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Introduction

(Not) talkin' 'bout a revolution

This book is about using an understanding of poverty to develop profitable business opportunities. There is no new paradigm here, no redefinition of the corporation, no need for a business revolution. Business people can go on serving their managers and their shareholders in the same way, seeking to make maximum profits at minimum risk. We follow Adam Smith when he says: 'It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest',¹ but we also argue that by actively seeking to be benevolent we can sometimes identify new routes to satisfying our self-interest.

We make the simple claim that you will be a better international manager if you understand the dynamics of income, opportunity and wealth within your host country. Just as you would want to understand something about local law before signing a joint venture contract or something about local culture before you approve an advertising campaign, we believe that you should understand more about the lives of your customers, suppliers and employees before you do business with them. We assume you do not want to become an economist or a development guru, just as you don't want to be

1 *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776).

a lawyer or a marketing expert. But you might feel that, if you know a bit more about these subjects, you'll understand better where your business is now, what risks it faces and what it could do to spend less and earn more in the future.

This is predominantly a book for business managers who want to increase their profits and reduce their risk. But we are not totally cold-hearted. We've written this book because we believe that, if we can incentivise you to think about the poor, then the poor will benefit. If you think the same, if you sometimes look through the plate glass windows of your hotel to the people beyond and you wonder what you can do for them, then so much the better. We hope this book will reassure you that you're already doing a lot, just by doing business, and give you some ideas for doing even more.

We're also writing this for people starting from the converse position, who want to help the poor and hope to use business as a tool to do so. If you work for a development organisation or a government and want to involve business in reducing poverty, we hope this book will help you to make the case to companies and to develop practical partnerships. If you can understand the concerns of business people and make cases for co-operation based on real-life examples and clear business incentives rather than moral exhortations, then surely you will be better at your job. With all the talk of corporate social responsibility, licences to operate and the moral responsibilities of business, it is easy to forget that business people don't have total freedom to follow your ideas and indeed have a legal responsibility to serve the best interests of their shareholders before anyone else. But we believe there are some areas where their interests and yours converge, and this book is about identifying and developing them.

“ Most academics, policy-makers and development agency professionals endeavouring to catalyse pro-poor enterprise don't have real business-based experience to draw on. Their knowledge of how markets operate and the problems faced by business of all kinds is largely theoretical or conceptual.

Thus they operate on the basis of many partially informed and often downright incorrect assumptions about markets and enterprise. This means the policies and interventions they design and implement, with the best intentions, to catalyse the efficient operation of markets or the creation of enterprise just don't work or don't work nearly well enough.”

*Source: Enterprise Solutions to Poverty, Shell Foundation, March 2005
(www.shellfoundation.org/download/download.html, 20 March 2006).*

Just as we say that poverty alleviation is only one element of deciding a business strategy, we also say that business and the profit motive is just one part of development. There are many things in development that a business can't, won't or shouldn't do, but we're choosing to focus on those areas where the profit motive can be harnessed to satisfy development aims.

During our careers, we've moved around between all these approaches. Between us, we've worked as government officials, development and political advisers, business strategy consultants and entrepreneurs (we hope this variety doesn't mean that we weren't any good at any of them). We've lived or worked in many of the most interesting and difficult countries in the world including Iraq, Afghanistan, East Timor, Indonesia, Papua New Guinea, Sierra Leone, Ethiopia, Bangladesh, Kosovo and Vietnam—so we hope our ideas aren't too naive or Western-centric.

Bottom of the pyramid

Sadly, it might seem like we've been beaten to it. C.K. Prahalad's book *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*² has already set the agenda, with endorsements by Bill Gates and appearances on best-seller lists all over the world. If we weren't so publicly committed to ethical business, we'd probably have him shot. You'd be well advised to read his book before starting on ours because he does the motivation, the ambition and the shining city on the hill. We're more interested in replacing a few light bulbs down here in the valley.

The 'bottom of the pyramid' is, in essence, a marketing approach and refers to targeting the mass markets of the poor and supplying them with better and cheaper products. For example, instead of selling shampoo in large bottles for \$3, a business should sell shampoo in small sachets for 10 cents—thus acknowledging that poor people can't tie up capital in (for them) large purchases. There is nothing wrong with this. But marketing to the poor is not new. Coca-Cola, for example, is excellent at it and has been for a long time.

