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ABSTRACT

The central purpose of this article is to demonstrate that it is feasible to alleviate, if not actually eradicate, global poverty, but only if we change the way in which we approach global free enterprise, and only if we deconstruct and effectively reexamine our mental models regarding how poverty issues are addressed. Proposals surrounding poverty alleviation are greatly affected by the ways in which we think about people living in conditions of extreme poverty. The success or failure of those proposals, when operationalized, depends upon our mental models and the ways in which we calibrate and then integrate the narratives we encounter. While others have envisioned a role for multinational enterprises

(MNEs) in alleviating global poverty, these schemes lack the catalysts of moral imagination and systems thinking necessary to modify MNE mental models toward sustainable solutions that also create board-based stakeholder value. We will outline the parameters of the challenge, explain the elements of the 'profitable partnerships' approach, illustrate it via an example and distinguish it from alternative approaches.

Introduction

In a 2007 address to Harvard University graduates, Bill Gates articulated a simple principle as a roadmap for poverty reduction. He explained that, '[i]f we can find approaches that meet the needs of the poor in ways that generate profits for business and votes for politicians, we will have found a sustainable way to reduce inequality in the world' (Gates 2007). Though the minimalism of this principle led him to omit two critical elements in a system he identified one year later by the term, 'creative capitalism,' it is this same simplicity that reminds us that answers to world poverty are well within our reach.

The central purpose of this article is to demonstrate that it is feasible to alleviate, if not actually eradicate, global poverty, but only if we change the way in which we approach global free enterprise, and only if we deconstruct and effectively reexamine our mental models regarding how poverty issues are addressed. Proposals surrounding poverty alleviation are greatly affected by the ways in which we think about people living in conditions of extreme poverty. The success or failure of those proposals, when operationalized, depends upon our mental models and the ways in which we calibrate and then integrate the narratives we encounter. While others have envisioned a role for multinational enterprises (MNEs) in alleviating global poverty, these schemes lack the catalysts of moral imagination and systems thinking necessary to modify MNE mental models toward sustainable solutions that also create board-based stakeholder value. We will outline the parameters of the challenge, explain the elements of the 'profitable partnerships' approach, illustrate it via an example and distinguish it from alternative approaches.

The topic of global poverty is of critical interest to the United Nations, the World Bank, the International Monetary Fund and myriad other international foundations, intra-governmental and non-governmental organizations and a number of economists. Poverty is a dreadful and intolerable human condition. Even using the most conservative figures, at least one in six of the global human population cannot meet the basic demands of survival. These men and women do not have the basic ability to buy goods and services nor do they have the resources to put food on the table to care for themselves or their families on a daily basis. Nor is poverty an issue for developing countries, alone. There are enormous spill-over effects from global poverty, including environmental degradation, urban slums, refugee suffering, and market stagnation, all costly to the developed as well as developing world. Yet, as economist William Easterly reminds us, the industrialized world neither has been remiss in trying to address poverty nor has it been entirely unsuccessful. Nevertheless, traditional approaches to poverty alleviation through philanthropy and foreign aid, with over $ 2 trillion dollars earmarked for poverty reduction since the

middle of the last century, most for Sub-Saharan Africa, have not produced measurable economic progress, particularly in that region. (Easterly 2006, p. 4; Moyo, 2009, p. 28).

Rather, evidence demonstrates that revised mental models embracing initiatives that are developed by global corporations in partnership with their stakeholders, combined with a vested interest on the part of the MNE in response to the poverty challenge are significantly more effective. These projects, enterprises, joint ventures or other initiatives need not have social responsibility, charity or philanthropy as their central guiding principle, though each have their value and role in serving the needs of those living in conditions of poverty. Unfortunately, in many circumstances involving traditional charity or philanthropy, those programs are often temporary by definition and later orphaned by the corporations.

