

Hohenheimer Working Papers Wirtschafts- & Unternehmensethik

Lehrstuhl 560 D

No. 10 (2009)

**Not only "a simple Math Equation".
Business Organizations as
Agents for Poverty Reduction**

**Michael Schramm
Judit Seid**

The measurement and analysis of poverty is a widely discussed issue and various definitions and concepts exist. Fact is, and what everybody agrees on: too many people are living in poverty. According to the World Resource Institute 4 billion people - the majority of the world's population - live in relative poverty, that means they have incomes below 3.000 \$/year PPP¹ and constitute the so called base of the economic pyramid (HAMMOND ET AL. 2007, 3). The Copenhagen Declaration that resulted from the World Summit on Social Development in 1995, defines absolute poverty as 'a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services' (UN 1995, 41).

850 million people worldwide - more than one in eight - suffer from hunger. 820 million of the hungry are from developing countries (FAO 2006, 8). 10 million people die every year from hunger and hunger-related diseases². 1.1 billion people don't have safe water (UNDP 2006, 5) and 2.6 billion lack basic sanitation (ib. 2006, 112) and more than 115 million children are still out of school (ib. 2006, 267).

1. In theory, everything seems pretty clear

1.1 The Economic Point of View

In 2003, former HP-Chief Executive CARLY FIORINA stated in Toronto, that the moral thing (= reducing poverty and hunger all over the world) on one hand and the business thing (= making profits or to be successful in business) on the other hand is only a „simple math equation“:

‘Increasing our competitiveness, doing the smart business thing as well as the right moral thing is for us a real simple math equation... Let me give you the math. We live today as a technology company in a world where only ten percent of the world can afford to buy

¹ Purchasing Power Parity: PPP conversion allows to compare on the basis of purchasing powers of the currencies in the respective market, free from differences in price levels across countries.

² Source: The United Nations' World Food Programme:
http://www.wfp.org/aboutwfp/introduction/hunger_who.asp?section=1&sub_section=1

our products today. And we also live in a world where increasingly, we are finding shortages of engineers and scientists to invent the technology for the future. So, as we look ahead and think about sustainable growth for our company - not just for the next quarter, but for the next decade and the decades beyond - we know that many of the markets, the customers, the talent, the partners, and the ideas are going to come from that other 90 per cent of the world that is underprivileged, underaccessed and underserved. It is in our profound, enlightened self-interest to ensure that we tap more talent in more markets - that we build more markets capable of buying and using and understanding our products and technology, and that we build customers around the world. Again, this to me is about the marriage of social and environmental objectives to business objectives, and that's an opportunity to create new value and raise the level of competitiveness of a company' (FIORINA 2003).

First, FIORINA's argument makes a diagnosis: Currently large parts of the world population are excluded from the productive transactions of the global market. Only ten per cent of the world population can afford the Hewlett Packard products as consumers. Also as producers (and for the development of ideas to new products) the talents of 90 per cent of the people out there are lying fallow. Starting out from this diagnosis of an exclusion of large parts of the world population, she names the inclusion of this majority of the population as an ethically desired aim (as "*the right moral thing*") and justifies this aim with the positive economic effects connected with that - both with regard to the world economy (a bigger world market = a broader prosperity) and with regard to the company's business (more innovative ideas and more consumers especially for the company Hewlett Packard by an actual usage of the economic potentials of the world market). For CARLY FIORINA the only consequence can be a broad extension of the global markets ("*build more markets*") - more markets, where more suppliers and more consumers create a higher prosperity, markets, where the 90 per cent of the world population, excluded at the moment, are integrated actively to take advantages out of these markets. And in this respect there is no fundamental conflict between social and business concerns, no conflict in principle between ethical and economic objectives, but a kind of matrimony between ethical and economic purposes (= "*the marriage of social to business objectives*").

So, things seem to be pretty clear from the economic point of view. What about the moral point of view?

1.2 The Moral Point of View

In 2007, philosopher THOMAS POGGE wrote about “Freedom from Poverty as a Human Right”: ‘We need only the political [+ *moral*] will to realize these freedoms through a concerted effort’ (POGGE 2007a, 9). If we only had the Kantian “good (moral) will”, the right moral thing would be realized. The problem of poverty would be solved. Hunger would be eliminated from this planet. It would really happen.

