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The Role of Business in Poverty Reduction towards a Sustainable Corporate Story?

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1. Introduction: the need for a descriptive approach

The corporate interest for poverty has been as old as the industrial revolution. In the 19th century, the founders of major corporations not only invested in the set-up of their factories, but also created ‘company villages’ and ‘social programs’ with a view to the social well-being of their workers. Most strategies represented a combination of enlightened self-interest, efforts to keep the (upcoming) trade-unions at bay and either prevent governments from regulation or filling the gaps left by laissez-faire governments. In the post-war period the poverty issue became the prime responsibility of governments (welfare states) and civil society (development aid and local charity). If any, corporations had only indirect responsibility for poverty. Gradually, since the midst of the 1990s and with increasing pace since the beginning of the 21st century the (potential) contribution and direct responsibility of corporations to alleviating global poverty – as opposed to local poverty - has received increasing attention again (Cf. Kolk et al., 2006; Wilson and Wilson, 2006; Prahalad, 2005). Attention is also accompanied by major controversy: in particular the role of Multinational Enterprises investing in developing countries has by some been heralded as a positive force to alleviate poverty, while others have been stressing the job-displacing and income inequalities precipitating effects of the same investments.

This paper addresses the way in which the largest firms in the world are coping with their involvement in the issue of poverty at home and abroad. It will be analysed in particular whether different ‘varieties of capitalism’ (VOC) or ‘business systems’ (Cf. e.g. Whitley, 1999; Jackson and Deeg, 2008) and different industries lead to different approaches towards poverty. The paper focuses on the one hundred largest firms in the world – as measured by 2006 turnover (see Annex). The sample contains sufficient representative firms from five industries and three different varieties of capitalism, to facilitate international comparison: (1) Anglo-Saxon (containing in particular US firms), (2) Continental European (in particular French and German firms) and (3) East Asian (in particular Chinese and Japanese firms).

This paper is largely descriptive. It aims at identifying and documenting various strategies that can be and are employed by corporations to reduce poverty, it tries to come to a first assessment on the profoundness of these strategies, while also considering which variety of capitalism (and business leadership) seems to develop the most pro-active strategies towards poverty reduction. The prescriptive part of the paper deals with the question whether an active or pro-active strategy towards poverty can be considered to represent a ‘sustainable corporate story’ and whether at the moment examples or components of such a story already exist. A *sustainable corporate story* requires firms to come up with a convincing analysis of the issue at hand, in which primary responsibilities are sufficiently specified and the approach chosen is credibly elaborated both at the strategic and operational level. The partnership of logistics firm TNT with the UN World Food Programme, presents an interesting example. Since food is in ample supply around the world, hunger can be considered primarily a problem of unequal distribution. So TNT explains its involvement in the World Food Programme as a corporate solution to a

global problem. This can be considered a relatively sophisticated ‘story’ at the strategic level. At the more operational level, TNTs approach has been criticised because the company at the same time bargains sharply with its employees (post deliverers) to suppress wages. At the operational level, thus, the story is considered less sophisticated than at the strategic level.

The more sophisticated the ‘story’ of a corporation is, the more it receives a ‘moral authority’ in a particular issue, which as a consequence increases its ‘license to operate’ and its overall legitimacy (Cf. Schultz et al. 2000; Van Riel et al., 2000; Kraemer, 2007). Stories or ‘narratives’ not only set the agenda from the perspective of firms, but – when contained in public statements like corporate responsibility reports and/or codes of conduct - often also represent their strategic reality (Cf. Kolk and Fortanier, 2007).

Consider for instance the following statements/stories that have been made by some of the one hundred largest firms in the world on the issue of poverty:

- *Oil company British Petroleum: “Our primary means of making a positive impact on poverty is through aligning our own operations with local people’s needs. (...) We can sell affordable products that enable people to improve their standard of living, including motor and heating fuels. (...) Energy is a major factor in lifting people out of poverty. (...)”*
- *Bank HSBC: ‘Supporting microfinance is one of the ways in which financial institutions can support the UN Millennium Development Goal of eradicating extreme poverty.’*
- *Consumer electronics firm Matsushita: “At present, the world has a large number of people living in poverty and needs a level of economic growth sufficient to raise their standard of living. At the same time we must not be allowed to damage the environment (...). We are thus faced with the problem of combining economic growth and environmental conservation. (...) Enterprises around the world are now under pressure to put in place sustainable business models that will allow the two to be combined.”*