To the contrary, the development of sustainable solutions involves the establishment of long-term business investment, the integration of resources, the involvement and commitment of corporate boards to the belief that this strategy is in **both** the long term interests of external stakeholders as well as the long term capacity and interests of the MNE. No one is claiming that the MNE with most honorable intentions might not desire to contribute to Tanzania or Haiti or another developing economy out of the goodness of its heart (so to speak, on behalf of a corporation's decision-makers). However, pragmatically, not only can a corporate decision-maker only do so under certain constraints but, in order to do so in perpetuity, which is in the best interests of those served, the decision-maker must demonstrate not only that it is viably sustainable, but also in the best interests of the MNE, itself.

We will illustrate the reality of this balance in situations where companies have been able to develop markets for their products, and create opportunities for economic development and job creation in countries with populations living in conditions of extreme poverty. These economic activities can, in turn, expand these markets and create added value for shareholders, as well as for new stakeholders. We shall return to these profitable partnerships in a moment.

Scholars C.K. Prahalad and Stuart Hart (2007) have identified a significant sector of the world's population living in extreme poverty using the term 'Base of the Pyramid' (BoP), referring to the economic pyramid, a demographic portrait of the global community indicating where population and economic growth are and are not occurring and where the persistence of poverty in certain regions has frustrated decades of attempted solutions. The base of the economic pyramid is comprised of those living in 'extreme poverty,' who have incomes of less than US$1 per day, as well as those living in 'moderate poverty,' who have incomes of between US$1 and US$2 per day, according to the World Bank (Sachs 2005 p.20). But, these same people are also potential new suppliers of labor and entrepreneurial skill, as well as consumers of goods and services. If economic growth is a continuing and positive goal for the planet and for global companies (arguable, though not necessarily universally accepted), then, as we saturate markets in rich nations, these new markets provide opportunities for alternative satisfaction of this objective.

The key to the concept of profitable partnerships is the evolution from the mental model of philanthropy or charity to a new mental model, one based on 'strategic convergence,' which occurs

when business interests and core values are aligned by incentives. Under these circumstances, firms invest capital into relationships and support long-term strategic interests, thereby enhancing a sustainable investment, almost creating a self-fulfilling prophecy. The mindset that emerges results in g value-added for all stakeholders involved and, as an additional result, they have a stronger vested interest in the relationship, a commitment based on aligned strategic objectives rather than on the charity or kindness that underlies philanthropy.

Of course, for some potential stakeholders, a profit motive raises strong suspicions and red flags, especially when linked to strategies surrounding poverty alleviation; it seems completely counter-intuitive. On the one hand, some in the public or social sector are often skeptical of business interests, and point to individual cases of exploitation. Business decision-makers often perceive poverty alleviation as tangential to core interests, which raises an ironic question about the potential of the market to respond to these fundamental human needs. If the market is – by its inherent nature and definition – designed to meet the demands of a consumer base, and if we accept Prahalad and Hart's arguments that the base of the pyramid comprises significant numbers of consumers, then it would follow that the BoP is not at all *tangential* to core interests but instead fundamental, and arguably pivotal. Stuart Hart explains this commanding position of the BoP based on anticipated future economic growth. It will not come from the top of the pyramid, he contends, but from the base, considering population growth, he explains that the base is therefore where business will find its next customers, employees, markets. The centrality of the BoP's dominance comes from the saturation at the top of the market, placing capitalism at a crossroads, he believes, since current patterns of growth and resource exploitation are unsustainable (Hart 2007). The common mental model that the base of the pyramid offers no commercial opportunities consequently will result in neglected opportunities.

The profitable partnerships concept is not a new strategy, but novel merely as applied to poverty reduction. Porter and Kramer articulated a similar approach in connection to their concepts of shared value and strategic philanthropy when they said,

> Shared value is <u>not</u> social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. . . .
>
> The concept of shared value can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress. The concept rests on the premise that both economic and social progress must be addressed using value principles. Value is defined as benefits relative to costs, not just benefits alone. (Porter and Kramer 2011, p. 4, 6).

Poverty may be simply one of those societal conditions. If, in the realm of their core competence, firms addressing this social issue can gain competitive benefit, their creation of shared value will lead to self-sustaining solutions that do not depend on private or government subsidies. If these firms apply their vase resources, expertise, and talent to poverty alleviation—a challenge in which they now have a stake through profitable partnership opportunities—the contention is that, as a result, they will make a

greater impact for social good than any other institution or philanthropic organization. In fact, Porter and Kramer reach the superlative conclusion that "[c]apitalism is an *unparalleled* vehicle for meeting human needs, improving efficiency, creating jobs, and building wealth" (emphasis added) (Porter and Kramer 2011, p. 4).