If the economic point of view and the moral point of view support this purpose, why don’t we get from A (= economic or moral theoretical reasoning) to B (= actual abolition of poverty)? In our view, the answer has to do with two things: First, there is a difference between theoretical justifications (economical justifications as well as ethical ones) and practical implementations. And second, we have to take a look at organizations, because only organizations can be the agents of change.

2. The Difference between Justification and Implementation

Theoretical (economical; ethical etc.) justifications for a certain objective (e.g. poverty reduction) are insufficient for a feasible (practical) implementation in several aspects:

2.1 Conflict of justified moral norms in actual situations

Philosopher JUERGEN HABERMAS distinguishes between two different levels of moral argumentation: The first level is the “discourse of justification” [*“Begründungsdiskurs”*]. This level of moral argumentation is about the justification of a certain moral norm in principle (e.g.: “You shall not lie”). The second level consists in the “discourse of application” [*“Anwendungsdiskurs”*]: This is the discussion about the appropriateness of conflicting moral norms in a certain local situation, e.g. the inhibition to lie versus the protection of life: It isn’t appropriate to tell a killer truthfully where he can find his victim; in this conflict the protection of life is the higher value. If you are familiar with the concept of HABERMAS you know

that both discourses are ethical ones: HABERMAS only knows ‘moral justification- and application-discourses [“*moralische Begründungs- und Anwendungsdiskurse*”]’ (HABERMAS 1991, 141).

2.2 The difference between “reality” and “actuality”

A second difference emphasizes the - let’s say - “ontological” status of moral norms in the world we live in. Philosopher ALFRED N. WHITEHEAD proposed a terminological differentiation between two forms of existence: The first is termed “*actuality*”, referring to the current facts, that what *is*. The second, he calls “*reality*”, and by this term a potential, but achievable existence is designated, that what *could be*. ‘The future has [...] reality in the present, but no [...] actuality’ (WHITEHEAD 1929/1979, 215). Reality is something that can become actual³ and ‘[t]he present is the [...] process whereby reality becomes actual’ (WHITEHEAD 1929/1979, 214)⁴.

Applied to the status of moral norms that means: Moral norms may be ethically justified (e.g. freedom from hunger as a human right). However, this valid ethical justification only founds a moral reality (a mere moral existence), not yet an actual existence in the “physical” world we live in. On the one hand, this moral reality of moral norms is (more or less) independent from the actual status quo, and actuality cannot wipe this moral reality out of exis-

³ ‘It is the reality of what is potential’ (Whitehead 1929/1979, 66).

⁴ Whitehead is the creator of the so-called “process philosophy”, in which the actual and present world is understood as a *process*. An actual process presupposes possibilities which can be actualized: “The process [...] is the transformation of the potential into the actual”(Whitehead 1936/1968, 151), so ‘[t]he process is the achievement of actuality’ (Whitehead 1927/2007, 114). His main work is titled “Process and Reality” (Whitehead 1929/1979).The term *reality* describes the potentials for the actual processes of the current world. Whitehead also carries out another distinction, namely the one between “*general*” or “*pure*” potentiality on the one side and “*real*” potentiality on the other. He calls the *general* or *pure* potentials “*eternal objects*”: ‘The *eternal objects* are the *pure potentials* of the universe’ (Whitehead 1929/1979, 149). These *pure* (or *general*) potentials are the absolute realm of all conceivable potentials for current processes, which, to the far predominant part however, cannot be actualised here and now . The *real* potentials on the other hand are really achievable. They are something that could be actualised here and now. So, there is ‘the ‘*general*’ *potentiality*, which is the bundle of possibilities [...] provided by the multiplicity of eternal objects, and [...] the ‘*real*’ *potentiality*, which is conditioned by the data provided by the actual world. *General potentiality* is ab-

tence⁵. On the other hand this moral reality of justified moral norms alone doesn't provide their application or implementation in the actual world. And the reason for this is the poly-dimensionality of the world we live in.

2.3 Poly-Dimensionality of the actual World

The world we live in (= the actuality) is a polydimensional one: Not only the moral point of view may matter, but also the economic point of view or technological aspects, political circumstances, juridical conditions and so on. All these dimensions are realities, which are (or can be) important for the development of the actual world.

If we want certain ethical claims (e.g. freedom from hunger) to become actual, it is surely not sufficient to indicate only the moral point of view, since the economic code also matters. The realization of poverty reduction is not just an application of this ethically justified objective. The stepwise implementation of poverty reduction is a polydimensional process, which always has to take several aspects into account, moral aspects as well as economic or political ones.