2 Published by Wharton School of Publishing (University of Pennsylvania) in 2004.

The real challenge is helping those same poor people get a job, making that job sustainable, and creating access to savings, credit, insurance and the other features of a developed economy while linking this to the mainstream profit-making operations of business.

We also have a fear that is driven by our experience of that last big trend in business strategy—innovation. Our concern is that doing new things for the poor is, in effect, a special case of general business innovation and may suffer from the same weaknesses.

We all know what the guru cycle looks like. A couple of books are published about companies that are currently doing well and the authors imply that this is because the company is following some of the authors' own ideas (here we recall that Enron was widely praised for its approach to innovation during the 1990s boom time and boo.com won an award from Bain management consultants shortly before going spectacularly bust). Based on a limited number of examples, authors call for wholesale reinvention of business practices and culture with nothing less than total commitment required. A few companies try out the new paradigm at major expense in terms of time and money, but don't have the luck or skill to pull off a major success. They get bored, disillusioned or impatient, and move on to some different initiative. Meanwhile, a few of the initial exciting examples run into the ground or some other explanation is invented for the success of the companies in the case studies. The agenda is discredited and the caravan moves on.

We do use a few case studies in this book, but mostly for the rhetorical value of illustrating our points or provoking ideas. We do not make the unscientific implication based on a single study at a single point in time that the example we've chosen is responsible for the company's success or that the example will continue to be successful in five years' time. Most importantly, we do not offer any single set of recommendations or any single explanation for a company's success.

In our experience, most companies face no shortage of profitable opportunities or potentially valuable initiatives. With limited management resources, the challenge is to choose between them. Most companies can take only one or two major initiatives at a time and, if this year is cost-cutting, then alleviating poverty will just have to wait for a while. And a company certainly can't chase every possible new product idea or new group of customers just because books written with no knowledge of the reader's specific circumstances think they might be profitable.

So there are no major initiatives in this book and no calls for wholesale change. Instead, we hope that a manager who reads this book and then

starts talking to a wider range of people and reading from a wider range of sources will start to make slightly better day-to-day decisions. The book should prompt more networking, more curiosity and more analysis. It is these activities, specific to the manager and the company's circumstances, which should then form the basis for business decisions, rather than a bandwagon of books and conferences.

When managers start following this prescription, their bosses may not even know the reason why but they might start spotting lower costs, higher sales, better local relationships and less fire-fighting. Over time, the ideas might spread and start becoming a standard part of a manager's toolkit. Then none of us will need to cross our fingers that our limited number of high-profile case studies will continue to prove successful.

A wider view of poverty

When thinking about poverty, we've tried to think like carbon-based life forms rather than economists. Many of the problems that affect poor people are not directly related to what they can or cannot purchase in the market. Like the rest of us, poor people worry most about lack of control over their own lives. They want choice about where and how they work. They're disproportionately subject to abuse by security forces or petty officials. They have little say about the activities of the government, aid agencies and businesses in their area. They're denied access to public services. As a result, many of the things that could improve poor people's lives will not take the form of market transactions and will not show up in economic statistics.

If this all sounds obvious, then you'll be pleased to know that economists and aid agencies are finally latching on to it. Prompted by a major World Bank report, *Voices of the Poor*,³ which for the first time made a systematic survey of poor people's own opinions, many development professionals are thinking far harder about questions of security and autonomy for poor people as well as income and economic opportunity. Some of the most interesting company initiatives in the field of poverty alleviation are not about selling people more things, but co-operating with the local community to increase autonomy and provide mutual security.

3 World Bank, *Voices of the Poor: Can Anyone Hear Us?* (New York: Oxford University Press for the World Bank, 1999; www1.worldbank.org/prem/poverty/voices/reports.htm, 20 March 2006).

Even if we restrict ourselves to economic issues, the important problems can be solved in a wider range of ways than just giving poor people more money, better training or cheaper goods. Many poor people can't offer themselves to the job market because they lack information and contacts rather than skills. Many potential entrepreneurs have trouble proving collateral and gaining access to credit, and so can't build up a business to be large enough to operate at an efficient scale. Even when they do have access to credit, if they do not have access to insurance or other forms of risk-sharing, then credit availability dramatically increases their risks. Poor people often face huge fluctuations in living standards caused by environmental disasters, conflict or political change, and it is these risks that are important to people rather than an average of their income over time.