As Nobel Prize winner Mohammed Yunus reminds us, "it is tough to bring efficiency to charity" (Yunus 2008; Parker, 2008). However, "the moment you bring in a business model, immediately you become concerned about the cost, about the revenue, the sustainability, the surplus generation, how to bring more efficiency, how to bring new technology, how to redesign, each year you review the whole thing… charity doesn't have that package… There is a time and place for philanthropy. When Katrina happens, you don't go run a social business right away… your immediate response is… to save people (Yunus 2008; Parker, 2008).

The mental models – our biases surrounding both MNEs as well as the capacities of individuals living in conditions of extreme poverty and the resources available to them – are deeply embedded constructs in our social systems. To recalibrate these original mental models, moral imagination involving future-directed corporate and managerial thinking is a mandate. Within organizations, especially profit-driven corporations, managers are appropriately oriented towards success and excellence; however that trajectory captures them in many cases in a cognitive trap, where only a narrow, partial perspective on reality seems plausible. As the liberating cipher, moral imagination is "a necessary ingredient of responsible moral judgment … [that entails] … the ability to discover, evaluate, and act upon possibilities nor merely determined by a particular circumstance, or limited by a set of operating mental models, or merely framed by a set of rules or rule-governed concerns. (Werhane 1999, p. 93).

In its pragmatic application, moral imagination is a mental framework that allows corporate decision-makers to envision and operationalize new possibilities that are not dependent on mere context or organization, and to evaluate those possibilities. Applying moral imagination to global poverty, the original mental model based on assistance from direct foreign aid and philanthropy suffers from a dependence on the bias of paternalism. Through moral imagination, the profitable partnerships approach avoids this bias and opens up new possibilities for enhanced stakeholder satisfaction. Aid and philanthropy also emphasize the role of those living in poverty as consumers, while the concept of profitable partnerships allows the decision-maker to emphasize productive roles as entrepreneurs and employees. Even the terminology one uses is illustrative. When referring to 'the poor,' we enshrine an entire population to a practically permanent position rather than to a mutable condition to which a class of individuals is subject, when instead one can say 'people living in poverty' or 'in conditions of poverty.'

MNEs imbued with the promise of profitable partnerships also effectively develop viable business ventures by forging cooperative partnerships with local stakeholders in place of traditional, far less sustainable, one-shot, market transactions. Generally, these ventures are not the one-on-one interactions that historically placed the firm at the centre of a number of isolated connections. Instead, the progressive organization learns to involve a system of interactions with consumers, local communities, the government, and other stakeholders, and require from the MNE what Werhane has

called elsewhere 'systems thinking' (2008). Again, this advanced system is supported by Porter and Kramer, "companies would acquire legitimacy in the eyes of the communities in which they operated, which would allow democracy to work as governments set policies that fostered and supported business. Survival of the fittest would still prevail, but market competition would benefit society in ways we have lost" (Porter and Kramer 2011, p. 17). By recalibrating the mental model towards a systems approach to decision-making, an MNE can ensure more successfully the sustainability of a proposed partnership because the scaffolding is in place to support both its structure and its stakeholders, rather than relying solely on the MNE or profitability of the project.

Case Study: The ACCESS Project

Let us consider an example of a profitable partnership. Created from the merger of Ciba-Geigy and Sandoz, Novartis is a $50 billion global pharmaceutical company located in Basel Switzerland. It is in the business of health care, with a particular focus on medications, with a mission "to discover, develop and successfully market innovative products to prevent and cure diseases, to ease suffering and to enhance the quality of life. . . [and also] . . . to provide a shareholder return that reflects outstanding performance and to adequately reward those who invest ideas and work in our company" (Novartis 2011). The Novartis Foundation for Sustainable Development, headed by Dr. Klaus Leisinger, engages in what one would normally call focused philanthropy. Its mission is to "develop and support pioneering health projects in developing countries aimed at achieving specific goals in the fight against poverty and disease as well as at inspiring and improving development policy and practice." Its essential focus is in the health care arena, international health cooperation, and on projects that have the capacity to be self-sustaining some years after initial intervention. One of the Foundation's long-term projects is in Ifakara, Tanzania, where they have been engaged since right after World War II.