3. Organizations as Agents of Change

The second point emphasizes the significance of organizations as effective agents of change⁶. According to the New Economics of Organization, institutions have a certain function and organizations follow objectives. Institutions are no actors and organizations are (collective actors). So we first suggest, that *only organizations are effective agents of* (institutional etc.) *change* and secondly we want to point out that the implementation of poverty reduction is a

solute, and *real potentiality* is relative to some actual entity' (Whitehead 1929/1979, 65) or the given actuality.

⁵ In this sense Pogge (2007b, 13) is right: '[E]ven all governments together cannot legislate such rights [*e.g. freedom from poverty as human right*] out of existence'.

polydimensional process, and we therefore need a *network of different types of organizations* for a sustainable fight against poverty and hunger⁷.

4. Business Companies as Agents of Change

If we focus on companies as agents of change, the question arises:

4.1 Why companies?

There are several answers to this question:

1. Oftentimes we need other actors than the domestic governments. If local governments of developing countries are oppressive and economically incompetent, other actors (organizations) have to close the gap.
2. Global players are on-site.
3. With the power they often have they can contribute to regulation, laws and policy making in the countries they operate.
4. Companies can/could be effective agents, because they are equipped with capital and know-how.
5. Companies are interested in tapping (emerging) markets (of consumers and producers)⁸.
6. As investors and employers they are bringing new technologies and products into developing countries. They create new job opportunities – for people directly employed by them and also by possibly creating demand for local suppliers.

But: There is an important restriction for business companies, as stated in the next chapter.

⁶ Douglas North carries out a terminological distinction between “institutions” and “organizations”: ‘Institutions are the rules of the game’ (North 1990, 3); but organizations are ‘groups of individuals bound by some common purpose to achieve objectives’ (ib. 5).

⁷ The Global Compact is, for example, a (multi-stakeholder) compact of organizations (political organizations, e.g. UNHCHR, ILO, UNDP; civil society organizations, e.g. NGOs; business organizations, e.g. companies).

⁸ ‘It is easy to understand why multinational corporations have played such a central role in globalization: it takes organizations of enormous scope to span the globe to bring together the markets, technology, and capital of the developed countries with the production capacities of the developing ones’ (Stiglitz 2006, 197 f.).

4.2 Constraint: Companies are polydimensional organizations, but always organizations of the global economic system

Companies are polydimensional organizations, which have to process their transactions in different “language games”⁹ (codes): e.g. economy, law, technology or morality. In this sense, a firm is an organization, which has to play and to master different types of language games (codes). Not only the language game of the market, which codes everything in prices, but also the language games of law, technology, politics and morality. Nevertheless: it is the economic code (\pm cost/profit or \pm expenditure/return)¹⁰ which functions as a framing code, as a restriction, that no company can afford to ignore. Not everything in the corporation is economic, but every operation of a company has economic consequences¹¹.

⁹ Wittgenstein’s concept of the “language games” names the different (possible) uses of words and languages (Wittgenstein 1953/2001, §7). ‘But how many kinds of sentence are there? Say assertion, question, and command? - There are countless kinds: countless different kinds of use of what we call “symbols”, “words”, “sentences”. And this multiplicity is not something fixed, given once for all; but new types of language, new language-games, as we may say, come into existence, and others become obsolete and get forgotten. [...] Here the term “language-game” is meant to bring into prominence the fact that the speaking of language is part of an activity, or of a form of life’ (ib. §23). Wittgenstein names, for example: giving orders, reporting an event, making a joke, solving a problem in practical arithmetic, thanking, cursing, greeting, praying (ib. § 23). So, the “meaning” of a word is not defined by the object any more, but by the use of the word in the language game, encoded by a local situation type. ‘For a large class of cases - though not for all - in which we employ the word “meaning” it can be defined thus: the meaning of a word is its use in the language’ (ib. § 43).

¹⁰ Luhmann (1997) and Luhmann (1989). Luhmann’s Social Systems Theory describes the evolution of society through functional differentiation. An (individual or collective) actor is forced to use certain “binary codes” to communicate a particular concern. Every communication operates by selected codes: e.g. the economic, the political or the juridical code. So every functional differentiated system (economy, politics etc.) is defined by a distinct “program”, which appreciates only certain aspects. All the other others belong to an “environment”, which cannot be perceived by the system. The market system for example exclusively uses a monetary code (\pm costs), a company however is a polylingual organization, which has to process a set of different codes.