It is precisely this complexity of poverty that offers the opportunity. If we see poverty only as wages and prices, it is difficult to escape the conflict that companies want lower wages and higher prices, and poor people want the opposite. But, if a company can expand its potential workforce by offering information and overcoming discrimination or can develop efficient local suppliers by helping them secure credit, then both sides will benefit. What's more, by understanding and influencing the priorities of aid agencies, a company can often call on development resources to undertake those actions that have the least obvious business case or that require unfamiliar skills, leaving the company to focus on those areas that are closest to their current business concerns and capabilities. Companies can play huge roles as catalysts, advocates, problem-solvers and conveners long before they have to spend any money.

“Our experience as a donor operating alongside a major multinational has convinced us that big companies possess a wide-ranging set of tangible and intangible ‘assets’ that can be of huge value in the fight against poverty, especially via an enterprise-focused attack. So we consciously and transparently seek to deploy these assets in support of our work and that of our external partners wherever we can.

The ‘assets’ we are referring to fall into three categories:

First and most fundamentally, established business is a vast repository of generalised business skills that are encapsulated in people, knowledge and techniques . . .

The second asset category falls under the heading of ‘convening power’. This is shorthand for the subtle and overt ways by which a company’s track

record, reputation, brand, political reach and financial clout makes other people listen and respond to what the company has to say.

And the third category includes the [Shell] company and sector-specific physical and market knowledge-based assets that lie at the core of the unique processes of value creation and capture on which every company relies.

Usually, all these asset classes are fully and properly deployed in the interests of the business and its shareholders. And when business operates well in developing countries, this is a huge source of social value via jobs created, taxes paid, technology transferred, and so on. But typically these are not the assets multinational companies offer, or are asked to use, in order to discharge their corporate social responsibility or sustainable development commitments.

What our experience suggests is that deployment of these private value-creating assets via pro-poor enterprise interventions, could offer a huge but still unrealised contribution to the efforts of the international development community and poor countries to make poverty history.”

Source: Enterprise Solutions to Poverty, Shell Foundation, March 2005 (www.shellfoundation.org/download/download.html, 20 March 2006).

Going native—stumbling across the poverty perspective

We once worked with a multinational company whose operations in an Eastern European country were heading into difficulties. Their fast-moving consumer goods were becoming decidedly slow-moving despite a strong international brand, highly trained expatriate managers and an impressive track record of establishing new operations in emerging markets.

Turnover was down, margins were down and costs were rising. Some of the managers advocated price cuts in the interests of turnover, others wanted to defend their margins and the company’s quality reputation by maintaining or even increasing prices. In the absence of any real understanding of the causes of the problem, neither of these options was very convincing and the debate soon descended into personal rancour. Arguments were won on the basis of charisma and power rather than evidence, and the

losers soon resigned or were sacked. Meanwhile, head office showed little interest in the details, but complained at the declining headline figures in their outpost's monthly reports.

We were called in to 'do' innovation which, at that time, was considered the solution to all corporate problems. But, while trying to find some interesting new products for the company, we stumbled on a much more fundamental problem.

As part of our innovation project, we encouraged a cross-section of the company's local and expatriate managers to talk to as wide a range as possible of local people. We offered prizes for reports of conversations with the oldest and the youngest, the richest and the poorest, the most sophisticated urbanite and the person who lived furthest from the capital city. We encouraged the team to have interesting conversations about people's lives rather than ask boring questions about their attitudes to fast-moving consumer goods. No subject was out of bounds, and we created an atmosphere where people would want to return to the team with interesting stories and emerging hypotheses rather than with statistically significant data.

We should make clear that we hadn't yet jumped on the poverty bandwagon and were not doing this because we thought the company should have any interest in politics, poverty or development. We simply wanted to prompt the team to have some understanding of the people they were trying to sell to and to break them out of their insularity. We got bored with asking 'what does quality mean?' and being answered with a list of technical indicators that were meaningless to anyone outside the company. We thought it might be a good idea for people to start talking to their grandmothers, children and friends, and we thought that they could come up with new ideas only if they first had some new experiences and information. There was no great science in any of this and, with the exception of our huge fees, it didn't cost the company very much.

Quite unexpectedly, the reports that emerged not only prompted some ideas for new products and services, but also contained the crucial clues on where the existing business was going wrong. The team came back with a story of a society and economy in flux, in which attitudes to international companies were changing and the competitive environment was moving against expensive multinationals. We ended up pursuing some quite odd questions such as the effect of the country's forthcoming membership of the European Union on the incomes of farmers. We couldn't have predicted these issues in advance and they were well outside our initial brief. We could not have analysed them using conventional market research because we would not even have known what questions to ask.

