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The End of Foreign Aid as We Know It: The Profitable Alleviation of Poverty in A Globalized Economy

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The question I want to ask ….is, if you should want to die first of starvation or pollution (Langewiesche 2000, 48)

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it…. The greatest ruffian, the most hardened violator of the laws of society, is not altogether without it. (Smith 1759; 1976, I.i.1.1)

Introduction

This chapter will defend the following thesis: poverty can be alleviated, if not *eradicated*, both locally and globally, but only if we change our narratives about global free enterprise and only if we rethink our mindsets regarding how poverty issues are most effectively addressed.

We will begin the chapter with an overview of the current state of the economic landscape with particular focus on – and criticism of – the failures of strategies employed since the middle of the last century. There is significant fresh thinking about poverty in the post 2000 literature, yet also considerable challenging ideas. Some of these support grand social engineering projects conducted by organizations such as the World Bank and the International Monetary Fund; others bring such projects into question. Many advocates defend microfinancing; others believe in the success of public-private partnerships. We will focus on one innovative mindset of poverty-reducing initiatives: the transfer of one segment of the responsibility for global poverty from traditional international development practices to pioneering, private, for-profit organizations. Some of these are bottom-up microlending ventures; others involve public-private initiatives. Our main attention will be on creative, profitable practices of global corporations that reduce global poverty. This transfer, we will argue, can produce appropriate and effective incentives, stakeholder interest maximization, economic growth and the potential for the reduction of both poverty and the unfulfilled needs of the abject poor.

The primary aim of this chapter is not to present a conceptual framework for *the* ideal way to alleviate poverty. Our concern is not to arrive at any single theory of economic development for poverty eradication or to assign particular roles or responsibilities to the various institutions that comprise the social whole. Our concern instead is to identify the ways in which commerce may contribute to poverty alleviation that can be both profitable and sustainable. The argument emerges from a basic assumption: commerce makes or is capable of making necessary and unique contributions to the alleviation of poverty. In fact, its sustainability derives in part from, and depends on, its profitability. While there are critiques of the Bottom of the Pyramid (BoP) arguments that we will address, it is our contention that alleviating poverty is a growth opportunity for the poor and for business.

We will exemplify the power of the for-profit model through case studies based on actual experiences. We conclude that, while for-profit sector initiatives are only one of several viable models for poverty reduction, it is one that challenges both traditional classical economic models and the view that *only* private charitable or governmental initiatives are capable of addressing poverty.

The Global Economic Pyramid

From a purely economic perspective, the world appears to form a pyramid: four of the world's 6.6 billion people live on less than $2 a day. Prahalad defines the economic pyramid in *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits* (2005). Following the definitions of the World Bank, Sachs uses the term "moderate poverty" to refer to those with incomes between $1 per day and $ 2 per day. He uses the term "extreme poverty" to refer to those with incomes of less than $1 per day (Sachs 2005, 20). We will use Prahalad's term "bottom of the pyramid" to encompass both moderate and extreme poverty. A mid-level is comprised of 1-5 to 2 billion people and, in relative terms, a small top tier of 75 million world inhabitants comprise a privileged group of elite decision-makers. (See Figure 1.) Astonishing is the imbalance when one considers that the top 1 percent of the world's population represents 40 percent of the world's total net worth while the entire bottom half of the world only represents 1.1 percent of the world's total net worth (Davies 2006).

-- INSERT FIGURE 1 ABOUT HERE --

Despite the sharp economic disparity in the global economic pyramid, Tom Friedman argues that a full half of the world is experiencing economic development and extreme poverty is shrinking (Friedman 2005). There is accordingly strong evidence to suggest the pyramid is flattening into a diamond (*The Economist* 2004). India and China are both excellent examples of this flattening, pyramid-to-diamond trend that Friedman describes (Friedman 2005). In fact, much of his evidence comes from those two countries.

Even though there is a flattening trend, one sixth of humanity is not on the economic ladder at all. In sub-Saharan Africa extreme poverty is rising in absolute numbers and as a share of the population (Sachs 2005, 24). Beyond the $1 a day metric, extreme poverty means that households cannot meet the basic demands of survival; from hunger to education, health care to employment, savings to child care, one's existence is radically different at the bottom compared to the top. Malawi, for example, is a "perfect storm" of climactic disaster, impoverishment and health concerns according to Carol Bellamy of UNICEF (Sachs 2005, 10). Malawi is not a part of the flattening trend that Friedman describes. A child born in Malawi is expected to live 39.8 years, which is a full 37 years shorter than a child born in the United States and less than half as long as a child born in Japan (United Nations Development Programme 2006). Whatever the metric, it is clear that there are regions of the world that do not enjoy the fruits of increased global prosperity.

A good deal of economic development, according to Friedman, has to do with the globalization as well as the expansion of commerce. Indeed, "[g]lobalization has now shifted into warp drive…" (Wright, 2005). That is, free enterprise has not only infiltrated most of the corners of the earth, but jobs, ideas, goods and services, like the internet, are now global. If this well-documented conclusion is even partly accurate, there is no longer an "over there" there. Global organizations are embedded in a complex economic and changing set of global political, economic and cultural networks. What we once called "externalities" are part of an interrelated, networked global system in which businesses operate. A company can no longer "outsource" environmental degradation or dumping in less developed countries (even with the permission of that country) without that action affecting the global environment and receiving media attention. That conclusion is widely understood and accepted today. But globalization also means that one cannot outsource underpaid labor, product or service quality, issues of diversity, disregard of cultural or religious differences, or even corporate social responsibilities. If, for example, the clothes we wear are made under subhuman labor conditions *as defined in the country of origin*, one cannot dismiss that as someone else's problem, even if the factory is locally owned and operated. It is ours. Moreover, cultural differences are not merely opportunity costs, even when one is operating in remote and poor regions. These differences have to do with human relationships, with cultural conflicts as well as consensus, and one cannot ignore them (Werhane 2007).

