

Report of the 77th CSR-BOP Watch Meeting held on June 10, 2014, at the Center for Inclusive Business and CSR, the Institute of International Strategies, Tokyo International University

“The Next Challenge of Benesse Holdings: Turning Social Issues into Business Opportunities”

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I. New Activity

The Benesse Holdings, Inc. established the Social Investment Facility with the fund of US\$15 million in May, 2013. As an impact investment facility, it will invest in companies engaging in solving social problems, especially in developing countries, as a minority shareholder of an invested company. Targeted fields are education, childcare, gender support, and nursing care. The Benesse considers the investment not as a CSR activity, but rather as a social business for solving social problems as well as developing a viable future business for the Benesse.

II. Background of Engaging in Impact Investment

There are three major reasons for starting such activity. First of all, one of the key businesses for the Benesse Holdings is the Sinken Seminar, a distant learning to help children to improve their capability and pass entrance examinations for junior and senior high schools and universities. The number of clients is expanding quickly in foreign countries, while it is stagnating in Japan due to a decline in the number of children, though the Benesse is doing fairly well relative to other companies. Since contributing to solving social problems is the Benesse’s key philosophy of business, the company expanded into diverse operations related to “childcare and work” and “elderly care and work.” Interacting with clients, the Benesse is constantly exposed to their problems, while it contributes to solving their problems by developing a business. Unfortunately, a search for new business opportunities is still underway, since the Benesse has not yet found an alternative for the future to cover the decline of Sinken Seminar.

Secondly, companies in other industries are entering into the education field, while the number of ventures using information technology (IT) for education is also rapidly increasing. Especially, the rapid development of the Khan Academy (NPO), which tries to provide high quality education to anybody for free through IT-based video delivery, is really changing the nature of education field.

Thirdly, since the company name is a combination of “bene” and “esse,” meaning “well-being,” young employees have strong concern about social problems. Some of them have a teacher’s license, and many have experiences of participating in social voluntary activities. Mobilizing young employees’ talents and sympathies to address social issues could become a viable source of generating the future development of the company.

III. Hypotheses to be Tested in Social Businesses

Three major hypotheses seem to exist to test whether they are true for the Benesse. The first one is that social problems are so many that markets related to solving those problems may be quite large. Especially, markets involving the poor, called the base of the pyramid (BOP) and classified as those whose annual income is below US\$3,000 per year, are reported to be as large as two thirds of the global population. Can this group be a viable and sustainable market for the company? This is the first hypothesis.

The second hypothesis is when a company approaches a certain market as a social business rather than a regular one, a company will obtain unusually rich information and resources from other companies and organizations. The Benesse did not have enough information, knowledge and know-how about social-issue-related markets in foreign countries, while it needed to approach these markets without adequate information and know-how. Despite so, focus on social business brought ample opportunities to meet people in impact investment, social entrepreneurship, NGOs, aid agencies, international organizations, etc.

Since Benesse employees are quite interested in social issues as mentioned earlier, the third hypothesis is that a significant number of young employees voluntarily engaging in social businesses will create new dynamics in corporate environments. By soliciting volunteers to engage in social businesses, the Benesse actually succeeded in identifying people with living experiences in the Philippines, Indonesia and other countries, and in bringing employees together who have highly relevant backgrounds to social businesses in developing countries. These movements are expected to change the mood and dynamics of company operations.

IV. First Investment in India and First Experiment in Indonesia

The Benesse became a minority shareholder of an Indian venture in Mumbai which developed an excellent curriculum and materials for children from an early age to older generation to learn computer skills. It focuses on logical thinking necessary for developing computer systems and programs and on capability to collect information, instead of simply learning a programming language and touching a computer. Although developing trustful relations with its local partner is not easy, completing the curriculum and materials enables the Benesse to start exploring the global education market, including BOP in developing countries.

In Indonesia, children from the rich class study after school at the Kumon School or the Sakamoto Method School, paying about 3,000 yen to 3,500 yen tuition per month. They are too expensive to many students from the middle and lower classes. In collaboration with an organization in the social sector, the Benesse tried to develop a high quality educational program that enables the latter students to study with a half of the above tuition. Since this was conducted as an experiment, no actual charge was made to students. The experimental team from the Benesse could identify what kind of educational program and what level of quality, a program with half of the tuition payment can offer. It generated a very important knowledge for developing a future social business, targeting at less wealthy and poor children, whose improved educational quality is indispensable for economic development,

V. Achievement Expected from Impact Investment

Impact investment is what the Social Investment Facility presently engages, and is expected to achieve both the creation of social values and a decent return to investment after a certain period. If the goal is only to generate some social values, then it has to be conducted by grants, aid from development agencies and international organizations, etc. Since this is a social investment project, the Benesse is engaging in social businesses which can ultimately generate return to investment. It will advance social businesses along with a business line found in the company itself, but by offering social values to a large number of needy people in developing countries. In a long term, it tries to achieve its business sustainability by generating a return to investment as well as satisfying the needs of the poor in developing countries.

Pearson PLC headquartered in London established a similar type of impact investment, the Affordable Learning Fund, in June 2012 with an initial fund of US\$15 million used for a minority shareholder in an invested unit. It works with diverse partners, such as impact investors, NGOs and governments, to provide quality education to the poorest children in the world profitably and sustainably. It is exploring all over the world to look for good companies much quicker than the Benesse. Just recently, it established a world-class private high school in cooperation with the Ayala Corporation in the Philippines. Both the Pearson and the Benesse try to look for their future businesses in their social investment activities. However, the former simply focuses on education, while the latter is trying to develop along with its business lines, including the fields of nursing care and gender support. These two impact investment funds share similar goals, while they have different targeted fields.