

# **TACKLING POVERTY MAKES BUSINESSES PROSPEROUS**

## **MAKING MONEY WHILE MAKING A DIFFERENCE**

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Dr Madhav Mehra is the President of the World Council for Corporate Governance. He was the first elected Chairman of the World Quality Council, a body constituted by 52 national and international quality associations, in Chicago in 1996. He is a corporate visionary and futuristic thinker, internationally renowned for his innovative ideas in integrating issues of quality, environment, social responsibility and governance to develop a holistic approach to corporate and social transformation. He describes how regulatory challenges can be turned to competitive advantage.

Throughout 2004 World Council For Corporate Governance has drawn corporate attention to the widening gap between rich and poor and the governance strategies required for bridging it. We have repeatedly argued that the socio-economic disparities are a serious threat to the security and sustainability of business. The business should have a vested interest in thinking of radical ways to draw the poor in to the market economy and reassure them that globalisation will equally work for them.

The good news is that tackling poverty makes businesses prosperous. It gives business the opportunity to innovate products for mass markets. The biggest market players of today, Microsoft, Walmart & Coca Cola, became big by targeting mass markets. The question is how to go even deeper what C K Prahalad calls the "bottom of the pyramid" in his celebrated book "The Fortune at the Bottom of the Pyramid", those 5 billion people, 80% of the human population, who earn less than \$2 a day.

It is five years since the UN adopted the Millennium Development Goals of halving poverty by 2015. The latest figures available on poverty show poverty has actually climbed up in 2004. Hunger, the severest form of poverty, stalks 10 million more people across the world having risen from 842 million to 852 million. Poverty is not limited to Africa or Sub Saharan desert or developing countries. It has risen by 1.3 million in US, the world's richest economy. 12.5 percent of the Americans are classified as poor compared to 12.1 percent in the previous year. Why the Millennium Project and the aid programmes that preceded have been so ineffective?

Hunger is more an issue of delivery than donation. The total expenditure required for elimination of starvation and malnutrition is \$19 billion. Compare it with the US military budget of \$416 billion. The incremental annual public investment needed to meet the World Food Summit goal of ensuring access to food for most needy is barely \$5.2 billion. Tsunami has received pledges of \$8 billion within 2 weeks. Tsunami experience showed food was not the problem. The problem was in distribution. There is unused donor capacity for feeding the poor. All we need is innovative ways to involve potential donors. Our challenge lies in raising public and corporate consciousness towards the cause and creating public confidence in our ability to reach the aid to the rightful. Public are

wary of large bureaucratic organisations because of the inefficiencies inherent in them. Food programmes, therefore, will be more effective when they are market based and entrepreneurially driven.

The experience has shown that the problem of poverty cannot be solved simply through handouts. No amount of hand out can help an African farmer whose milk is unable to compete with the western farmer simply because the cows of the western farmer are subsidised at the rate of \$2 per cow per day which is twice as much as he makes in the whole day. Hernando de Soto, the Peruvian economist has analysed causes of poverty in his path- breaking book “The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else” that poor countries are poor not because they lack resources or aid from rich countries, or FDI by multinational firms but because their governance systems are so poor that they lack enforceability of contracts. Consequently they develop extra legal economies ruled by slum lords, mafia and muscle men. These poor countries can be rich if we can unlock their trapped assets. He goes on to say that the proliferation of regulations makes the situation even worse because of the opaqueness of the system to anyone other than an insider. De Soto argues that his country, Peru, has more than 28,000 legislations per year at the rate of more than 100 per day. No one can keep pace with that rate of change. As a result corruption is prevalent at all levels.

Handouts suffer from lack of transparency, accountability and efficiency in the delivery system. The problem is not only with disbursing governments but also with lending agencies and funding organisations. Funding organisations have little regard for the virtues of transparency and accountability when applied to themselves. Indeed, they find it offensive if somebody even questions about them. They actually view this opaqueness as a strategic asset. Such situation is not unique for the UN where the oil for food programme is going through a scanner. This is endemic for almost every major funding organisation whether the World Bank, OECD, DTI, DFID, Commonwealth, European Commission or any of the other UN organisations.