This globalization is dramatically illustrated by the ways in which regional phenomena of extreme poverty impact the rest of the pyramid. Because the world is increasingly interdependent, the problems caused by extreme poverty are no longer merely regional concerns. From Avian flu to global climate change, the world is not the static, boundless expanse it once appeared to be. There are several significant challenges that extreme poverty poses to the global economy: security, population growth and environmental degradation. Regional economic failure often leads to state failure, which consequently poses a threat to national and economic security. The social problems emerging from failed states, such as ethnic war, genocide, terrorism, mass migration, refugee movements, drug trafficking and disease are anything but regional. Second, the global population is expected to plateau at 9.1 billion around the year 2050 (Gore 2006, 217). Much of the population growth occurs at the base of the pyramid, since birth rates are inversely related to living standards and levels of education (Hart 2005, 32). Third, an increasingly urban population creates significant concerns regarding environmental degradation and the scarcity of resources. A sober assessment of today's interdependent global economy reveals an important lesson: extreme poverty anywhere is a threat to prosperity everywhere.

Given this bleak scenario and grounded in the *UN Universal Declaration of Human Rights,* the United Nations has proposed as one of its eight Millennium goals a 50 percent reduction in poverty by 2015 (United Nations 2007). The justification for the Declaration is that human beings have intrinsic dignity simply because they are human. Thus, as human beings we all have claims to basic rights, equal universal rights that also incur reciprocal responsibilities to respect the rights of others. So if, for example, we affirm a right to life, this claim has standing only if it is a universal declaration for which we have the responsibility to protect for others.

This Millennium goal is also grounded in utility. From a utilitarian perspective, improving well-being or, at a minimum, reducing suffering is the basic end of morality and moral action. Accordingly, it is morally wrong to refrain from undertaking projects to reduce poverty. Moreover, as we have just pointed out, poverty is no longer a regional problem. Poverty, and its accompanying disease and environmental degradation, affect the whole planet. Thus, poverty reduction is necessary to reduce suffering and harm globally as well as locally.

But how does one operationalize this Millennium ideal? Why haven't wealthy nations, non-government organizations and profitable global corporations done more to reduce poverty, given these strong moral arguments? There are myriad reasons, as we shall argue. Our mental models often wrongly construe the nature of poverty and the abilities of the poor. Our conceptual schemes conclude that poverty can be addressed only through elaborate and complicated social engineering projects without imagining other alternatives. Or, we sometimes too narrowly define roles and responsibilities for social evils, often putting the burden on local governments that then exclude innovative options for reducing poverty.

Poverty, Mental Models and Bias

The Jesuit philosopher Bernard Lonergan spent much of his career examining what he termed 'insight,' a phenomenon of human understanding. Considering various historical descriptions of human understanding, he found that insight occurs in response to inquiry. It consists in "a grasp of intelligible unity or relation in the data," and is the "active ground whence proceed conception, definition, hypothesis, theory, system" (Lonergan 1971, 212-213). Insight only emerges from critical and sustained attention to the relevant data. The quest for insight is often dogged by various forms of bias that dismiss relevant data and subsequent inquiry. Like a malignant form of cancer, biases are not merely impediments to the individual, but can also become conditions leading to social decline or even collapse. Biases can be pervasive, destructive and oppressive.

Individual bias can lead to group bias, expressed in various socially constructed mental models. Although the term is not always clearly defined, the term 'mental model' or 'mind set' connotes the idea that human beings have mental representations, cognitive frames, or mental pictures of their experiences, representations that model the stimuli or data with which they are interacting, and these are frameworks that set up parameters through which experience or a certain set of experiences, is organized or filtered (Senge 1990, ch. 10; Gentner and Whitley 1997, 210-11; Gorman 1992; Werhane 1999). Mental models function as selective mechanisms and filters for dealing with experience. In focusing, framing, organizing and ordering what we experience, mental models bracket and leave out data, and emotional and motivational foci taint or color experience. These points of view or mental models are socially learned; they are incomplete, and sometimes distorted, narrow, single-framed. Nevertheless, because schema we employ are socially learned and altered through religion, socialization, culture, educational upbringing and other experiences, they are shared and often turn into culturally biased ways of perceiving, organizing and learning (Johnson 1993; Werhane 1999).

Two particular kinds of mental models are helpful when examining the roots of extreme poverty: what Lonergan labels "the bias of conceptualism" and "the bias of common sense." One of the greatest dangers of addressing the problems of extreme poverty is the bias of conceptualism: the refusal to modify, adjust or abandon abstract concepts in light of emerging insights or failures of policy. Conceptualism is "a strong affirmation of concepts, and a skeptical disregard of insights," which leads to "anti-historical immobilism" and "excessive abstractness" (Morelli & Morelli 1997, 425). For example, the concept that only large international organizations can solve poverty problems can lead to distortions in outcomes and exclude new possibilities. If William Easterly is correct (2006), since the 1950's industrial revolution, developed countries have spent approximately $2.3 trillion to aid to less developed countries (LDCs). Yet, notwithstanding these historically unsurpassed expenditures, the results are mixed, at best. Foreign aid in the form of the Marshall Plan transformed Europe after World War II; and U.S. aid to Japan was equally successful. IMF and World Bank efforts have been effective in China, Japan and Korea, and in other parts of the world. But, in Africa, parts of the sub-continent of India, Pakistan and Bangladesh, in particular, foreign aid has done little to change those economic landscapes and has accomplished virtually nothing in terms of poverty reduction in those countries. Why, if these results are so dubious can we not shake loose of our mental model that foreign aid or charity is the *only* answers to poverty reduction? It is perhaps because we are caught in believing in an abstract, conceptual framework that this single idea can solve all poverty problems, despite data to the contrary.