The story seemed to go something like this. When the country opened up after Communism, international companies were seen as an unequivocally good thing. They brought quality, glamour and reliability. In particular, international quality actually meant something, because local products were likely to kill you. The competitive environment was particularly benign because local competitors were alarmingly incompetent. The economy was too immature to support much outsourcing and only a fully integrated company could deliver reliable goods. This required international managers and expensive systems, and our multinational was uniquely well placed to provide this. Our client benefited from an effective monopoly as the only reliable supplier in the country, and the group's business model of transplanting their Western European experience and systems to Eastern Europe was reaping impressive results.

Now move on ten years to the time of our project. 'International' was no longer synonymous with 'good'. Some of the promised gains of capitalism hadn't emerged and there was growing concern with the inequality caused by economic freedom. Foreign companies were seen as exploiters rather than liberators. The forthcoming membership of the European Union seemed set to make matters even worse by threatening groups of people such as peasant farmers who were important to the national psyche. In these changing times, people harked back to products that they remembered as kids or associated with their home regions, and became better at questioning the clever messages of mass advertising and international branding. Some of these feelings were based on prejudice and fear, and were perhaps plain wrong, but they had a real effect on people's willingness to trust even the best of the international companies.

Perhaps none of this would have mattered if our client could have continued to rely on its de facto monopoly over quality goods, but these subjective issues in society were combined with some real changes in the competitive environment and the company found itself squeezed by some increasingly competent local players. The economy had matured around them without them noticing and, at the bottom of the market, local companies without the high costs of expatriate managers and smart offices could now produce quality low-cost products that would no longer kill you. At the top end of the market, niche players could concentrate on product design and marketing based on real local understanding, and outsource everything else to a growing network of reliable local suppliers and distributors. Our client was left in the classically disastrous position of being neither low-cost nor perceived as high-quality. In addition, the company had to support a high-cost, fully integrated infrastructure with a customer base that no longer wanted or

needed to buy its products. The fact that the company had contributed to the economic development that allowed all this to happen provided scant comfort.

This looked like a pretty good set of conclusions from a few chats with our team members' grannies. We decided to check out this story—and get a paid holiday—by taking the team to Spain. In the 1970s, Spain had emerged from its period of isolation and we thought its experience would provide some signposts for what could happen in Eastern Europe. Sure enough, we found a country that had initially seen international companies as the source of all good things, but over time had developed the scepticism and self-confidence to start favouring authentic local experiences over internationally imported products. Local companies had emerged that were equally as competent as the internationals, but knew more about the country. We noted that the most successful fast-food joints were neither traditional tapas bars (too dirty and unreliable) nor McDonald's (too bland and foreign), but modern tapas restaurants that combined local traditions with international quality control. Our hypotheses were complete and we invented a trite slogan to represent our client's desired new profile along the lines of 'the local company that's better than the multinationals'.

Our client found the conclusions frightening, but credible. The company realised that its expatriate mind-set had led it to concentrate on all the wrong issues, such as how price indicated quality, while ignoring factors such as its own nationality that were irrelevant at home but crucial abroad.

It also realised that it had some underrated strengths that it could use to respond to this new mood in the host country. It found a hidden saviour in its procurement manager, a decidedly unglamorous local woman who rarely spoke up at meetings dominated by noisy expats with marketing degrees but who had quietly spent her time developing the skills of a network of local suppliers. The company's image, unwittingly reinforced by its own advertising, was of a rootless international company with no local links; but all the time they'd been one of the prime movers behind the increasing prosperity of local farmers and other small-scale suppliers. Its first move was to change all its advertising and branding to highlight this fact. And (we hope) they started paying the procurement manager as much as they paid the expats.

We seemed to have stumbled across a common problem for multinational companies operating in emerging economies. When our client first entered the country, it had little choice but to set up an expensive, fully integrated operation run by expensive expatriates—as the economic infrastructure simply didn't exist to support any other type of operation. But over a rela-

tively short period of time the economy developed, partly thanks to the company's presence and partly to its benefit in terms of higher spending power and a larger market. What was missing was a migration plan to respond to the opportunities for cost-cutting, outsourcing and localisation in this maturing economy and an understanding of what the rise of local competitors would mean for the business. There was even less comprehension of how local people misunderstood their operation and resented them as opportunistic outsiders, and little idea of how slick global branding only contributed to the problem.