In a recent report on the progress of Millennium Development Goals to UN Secretary General, Professor Jeffery Sachs, the noted director of the Earth Institute at Columbia University and also the director of Millennium Project, has pleaded for doubling of the development aid. He has done well by emphasising the importance of accountability and transparency to bring credibility to the Millennium Project. He has called upon governments, donors and civil societies to prepare specific compliance guidelines that include spot audits, evaluation and publication of performance indicators. Leading civil society organisations such as Transparency International and private accounting firms should help ensure that the increased aid flows to the targeted areas.

The US, the world’s richest country, spends barely 0.15% of its GDP on international aid against the commitment of 0.7%. How can Americans be inspired to get their government to do better than that. More important is the question of how the aid is used. There are inherent fallacies that lead to the failure of funding through governments. It lacks sense of ownership. It is regarded as

easy money. Easy come, easy goes. The real constraint with international aid is not funds but the capacity to use it. Most aid remains unspent and rarely goes to those who have capacity to spend. Those who have a stake in spending are rarely involved. So whatever spending is done is through entrenched incumbents and an incestuous circle of friends and protégés. Poor rarely benefit from such aid. On the contrary the aid mechanism can work wonderfully if driven through market forces, creating incentives that create value at each stage of delivery.

The poor really do not need handouts. They need healthcare, education and infrastructure. Infrastructure plays a far more important role than most people imagine in the development process. Developing rural markets by encouraging transparency in governance structures will unlock the hidden assets of the rural poor and accelerate their integration in the market economy. Business can fundamentally alter the rural landscape and stimulate commerce and development by bridging infrastructure gaps in rural areas, linking the informal economy to established markets and providing distribution channels and transaction platforms.

Public expectations of corporations have undergone a profound change during the last decade. Kenichi Ohmae in his book "The Borderless World: Power and Strategy in the Interlinked Economy" has defined the role of corporations as follows:

"A corporation is a social institution whose responsibilities extend far beyond the wellbeing of its equity owners to giving security and a good life to its employees, dealers, customers, vendors and subcontractors. Their whole life hinges on the wellbeing of the corporation."

Charles Handy says "a business is no longer just an economic instrument, the principal purpose of a business is not to make profit, full stop. It is to make a profit in order to continue to do things and to do so even better and more abundantly."

This is a far cry from which Milton Friedman said in 1970 – "the social responsibility of a business is to increase profits". The expectations of people from business have changed vastly over the last few decades. In a millennium survey about 60% of those polled stated that they will punish companies who were found to damage environment. Today a company's market capitalisation depends on how they take care of the social and environmental issues. In this scenario a company that focuses on profit alone is certain to make no profit. Companies that wish to create sustainable wealth have to look after 3 things - people, profit and planet. This is what is called a triple bottom line approach. In traditional business one only watched a single bottom line i.e. reduction of costs to maximise profits. This equation is now considered inadequate. Companies have to look at society and environment issues.

We think that socio economic inequalities provide imperatives that provide compelling reasons to make poverty alleviation a business issue. Business has been the greatest beneficiary of globalisation. The rapid expansion of trade and cross border capital flows made possible through the globalisation have created unparalleled opportunities for growth and financing of business. At a

recent lecture Joseph E. Stiglitz the noted Professor of Economics at Columbia University & former Chief Economist of the World Bank asserted that inequalities in developing countries have increased by 2% since the Uruguay Round which founded WTO 10 years ago. A recent FAO study on hunger reports that hunger is actually on the rise and 18 million more people have slipped into hunger in the second half of the decade.

Globalisation cannot work properly if the poor are not made part of it. They need to be reassured that globalisation can benefit them equally. The biggest business challenge of today is to bring the poor into the market economy. It should be in the self-interest of corporations to do that as a matter of top priority. Business has to realise that sharpening of the inequalities as a consequence of globalisation is the greatest threat to the security and sustainability of their businesses.

Secondly, for the first time in human history business has the power and technology to make a difference in human lives. It has a social cause to make profits instead of the invisible hand of Adam Smith.

Thirdly and more importantly, businesses have to realise that throughout history businesses have expanded and multiplied only by reaching what C K Prahalad, the noted management guru calls, 'the bottom of the pyramid'. Both Microsoft and mobile telephony that spawned some of the 21st Century's most successful businesses have proved the point. Microsoft succeeded because it aimed to reach every home. IBM failed because the vision of its founder Thomas Watson was "there was to be a world market of just five computers". Reliance Infocomm, a mobile phone operator in India received one million applications in the first 10 days when it offered a mobile phone for \$10. India today has more mobile phones than landlines.