Another expression of conceptualism is a fixed social theory that assigns exact roles and responsibilities to various institutions that, taken together, supposedly comprise the common good. Narrow or rigidly defined roles often dismiss the variety of ways that different cultures respond to the demands of a flourishing society. One of these is the failure to recognize the strengths and intelligence of the poor. This failure emerges from what Lonergan would call a bias of common sense, that is, the refusal to get beyond the familiar and exclusive world of the way things appear to us (Morelli & Morelli 1997, 97). C.K. Prahalad finds four pervasive and problematic "biases" or assumptions about poverty: (1) the poor lack resources, (2) aid from rich countries to the government of poor countries is the best way to reduce poverty, (3) aid skewed to social goods such as education and health care are best for economic development, and (4) business has little to offer poverty reduction (Prahalad 2005, 78). William Easterly makes a strong case that it was these assumptions coupled with a paternalistic residue of the colonial mentality--a contextually-based bias--that is largely responsible for many of the failed, development-era social engineering projects (Easterly 2006, 23-26). These biased assumptions are rooted in the faulty view that the poor are not intelligent, that they need to be taken care of, and that they have little capacity for initiative, innovation, and self-development.

Insights for Poverty Alleviation

To shake loose from our learned and traditional mental models, there are at least four insights that are essential for new thinking about successful poverty alleviation: (1) the poor do not lack resources, (2) poverty alleviation is an evolving, dynamic process, (3) poverty is often the result of patterns of exclusion, and (4) there are many feasible approaches to poverty reduction that have been and can be created through commerce.

In support of the first insight, Albina Ruiz's project, *Ciudad Saludable*, demonstrates the profound creativity and initiative to be found among the poor. Using garbage to create jobs and to clean the local environment in Lima, Peru, Albina Ruiz is an entrepreneur in the truest sense of the term. Garbage has become an increasing problem in Lima, where 1.6 million people produce nearly 600 metric tons of garbage daily. Since the municipal authorities can process only half that much, garbage lines the streets, fills vacant lots, and clogs rivers, creating a significant health menace. Poor families scavenge through the trash to eek out a living. Trained in industrial engineering, Albina began to organize the community and to create a positive alternative, knowing that the municipal authorities were unable or unwilling to address the garbage problem. In collaboration with community members, she encouraged micro-entrepreneurs to collect and process the garbage. With a collection fee of around $1.50, a fee many were eager to pay for the service, *Ciudad Saludable* converts garbage into compost and other useful materials, creating jobs in the process. Her story was featured on a PBS documentary about social entrepreneurs titled "The New Heroes" (Cohen 2007). Albina Ruiz's story illustrates two important messages in poverty alleviation: successful solutions can come from the poor themselves and government is not always the best institution for addressing public goods like garbage disposal (Ashoka 2007). Ruiz's success blurs the lines between public and private goods and challenges rigidly defined roles and responsibilities.

With regard to the second insight, poverty alleviation (or the economic development that leads to that consequence) can be an evolving, dynamic, bottom-up process that requires frequent evaluation, modification and adjustment. An example of bottom-up thinking is demonstrated by KickStart's *MoneyMaker irrigation pump* that has helped many small farmers transition from subsistence farming into commercial enterprise (Kickstart 2007). The small, affordable pumps make impressive contributions to poverty alleviation. Felix Mururi, for example, is married with three children and lives in Kenya. He left his rural home to look for work in the slums of Nairobi to little avail, earning $40 month. He discovered in the city that he could make more money as a farmer and decided to rent a plot of land and save money for the $33 manually operated water pump. The increased yield from his single plot was so profitable that Felix and his family now rent six plots, making $580 profit on just two of them. They plan to rent and irrigate another acre and eventually buy a house (Fisher 2007). For Felix Mururi, increased access to water did not come from the public development of infrastructure but from a $33 pump.

Third, poverty is often the result of systematic patterns of exclusion. Hernando de Soto illustrates how pervasive and systematic is the nature of exclusion in *The Mystery of Capital* (2000). While the value of savings among the poor is forty times greater than all foreign aid received worldwide since 1945, it is still unable to morph into living capital, the force that raises productivity and creates wealth. He contends that capital is dead in many regions of the world, in part, because of the patterns of exclusion buried deep within the formal systems of property rights. Lack of legal title and extensive bureaucracy prevent the vibrant informal sector from joining its formal, visible counter-part. The large, extralegal sectors of Brazilian cities called *favelas* are filled with "squatters" who participate in economies not recognized by the law. Purchasing land legally in a country like the Philippines, for example, can take thirteen to twenty-five years. In the West, formal recognition of property title is a key condition for access to collateral. Without access to a timely, transparent, and structured system, the poor do not participate in the formal system that recognizes property rights. As a result, they are more vulnerable and more susceptible to exploitation.

Muhammad Yunus found the same problem with the poor women of Jobra, Bangladesh; they were systematically excluded from the formal banking sector and were unable to secure even the smallest loans to help with their micro-businesses (Yunus, 2003). Hernando de Soto's and Muhammad Yunus's studies illustrate that poverty is often the result of systematic patterns of exclusion, not a lack of resources or creativity or initiative. Building on these insights concerning poverty alleviation, we now turn to the role of commerce.

A Fourth Insight: Profits and Poverty Reduction at the Base of the Pyramid

For some, profit is a suspicious partner in poverty alleviation efforts. The socially conscious are often skeptical of business interests, considering well-publicized patterns of exploitation. Even from a business perspective, poverty alleviation is often seen as tangential to core interests, which raises a perhaps counterintuitive question about the potential of the market to respond to these fundamental human needs.

Concerning the latter, Stuart Hart makes a strong argument that future economic growth will not come from the top of the pyramid but from the base, considering the demographic trend in population growth. Capitalism is at a crossroads, he believes, because the top of the market is saturated and current patterns of growth and resource exploitation are unsustainable (Hart 2005). The common bias that the bottom of the pyramid offers no commercial opportunities can result in missed opportunities, and can even have potentially devastating effects.