What do these exemplary statements represent? Integrated strategies or incidental cases? Window-dressing and a reaction to critical stakeholders or authentic efforts to deal with the issue? A first step towards a sophisticated approach on poverty? A go-it-alone strategy or an invitation to work together on solving the issue? In Annex A, a more complete selection of statements by Fortune 100 firms is provided. The long list of these quotes illustrates the diversity and richness of poverty approaches adopted by major corporations. At the same time, it also illustrates the difficulty of analysing these corporate approaches on a comparative basis. The lack of sophisticated descriptive business models – that include corporate responsibility as an integral part of strategy- is probably also the main reason why so many of the existing studies on corporate approaches towards poverty have been on the basis of a few case studies or prescriptive reasoning in which the moral obligation of firms is explained and/or the opportunities of the issue for firms in general are highlighted (see Prahalad, 2005; Wilson and Wilson, 2006; Lodge and Wilson, 2006; Hart and Sharma, 2004). Prescriptive approaches suffer from ‘case-study bias’ or the ‘advisory disease’ which implies that analysts have a solution before diagnosing the real issue at hand(cf. Van Tulder, 2007), which also makes them sometimes even ideological and particularly difficult to use for more general purposes in which the complexities of the poverty issue are fully addressed. The prime

aim of this paper, therefore, is descriptive and aims at reaching a more thorough understanding of the question where corporations around the world are in their approach towards poverty and whether this can be considered sufficient en credible ('sustainable') as a poverty approach.

To tackle this analytical challenge, this paper, first, discusses how the 'issue' of poverty alleviation by corporations has developed over time (section 2). This discussion is used to identify major dimensions as well as their level of maturity in the public debate. The paper discusses propositions made since the early 21st century to increase the involvement of business in poverty reduction and/or sketch an 'entrepreneurial way' out of the poverty trap, such as public-private partnerships, the 'bottom-of-the pyramid', micro credits, supply chain management, issue management and the search for new generic business models.

Secondly, this overview of most important dimensions/categories facilitates a typology of possible international business strategies towards poverty (section 3). This typology elaborates on the well-known – but poorly understood - CSR acronym: (1) in-active (Corporate Self Responsibility), (2) re-active (Corporate Social Responsiveness), (3) active (Corporate Social Responsibility), (4) pro-active (Corporate Societal Responsibility) (See Van Tulder with Van der Zwart, 2006). What constitutes a 'sustainable corporate story'?

Thirdly, this strategic categorization is empirically applied to the sample of the world's one hundred largest firms (section 4). The measures taken by these firms and the initiatives supported by their CEOs will be inventoried and classified. The result provides an overview of the 'breadth' and 'depth' of the approaches towards poverty reduction of these corporations and their corporate leaders. The paper will consider whether corporate poverty strategies depend on the industry or on the variety of capitalism from which the firm originates. In a concluding section (section 5), it will be considered to what extent the present state-of-affairs on the involvement of (big) business in poverty reduction is ground for optimism or pessimism.

2. The genealogy of ‘poverty’ as a business issue

Since the beginning of the 21st century, the potential contribution of corporations to a large number of societal issues has received increasing attention and controversy. This also applies to arguably the biggest global challenge of the moment: alleviating poverty. Until recently, the issue of poverty was largely ignored in management theory and practice (Jain, Vachani, 2006). There are at least three reasons for this. Firstly, because poor people operate in the informal economy and have limited buying power. Secondly, the definition of poverty itself is complex. Do we consider absolute or relative poverty for instance? What about ‘working poor’? Thirdly, the issue of poverty has many ‘issue owners’ and it is extremely hard to identify primary responsibilities. Poverty for some is a macro-economic issue that is related to the growth of economies in general, to others poverty can be directly associated with the alleged unemployment effects of relocation strategies of Multinational Enterprises (MNEs), whilst again others consider poverty primarily a mental state that can largely be attributed to personal traits and abilities.

Studies that tried to establish a link between poverty and MNE strategy have focused on the relationship between Foreign Direct Investment, employment and income inequality (Cf. Fortanier, 2007). It was found for instance that MNE affiliates pay on average higher wages than local firms and are more capital intensive. What this does to poverty alleviation, however, is difficult to establish. Direct MNE employment creation can be considered more beneficial to skilled than for unskilled workers. The quality of the employment provided by MNEs, thereby, is more often questioned. It has also been suggested that the policy competition between governments to attract FDI, can sustain less stringent safety and health regulation, as well as lower wages – sometimes below subsistence level – thus creating a subclass of so called ‘working poor’. Management studies at the moment lack the firm specific strategic frameworks, the conceptual tools as well as the firm specific data to address the poverty issue in all its dimensions.

This rather ambiguous state of affairs, however, has not prevented the issue from appearing prominently on the agenda of corporate decision makers. Neither did it prevent business gurus from devising formulas in which poverty is considered an opportunity rather than a threat. Consequently, the mood towards the involvement of firms in general and MNEs in specific in poverty alleviation is changing. Will this mood-change prove sustainable or is it merely a new management gimmick? What is the influence of other issues like global warming? The answer to these questions largely depends on a proper assessment of the way poverty as a challenge has become an ‘issue’ for corporations. Issues generally follow a life-cycle: from birth and growth, towards development, maturity and settlement. What occasions have developed as regards the issue of poverty-as-business-challenge/responsibility?