The expatriate managers not only followed our plans by putting a much greater emphasis on local talent and launching a series of local products with identifiable local links, they also took their message back to head office. They argued that its role in an under-developed economy was rightly as a provider of management, blueprints and systems. But, over time, country managers' specific job should be to develop a uniquely local operation, deeply embedded in the host economy. Head office's role should then be as a clearinghouse to spread products, ideas and good practice around the autonomous local units, rather than acting to maintain a series of standardised, high-cost operations that were rapidly losing their reason for existing.

Head office told them to go back and produce some results before getting too cocky. That process is now under way.

There may not be much new in this in theory, even if we continue to see companies make the same old mistakes in practice. Companies have long understood the advantages of outsourcing and indigenous labour. Locally tailored advertising of global brands is familiar, albeit not often backed up by genuine localisation of products and operations.

What might be new is the use of a poverty perspective as one tool to help identify and solve the problems. Country managers often complain to head office that they simply can't find sufficiently competent local staff and suppliers, and so have to rely on expensive imports and integrated operations. Well, poverty experts have thought about these problems from the perspective of those local people who can't persuade you to give them a job or a contract, and it makes sense to steal some of their existing analysis on poverty traps. We do so later in the book. Similarly, if you can understand the effect you are having on economic development and poverty, and identify hidden gems like some existing procurement good practice, then you will find it far easier to gain the support of governments, development agencies and local people for your operations and your localised marketing will be far more credible. You'd be surprised at how people are willing to support your self-

interested efforts to develop competent local staff and suppliers once you've learned the 'development-speak' vocabulary to describe what you're up to.

If we were going into this company now, knowing what we know about poverty, we could have taken a few short cuts. We would have commissioned an economist to understand the economic benefits of the company's presence in the country and used this to underpin a credible communications campaign. We would also have used the analysis to identify the changes in the competitive environment. Were the beneficial changes being driven by our company and other multinationals creating a different type of economy that offered different opportunities and different competitive challenges? Finally, we would have used an understanding of poverty traps to deal with this changing environment, sign mutually beneficial deals with local people and steal a march on local and international competitors.

We've deliberately started this story a long way from poverty, as we wanted to root what we say in the day-to-day concerns of business people who are under such pressure from head office for poor monthly sales figures that they have little time to worry about anything else. We hope we've shown that a better understanding of the economy and society in which they were operating would have helped the company to identify the emerging problems in its business model and its corporate image. We'll go on to argue that some of the tools of poverty analysis could then have helped them solve the problems by identifying how best to trade with local people.

But, from our other perspective of the person primarily interested in poverty reduction, why should we care about this? Isn't it this all a rather grubby matter of corporate strategy? Well, emerging evidence shows that the benefit to an economy of a foreign investor depends crucially on the number of ties it has with local companies and employees.

The mere presence of a self-contained expatriate enclave with no local suppliers has little effect on the productivity of local companies and plays no role in technology transfer. However, local companies that directly supply a multinational company (MNC) show significant increases in productivity. The benefits of foreign investment do not happen simply through a spillover effect in which local companies are incentivised to copy MNCs' technology from afar, but instead through transfer of a complex culture of behaviour, practices and technology that can be transmitted only through direct business relationships.⁴ The more direct business relationships there are, the more the local economy benefits.

⁴ For the basic argument on the economic benefits of direct business contact and the importance of tacit business knowledge, see Sanjaya Lall, *Competitiveness, Skills and*

“Linkages offer benefits to foreign affiliates and domestic suppliers, as well as to the economy in which they are forged as a whole. For foreign affiliates, local procurement can lower production costs in host economies with lower costs and allow greater specialization and flexibility, with better adaptation of technologies and products to local conditions. The presence of technologically advanced suppliers can provide affiliates with access to external technological and skill resources, feeding into their own innovative efforts. The direct effect of linkages on domestic suppliers is generally a rise in their output and employment. Linkages can also transmit knowledge and skills between the linked firms. A dense network of linkages can promote production efficiency, productivity growth, technological and managerial capabilities and market diversification for the firms involved. Finally, for a host economy as a whole, linkages can stimulate economic activity and, where local inputs substitute for imported ones, benefit the balance of payments. The strengthening of suppliers can in turn lead to spillovers to the rest of the host economy and contribute to a vibrant enterprise sector.”

