific structure

- Public-private partnership might be an efficient way to develop rural area



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Methodology



- Exploratory research strategy (Yin, 1984; Eisenhardt, 1989)
- Data collection involved several overlapping steps
 - Since 2008, research group exhaustively searched for existing cases and other archival information
 - In 2008, 16 cases were selected for further in-depth analysis
 - In 2009, in-depth interviews were started



Methodology



- Two cases were selected for this paper:
Nanjing Jiukang and China Mobile
 - Different partnership pattern
 - Different types of company
- Inductivist methods of agreement and difference (Mill, 1974)



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Case 1: Nanjing Jiu Kang Biological Science and Technology Development Co., Ltd

- A company in Nanjing, Jiangsu Province, with the technology to produce bio-pesticide, bio-diesel and organic fertilizer with neem tree fruit.



Trajectory of the company



A private company

Suzhou Jiukang

30%

Hi-tech
Venture Capital

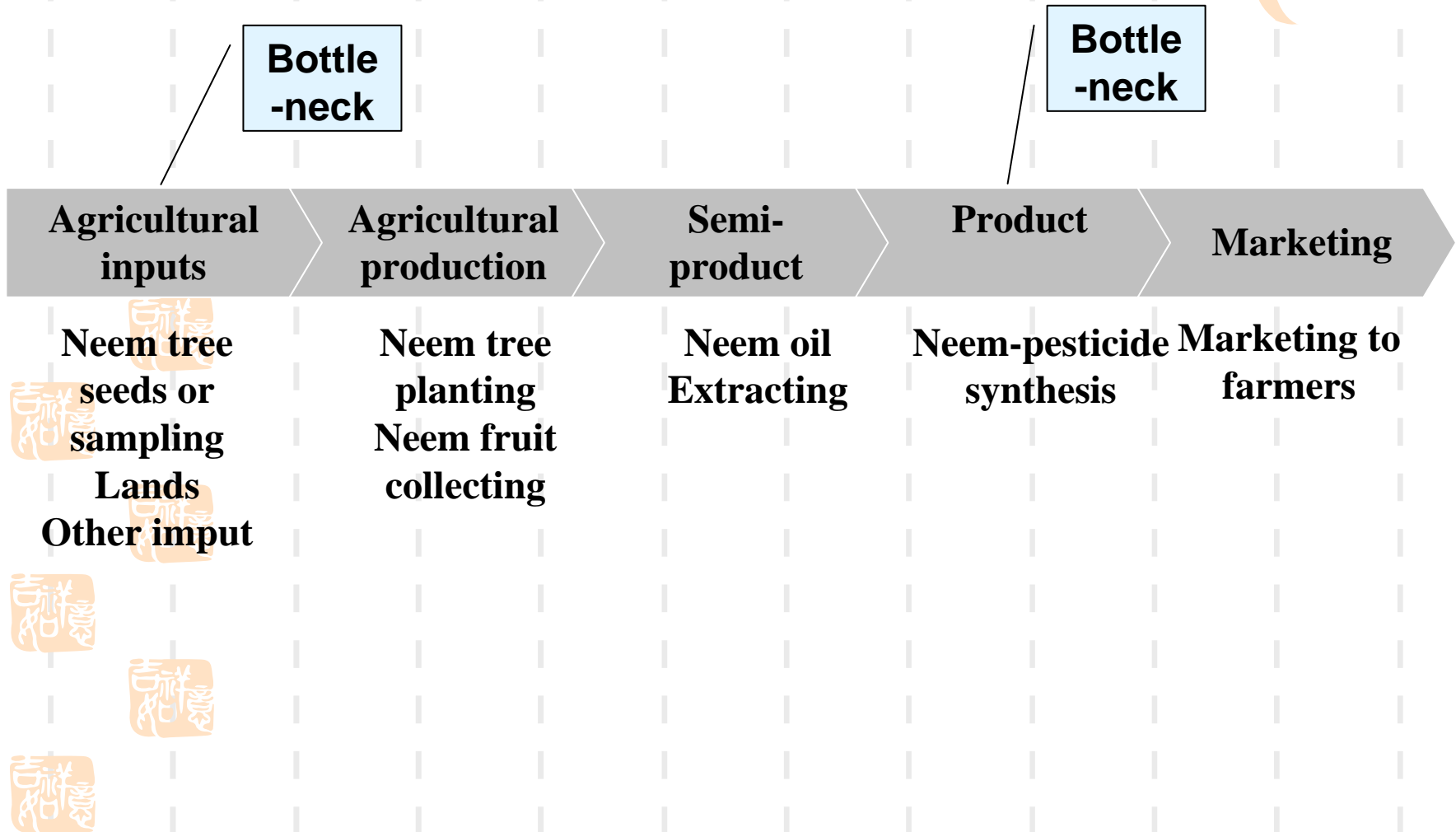
70%

Nanjing Jiukang

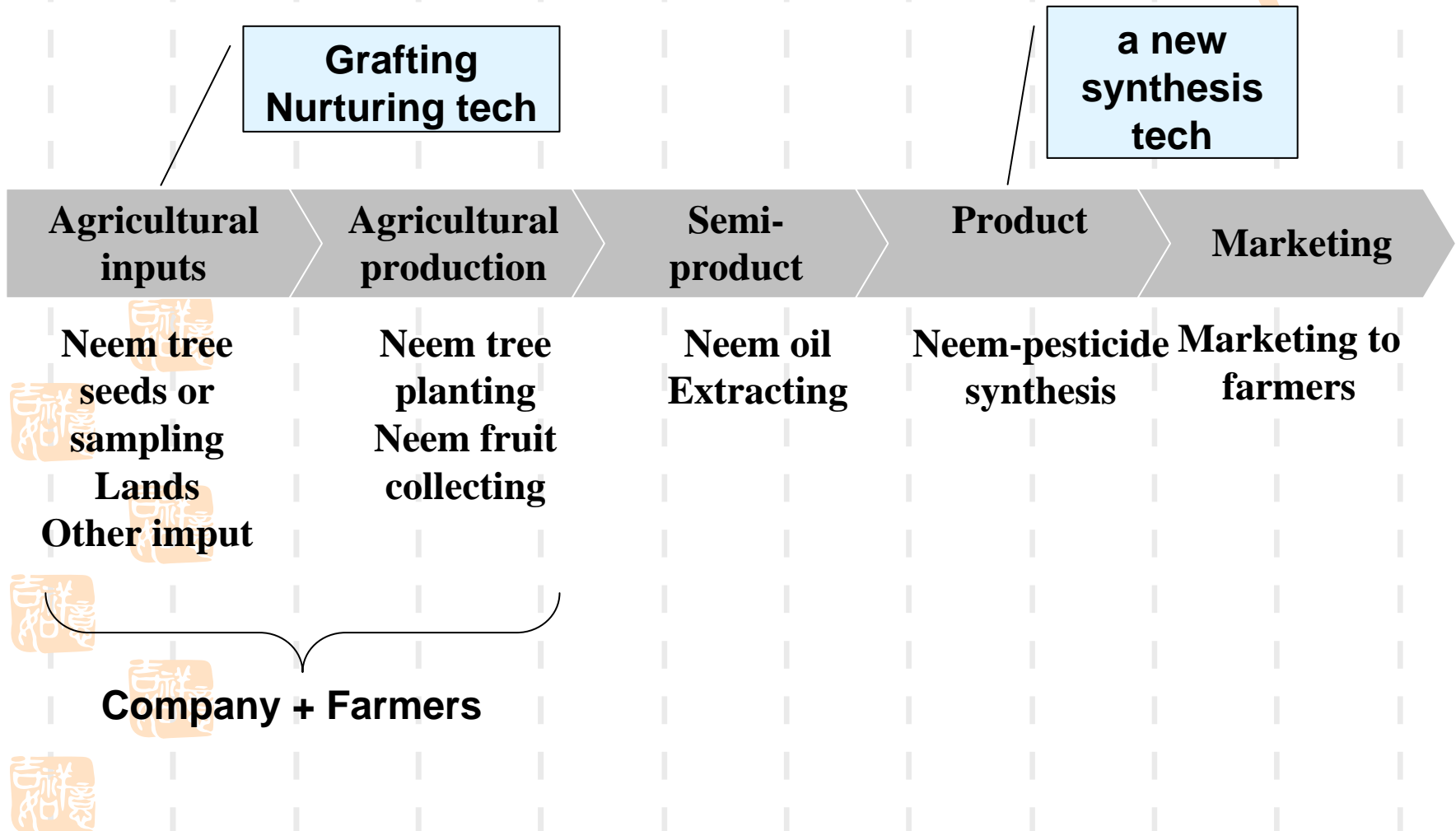
Owned by
Nanjing
government



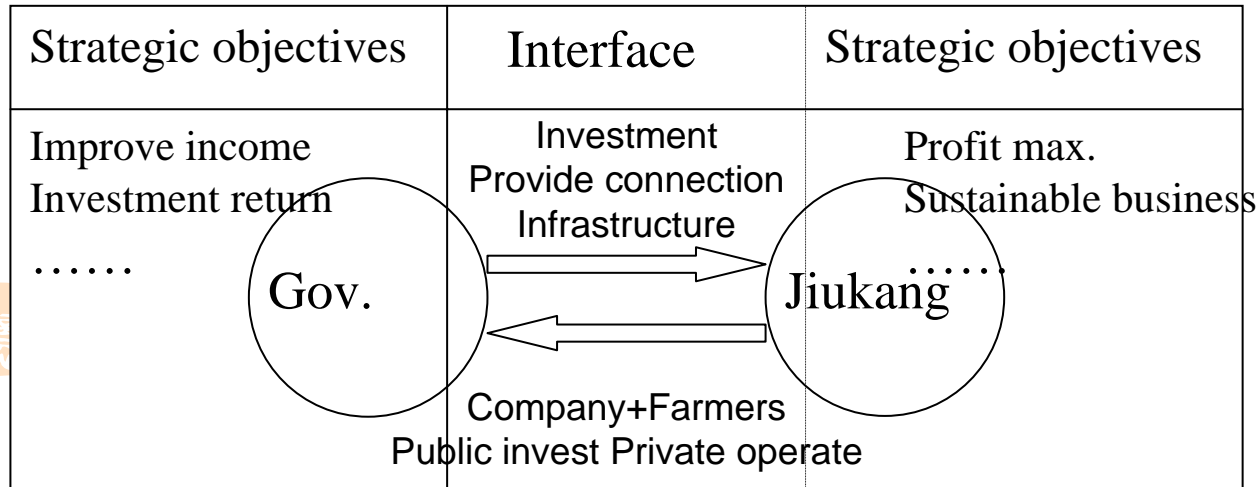
The bio-pesticide value chain



The bio-pesticide value chain



The public-private partnership



Payoff