Driving West-South West along the main road of the Kilombero valley in the East African country of Tanzania, about twenty minutes drive from the banks of the Kilombero River, one reaches a community of industrious entrepreneurs. All are women and each is a member of the Community Health Fund (). Once these women were relegated to a subordinate class of citizenship; yet today they are among an elite group of entrepreneurs, currently acting as the driving force behind the development of this prosperous and growing community. The same souls who initially breathed life into each member of this community at childbirth are now instilling new life into an entire village by inspiring a vision of cleanliness, strong health and comprehensive education. Together, they sponsor meetings with community leaders, present road shows with educational lectures, comedies and the ubiquitous handing out of T-shirts as a reward for proper answers to health quizzes. They are now the business owners and bankers of their small community (Kessy, 2011; Novartis Foundation, 2010). Most importantly, in an area almost devoid of capital five years ago, these women now hold the keys to a virtual financial kingdom, as well as health care visits to local clinics and improved health.

In 2004, treatment for malaria was hampered by time, lack of basic resources, distance to health care facilities, and little in the way of community education. In 2004, only twenty-three percent of children

and eleven percent of adults received recommended anti-malarial treatment on the same day or next day basis and in the correct dosage (Kessy, 2011). These numbers include appropriate anti-malarial treatment considering the reported symptoms and reflects what was at the time a weak skill set and general lack of knowledge held by healthcare providers. At that time, only fifty percent of diagnostic and treatment procedures observed were considered effective by modern Western medical research standards on malaria treatment. (Novartis foundation, 2010). Equally surprising, in an area considered among the most virulent breeding grounds for the disease, only fifty-four percent of two hundred and fifty three health workers interviewed were trained in malaria case management. Moreover, it was not uncommon for primary care doctors in these outlying facilities to have more than one source of income. Because being a physician is considered a poor paying job, many doctors also had family kiosks and small businesses to supplement their income. As the Novartis Foundation learned, "Basically for poor people, sickness is normality, not health." (Leisinger, 2011) Still, this situation is not without potential solutions.

Beginning in 2008, in partnership with the Ifakara Health Institute, Swiss Topical Institute, and the Novartis Foundation, the people of the Kilombero valley began the ACCESS Project specifically initially to target children under five years old and pregnant women, then the whole population of the Kilombero, Kilosa/Gairo and Ulanga districts , totaling an aggregate of just over one million people and about 25 villages. Tanzania's most prevalent disease is malaria (Kessy, 2011; Novartis Foundation, 2010); so, the initial goal was to analyze and improve access to effective malaria treatment and to improve malaria care. The first phase focused on the identification of obstacles to care using malaria as a tracer condition. Seeking to balance the needs of availability of healthcare for the program's patients, the ACCESS Project examined accessibility of a straightforward supply of the correct medication to treat malaria with affordable medication. In addition, it sought to determine adequacy and acceptability of the characteristics of providers to match those of the patient population. It created rapid diagnostic health treatment tool aimed at improving the overall quality improvement in delivering care so that the general population could rely on the treatment offered. Strengthening the quality of healthcare not only sensitized a community in need of confidence, it also provided a boost to a healthcare infrastructure in need of internal fortitude and long-term cohesion. The Novartis Foundation's logic was that without health people could not be expected to manage their lives or work, or make a living for their families.