C.K. Prahalad believes there is *growth opportunity* at the bottom of the pyramid when the poor are seen as brand-conscious consumers. Seeing the poor as the consumers they actually are can be both profitable for a business and socially transformative. Both Prahalad and Hart are convinced that the bottom of the pyramid is the next wave of growth. However, viewing the poor as a new market for business raises concerns for some non-profit organizations who see profitability as exploitation rather than a means for poverty alleviation, especially in BoP countries. Moreover, one might ask, why would a global corporation place any efforts on poverty alleviation if it is already providing jobs, goods and/or services to the global economy? What is the extent of its responsibilities? Might a preoccupation with poverty reduction distract companies from their main purposes?

In order to appropriately explore, evaluate and balance a corporation's profit motive with its arguable obligations to a social contract, it is critical to understand the nature of the responsibilities it maintains. At its core, these obligations are rooted in the dichotomy between stockholder theory and stakeholder theory, dating to the 1960s when stakeholder theory was developed as a model of applied corporate responsibility and as a focus for socially sustainable enterprise. (Freeman 1984; Goodpaster 1991; Carroll and Nasi 1997.) In 1984, R. Edward Freeman proposed a stakeholder theory of the modern corporation (1984; 1994; 1999; 2001) which takes as a starting point the premise that managerial capitalism pursues market transactions and customers in an unconstrained manner. Freeman acknowledges the property rights of shareholding classes, which he generalizes to be part of the wider stakeholder population with a special claim on the company; he then attributes shareholder-type rights to stakeholders, that is, to those groups or individuals who affect or are affected by, and/or whose rights are violated or respected by, corporate activity. The theory suggests that corporations have fiduciary obligations to "any individual (or group) that may claim to be affected by the achievement of an organization's objectives" (Freeman 2001, 57). Stakeholders may be defined, *inter alia*, "narrowly" or "broadly" (Freeman 2001, 59)--a narrow definition might consist of primary stakeholders, those who are "vital to the survival of a company" (Freeman 2001, 59) (such as shareholders, employees, customers and suppliers) and wider definition would encompass "any group who can affect or is affected by the corporation" (Freeman 2001, 60-62).

Considering the wider definition in the context of global poverty, the management of an industrial corporation may be subjected to the claims of an almost unlimited number of interests (Jensen 2001; Campbell, et al. 2002); some of which will be mutually incompatible (Child and Marcoux 1999; Beauchamp and Bowie 2001), and few of which will have any direct contractual or commercial basis (Hendry 2001; Marcoux 2003; Phillips 2003). While the interests of some stakeholder groups (shareholders, employees and government) may be covered by regulation, many stakeholder claims will be implicitly moral rather than legal (Adams 2002). But it seems unlikely that it can be feasible for management to deal with and meet all these potentially incompatible claims (Unerman and Bennett 2004). Thus, most stakeholder theories limit their claims to a narrow definition of stakeholders.

For Milton Friedman, that which he calls the "socialist concept" of stakeholder theory is a dangerous one, which embraces a "fundamentally subversive doctrine" approaching "corporate fraud" (Friedman 1962, 133). Milton Friedman's *New York Times* article, "The Social Responsibility of Business is to Increase its Profits," is perhaps best known as an argument for a purely *profit-based* social responsibility of business. In that article, he notably argues that "there is only one social responsibility of business--to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman 1971).

From a utilitarian point of view Friedman and Freeman are not diametrically opposed. Friedman does not ignore ethical responsibility in his analysis; he is merely suggesting that decision-makers are acting ethically if they follow their firm's self-interests. By pursuing these interests, which Friedman identifies with profits, a business manager functions to allocate resources to their most efficient uses. Consumers who most value a resource will be willing to pay the most for it, thereby profit is the measure of optimal allocation of resources. Over time, the pursuit of profit will entail continuous work towards the optimal satisfaction of consumer demand, which on one interpretation of utilitarianism, is a good. It should be noted, however, that Freeman and many other stakeholder theorists are not merely utilitarians and claim that, in addition to the utility of stakeholder claims, stakeholders, as individuals and groups of individuals, are subject to rights claims as well. (Freeman 1984; Freeman and McVea 2005)

It is the definition of corporate social responsibility (CSR), not the stakeholder-stockholder debate that gives rise to the duality, rather than a one-dimensional analysis of the "do-gooders" versus the "profit-maximizers." The duality depends on whether CSR is defined as those socially or ecologically accountable activities designed to meet the needs of a firm's myriad stakeholders (Miles and Covin 2000) (and aligned with a utilitarian model described earlier) or refers to activities that go beyond meeting the needs of particular and measurable stakeholders to the interests of society as a whole, which might be perhaps less measurable in terms of bottom line impact, but instead entails obligations to have a positive impact on society (Perrault and McCarthy 2002).

Difficulties with this debate rest upon two simple but narrowly framed mental models: (1) that profitability is the sole or primary aim of commerce, and (2) that stakeholder theory, in its original formulation, is adequate for describing global corporate activities. Concerning the first preoccupation, one will recall the Collins and Porras 1994 landmark study of successful companies, defined by long-term returns on investment and stock price. From their study of numbers of the largest U. S. companies James Collins and Jerry Porras conclude,

> Contrary to business school doctrine, "maximizing shareholder wealth" or "profit maximization" has not been the dominant driving force or primary objective through the history of visionary companies. Visionary companies pursue a cluster of objectives, of which making money is only one—and not necessarily the primary one. Yes they seek profits, but they are equally guided by a core ideology-core values and a sense of purpose beyond just

> making money. Yet paradoxically, the visionary companies make more money that the more purely profit-driven comparison companies (Collins and Porras 1994, 6).

