

Reinventing Poverty Alleviation Strategies Through Corporate Social Responsibility

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Abstract. Poverty is one of the biggest problems facing our society today. To date, most of the response to this has been by non-profits or NGO's, but more recently academics and a few business organisations have become aware of the so called 'bottom of the pyramid' market and how by addressing this market, the poorest may be able to be helped as well as there being a benefit to the company. In this paper we analyse poverty alleviation programs launched by corporations and propose an empirical study as a way to identify successful poverty alleviation strategies more systematically and effectively.

Key words: poverty alleviation, 'bottom of the pyramid' market, company benefit

Abstrak. Kemiskinan adalah masalah terbesar yang dihadapi masyarakat kita saat ini. Selama ini yang tanggap terhadap masalah ini adalah lembaga nirlaba atau LSM, namun akhir-akhir ini para akademisi dan beberapa organisasi bisnis mulai menyadari apa yang dikenal sebagai pasar "dasar piramida" dan bagaimana memanfaatkan pasar tersebut, yang paling miskin dapat dibantu seiring diperolehnya keuntungan bagi perusahaan. Dalam tulisan ini kami menganalisis program-program pengurangan kemiskinan yang dilancarkan oleh korporasi dan mengusulkan studi empiris sebagai jalan mengidentifikasi strategi penanggulangan kemiskinan yang berhasil dengan lebih sistematis dan efektif.

Kata kunci: penanggulangan kemiskinan, pasar "dasar piramida", keuntungan perusahaan

Poverty is a social, political, moral and economic problem. The poor are often trapped in this situation for most of their lives with little hope to escape for themselves and their children. They are being constantly connected with some of the most pressing social and political problems of our time: crime, violence, broken families, loss of communities, public health crises overpopulation, and environmental degradation, corruption, poor governance, and ethnic conflict. (Baneerjee, Benabou, & Mookherjee, 2006).

Data show that about a fifth of the world's population survive on less than \$1 per day and almost half of the world's population survives with only \$2 per day (Prahalad & Hart, 2002). What can be done to alleviate poverty? In this paper we first outline the unique opportunities dealing with low-income consumers as

they are important joint problem solvers. We then review CSR and types of poverty alleviation strategies launched by corporations. We conclude by proposing an empirical research program as a way to improve the effectiveness of all these programs.

Poverty and Opportunity

The World Bank (2001) defined poverty as relevant to the current condition and is expanded to include all the dimensions of human well-being: adequate food, shelter and comfort; reduced vulnerability to external shocks; access to education, health care, and basic infrastructure; and the opportunity to participate in social and political life on an equal basis with the rest of the population. The poor have to endure external and uncontrollable events – hunger, violence, illness, unemployment, natural disaster, malnourishment, and depression (Henderson, 2004). Many markets and social groups are rejecting them as well. Dealing with poverty leads to tre-

* This artikel was delivered at the ANZMAC Conference, University of Otago, held December 3-5, 2007, in Dunedin, New Zealand. Courtesy of Denni I. Arli, S.T., M.A., School of Marketing, University of New South Wales, South Wing 3rd Floor Quadrangle Building, Sydney 2052, Australia.

mendous challenge and opportunity as the poor would prefer a better life but they are in an acutely constrained environment and are often discouraged because they are powerless to achieve a better life.

The poor are survivors who are both adaptive and value and brand conscious. The poor can be determined to achieve when they have the opportunity (Magleby, 2006). "The poor do not want charity. They want to be active players in the market economy. They want jobs; they want bills – a welcome sign of legitimacy; they want choices and even leisure products that some outside observers would consider luxuries" (World Business Council for Sustainable Development 2005, p. 25).

Most companies tend to focus on the upper and middle class, but there is a huge potential of consumers who have little disposable income but are a promising market if businesses can rethink their strategies. "Looking outside the box offers opportunities for innovative and visionary firms to develop technologies, products and services geared specifically at meeting the unmet needs in the emerging and survival economies" (McIntosh & Mohan 1999, p. 2).

Prahalad (2005) argues that large-scale and widespread entrepreneurship is the key solution to poverty reduction strategy by offering them choices and encouraging self-esteem. Matthews (2002) suggested that companies need to incorporate social performance and specifically poverty reduction into their business development strategy because fighting poverty helps create a secure and stable society that assists businesses in a number of ways. Currently, there are more and more companies recognising the importance and value of combining commerce and social development. By focusing on wealthy consumers and partner organisations who participate in the formal economy, these firms are seeing only the tip of the iceberg (London & Hart, 2004). According to Prahalad (2005, p. 3), "What is needed is a better approach to help the poor, an approach that involves partnering with them to innovate and achieve sustainable win-win scenarios where the poor are actively engaged and, at the same time, the companies providing products and services to them are profitable". Next, we will discuss Corporate Social Responsibility as a medium to reach the poor.