¹¹ ‘[F]irms are polylingual systems. Unlike the market, which has to code every event in prices in order to be able to communicate it, firms have to be able to simultaneously or selectively evaluate and process relevant events in many different “language games” - economy, technology, law, process, morality. The economic code - expenditure/return or cost/profit - has a lead function in the overall bundle of the polylingual resources of the firm when it comes to decisions; this reflects the fact that it is the market system that structures the environment of the firm. Firms are organizations of the economic system: everything relevant in firms has economic relevance or consequence. But not everything in the firm is economic’ (Wieland 2001a, 79 f.).

4.3 Governance: How to implement the moral objective of poverty reduction

Given this restriction, there are still different dimensions important for a corporation, which aims at the implementation of a moral objective, e.g. poverty reduction. German economist and business ethicist JOSEF WIELAND distinguishes four arguments, relevant for the actualization of the moral dimension (m) of an economic transaction (T):

$$Tm_i = f(aIS_i, bFI_{ij}, cIF_{ij}, dOCC_i)$$

$$(a \dots d = -1, 0, 1)$$

i = specific transaction; j = specific location

The basic idea of WIELAND's "ethics of governance" consists in the consideration that all problems of business ethics can be reproduced micro-analytically as the moral dimension of distinct economic transactions¹². The governance function now differentiates between four arguments, which are crucial for the actualization of the moral dimension (m) of a business transaction (T).

- *IS* stands for *individual self-commitments* (principles of the virtue, rational advantage calculations or other mechanisms). The indicator i signals that there are differences from person to person and from transaction to transaction.
- *FI* displays the *formal institutions* which are relevant for the local transactions of a given company in a certain country, state or region. Examples are national laws for environmental protection or against corruption.
- *IF* stands for the *informal institutions* that could get effective with regard to a certain economic transaction. Religious or moral convictions of a given local culture are part of these informal institutions as well as the organizational culture of a business company. For example, the moral assessment of corruption may be deeply established in the cultural basic convictions of a certain society.
- And finally, *OCC* means the *coordination and cooperation mechanisms* of a certain organization, by which transactions (guidelines, proceedings of business processes, policies and procedures) are led, steered and checked. Without these mechanisms there could be no ef-

¹² See Wieland 2001b, 9 f..

fective implementation of moral requirements in business transactions (e.g. renunciation of child labor or corruption).

The values $(-1, 0 \text{ or } 1)$ of the coefficients $a \dots d$ display whether the arguments IS , FI , IF and OCC of the function are effective or not.

The challenge now is to merge or to balance all these dimensions in a comprehensive way. We think there is no general answer on how to do this - it always depends on the company, on the people involved, on the country where you operate and so on. To substantiate this difficulty we will outline three case studies.

4.3.1 How to be profitable in an integer way

Nestlé was founded in 1866 and is the world's largest milk company since the early 1900s. Milk Districts were part of Nestlé's business model from the very beginning. Nestlé originally developed its milk district model in Switzerland but the company's expansion was - and still is - driven by the fresh milk supply. That is the reason why in 1920 Nestlé turned to start production in emerging countries, first in Araras, Brazil¹³.

Establishing Milk District Models in emerging countries doesn't only mean signing contracts with small farmers, setting up a factory and establishing an efficient milk collection system. Apart from that it also means to implement a program to improve milk quality - for example to provide farmers with training and advice on dairy farm practices and crop production.

Nestlé's milk district models are very successful for both sides, the company and the farmers. Nestlé usually enters areas where opportunity before was scarce and trains the locals, guarantees wages, provides long-term jobs and develops a quality end-product. According to MARTIAL GENTHON, Nestlé's technical director of global dairy operations, 'it is always the most remote area that is the poorest and less developed. So bringing a milk collection center to an area like that is a blessing for the village, and starts the whole economic development of the place' (GOLDBERG AND HERMAN 2006, 12).

¹³ If not stated differently information is taken from the case study "Nestlé's Milk District Model: Economic Development for a Value-Added Food Chain and Improved Nutrition" from the Harvard Business School.

Nestlé's milk districts generate higher incomes for farmers and the community at large. They are growing on average by 2-5 % annually, but some of them were growing as much as 10 %. Farmers were doubling their output and increasing their disposable income because consumption of milk products and sales increased dramatically in most of the emerging markets. And HANS JÖHR (Nestlé's corporate head of Agriculture) confirms that usually 'one dollar flowing back to the rural area gives another three or four dollars to the local economy' (GOLDBERG AND HERMAN 2006, 12).