Thus, even if many managers are preoccupied with shareholder wealth, according to Collins and Porras, they should not be, if their aim is to survive and do well in the long-term.

Second, focusing now on stakeholder theory, the standard depiction of stakeholder relationships as wheel-and-spoke focuses our attention on the center--on the organization, despite claims that companies have equal reciprocal responsibilities between themselves and their stakeholders. Thus, our focus is skewed toward the corporation as the center of attention despite claims to the contrary. In a globalized flat economy, such a depiction fails to capture the complex network of relationships within which global companies operate. (See figure 2.) Indeed, what is often missing in global corporate thinking is such a morally imaginative networked systemic approach.

- - INSERT FIGURE 2 ABOUT HERE --

As Susan Wolf explained some time ago,

> [a] truly systemic view … considers how a set of individuals, institutions and processes operates in a system involving a complex network of interrelationships, an array of individual and institutional actors with conflicting interests and goals, and a number of feedback loops (Wolf 1999, 1675).

A systems approach recognizes that, in a flat world, almost everything we can experience or think about is in a network of interrelationships such that each element of a particular set of interrelationships affects some other components of that set and the system itself; and almost no phenomena can be studied in isolation from other relationships with at least some other phenomenon. Global corporations are mezzo-systems embedded in many larger political, economic, legal and cultural systems. These are all examples of "complex adaptive systems," a term used to describe open interactive systems that are able to change themselves and affect change through their interactions with other systems and, as a result, are sometimes unpredictable (Plsek 2001). In studying global corporate governance, if one focuses simply on a corporation's organizational structure, or merely on its mission statement or its employees or customers, one obscures if not distorts the interconnections and interrelationships that characterize and affect that organization and its internal and external relationships. (Emanuel 2000; Werhane 2002)

Today, we commonly use a systems approach in talking about global corporate responsibility to the ecosystem, and we are expanding that responsibility to the human elements in the ecosystem in relation to employment through a concerted effort to critique companies that use sweatshop labor. But we have thought less about the responsibilities of companies to improve the conditions of those who are not recognized as their primary stakeholders. This is shortsighted for at least four reasons. First, in a global flat world, the manner in which one operates within a community affects that community, positively or negatively. Second, there are enormous untapped markets at the bottom of the pyramid, as C. K. Prahalad and Stuart Hart have argued. Third, if there is a positive value to economic well-being (and, surely, living in abject poverty, however culturally defined, is a social evil) and value in economic growth to achieve well-being, the potential market at the BoP is huge. If companies are able to provide affordable goods and entrepreneurial opportunities to this sector, both companies and these stakeholders can thereby prosper. There is an important caveat to this claim however. Unless companies also provide living-wage work in these sectors, there will be no new market development, since there will be no increase in customer purchasing power. Creating new markets *and* new consumers, however, should be sufficient motivation for global companies trying to survive, grow and expand their core interests in what they do best. Fourth, if companies recognize the value in the third reason articulated above, they will be encouraged to remain vested in these stakeholders from a long-term perspective and are, therefore, both appropriate and effective constituents with which to partner in order to create *sustainable* solutions to the challenges presented by global poverty. Thus, corporate and community interests can come together. This is not a mandate for more corporate philanthropy, but rather an imaginative coming together of corporate interests: their core ideologies linked to their core competencies while serving unanswered community needs.

Global Corporate Initiatives: Commerce and Poverty

There are at least three forms of market-tested commercial initiatives that can successfully address poverty without converting to philanthropy. The first model is through operations of global corporations aimed at economic growth and poverty reduction, with particular foci on the developing BoP world. The second model is through bottom-up initiatives such as KickStart and microlending projects. The third initiative involved technology in the creation of partnerships between global companies and those at the bottom of the population pyramid.

There are a number of corporate initiatives focusing on profitable ventures with economically poor populations. For example, lack of access to clean water in many regions of sub-Saharan Africa is one of the greatest challenges to socio-economic development. Safe drinking water is in great demand for more than 1 billion people at the bottom of the pyramid. The World Health Organization estimates that 2.2 million children die each year because of diarrheal diseases, which could easily be prevented by access to safe drinking water (P&G

Health Sciences Institute 2007a). While large-scale infrastructure projects may be important in the long-term, the demand for immediate relief persists. Since it is the small, home-based water purification systems that have drastically cut deaths caused by diarrhea, Procter & Gamble (P&G) designed *PuR*, a cost-effective water purification system that removes dirt and disease-causing pathogens from drinking water. Although P&G provides *PuR* at cost through its Children's Safe Drinking Water philanthropic outreach and uses the non-profit Population Services International for marketing, the local distributors must make a profit for sustainability and access. As local distributors have learned, consumers did not value free give-aways (P&G Health Sciences Institute 2007b). P&G's involvement is not merely altruistic; with a positive brand image, new products for a billion potential consumers, and the proven high-volume, low-margin business model, P&G stands to increase its margins considerably.

Profitable ventures into the BoP do not just benefit corporations through new market opportunities but may have significant social benefits as well. In India there are an estimated 660,000 diarrhea-related deaths per year, a problem with known preventative measures as simple as hygienic education and access to anti-bacterial soap; however, the problem persists despite the work of NGOs, development agencies, and governments because of some daunting challenges. The problem has been seen historically as a public health issue falling under the domain of large-scale, expensive infrastructure projects (Prahalad 2005, 207-209). Even if one were to view the problem strictly from a public health perspective, that is, with the sole desire of maximizing *hygienic education* and *access to soap*, what is the best way to reach those goals?