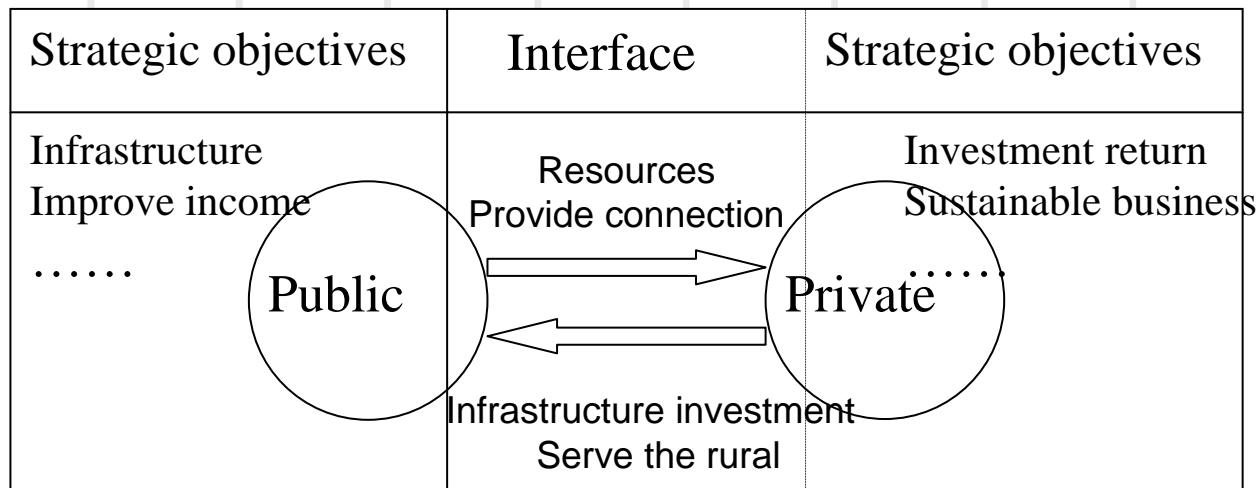
- Government achieved policy objective of improve farmers' income
- Jiukang got resources (local resources, government invest, government's social capital)
- Previous non-value resources (i.e. hills, woman, old man) were leveraged
- Farmers improved their income (0.81 million salary income from Jiukang)



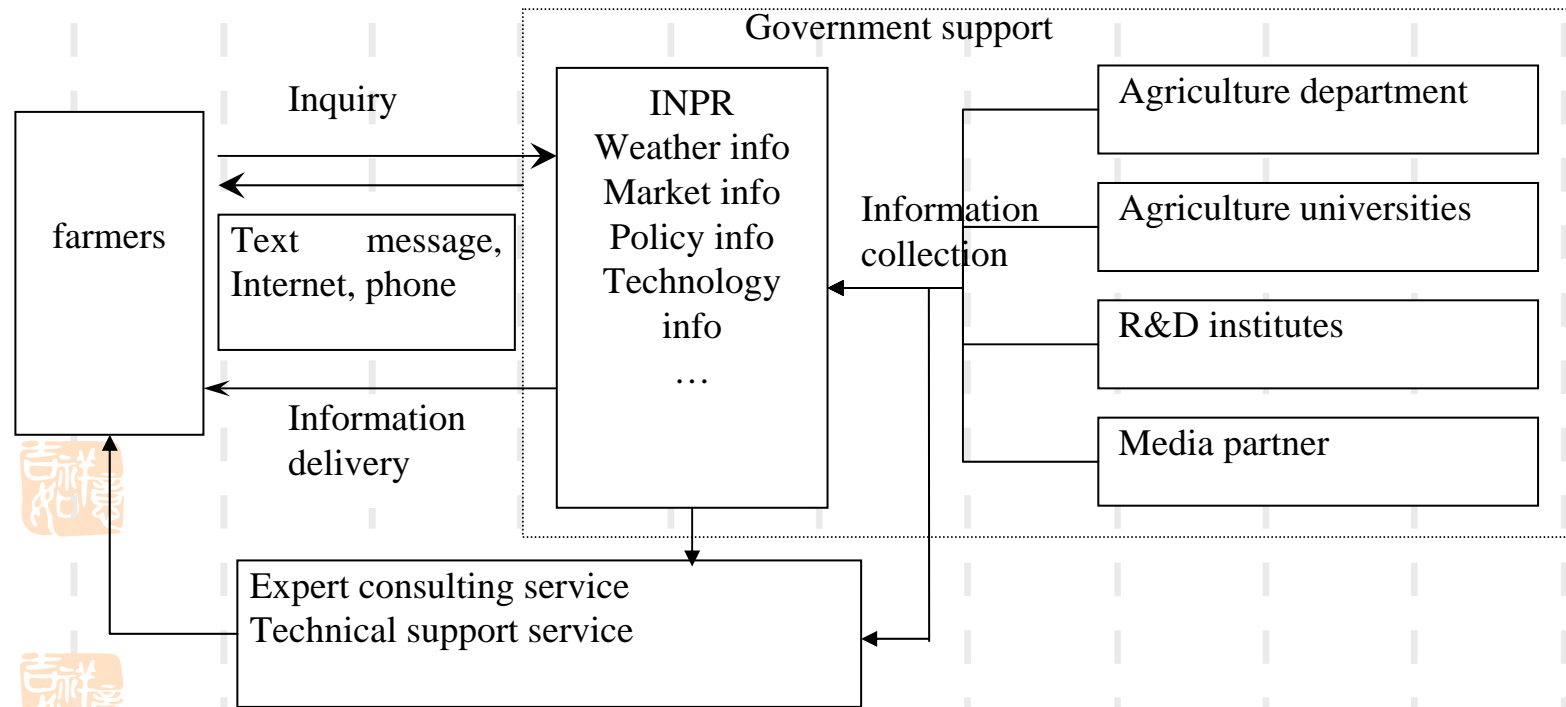
Case 2 China Mobile: Information Network Platform for Rural Areas