The business model Nestlé chose with its milk districts demonstrated that a win-win situation is possible. Nestlé is economically successful but their activities also improved family living conditions in the areas they were active, provided consistent education to children and cultivated stronger livelihoods. Farmer's incomes were higher and the district's rigid criteria concerning milk quality played an important role in an improved state of health and nutrition and therefore had a positive impact on poverty reduction.

Regarding the milk district models 'Nestlé integrated its corporate objectives into one model that was responsive to poverty alleviation and malnutrition while simultaneously attaining its corporate strategic long-term revenue and profit goals' (CHRISTIANSEN 2008, 11).

4.3.2 How to make the moral thing profitable

Flores is an island in Indonesia and offers a lush vegetation. Agriculture is the principle source of income for the 2 million people living on that island. Nevertheless - according to the World Bank definition - these people are poor because they live on an average of half a dollar a day.

JOHANNES SCHWEGLER had been living and working in Indonesia for the *Swisscontact* foundation until the year 2005. He saw the agricultural wealth on Flores and was asking himself how to better use all these natural resources for the benefit of the poor¹⁴. He was looking for a product which could be competitive on the world market and he found the cashew nut.

¹⁴ If not stated differently information is taken from the TV documentation "Wie eine harte Nuss geknackt wird [How to crack a hard nut]".

The cashew nut grown on Flores is of one of the best qualities worldwide, however the farmers had no choice than selling it unprocessed to chinese wholesalers with basically no return.

This is where SCHWEGLER and *Swisscontact* came in. They developed a method to cold crack the nuts in a way to not destroy any valuable ingredients, they improved access to market information for the farmers and they founded the Cashewnut Consulting Center where trainers were educated to give qualified training to farmers and where the whole processing of the cashew nuts takes place. Swisscontact, in addition, helped the farmers to get the IMO certification of organic and eco-friendly products.

The project was started by the principles of sustainability and granting a perspective to the people in one of the poorest regions of Indonesia. But it was doomed to fail because the farmers had no buyers for their organic nuts and would have been forced to sell them for low, dictated prices on the conventional market. SCHWEGLER convinced JOCHEN WOLF and MARTIN STECKDAUB to take the risk and they decided to buy 60 tons of nuts and try to set up a distribution network in Europe – that was the birth of Flores Farm (GmbH). When they started they had no idea whether it would work or not to sell these nuts in Europe. That was three years ago and today Flores Farm is a successful and profitable little company. What keeps them going ,is the production and trade of natural foods of the highest possible quality - combined with granting a bit of independence for emerging countries' (WOLF IN KOVACSICS AND DEGERT, 2006).

4.3.3 How to invest in human capital

Migros was founded 1925 and is today the largest retail store in Switzerland and one of the biggest 500 companies in the world. There had always been a special attention on the problem of child labor at *Migros* and they were aware that bans alone would not be the solution. Therefore they were looking for new ways to solve the dilemma of families in the developing world who send their children to work because they need the money to survive.

In December 2000, the *Migros-Kids-School* (Tirupur, South India) opened it's gates for 43 kids (2008: 1011 kids). The kids receive education there as well as meals and medical care services. To finance the expenses a label system (of K.I.D.S. = kids in deficient situations)

had been created, which can help generate buying incentives for western consumers interested in morals. Local Migros's suppliers can voluntarily buy these labels from K.I.D.S (2 rupies apiece) and the running charges (books, school uniforms, salaries, schoolbus and electricity or water supply etc.) of the school are (partly) financed with the proceeds of this label selling. Also other *Migros* suppliers are helping the Kids School by not sending business gifts at Christmas and instead donating the money to the kids.

Surely, this *Migros-Kids-School* is little more than a drop in the ocean, but for more than 1.000 kids it is an alternative to child labor or street prostitution¹⁵.

5. The Base of the Pyramid Approach as a strategic business decision

Poverty is the most pressing global problem today and there definitely is a need of innovative solutions. Traditionally the poor, the base of the economic pyramid (BoP), had been the target group of the development community. The corporate world however has its focus generally on the top of the pyramid. The BoP from the point of view of business or from a strategic perspective is relatively new¹⁶. At the World Economic Forum 2002 KOFI ANNAN highlighted the role of business regarding poverty alleviation and stated that “there are many positive ways for business to make a difference in the lives of the poor - not through philanthropy, [...] but through initiatives that, over time, will help to build new markets”¹⁷. The BoP perspective aims for exactly this and aligns business-oriented incentives for growth, innovation and profit with the development community's efforts of poverty reduction and a more inclusive capitalism.