Hindustan Lever's experience in the BoP suggests that distribution and hygienic education are challenges that at least some companies are equipped to address. First, however, it is important to give a brief history of why Hindustan Lever (HLL) ventured into the BoP to begin with. Karsanbhai Patel's Nirma detergent, a rising competitor of HLL's in the detergent market, had considerable success in selling to rural Indians. Once HLL had established the fact that rural Indians had the ability to buy goods, the company decided to go the extra distance to bring their goods to this new, unusual but sizeable, client group. With a clearer understanding of the market potential and a growing concern over a competitor's success, HLL still had significant issues to address to successfully venture into the BoP market. To win customers from Nirma, HLL had to develop a high quality product with good value and create brand loyalty. With the new market in mind, HLL developed a non-toxic, durable, highly functional, easily disposable product at a low unit cost. The new product for the new market still faced the daunting challenge of distribution (Ahmad et al. 2004).

While HLL had an advanced distribution system in urban areas, it could not replicate them in rural areas. The sheer vastness of the task had discouraged many other MNCs from entering these areas, a challenge facing NGOs, developments, and government as well. In response to the particular challenges of reaching rural India, HLL set up a new distribution system based on population size and accessibility. Beginning with those villages near all-weather roads with a population of more than 2000, HLL eventually developed Project Streamline to reach remote villages. Project Streamline used a network of local distributors (thus providing new job opportunities) to supply sub-stockists who, in turn, were responsible for transporting goods into the countryside for resale. By tractor or bullock cart, sub-stockists helped extend HLL's reach from 25 percent in 1995 to 37 percent in 1998 and hoped to reach 50 percent by 2003 (Hindustan Lever Limited 2005). Another innovative practice, Project Shakti, sold company products to rural women who in turn resold them at a profit. While companies like

Amway and Avon had pioneered similar strategies, HLL was the first to apply it in remote regions (Ahmad, Mead, Werhane & Gorman, 2004b).

In addition to logistical problems, HLL also had to get its message to regions with poor media infrastructure and low levels of literacy. HLL used Ogilvy Outreach, the nonprofit arm of Ogilvy & Mather (Ahmad, Mead, Werhane & Gorman, 2004a). With the purpose of reaching those living in "media-dark" regions, Ogilvy Outreach offered some dynamic and creative solutions such as using street performers with entertaining jingles, traveling cinema vans, and various other performances at cattle and trade fairs. HLL and Ogilvy Outreach hired magicians, dances, and actors to connect the brand and the residents, altering their scripts to accommodate differing dialects, religions, and education levels. Spanning six months and reaching over 2,000 bazaars, Ogilvy successfully ventured into media-dark regions, areas previously seen as inaccessible (Ahmad, Mead, Werhane & Gorman, 2004b).

HLL's case also reveals the close linkage between the public health interest in increased hygienic education, job opportunities, and the business interests of distribution, branding, and product education. One aim of Ogilvy Outreach was to ensure that when consumers purchased and used HLL's product, they were reminded of its popular value. In order to create Brand loyalty and a sense of "missing out on something good," HLL marketing representatives used ultraviolet light sensors to scan villagers' hands, revealing the invisible germs present on unwashed hands that appeared to be clean. (Ahmad, Mead, Werhane & Gorman, 2004b).

From a public health perspective alone, that is, with the sole desire of maximizing *hygienic education* and *access to soap*, HLL's experience shows that for-profits make unique contributions to logistical challenges that others are not equipped to address. HLL's experience shows that the poor are brand conscious consumers and need to be seen as such in order to best address community needs. HLL also created new jobs in these markets, thus giving economic empowerment to people not always considered as employable.

Subsidiarity: From Below Upwards

The second model involves rethinking top-down directives or grand schemes for poverty reduction. One of the most troublesome biases concerning poverty alleviation is “top-down” thinking where sweeping ideas and elaborate projects dismiss the less obvious lessons or messages that often drive economic development. Contrary to top-down thinking is the notion of *subsidiarity*, which comes from the Latin word meaning “to assist.” It is an important principle for human communities, including business organizations (Melé 2004). The relative success of various initiatives in the last decade attests to the importance of bottom-up thinking, such as the KickStart irrigation pump, discussed earlier in the chapter.

An illustration of the positive impact of subsidiarity is that the growth of small business and vibrant commercial infrastructure can have a cascading effect. The success of Siongiroi Dairy in Kenya suggests that small business development is a great place for development experts to focus attention. Started in 1998 with the help of TechnoServe, Heifer Project International, and American Breeders Service, the Siongiroi Dairy buys 11,000 liters of milk per day from 2,000 local dairy farmers. Because of the Dairy Plant, farmers have an assured market for their milk and receive a fair price in a timely fashion. As a result, over 100 new businesses have emerged, including transportation services, veterinary supply stores, clothing shops, new restaurants, food stalls, butcher shops, hardware stores, and mechanic shops. Siongiroi villagers used to travel many miles to get to the market, now it comes to them. William Yegor’s new milk transportation business is but one example of the cascading effect. Since many farmers do not have their own means of transportation, Yegor developed Temik Milk Transportation. With a net profit of $1,000 a month, he now employs six people. As he explains, "I am opening up a new office to better coordinate my business. The future looks good for my family, thanks to the Dairy Plant." Even more impressive are the secondary social benefits on housing, healthcare, and education: the town now has three health clinics, two pharmacies, two new schools, and three new bookstores. Edward Manani, a dairy employee, attributes a great portion of the new development in Siongiroi to the Dairy Plant itself. In the words of Joseph Ubwei, "There are so many ways I have benefited from this dairy plant. I have children in secondary and primary school and it has helped me pay their school fees and their activity fees" (Technoserve 2007).

Technology Interactions Between the Top and the Bottom of the Pyramid

A persistent and stubborn bias concerning the poor is that they do not need, will not appreciate and cannot afford technology. C.K. Prahalad argues the opposite: not only do consumers readily accept advanced technology, they use it in transformative ways. Take, for example, the impact of ITC's e-Choupal on rural farmers in India. By placing a computer with an internet connection in a *choupal*, a traditional village gathering place, ITC gives farmers access to many different *mandis* (government mandated marketplaces). Previously, farmers went to a single *mandi* where commission agents took full advantage of their leverage at the expense of farmers. With greater parity in access to information, social standing, and choice, rural farmers have begun to level the playing field (Prahalad 2005, 319-357).

