

CSR PLUS - THE CORPORATE SOCIAL OPPORTUNITY FOR CREATING WEALTH IN THE 21ST CENTURY

Precisely eighty years to the day Mahatma Gandhi wrote in Young India, “whenever you are in doubt ,or when the self becomes too much with you, apply the following test: Recall the face of the poorest and the weakest man who you may have seen , ask yourself, if the step you contemplate is going to be of any use to him.” The power of human greed has been so strong that this advice has fallen on deaf ears even in Mahatma’s own home country which today, despite a spectacular growth rate, is home to world’s largest number of malnourished people. Philanthropy and charity is good for the soul but cannot lift the poor.

CSR Plus is a term we developed at the last Vilamoura conference to depict effort in engaging with company’s stakeholders in a way that enhances bottom-line results for both. Delivering his keynote address at the Global Conference on Social Responsibility in February 2006. Prof C K Prahalad said: “We must democratise commerce and provide world class products to the untapped and underserved market of 5 billion people at the bottom of the pyramid.” He quoted examples of companies who had engaged with such markets and innovated solutions at prices that were 1/50th of the west. Their engagement enriched the poor and made huge profits for the company as also enhanced company’s brand.

The value proposition has altered so considerably in recent years that companies make money not by showing increased quarterly profits but by enhancing their image. The knowledge economy has hugely enhanced the value of intangibles as compared to tangibles. The purpose of this conference is to revisit these companies, draw upon their experiences and scale them up for wider benefit.

Equity markets worldwide are going through their best ever growth period. India’s stock market grew by 49% last year. The return in Caracas Stock Exchange of Venezuela last year was 150%. Return given by stock exchanges of other emerging markets in 140.2% in General Lima Stock Exchange of Peru, 123% of Cyprus, 107.6% in China, 65.9% in Morocco, 64.3% in Hong Kong, 63.5% in Croatia & 58.7% in Russia. Ten exchanges have outperformed India.

Unfortunately, this growth has been fuelled only by a few. The stock market shine has left the average man in the street in the cold. Only 2% of Indians participate in the securities market. So 98% of the population has been unable to enjoy India’s wealth boom. Globalisation that could have done so much good is leaving deep scars. It has caused suicides of 1500 farmers in one of India’s most prosperous states because the return on cotton is less than what it costs to produce. With spiralling increase in the demand for managers, their salaries have risen astronomically even in the third world. The differential between the highest and lowest wages in India has gone up to 1:90. In the US while the pay of the typical worker has been stuck since 2001 the pay of a CEO has increased 40 times in the last two decades.

According to Helsinki based World Institute for Development Economics Research world’s poor own just one % of the wealth. The richest one percent own 40% of world’s assets. The richest 10% own 85% of the asset. While furniture workers of Galax in Virginia lost their jobs because American retailers found a cheaper supplier in China, Robert Nardelli CEO of Home Depot received a severance pay of \$210m. The booming wealth created by globalisation has left the poor in the cold and the gap has only widened. Growth that leads to inequality can be insidious. People can withstand poverty but cannot stand injustice. Sharpening inequalities are the greatest threat to the security and sustainability of business. It is therefore in business’s own interest to bridge the gap by bringing the poor into the market economy.

Good news is that engaging with poor and committing to social causes can create wealth for the business. The whole notion of giving back to the society is redundant. CSR is the only real and sustainable Corporate Social Opportunity to create wealth in the 21st century.

Poor are a source of great innovation and wealth creation. They are an opportunity, not a problem. They are entitled to world class products at prices they can afford. They have their own dignity and do not wish to be regarded the begging bowl of the economy. They don’t want hand outs. Philanthropy by itself does not create sustainable value for them. They want jobs, fair wages, fair trading, responsible investing, ethical buying and transparency in transactions.

Solutions to involve poor in the market economy have to be co created through active partnership between government, NGOs with business as a major player. Companies such as Unilever, Reliance, ITC, ICICI Bank, Hero Cycles and Aravind Eye Hospital have improved their profitability by innovating processes to access this market. Hero Cycles decimated the dominance of TI Cycles by designing cycles to take farm produce to the markets. Reliance mobiles reached a million customers within 10 days of the launch. Studies have shown that return on capital employed on BOP markets was 121%. ICICI has 200,000 rural accounts managed by 16 managers through self-help groups. In the case of Aravind Eye Hospital where only 40% are paying patients and the average charge for cataract surgery is \$50 including stay, the return produced constantly has been of the order of 120 130%. In the case of e-Choupal, ITC has been able to get the payback on their PC Kiosk within one full season.

ITC's social and farm forestry initiative is serving as a means of livelihood for tribal communities. ITC-promoted plantations, spanning some 30,000 hectares have created an asset value of US \$140 million in the form of wood, thus playing an important role in rural development and poverty alleviation by creating employment for nearly 300,000 people in tasks such as planting, tending, nurseries, logging and maintenance.