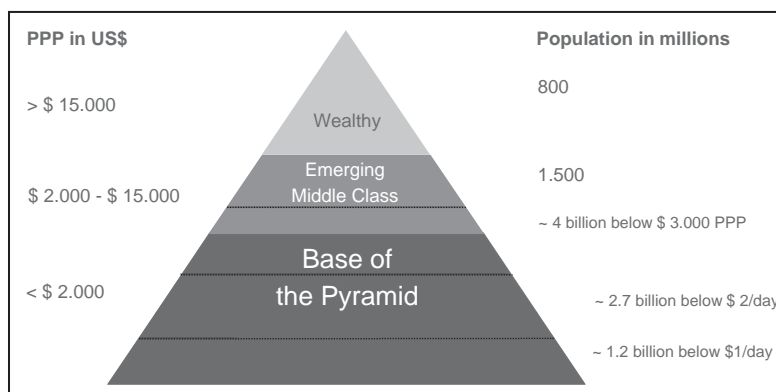
¹⁵ More information: http://www.k-i-d-s.org/projekt/projekt-1/langswitch_lang/en;
<http://www.migrosmagazin.ch/pdf/index.cfm?ausgabe=200712&seite=62>

¹⁶ The field of research around the concept of the “Base of the Pyramid (BoP)” is relatively young. The debate was started in 1997 when C.K. Prahalad and Stuart L. Hart wrote their first working paper „The Strategies for the Bottom of the Pyramid“, which was not published until five years later (Prahalad and Hart 2002). Since then the topic is constantly gaining momentum.

¹⁷ The speech of Kofi Annan at the World Economic Forum 2002 can be found here:
http://www.revistainterforum.com/english/articles/021102artprin_en2.html

5.1 Characteristics of the BoP

There are two options to define the BoP: on the one hand by income data (see graphic¹⁸) and on the other hand through characteristics that all BoP markets have in common¹⁹.



1. BoP Segments for the most part are not integrated into the global market economy and do not benefit from it.
2. People in the BoP segment have significant unmet needs (for example they are mostly not integrated in the formal banking system, lack access to water, electricity and health care and live in informal housing quarters with no formal title to their dwellings).
3. Most in the BoP depend on informal or subsistence livelihoods. They lack good access to markets to sell their labour and often have no choice but to sell to middlemen who exploit them.
4. The BoP segment often pays higher prices for basic goods and services than do wealthier consumers - either in cash or in the effort they must expend to obtain them - and they often receive lower quality as well.

5.2 From selling to the poor (consumers) to seeing them as part of the value chain (producers and consumers)

When PRAHALAD and HART first published their paper their core idea was to offer cheaper and need-oriented products to the world's economic base of the pyramid, the 4 billion people with incomes below 3.000 \$/year PPP. In his book „The Fortune at the Bottom of the Pyra-

¹⁸ See Prahalad and Hart 2002; Prahalad and Hammond 2002; Hammond, Kramer, Robert, Tran and Walker 2007.

¹⁹ See Hammond, Kramer, Robert, Tran and Walker 2007, 4f.

mid“ (PRAHALAD 2004/2006), PRAHALAD proposes that there are tremendous benefits for multi-national companies who choose to sell to the poor, since there is much untapped purchasing power at the base of the pyramid:

„Certainly the purchasing power for those earning less than US \$2 per day cannot be compared with the purchasing power of individuals in the developed nations. However, by virtue of their numbers, the poor represent a significant latent purchasing power that must be unlocked’ (PRAHALAD 2004/2006, 11).

By selling to the poor, companies can bring prosperity to the base of the pyramid and thereby help reduce poverty. ANEEL KARNANI however argues that there is no fortune at the base of the pyramid. The market is quite small and furthermore the cost of serving this market can be very high (KARNANI 2007, 6). „There is little [...] fortune at the bottom of the pyramid – unfortunately, it is (almost) all a mirage’ (ib., 4). He suggests that companies can help alleviate poverty by raising the income of the poor while focusing on the poor as producers²⁰. Selling to the poor is only one side, it ignores the need for the poor to have income generating opportunities by selling what they have or do best.