From the internet to cell phones, access to technology can be socially transformative. Vodacom has discovered that its community cell phones are an integral part of its core business strategy. Previous fixed-line efforts to establish service were not very effective given the expense of infrastructure development and maintenance. Vodacom's efforts to establish service and be South Africa's largest provider, however, have been very successful. Owned and operated by entrepreneurs, the Community Services Phone shops use refurbished shipping containers as phone shops, which provide service to areas of South Africa for the first time. Increased access to a cell phone is no frivolous luxury: from job hunting in distant cities to seeking medical advice, increased communication yields important social benefits. (Reck and Wood 2003). Not only do local entrepreneurs improve their income, but consumers save time and money by not having to travel to use a phone. Nobel Prize winner Muhammad Yunus may have started his Grameen project with a village bank lending money, but it has evolved into Grameen Telecom, Grameen Shakti (technical solutions for alternative energy), and Grameen Cybernet (Yunus 2003, 226-227). These examples also illustrate that poor, even illiterate people are NOT technologically challenged. They just need opportunities.

Critiques from the Top of the Pyramid

Challenging ideas always attract critics and the Bottom of the Pyramid propositions are no different. The evolution of strong linkage with the business community reaches back to the publication of two articles, "The Fortune at the Bottom of the Pyramid" (Prahalad and Hart 2002) and "Serve the World's Poor, Profitably" (Prahalad and Hammond 2002). Aneel Karnani is perhaps the most significant critic of BoP propositions, which he calls a mirage (2006). His critique merits careful attention, among others, because it demonstrates the kind of problematic thinking that confronts the BoP proposition most directly. Karnani argues the BoP proposition is "a harmless illusion" at best and a "dangerous delusion" at worst. His critiques concern (1) the size of the BoP market, (2) the view of the poor as consumer, (3) the type of business that is most likely to benefit, and (4) the exploitative nature of BoP engagement. More recently, others have offered a fifth critique concerning the relative lack of global corporate involvement to date represents the most current.

The Size of the Market

Karnani's first set of critiques concern the size of the BoP market and its relative opportunity. He believes the BoP proposition is guilty of false advertising: it is neither as big nor as profitable as Prahalad contends. Karnani believes the BoP market is around $1.2 trillion (2.7 billion poor times $1.25 per day), closer to the World Bank's estimate in 2005 (2006, 5). Prahalad contends the market is $13 trillion (2005, 21). Karnani also argues that the "fortune and glory at the bottom of the pyramid are a mirage" because exaggerations of *size* are also exaggerations of *opportunity* for business (2006, 29).

The different estimates of the relative size of the BoP market are understandable given the debates in the field of economics about how best to measure poverty and the nature of the economic pyramid. (See, e.g., *The Economist* 2004 or Friedman 2005.) What Karnani's critique fails to recognize is that the Purchasing Power Parity metric is a relatively adequate tool, not the razor-sharp one he expects it to be. It is highly unlikely that there is soon to be a consensus among economists about the best metric for measuring poverty or the exact shape of the economic pyramid. The difference in scientific opinion only proves that consensus based on empirical data is slow, evolving, and tentative. That is not to say that consensus among economists does not make vital contributions to poverty alleviation efforts, but only to suggest that consensus around poverty metrics will always lag behind the relative gravity of the situation. After all, extreme poverty is a life-and-death matter. Efforts to alleviate it, therefore, do not have the luxury of waiting for a conclusive consensus and will always grope their way forward.

Whether the BoP is \$1.2 trillion or \$13 trillion is less important than *if there is any market* at this segment of the economic pyramid. The answer to this question may take decades' worth of empirical data to arrive at a conclusive consensus.

Producers, Consumers and Exploitation

Karnani's second critique is that viewing the poor as consumers is "an intellectually and morally problematic position." Instead, he argues, the poor should be viewed as producers. It is important to distinguish the intellectual claim from the moral one: the former concerns the accurate description of what the poor *actually* do and the latter concerns what the poor *ought to* do. The intellectual distinction between producer and consumer is dubious and potentially misleading. Take Felix Murui's experience with KickStart's *MoneyMaker irrigation pump*, discussed above, as an example. Felix was first a consumer buying the *MoneyMaker* pump for \$33. Because Felix had access to this new technology he was able to become a producer, selling his crop. Focusing on Felix solely as a producer is not only a conceptual limitation, it also dismisses the importance of KickStart's efforts to market and to sell its product in a sustainable fashion. Another example is the Siongoroi Dairy in Kenya that buys milk from local dairy farmers and thereby increases access to markets. From a broader perspective, the intricate link between consumers and producers and the multiple roles that people play concurrently all point to a complex web of interaction and activity.

On a moral front, viewing the poor through any rigidly defined lens, including "consumer" or "producer," is a form of distortive objectification (Buber 1996). There is no evidence that viewing the poor as consumers is inherently exploitative, as Karnani suggests. To the contrary, Prahalad argues that viewing the poor as consumers can actually have a humanizing effect through the dignity of attention and choice. From a pragmatic viewpoint, it was because

P&G and Hindustan Lever attended to the poor as *brand-conscious consumers* that they were able to broaden their distribution of insecticide-treated bed nets and water purification systems. Secondly, the most pressing moral issues concerning poverty are not the abstract harms of "consumerism," but the more concrete harms like starvation, malaria, and diarrhea, which are often the result of patterns of exclusion and the poverty penalty. An even greater moral affront than viewing the poor as a consumer is to avoid the BoP all together because it may not be immediately profitable. Ignoring the BoP market allows patterns of exclusion to persist. If Grameen Bank's success has any moral lesson, it is that the poor pay a poverty penalty because they do not enjoy the same access to goods and services that contribute to human flourishing.