2.1 Birth and growth: triggering incidents and growing societal discontent

The growth of an issue occurs specifically when those first in command fail to address an issue adequately. The discontent grows even further when the issue can be clearly

defined, is given a popular name and the media latches onto unsuspecting protagonists. Examples include: 'Frankenstein Food' (introduced by Prince Charles), or 'Global warming' (supported by Nobel Prize Laureates or former vice president Gore). The transition to this phase is often initiated by a *triggering event*, usually organized by a visible and legitimate stakeholder. For the poverty-as-business-challenge issue, important triggering events became meetings of international organizations like the World Trade Organisation, the World Bank and the G8 Summits. Triggering concepts became: 'The Millennium Development Goals', 'Decent work', 'outsourcing', the 'Wal-Mart effect', and the 'race to the bottom'.

2.1.1 Absolute poverty

The issue of *absolute poverty* has been on the agenda of governments for most of the post-war period. But renewed attention was triggered in the year 2000, when 189 countries formulated eight Millennium Development Goals (MDGs) and specified halving poverty – defined as those people living on less than a dollar a day - by the year 2015 as their prime goal (MDG1). Perhaps more importantly, an instrumental goal (MDG8) was formulated, in which partnerships with private corporations and a good business climate were considered vital to achieve sustainable development. The growing attention for the involvement of the business sector in the eradication of poverty was also picked up by multilateral organizations such as the World Bank and the IMF. They started to stress the importance of a favourable climate for 'doing business' and the related importance of 'good governance' for development. The intellectual foundation for this strategy was based on the research of Hernando de Soto (2000) who argued that one of the most important causes of poverty has been bureaucratic barriers and the lack of property rights – linked to lacking access to credit - that prevented poor people from setting up an own business.

The issue of quickly achieving (some) poverty reduction has since been kept on the agenda due to a variety of NGO campaigns targeting international government meetings. A good example of the way in which this mechanism works, is provided by the G8 Summit in July 2005 in Gleneagles (Scotland). This occasion triggered the 'make poverty history' campaign. The supporting book 'The end of Poverty' by MDG architect Jeffrey Sachs (2005) – with a foreword by singer and entrepreneurial activist Bono – highlights the alliance of scholars and activist to keep the issue on the top of the agenda.

2.1.2 Relative poverty and working poor

The issue of *working poor and relative poverty* has been set on the agenda by trade unions since the beginning of the industrial revolution. In many countries this issue became regulated through the institution of 'minimum wages' - in particular in Europe where trade unions have been better organized and institutionalized. In Anglo-Saxon countries, a (decent) minimum wage has been much less obvious, for fear of disturbing the smooth functioning of labour markets. In most developing countries the issue is still in its infancy. With the increasing integration of developing countries into the value chains of western companies since the fall of the Berlin Wall in 1989 and the start of the era of 'globalization' (two clear triggering events), the issue received renewed attention in particular by western trade unions. The most important allegation has been that a 'race

to the bottom' would materialize in which developing countries – but even developed countries – would start to relax labour regulation, and lower wages and taxes to attract Multinational Enterprises. The flip side of this statement has been that MNEs were accused of actively stimulating such a race by playing off governments against one another in a search for the weakest possible regulation. The jury is still out whether this phenomenon is actually happening. The concept of a 'race to the bottom' triggered greater attention for the issue of working poor (as well as for poor labour conditions).

As a consequence, the International Labour Office intensified its campaign for 'decent wages'. The question of decent wage levels and fair labour remuneration practices had always been at the centre of the ILO's actions. Already its original Constitution (1919) referred to the "provision of an adequate living wage" as one of the most urgently required reforms. However, the ILO conventions are notorious for their lack of ratification by member states. The concept of 'decent work' or 'living wage' triggered in particular attention at the moment that western firms announced to relocate, to outsource or to offshore facilities to 'low wage' developing countries. Since the end of the 1990s, many elections in developed countries have had the outsourcing/off-shoring issue as a core point of dispute.

"Fair Labor" and "Fair Trade" movements targeted in particular the issue of working poor as a result of the unfair operation of the international trading system and the (perceived) negative consequences of the inclusion of workers in the international supply chains of multinationals. The anti-Nike campaign in the 1990s on the use of child labour was followed by the 'clean clothes' campaign and a large variety of 'stop child labour' campaigns.

Finally, the struggle for decent wages and the problems associated with 'working poor' received a new corporate icon by the actions against Wal-Mart, the world's biggest retailer and private employer. It was claimed for instance that Wal-Mart sales clerks are paid below the federal poverty lines. The anti Wal-Mart campaign "The high cost of low price" suggested that Wal-Mart employees are also making intensive use of social security. Consequently, the issue of working poor received a name: the 'Wal-Mart effect' (see for instance Business Week, February 6, 2005). Discussing the challenges of the Wal-Mart effect has become part of a scientific debate that build partly on the ideas of the sociologist Ritzer in the early 1990s who talked about the "McDonaldisation of society" (Ritzer, 1993). In both cases a corporate icon triggers an issue. The Wal-Mart effect adds

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