A very practical approach is now advanced by HART. Together with ERIC SIMANIS and others, he led the development of the Base of the Pyramid Protocol, a „business incubation process that enables multinational corporations to generate new business opportunities at the BoP’²¹ together with the income-poor communities they want to operate in. The goal is to establish sustainable and successful businesses, in a process of mutual partnership and co-creation. TED LONDON²² highlights the importance of co-creation as well (LONDON 2007, 17) and he also points out the importance of partnerships - „mutually beneficial partnerships’ (ib., 19) - and the principle of self-financed growth (ib., 22).

²⁰ A critical analysis of the vision of Prahalad offers: Landrum 2007.

²¹ BoP Protocol: <http://www.bop-protocol.org/>

²² Ted London is also involved in the BoP Protocol and he is the Director of the William Davidson Institute Base of the Pyramid Initiative (<http://www.wdi.umich.edu/ResearchInitiatives/BasePyramid/>).

5.3 Principles of the BoP perspective

Next to the above named principles of co-creation/partnership and self-financed growth the principles of external participation, connecting local with non-local and focusing on what is already right and functioning at the BoP are in sum the characteristics that distinguish the BoP perspective from other poverty alleviation approaches²³.

1. External Participation: A non-native organization enters the informal economy where the poor live and operate. To do so the development of native capability, ‘the ability to create a web of trusted connections with a diversity of organizations and institutions, generate bottom-up development and understand, leverage and build on the existing social infrastructure’ (LONDON AND HART 2004, 364) is needed²⁴.
2. Co-Creation: Instead of importing pre-existing mindsets and solutions, knowledge developed at the top of the pyramid is combined with the wisdom and expertise found at the BoP. This enables the co-creation of models and products that work for the poor as well as for the companies involved.
3. Connecting Local with Non-Local: Serving the poor with products and services they did not previously have access to (BoP as consumers) or taking BoP-produced goods or services to non-local markets (BoP as producer).
4. Patient Innovation: Entering BoP markets and developing business models for these markets can be compared with R&D investments of a firm – it is a innovative process and a long-term orientation is needed.
5. Self-Financed Growth: The key to growth and scalability of BoP ventures is profitability. Unmet societal needs are seen as potential business opportunities²⁵. The more value is going to be created for the poor (the better the needs of the poor are met), the greater is the return for the venture.
6. Focusing on What is “Right” at the BoP: Firms that want to work with the poor and operate in the informal sector need to learn from and adapt their business to it. They ought to

²³ See London 2008.

²⁴ See also London and Hart 2005.

²⁵ This is the fundamental presupposition of the BoP Approach. See for example Prahalad and Hart 2002, London and Hart 2004 und Prahalad 2004.

focus on what is already “right” at the BoP and enhance it. Existing resources, expertise and social infrastructure have to be integrated in the BoP strategy²⁶.

Poverty is multidimensional and therefore poverty reduction programs and strategies have to be creative and multidimensional as well. Market based approaches, like for example the microfinance services of MUHAMMAD YUNUS (YUNUS 2008; YUNUS 2001) and the Grameen bank are one, have proven to be very successful. Since the nineties they have - with the concept of private sector development - become an inherent part of programs of development organizations.

6. Development Organizations and Private Sector Development

,Next to illness and injury the scope for entrepreneurial activity and the availability of jobs is the most important factor determining the fate of poor people - for better or for worse’ (WORLD BANK 2001, 2). What one agrees upon is that achieving the Millennium Development Goals (MDGs)²⁷ will require rapid and sustained pro-poor growth²⁸ in developing countries. And it is the private sector that drives the economic growth these countries need. Enabling the poor to benefit from this economic progress and growth and creating an enabling environment for them is at the core of the development challenge. The DAC Committee of the OECD²⁹ states that ‘private sector development promotes efficient economic growth and development and is a source of wealth, dynamism, competitiveness and knowledge’ (OECD 1995, 9). ‘Fundamentally private sector development is about people: releasing and harnessing their productive potential and satisfying their human needs and desires; and creating pluralistic societies which provide both human freedom and human security’ (ib., 10).

²⁶ London and Hart 2004 and London and Hart 2005.

²⁷ The eight MDGs – which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, all by the target date of 2015 – have been signed by 192 UN member states. <http://www.un.org/millenniumgoals/>.

²⁸ The Organisation for Economic Co-Operation and Development (OECD) defines that for growth to be pro-poor, ‘what matters is that the rate of growth is high, that the pattern of growth provides opportunities for the poor to increase their incomes, and that they are enabled to take advantage of these opportunities’ (OECD 2004, 19).