- Government-firm joint-developed program
- Providing agricultural information to farmers with information technology
- First initiated in 2004 by Chinese government
- The telephone service providers (also the Internet service providers in China) were not willing to invest in those areas.
- With the powerful policy of government, the three biggest phone service providers, China Telecom, China Mobile and China Unicom, had to passively take part in the program

The public-private partnership



The public-private partnership



Payoff



- Government achieved the policy objective
- China Mobile got an unexpected market
 - Huge amount, 12.67 million farmers in 2006
 - Fast growing, 30% annual growth
 - Highly potential, 900 million farmers in China

Farmers

- Access to information
- Negotiate capability
- Lower transaction cost



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Discussion and Conclusion

- The first case study highlights how the private company Jiukang started a BOP project, but later used the local government's help to cover large investments costs and to get access to markets. The company captured more value to each step in the value chain, providing benefits to both the farmers and the companies.

Discussion and Conclusion

- The second case study illustrates how the Chinese central government employed the help of a state-owned enterprise – China Mobile – to improve information access for farmers. The government started the initiative, but China Mobile expanded its activities rapidly.

Discussion and Conclusion

- Rural China is rich in natural resources and labor, but the value of such resources is usually undervalued due to the lack of information, skills and technology to leverage them.
- In both cases, there was a win-win situation. Both companies helped farmers to capture more value in the production process. In exchange, both companies got early access to the markets, gaining preferential access to the resources and capabilities of the farmers.

Discussion and Conclusion

- Companies with business to stimulate the development rural area can benefit from this by applying for fiscal and other support from the government. This was illustrated in the case of Jiukang, where the company got lots of investment from the government.

■ In summary, the “Big Government” context of China shows that collaborating with local or central government can lower the risk and the cost of companies, and in some cases, is imperative.



- Textbook solutions for the BOP do not exist.
- we suggest that research on BOP should play more attention to the local contexts of markets. In China, central and local governments are stronger, while at the same time trying to push rural development. This special characteristic suggests that firms wanting to enter rural markets in China need to carefully evaluate at which stage and what time to enter a partnership with the government.



Limitation



- Additional case studies and broader empirical analysis would be valuable in extending the results of this research effort.
- In addition, no evidence was collected that in the long-term companies really will be able to increase farmers' income on the one hand, and maintain a sustainable business on the other





Thanks!

Further information of the research on BOP and sustainable innovation in China, please contact:

Zhoujh.07@sem.tsinghua.edu.cn