The success stories of Gramin Bank in Bangladesh, Casas Bahia in Brazil, Cemax in Mexico and ICICI Bank and Nirma in India show how accessing the poor markets have transformed both these businesses and the poor constituencies they served. No amount of handouts could have improved the lot of the poor served by these businesses. ICICI Bank has developed a new model of relationship with its customers. It has no direct contact with its half a million rural clients. It monitors their loans which are as little as 6 dollars with instalments of 20 cents each month through self help groups formed by rural women. Cardiac care and cataract operations are reaching new heights of process innovation in India. A cataract operation in Aravind Eye Hospital costs barely \$50 including stay. 40% of the patients are treated free. Yet, the hospital is debt free and has a return on capital of 120 to 130%.

ITC, a former subsidiary of British American Tobacco has transformed rural India. It had serious problem in sourcing pulp for its papermills and soyabeans for export. It organised the poor tribals of Andra Pradesh with wastelands into self supporting farm forestry groups. It provided them with high yielding, disease resistant saplings. It claims to have greened some 26500 hectares of wastelands with 108 million saplings and ensured high quality woodbased raw material for its paperbased business. In another initiative called e-choupal linking the villages electronically through

a PC kiosk, it has saved Rs 270 per tonne for farmers and the same amount for itself in procurement of soyabeans.

Another revolution has been brought by Unilever subsidiary in India, Hindustan Lever. They have created a distribution network of some 30,000 women called Shakti Ammas to distribute their products in remote villages as direct-to-consumer initiative targeted at individuals at the bottom of the pyramid. Training these women in entrepreneurial skills will have a cascading effect on the rural economy. Scaling up this model worldwide can have phenomenal results in alleviating poverty and bringing the poor into the market economy. .

There is a huge debate raging about CSR and its purpose. CSR is the market response to the changing expectations of the stakeholders. It has moved way beyond its philanthropic roots. CSR is not meant to benefit society at business's cost. CSR is integral part of the business. Market valuations of companies today have little to do with their profits. These are determined by the public perception of the long term sustainability of the business which in turn is measured by its business ethics and social acceptance. It was not long ago that a survey suggested that 60% of customers would punish companies which were found environmentally and socially irresponsible.

Fortunately, the detractors of CSR have little influence on the company's sales. These are influenced by their teenaged children whose expectations from businesses are vastly different from their parents. Today's markets are driven by 2 billion teenagers and not by the great and good of the City. Adam Smith has been often misquoted and misinterpreted to subserve sections of business lobbies. He staunchly believed in the social purpose of the business and also authored a less known book "The Theory of Moral Sentiments". He was unaware of the WorldCom, Enrons, Marconi & Equitable Life or the Nixon doctrine that guides the corporate morality: "You can disobey all the ten commandments as long as you follow the eleventh one "thou shalt not be found out". Corporations continually strive not to be found out. Had Adam Smith lived in the 21 Century, I am sure, he would have been the first proponent of CSR ?

This is not to say there is no pernicious element in the current practice of CSR. NGOs dissuading companies to invest in developing countries such as India and Bangladesh on the ground they are employing "sweatshop" labour are throwing the baby with the bath water and doing harm to CSR.

The true significance of CSR lies not because of its social purpose but because this is the only way for companies to make profits in a market where public expectations from corporations have undergone a sea change. The manner in which companies engaged in chemical, tobacco and mining and fossil fuel businesses have latched onto CSR is indicative of the business case of the CSR. These companies are smart and have realized that there is money to be made by making a difference to the lives of people.

Global corporations today have to face new geopolitical realities. As their businesses expand and operations extend beyond their borders, they have to transcend their parochialness and develop global mindsets. Having cried hoarse all along for minimising the government role in corporate agenda they cannot bank on governments alone to solve the egregious problems of poverty, peace and pollution. They have to take a proactive role and become part of the solution. The discontent stemming from disparities and inequalities provides lush recruiting ground for the evil ideologies that can spell doom for sustainability and security of the business. They have to realise that their biggest challenge today lies in managing diversity and bridging disparities, investing in local communities, seeking their trust and making a difference to their lives. That is the only way to survive and thrive. The alternative is chaos, anarchy and strife.