Corporate Social Responsibility

"Corporate Social Responsibility is the commitment of businesses to behave ethically and to contribute to sustainable economic development by working with all relevant stakeholders to improve their lives in ways that are good for business, the sustainable development agenda, and society at large" (World Bank, 2001). But is CSR able to alleviate poverty? According to Yunus (1998) people can escape poverty if they are supported by institutions that assist them to achieve their potential in a favorable environment. Kolodner (1994) suggested that the private sector through their CSR programs can sufficiently impact whole nations in reducing poverty.

Drucker (1984) argued that governments are inherently unsuited to the time dimensions of social problems. Drucker argued that we need to focus on the private sector instead of governments to help alleviate poverty. Additionally, for many years the World Bank, donor nations, various aid agencies, national governments and civil organisations have fought to eradicate poverty, but the result is discouraging.

According to Costello (2007), many companies were often unaware of the possible contribution they could make in alleviating poverty. But why should companies integrate social performance, specifically poverty reduction, into their business strategy? There are several underlying reasons: first, fighting poverty helps establish secure and stable societies that benefit business in a number of ways. Second, poverty exacerbates a number of conditions - including environmental degradation, inadequate health, education system etc (Hill, 2001) that add directly to the cost and risks of doing business. Overcoming these problems helps to reduce cost, improve resource efficiency and boost productivity (Matthews, 2002). Third, corporations will obtain an informal social license, assisting in conducting business in sensitive environments. The result could produce competent and healthy workers, prosperous consumers and investors, and provide the predictable, rule based and non discriminatory trading and financial systems, through which transaction costs can be reduced and corruption eliminated.

As a summary, CSR is an effective medium for

the company to reach low income consumers and alleviate poverty. It is regarded as a vehicle through which the private sector can contribute to poverty reduction and other social objectives (Fox, 2004). We now discuss various poverty alleviation strategies currently available.

Poverty Alleviation Strategy

In general, there are three types of poverty alleviation strategies used by corporations. The first model is the 'profit' strategy. This model enables the company to explore the untapped market of low income consumers by creating affordable goods and services with the expectation to find profit within these low income consumers (London & Hart, 2004). The starting point is the company's resources and capabilities, then the creation of innovative products and/or services to match the needs of low income consumers. The poor then will bring the wealth back to the company. As an example, Hindustan Lever Limited (HLL) an Indian subsidiary of Unilever has been extremely successful with this strategy to reach the bottom of the pyramid consumer (Ellison, Moller, & Rodriguez, 2002). HLL was not afraid to experiment with new types of distribution (Balu, 2001). HLL also uses various different partners to distribute its product, and also supports the efforts of these partners to build additional capabilities. By using these flexible market entry processes, the company has been able to generate over \$1 billion in revenues from serving this low-income market in India alone (Ellison, Moller, & Rodriguez).

The second model is the 'non-profit' strategy. The poverty alleviation programs are launched by non-profit organizations. The organization directly provides help for the poor with nothing expected in return. As an example, the St. Vincent de Paul Society of Australia supports homeless men, women and children, families and youth with financial assistance, temporary shelters and other social activities.

The final model is a CSR model. This is where the company has a social mission. This model uses the problems and challenges faced by low income consumers as a starting point. The problems are critically analysed and solved with both parties reaping the benefits. The starting point of this strat-

egy is the poor. The poor offer challenges and opportunities; subsequently social strategy is created to solve these problems. The products and services will bring wealth to the low income consumer and then transfers back to the company who supplies it. The difference with the previous two models is that problems and challenges for low income consumers are solved while both can benefit from the relationship. These types of company combine the passion of a social mission with an image of business-like discipline, determination and innovation (Clayton, Bau-mann, Ruggles, & Sadtler, 2006). The central criterion for this company is mission-related impact, not merely wealth creation (Dees, 2001). By using the low income consumer as important joint problem solvers, we can concentrate and tackle the cause of problems not just the symptoms. Understanding the dynamics of poverty is a key factor to delivering an effective poverty alleviation strategy. Unfortunately, although an increasing number of firms are exploring the economic opportunities for low income consumers, strategies in these markets have not been empirically examined in the marketing literature (Hout, Porter, & Rudden, 1994; Bartlett & Ghohal, 1989; London & Hart, 2004).