Source: UN Conference on Trade and Development, *World Investment Report 2001: Promoting Linkages* (Geneva: United Nations Publications, 2001).

There's one more link we need to make before we can convincingly argue that curing our fast-moving consumer goods (FMCG) company's travails would also contribute to reducing poverty. We've talked about the impact of local linkages on economic growth, but does economic growth through foreign investment automatically reduce poverty or do the spoils just accrue to people who are already rich? This is a huge economic issue with plenty of conflicting evidence, and later we'll discuss how it can be in a company's interest to explicitly seek business relationships with people who are currently excluded from economic opportunity. But, for now, we think our for-

Technology (Cheltenham, UK: Edward Elgar, 2001). For specific research on direct business relationships versus generalised spillover effects, see: E.-G. Lim, *Determinants of, and the Relation between, Foreign Direct Investment and Growth: A Summary of the Recent Literature*, IMF Working Paper WP/01/175, November 2001; B. Smarzynska, *Does Foreign Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages* (Washington, DC: World Bank, September 2002); and M. Blomstrom and E. Wolff, 'Multinational Corporations and Productivity Convergence in Mexico', in W. Baumol, R. Nelson and E. Wolff (eds.), *Convergence of Productivity: Cross-national Studies and Historical Evidence* (Oxford: Oxford University Press, 1994): ch. 10.

mer economics tutor, Dr Marcel Fafchamps at Oxford University, has it about right:

After examining essentially all the explanations that have been proposed to account for differences in prosperity levels between countries and regions, I conclude that . . . the key to catching-up is to copy and absorb technological improvements invented elsewhere and to emulate advanced economies . . . I acknowledge that understanding what is responsible for growth is far from exhausting the larger question of economic development. For instance, it is often believed that growth exacerbates income inequalities and may even have perverse effects on certain vulnerable groups. To attain economic development, it is argued, one must achieve ‘not just growth’ in aggregate output but also its equitable distribution among various segments of society. Yet, while it is true that the redistribution of the new prosperity generated by growth is far from automatic, there must be something to redistribute before we can talk of redistributing anything. Over the last two decades, slow growth has been Africa’s main problem, not the unequal distribution of increases in prosperity, which have been small by most accounts.⁵

And, of course, we must remember our point that poverty is not only about level of income. Foreign companies can also offer autonomy, self-respect and security to the poor people they do business with. We will discuss all of this in the pages ahead.

“The UN’s Commission on the Private Sector and Development recently released a report that, a few hundred years after Adam Smith came to a similar conclusion, finally acknowledged that ‘the savings, investment and innovation that lead to development are undertaken largely by private individuals, corporations and communities.’

It concluded that developing countries’ governments must find better ways to foster private industry, especially the forgotten medium-sized enterprises. While obvious to many, it marked the culmination of a remarkable change of heart for the UN.

⁵ Marcel Fafchamps, ‘Engines of Growth and Africa’s Economic Performance’, July 2000; www.economics.ox.ac.uk/members/marcel.fafchamps/homepage/engines.pdf, 24 May 2006.

The report may also herald a new phase in development policy after the macro-economic reforms of the 1990s failed to reap the hoped-for results. 'A lot of developing country governments have spent the last ten years restructuring their public sectors: and suddenly are looking over the edge of the road,' says Mark Malloch Brown, head of the UN Development Programme.

'What's missing is jobs and growth. There is no sign of an emerging tax base to sustain services in the future. Why not? There's a remarkably thin middle.' The UNDP and others believe that multinationals can play a crucial role in fostering this 'middle', the small and medium enterprises, through support for local suppliers—with the added benefit that local people may show an interest in seeing them stick around."

Source: Financial Times, 24 June 2004.

“Development institutions and developing countries are beginning to recognise the basic structure of global development finance is probably not going to change. Public sector development assistance is between Dollars 50bn and Dollars 60bn; while the private sector offers between Dollars 200bn and Dollars 300bn in cross-border flows.”

Source: Joseph O'Keefe, Director of Corporate Relations, International Finance Corporation, quoted in the Financial Times, 24 June 2004.

Not corporate social responsibility

We dislike the term 'corporate social responsibility' (CSR) and we dislike the way it's developed as a separate discipline from business management. Our interest is in running the core business more profitably and in doing so playing a role in poverty alleviation.