However, there remained a challenge in providing basic health care. Access to capital in sub-Saharan Africa was (and continues to be) rare. Even small amounts of resources are hard to come by. Since malaria is a parasite, the treatment of which depends on swift, decisive action, financial capital assumes a key role in this entire process. In order to realize treatment across Tanzania, families found themselves with a need to quickly mobilize resources. The ordeal usually began by selling any or all available assets such as rice and chickens and / or converting other livestock into cash. When a family needed to borrow money, interest rates and repayment amounts were usually calculated in double-digit percentages. As they undertook the task of transporting the diseased person to a doctor, bicycles were seldom available to be borrowed. Instead, they were more often only available for rent for the trip to the nearest hospital. The task of seeking treatment was further complicated by how far each healthcare provider happened to be from the sick person. The Sisyphean task became even more daunting as

family members gave up precious time as they began the journey accompanying the sick person to doctor miles away. Each trip to a hospital meant giving up days of wages and parting with time best used for tasks like childcare and housekeeping. Local roads were almost always made from graded dirt. They are unforgiving, desolate and muddy enough to debilitate almost every kind of transport . (Novartis Foundation, 2010).

As a result of these seemingly insurmountable obstacles, Novartis and its partners added three more elements to the ACCESS Project. First, they established local clinics and pharmacies so that families did not have to travel extensive distances for their medical care. Second, through the ACCESS Project, they created a microloan program through which local women have the opportunity to access small loans, averaging less than US $200. The loans are given to groups of women who then decide which of their projects will be funded. The women look after others' projects and have some access to managerial assistance from Novartis and its partners. According to Flora Kessy, the Director of the ACCESS project, to date, ten women's groups have engaged in the microlending projects in this area of Tanzania and have been successful in funding businesses, repaying their loans, and creating savings accounts for each group. When surveyed, women entrepreneurs have described their business opportunities as: 12 % Farming, 21% Sale of Food Crops, 11% Restaurants, and 17% Live Stock Keeping. 14% Genge (roadside kiosks), 19% Local Beer, 3% Husbandry, and 3% Clothes making. In addition each group is encouraged to promote and join a community health fund (CHF) that provides health insurance for a family of four for $6. a year (Kessy, 2011).

The results of the ACCESS Project have been to improve research on malaria, to provide affordable local clinics, and to empower women both to become financially independent and to be able to respond to the health of themselves and their families. One of the myriad positive outcomes for Novartis is the development of rapid diagnostic testing for malaria. With the advent of rapid diagnostic testing, there is now no longer a need to wait hours for slides to culture and be reviewed under a microscope. Within about ten minutes and at a cost of approximately US$0.80, a simple test can reveal the disease with a ninety percent accuracy rate. Rapid diagnostic testing has resulted in a fifty-eight percent decrease in anti-malarial prescriptions after intervention compared to pre rapid-diagnostic baseline. IN 2010 as compared to 2004, seventy-three percent of children and fifty-six percent of adults investigated received recommended anti-malarial drugs within twenty-four hours of presentation of symptoms and diagnosis (Kessy, 2011). With accuracy comes confidence and in the case of malaria diagnosis this confidence presents itself as a simple relaxation of the exuberance of over-prescription. Additionally, the impact of rapid diagnostic testing has allowed a more complete palate of medicinal tools to be administered. With malaria diagnosis now a much more certain process, additional medicines can be considered to treat disease. For example, antibiotic prescriptions have increased by twenty-nine percent to accompany the advent of malarial rapid diagnostic testing (Kessy, 2011).Novartis, as well as those possibly infected with malaria, have benefitted from the rapid diagnostic testing as a model for testing many diseases and from further research on malaria and a market for its malaria drug, which, to date, sells at below cost. The ACCESS Project consequently has emerged as a profitable partnership for the population in this area of Tanzania and for Novartis.

Conclusion

We must ask a difficult question: Why would any MNE choose to work in developing markets? Why has Novartis, for example, a highly successful company with hundreds of thousands of paying patients and healthcare professionals, opted to establish a foundation with an explicit emphasis on health in very poor countries? Our conclusion is that these markets are truly 'developing markets.' Companies that choose not to be engage in these markets in danger of economic atrophy and, by 2050, will likely have missed enormous opportunities and could even threaten the survival of these companies.. Economic growth and sustainable investments depend on new markets. If jobs are created in these markets, they in turn will provide a slow but growing customer base for new projects. As the CEO of the Novartis Foundation argues, "This is just the right thing to do," for so many reasons (Leisinger, 2011).

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