One of the key innovations in reducing poverty and bridging disparities is micro-financing. Grameen Bank of Bangladesh and ICICI Bank in India are torch bearers in this. Through its acquisition of Bank of Madura, ICICI Bank has created self-help schemes in South India that have transformed the rural poor. Their experience has shown that rural poor can be better trusted with repayments of loans than their urban rich counterparts.

The key factor in the success of rural banking and micro-finance is the provider's ability to use the disruptive power of technology to provide a differentiated service or product experience to the customer. The challenge is to provide world class services at a fraction of the existing costs. This is where ICICI Bank has excelled. Using ATMs and online services coupled with hand held devices, smart cards and biometric authentication ICICI has provided an ambidextrous model that can be used both in rural markets to access the poor and scaled up to sophisticated urban and international markets at transaction costs which are one tenth of its competitors.

CSR has moved full circle from the seventies when it was criticised by Milton Friedman as a burden to business to be passed to consumers through higher prices. People thought it was crazy for business to be doing CSR. CSR today is not fluffy do-goodism. It is underpinned by a hard-nosed business case that today's shoppers want companies to be ethical, moral and socially responsible. People like Stuart Rose who has transformed Britain's biggest clothier, Marks & Spencer, from a fuddyduddy image to a nimble retailer of fashion goods is no slouch. He is investing £200m for his environmental and social initiatives. He knows his clients are fretful about what they buy and are prepared to pay more for eco-friendly, healthier, organic products. His "eat well" logo has helped to boost food sales by 10%.

TNS, a research firm says a quarter of British shoppers are willing to pay more for clothing that comes from firms that pay fair wages, and protect environment. Sale of Fairtrade foods has trebled between 2002 and 2006 despite its higher prices. CSR, therefore, has become a value enhancer, a competitive differentiator, a trigger for great innovation.

Investors are deciding that successful stock-picking is about more than whether a company meets its quarterly profit target. AXA, the French Insurance Company has become the latest socially responsible investor. It has signed up Enhanced Analytic Initiative (EAI) to reward brokers that publish research on extra-financial issues such as climate change and brand management. The Initiative controls assets in excess of \$2.4 trillion. Another initiative called UN Principles for Responsible Investment has some \$5 trillion worth of assets with members ranging from ABP, the Dutch Pension Fund to Sumitomo Trust of Japan.

All these companies are profit-driven. Their research tells us that virtues such as morality, ethics, transparency, the very mention of which in the past made company executives yawn, can make real money for the business. Alternatively its absence can ruin them. The nasty web is going to punish companies who do not play fair. The latest advances in brain imaging tell us they can find out not only what you have done but also scan your intentions. So it is not worth having values only for the purpose of PR.

Creating wealth, however, through unbridled consumerism and proliferation of products that create unneeded wants can be disastrous for the ecology. A saving grace of poverty is that it reduces the human footprint on this planet. India's ecological footprint i.e. the natural material used per person per year is one twelfth of US and Europe. If the rapid rate at which the developing economies are growing translates itself into consumerism, our mission of bridging the gap is going to result in an ecological catastrophe. We therefore need to change our growth model and move our economy from acquisitional mode to experiential mode. We have to find ways to dematerialise products and opt for minimalist designs.

On 8th December 1927, Mahatma Gandhi wrote in Young India "A time is coming when those who are in the mad rush today of multiplying their wants vainly thinking that they add to the real substance, real knowledge of the world, will retrace their steps and say: 'What have we done?'"

Oddly enough the two most critical challenges of our time - poverty and climate change - have a common cure. It is innovating products and services for the four billion poor of the world that are world class and eco-friendly yet offered at a cost the poor can afford. What we need is Poor Oriented Innovation with Sustainable and Eco-friendly Designs (POISED). To achieve this we have to implement an eleven step plan called PROACTIVATE - Price natural capital, Radically increase energy efficiency, Opt for minimalist design, Adopt zero waste systems, Capture CO₂ by planting trees, Turn to renewables, Invest in green issues, Vigorously pursue market mechanisms, Activate women and children to drive change, Train staff to eco-innovate and focus on Execution.

The most formidable change in 2006 has been the increasing recognition of the power of the individual against the state & against the corporation. The strobe-like glare of the 21st century and the power of the blogger will simply not allow the business to focus on profits at the cost of society and environment. There is a clear message to the corporations. There are rich dividends for companies who make ethics work for their business. It not only helps them access global capital, it is a sure way to attract and hire the brightest young employees, reduce staff turnover and turn the company into a powerhouse of innovation. So why not turn capitalism on its head and start earning money by making a difference?.