It is not about apologising for your profits with glossy brochures or random acts of philanthropy in a programme managed by a group of specialists who are only tenuously connected to the core business. It isn't about meeting standards, achieving best practice or ticking a series of compliance boxes, but about innovating to find new ways of dealing with the poor in order to create new sources of competitive advantage. If you do all of this

properly, you'll want to keep it secret and not publicise it in indistinguishable corporate advertisements on CNN (Cable News Network).

“At the heart of the issue lies pressure from those NGOs to whom modern capitalism and profit-making are anathema. They have been remarkably successful at gaining the moral high ground (they are even dubbed a ‘civil society’) and in nurturing a distrust of business. This in turn has led business to distrust itself, producing a climate in which companies rush to embrace all aspects of the CSR agenda. The challenge now is to generate a new climate where business considers what the right elements to pursue under the heading of ‘good management’ are. If that cannot be achieved, more regulation will inevitably move the equation from good management, within the control of business, to pernicious and delusional CSR.”

Source: Letter from Patricia Peter, Institute of Directors, to *The Economist*, 5 February 2005.

Most importantly, we find phrases such as ‘responsibility’ and ‘licence to operate’ mildly sinister, as they imply that there is widespread consensus about the correct way for a company to behave and the only question is then whether the company will be good enough to comply. But every society has huge questions about the balance between economic growth and the environment, or the trade-offs between high standards for the employed and opportunity for the unemployed. It is not for self-appointed CSR experts to prejudge what decisions a society or a business should make about these complex questions. There are obviously basic standards of legality and ethics that we might all agree on and that we would want all companies to adhere to. But, after that, a company’s job is to get on with its business at some acceptable point on the spectrum—not try to converge on some single point that will make outsiders happy but may ultimately be damaging for its employees, customers or suppliers.

This is not to say that all the activities currently conducted under the heading of CSR are wrong and should be stopped, but simply that we should be much more rigorous about the business case and not be ashamed to talk about the core business and profits as the real sources of value to society.

As an example of why this matters, consider the case of Western oil companies and their fear of ‘asymmetric competition’. Oil companies spend most of their time worrying about the emergence of national oil companies from countries such as China, Russia and Saudi Arabia, which are increasingly seeking business in countries other than their home base. Unencum-

bered by pressure from a picky Western consumer base to pursue CSR and subject to much less regulation, they can save a fortune on social development and public affairs experts and get on with the simple job of digging up oil.

If all we do is impose unprofitable but nice CSR activities on the Western companies that are susceptible to consumer pressure but without a thought for their ability to create value, we will not only put the nice amenable companies out of business, we'll also be missing opportunities for economic growth. Our recommendations should be so clearly rooted in a business case that even those asymmetric competitors will want to adopt them. Whether we like it or not, in a globalising world our ability to impose CSR through Western consumer pressure and government regulation, as opposed to through the profit motive, is set to decline.

The following quotes about outsourcing of Western jobs to India indicate the slipperiness of corporate social responsibility as a guide to ethical and profitable decision-making and the danger for companies in embracing a loosely defined concept that can be turned against them.

“Campaigners are using the enormous buying power of the student market to put pressure on companies who ignore corporate social responsibility when they offshore jobs to India.

Finance union Amicus and the National Union of Students (NUS) are launching a national campaign to assert themselves as stakeholder organisations for companies using CSR as a public relations tool.

Amicus and NUS represent over four million individual members and both have traditions of strong campaigning on global ethics. Amicus is currently campaigning for Corporate Social Responsibility programmes, available to UK insurance and banking workers, to be extended to the Indian operations of UK companies. Indian workers suffer from dignity at work issues and are denied the right to union membership. They are often forced to change their accents and study *Eastenders* and UK football scores to mask the fact they are based in India . . . Corporate Social Responsibility is a major PR tool for any high street name you can think of. Our research is showing that they can expect their brands to be damaged if they make bad CSR decisions regarding their offshore workforce. *CSR fails when the public gets a whiff of hypocrisy.*”

Source: www.amicustheunion.org

It appears that CSR is an uncontroversial concept aimed at raising standards for everyone, albeit a double-edged tool for companies that don't get it exactly right. We might quibble at the seriousness of being 'forced' to watch *Eastenders* as a form of human rights abuse, and remind ourselves that presumably people work for these companies because it's better than the available alternatives. But Amicus's heart seems to be in the right place and they have Indian interests in mind.

Now let's look at another statement by Amicus on the decision of a specific company, Aviva, to outsource from the UK to India.