The Role of Global Companies

Karnani's third critique is that most of Prahalad's case studies involve local micro-enterprises and non-profits more than large global companies. He claims that Prahalad has exaggerated the role of these organizations in "taking the lead" (Karnani 2006, 16). Karnani's language of "roles" and "taking the lead" is quite revealing: both notions imply fixed roles and a hierarchical relationship. What Karnani seems to miss is the collaborative efforts that Prahalad describes in the ecosystem for wealth creation (Prahalad 2005, ch. 4).

It is true that to date there are few global corporate ventures into the bottom of the pyramid. The primary lesson delineated here is that various sectors *can* work together in ways that are beneficial to all, including global companies. The World Cocoa Foundation (an alliance of MNCs) illustrates the evolution in thinking quite well. Members of the WCF realized they all shared an interest in the region of the globe located 20 degrees north and south of the equator since it is the most suitable climate for harvesting cocoa. Through partnership with various sectors who shared similar interests, the WCF has benefited tremendously and has secured the conditions for the possibility of sustainable development. It did not, however, always have a clearly defined role and came relatively late to the alliance. Finally, focusing on a single actor in the BoP often dismisses the various institutions that contribute. Whatever the nature of the role, it is clear that collaboration is essential. Non-profits, for example, often help to create the conditions favorable for corporate involvement.

The Most Dangerous Delusion

Karnani's most harmful critique is that the BoP proposition is a "dangerous delusion" to the poor themselves. He fears that corporate involvement in the BoP might reduce the welfare of the poor, since the poor "are vulnerable by virtue of lack of education…lack of information, and economic, cultural and social deprivations" (Karnani 2006, 18). These deficiencies make the poor susceptible to exploitation and create a need for greater legal and social mechanisms. The poor do not often demonstrate the ability to make wise consumer choices, buying alcohol and whitening creams instead of useful products. The danger of the BoP proposition, he continues, is that it "de-emphasizes the role of the state in providing basic *services* and *infrastructure*" (Karnani 2006, 27 italics added).

The biggest concern of Karnani's "dangerous delusion" critique is that it reinforces the kind of objectification and paternalism that dominated the post- World War II development era. Karnani reveals an inherent skepticism that the poor are able to decide for themselves what is best. Viewing the poor as helpless victims leads to top-down thinking, where grand social-engineering projects are the primary vehicle of social progress. To the moral pragmatist, that path is both well-worn and unsuccessful. What are the needs of the poor and who determines them? Muhammad Yunus discovered the best way to approach this question is to ask the poor themselves. Albina Ruiz realized that the municipal authorities were incapable of collecting all of Lima's garbage, and that the solution *had to* emerge from the actions of private citizens. The most dangerous delusion is not that the poor will be exploited by corporate involvement at the bottom of the pyramid, but that sustainable economic growth can continue to come from shrinking markets at the top, if Stuart Hart's forecast is correct.

Karnani does raise an important concern, albeit indirectly. While his argument that the BoP proposition "de-emphasizes the role of the state" regarding basic *services* and *infrastructure* may be misguided, it is well-founded when it comes to providing legal protection and recognition. Hernando de Soto's insight that participation in the informal, extralegal sector is more risky than participation in its formal counter-part is a serious concern worthy of greater attention. The BoP proposition does not de-emphasize the role of the state, but sees it as crucial in creating favorable conditions for economic development, or transaction governance capacity in Prahalad's framework. Because corruption causes or exacerbates patterns of exclusion, fair, transparent governance is a vital agent in forming an ecosystem of wealth creation. The difference between Karnani's view and Prahalad's is not that governance isn't important or doesn't play an important role, but that its role in providing services and infrastructure is varied and contextual not fixed and predetermined. Patterns of exclusion are prevalent in the free market and in the public sphere of governance. The primary issue is not to clearly define the proper role of the state in economic development, but in removing the barriers that exacerbate the conditions of poverty. Karnani's concern about the role of the state is certainly worthy of critical attention, but it should not be an excuse for global companies to avoid the BoP market all together.

So where are the global companies?

The most current critique of the BoP proposition is not about potential, but about the extent of actual involvement. If it is such a great opportunity, why are global companies not more consistently and fully involved? First, companies *are* getting more involved. Citigroup, P&G, Cisco Systems, ExxonMobil, Chevron, Nokia, Google and even Wal-Mart are either directly involved already or have formal plans to get involved. Second, it is important to remember that the BoP proposition is a relatively new idea. In that time span, Citigroup has seen the potential of micro-finance (Maitland 2005; Citigroup 2004); Wal-Mart has seen the potential of the Mexican and Indian markets; and ExxonMobil has worked on job opportunities and microfinancing in areas such as Chad and Cameroon where they are drilling for oil. Third, it is also important to note that some global companies and their managers will not take the plunge into the BoP at all since the bias of conceptualism and "common sense" fear of emerging markets tend to be more prevalent in managerial thinking than insight and innovation. Ventures into emerging markets tend to grope their way forward, which takes time.

Conclusion

The wisdom of the BoP proposition is twofold: (1) The United Nation's Millennium Development Goal to reduce poverty can be achieved only with substantive contributions of businesses well as government and international organizations in ways that are sustainable and (2) poverty alleviation is a profitable endeavor both for companies and for the poor, when focused on corporate core competencies linking new market development with job creation and new product branding, not on the fringe of corporate social responsibility in the form of charitable contributions. Whether there is a "fortune" at the bottom of the pyramid or only sustainable profits is inconsequential. That there are profits in markets previously overlooked and ignored is of great consequence to both poverty alleviation efforts and to the sustainable development of global companies in the new flat world of the twenty first century.

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