Empirical Research

These models are the starting point for our empirical research. We will use a cross-sectional multiple-case studies research design. This will include (a) Interviews with managers who are involved in CSR strategy from various sectors (e.g. Banking, Pharmaceutical). The interviews with managers are especially important when it comes to critically evaluating the role of companies' capabilities in successfully launching a CSR program targeting low income consumers (Hart & Christensen, 2002). We will include both successful and unsuccessful programs; (b) Interviews with managers from various non-profit organisations that are involved in poverty alleviation programs. Again we will include both successful and unsuccessful programs; (c) Interviews with 'low income individuals' as recipients, including direct observations which involve a field visit. We will draw a random sample of individuals from each community group (ie. case study) for in-depth interviews.

The unit of analysis is the low income individual (involved in a program) and key informants (Companies with CSR programs and non-profit organisations). Pattern matching and explanation-building within the case will be applied to increase internal validity (Yin, 1984). There are several objectives. First, we will conduct an analysis of firm mechanisms leading to entering a poverty alleviation program. We propose that these antecedents will greatly impact the consequences. Second, under what conditions do CSR and non-profit programs succeed or fail. Third, analysing the impact of these programs from the perspective of the poor is crucial in refining the shortcomings of many CSR and non-profit programs.

We aim to develop a theory on how companies successfully or unsuccessfully enter this unique business environment and to develop a framework that would facilitate future hypothesis testing (Eisenhardt, 1989). Data collected will include the background and success of each venture, strategies used to enter low-income markets, product design and development, knowledge transfer and sharing, the leveraging of existing capabilities, and inter-organisational relationships (London & Hart, 2004).

Data collection will involve several overlapping steps (Yin, 1984). The first step is to conduct an exhaustive search for existing cases and other archival information on poverty alleviation program entry by multinationals, local companies, and non-profit organisations. This has largely been completed. We are currently identifying 12 case studies (6 for companies' CSR and 6 for non-profits) for further in-depth analysis which will include collecting archival material and contacting key informants. These ventures will not be selected randomly, rather they will be chosen because they offer a variety of approaches to explore opportunities in alleviating poverty (Sonenshein, Gorman, & Werhane, 1997; Richardson, Ramirez, & Haq, 2000). Ideally, we will collect and review materials on the organisation and venture in advance.

This research will make several contributions. First, understanding the complexity of companies' decisions toward CSR and non-profit activities will verify or contrast other studies in business strategy and business policy. The result of this investigation will be an essential part for business policy makers and marketing scholars in formulating policy or de-

cision making related to alleviating poverty. Second, the exploratory approach used to examine the most successful or unsuccessful strategies in alleviating poverty will provide a good starting point for companies who are about to penetrate the low income market. Third, this research will present evidence if there is an imbalance of exchange between companies' CSR activities and the poor. There are perceptions that CSR is only increasing corporate image and brand value, but not benefiting the poor. If corporate responses to poverty are evaluated only in terms of benefits for the firm and its shareholders, we will never learn about their impact on society and most importantly on the intended recipients of these initiatives (Margolis & Walsh, 2003). Finally, by analysing the advantages and disadvantages of CSR and non-profit strategies, a company might build partnerships with local social entrepreneurs and engage in projects that match specific, relevant needs to corporate resources. Many companies have started to tap into the market of social needs (Hart & Christensen, 2002).

By understanding the mechanism, advantages and disadvantages of CSR and non-profits, we aim to offer solutions on how to deliver an effective poverty alleviation strategy. It can benefit a global corporation's own economic interest, while at the same time creating social value for those who need it most (Seelos & Mair, 2005).

Conclusion

The involvement with low income consumers represents an important new future direction at the intersection of CSR and marketing research. There is a need to focus on anti-poverty strategies which address the problems instead of simply the symptoms of poverty. Excessive elaboration about who the poor are is not enough without finding solutions on how to combat poverty. In this case, analysing poverty alleviation programs through empirical research have the potential for identifying new forms of collaborative value creation in support of poverty alleviation programs.

Further work on CSR and poverty alleviation will provide an exciting opportunity to explore these emerging phenomena that are part of an important research direction for marketing and strategy, thus

giving initial guidance for companies on how to better serve the poor.

“We want to know how to enable poor people to be the central force for change and not an object of charity” (International Finance Corporation, 2004, p.4)

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