“ Dave Fleming, national officer of trade union Amicus, said: 'This deplorable announcement by Aviva is based purely on greed. It ignores Aviva's corporate social responsibility towards its UK employees and customers because company turnover is overwhelmingly UK-based'. He added: 'They are throwing thousands of families on to the scrap-heap for a 40 per cent saving that will not be passed on to their customers.'

Amicus called on the company to reverse the 'despicable' decision and said the union would back workers in 'whatever course of action' they choose to take.”

Source: www.amicustheunion.org

Perhaps CSR is actually about defending existing UK jobs at the expense of potential Indian ones.

“ India's \$1.5 billion outsourcing business illustrates how foreign investment and trade have benefited the country . . . By 2008, it is expected to attract one-third of all foreign direct investment and generate \$60 billion per year in exports, creating nearly a million new jobs in the process . . . Consumers benefit from lower prices, better quality and a wider selection of products and services. Domestic demand has also soared in response to these lower prices.

Without early investments by multinational companies, the outsourcing industry probably would never have emerged. Pioneers such as British Airways and General Electric were among the first to see the opportunity to move IT and other back-office operations to India. The success of these companies demonstrated to the world that the country was a credible offshoring destination. The multinationals also trained thousands of local

workers, many of whom transferred their skills to Indian companies that arose in response.”

Source: Diana Farrell and Adil S. Zainulbhai, 'A Richer Future for India', *McKinsey Quarterly*, 13 December 2004: 50-59.

Can the fuzzy notion of CSR tell you what's right and what's wrong in this case? Are British Airways, Aviva and General Electric the heroes or the villains in this story?

Perhaps even thinking in these moralistic terms is unhelpful. The companies don't seem to have done anything illegal or unethical, and nobody forces us to buy from them or work for them. They're increasing our range of options and experimenting with new ways of working, with the long-term benefits being difficult to measure or predict. The static idea of CSR, or a stakeholder analysis, would have immediately identified the disadvantages to the current UK workers long before the advantages to Indian workers, business people and consumers became measurable or obvious.

These thoughts on outsourcing to India provides some signposts to our overall approach. We doubt that the companies involved thought much about poverty alleviation but, if they'd explicitly included it in their brainstorming sessions, it might have sparked the outsourcing notion much sooner. They then had to take a risk to do something that now seems entirely obvious and had to learn to work with people that many global companies had long dismissed as too incompetent or poor to be of interest.

The outsourcing pioneers had to withstand criticism from people who were distorting the companies' own CSR vocabulary to protect their narrow interests. An explicit understanding of poverty would have allowed the companies to understand the benefits they were bringing to the country and to make a strong economic and ethical case that might well have shown up their critics as selfish and rather silly.

In short, an understanding of poverty might have helped them come up with the idea, implement it effectively and manage the risks. That is what this book is all about.

Follow-up questions

What opportunities to increase profits or cut costs would arise if you consciously sought to help the poor?

What do local people in government, the media and the grassroots think about your operations? Does it matter? Could you communicate with them differently?

What forms of global corporate reputation are important to you? Could you improve your reputation and defuse criticism if you understood and could communicate your impact on the poor?

How much do you know about how your host economy is changing? Do you have a migration plan to deal with these changes? What elements of your business model will be redundant in ten years' time? What competitive pressures will you be under? What are you doing to prepare?

Further reading

Empires of Profit: Commerce, Conquest and Corporate Responsibility by Daniel Litvin, published by Texere (London and New York) in 2003, gives cautionary tales from four centuries of attempts by Western companies to operate effectively abroad. Case studies include: Nike's attempts to practise corporate social responsibility in its factories in Asia; Shell's problems handling protests and attacks in Nigeria; and Rupert Murdoch's efforts to adapt to local politics and culture in China and India.

Inevitable Surprises: A Survival Guide for the 21st Century by Peter Schwartz, published in London by Free Press in 2003, outlines the political, social, economic and environmental changes that your company should be preparing for. Schwartz is the former head of Shell's famous scenario planning team and brings out the business implications of current trends.

'Localization: The Revolution in Consumer Markets', by Darrell Rigby and Vijay Vishwanath in *Harvard Business Review*, April 2006, makes the case for much greater localisation of consumer products. As of 24 April 2006 it was available for paid download at <http://harvardbusinessonline.hbsp.harvard.edu>.

For links to these resources and other relevant material, go to www.makepovertybusiness.com