Private Sector Development (PSD) can include some or all of the following interventions/approaches³⁰:

1. Enhancing regulatory environments (rule of law, governance, accountability, transparency).
2. Reforming the business environment and legal context faced by businesses, including micro-enterprises and small and medium enterprises (SMEs).
3. Supporting market opportunity driven providing of goods and services to the poor through the market and facilitating the direct involvement of private sector in non-traditional sectors.
4. Harnessing international economic linkages and improving market access and functioning.
5. Strengthening market institutions and developing regulatory frameworks that support domestic PSD and/or serve poorer segments of the society.
6. Improving capacities and business skills of private sector actors, such as through improving the provision of business development services.
7. Improving access to finance for businesses, particularly micro-enterprises and SMEs.

7. Partnerships

As already stated in Chapter 3 a network of different types of organizations is needed for a sustainable fight against poverty and hunger. But not only a network of independent working organizations is required. Working separately and developing activities in isolation can lead to wasting resources and duplicating efforts and too often runs the risk to end up in a situation, in which failure is seen as someone else's fault. Working in partnerships³¹ that are designed, developed and managed in a systematic way can be highly effective on the one side and also very sustainable on the other side. Skills and resources as well as qualities and com-

²⁹ The Development Assistance Committee (DAC, www.oecd.org/dac) is the principal body through which the OECD deals with issues related to co-operation with developing countries.

³⁰ See for example UNDP (<http://www.undp.org/psd-toolkit/>), World Bank 2002 and OECD 2004.

³¹ Many different definitions of the concept of partnership exist. To put it simple, a partnership can be defined as "an agreement to do something together that will benefit all involved" (Frank and Smith 2000, 5).

petencies of each sector can be combined and harnessed in a way that ‘the whole is more than the sum of its parts’ (HOLLIDAY, SCHMIDHEINY, WATTS 2002, 150). Organizations from the business sector differ from development organizations in capabilities as well as motives and they also use different approaches (see Chapter 5 and 6). In short, the objectives of the business sector are investment and trade by creating goods and services, providing innovation, employment opportunities and economic growth and making profit to ensure further existence. Organizations from the civil society (to which development organizations belong) aim for social development by creating opportunities for individual growth, providing services and support for those in need and acting as guardians of the public good³². These differences though carry great potential and the chance to work hand in hand on the goal of poverty reduction.

However, so far research on partnerships between development organizations, especially organizations that do private sector development at the BoP, and companies which are doing business there is only at its beginnings. More analysis and elaboration of the processes that link BoP business strategies with poverty alleviation efforts is needed as well as more research that examines how alliances and partnerships between these two actors work for the benefit of the poor.

8. Beyond the theories

Economic or moral theories are important, but neither the good moral will only nor the simple math (of cooperation returns) shows us a way from A to B.

First, we have to face the fact, that the implementation of poverty reduction is a *step-wise process* (KARL R. POPPER: “piecemeal social engineering”).

In the second place: The fight against poverty is a *polydimensional process*, which has to integrate the moral and the economic point of view.

³² See Tennyson 2003, 3.

Third, as C. K. PRAHALAD said, a mind shift is needed: We have to ‘stop thinking of the poor [*only*] as victims or as a burden and start recognizing them as [...] creative entrepreneurs and value-conscious consumers’ (PRAHALAD 2006, 1).

And last, partnering and building strategic alliances are an increasingly important feature to achieve the goal of poverty reduction.

More and more positive examples from the corporate world demonstrate that morality can turn out to be economical if done the right way. Sure, doing business in the developing world is often different from doing business at the top of the pyramid and the poor as a market challenges the traditional beliefs and usual procedures of business managers³³. Therefore a mind shift is needed as well as the willingness at company top-level to interact with the base of the economic pyramid in a way that both sides benefit.

The moral point of view certainly isn’t only concerned with potential gains or cooperation returns (= economic point of view), but with the identity of social life. Nevertheless, in reality (in the world we live in) they are connected, and the moral point of view isn’t independent from the economic dimension. So, we have to face the truth, as Shirley Chisholm (first major party African-American candidate for President of the United States; †2005) said: ‘When morality comes up against profit, it is seldom profit that loses’. But also the other way round: When profit comes up against morality, the poor are seldom those, who profit. And this is - in our eyes - the challenge of the future: to discover synergies between profit and morality and to create win-win situations that generate profit for business organizations as well as the poor.

³³ See Prahalad 2004, 6ff.

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