BACKGROUND PAPER
POVERTY ALLEVIATION AS BUSINESS ISSUE?

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Introduction: an ambiguous state of affairs

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 generally do not operate on 'markets' and have limited buying power. Secondly, the issue of poverty itself is complex. Do we consider absolute or relative poverty for instance? What about the so-called 'working poor'? Thirdly, the issue of poverty has many 'issue owners' and it is extremely hard to identify primary responsibilities. Poverty reduction is generally acknowledged to be the most important precondition for worldwide economic growth. Poverty goes together with weak human assets, a high degree of economic vulnerability and chronic malnutrition due to insufficient purchasing power for (good/safe) food and water (FAO 2002). Poverty is associated with forced labour, as well as child labour as children need to complement the insufficient income of their parents. Poverty breeds an unequal distribution of diseases in developed as well as developing countries. Poverty contributes to a lack in education, leads to social and political discontent, triggers migration, and is a breeding ground for terrorism and corruption. Poverty triggers unsustainable agriculture practices and a less than efficient use of other scarce resources.

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 multi-national enterprises (MNEs) in particular 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 this question largely depends on a proper assessment of the involvement of firms in poverty alleviation and the nature of the issue. This paper analyses the development of poverty as a corporate issue, and proposes a number of ways in which firms can engage with this issue. It then goes on to describe the way in which 100 leading companies are actually dealing with this issue, before finally identifying a number of challenges that are still ahead.

The many manifestations of poverty

Poverty includes dimensions like lack of access to markets and basic services, as well as exclusion from political participation. Indeed, only such a broad understanding of poverty will ensure that business strategies aimed at alleviating poverty will be effective. More common conceptions of poverty include: (1) absolute poverty, (2) relative poverty and (3) the working poor.

Conceptions of absolute poverty focus on incomes or consumption levels, often using benchmarks like $1 or $2 a day to denote the minimum level needed to meet basic needs. This is also called the "poverty line". During the 1990s GDP per capita in developing countries grew by 1.6% a year. The proportion of people living on less than $1 a day fell from 29% to 23% of the world's population. While the number of people in extreme poverty decreased by 10%, the number of people living on less than $2 a day in the 1990s, increased to 2.5 billion (World Bank, 2004).

Beyond such basic statistics, the concept of relative poverty is more controversial. It is in particular related to an unequal distribution of income. In the early 19th century income inequality arose mostly within countries, whereas at present more than half of it is found to be due to differences between countries. Income inequality hampers economic growth in particular at per capita income levels below $2,000 (Barro, 1999; Easterly, 2002). Income disparity (even more than absolute poverty) has been considered the source of many other human problems: sickness, criminality, wars, education, safety. Higher income inequality also breeds higher degrees of corruption (and vice versa). Perhaps most importantly, the experience of poverty is all the more painful when inequality means that others are so much better off. Thus, poverty is not just a problem in poor countries: according to the UN Human Development Report in 1998, 19% of the US and 13.5% of the UK populations were considered to be poor.

A fairly recent conception of poverty involves the working poor. The working poor are working or looking for work in the formal sector (during at least 27 weeks per year in the United States), while earning an income below the poverty line. At the end of 2002, the number of working poor – defined as workers living on $1 or less a day – was assessed at 550 million. Defining the poverty line at $2 a day, the number of 'working poor' increases to 1.4 billion people (2006 figures). Again, the problem is not limited to developing countries. In 2002, the US Department of Labour registered about 7.4 million 'working poor' people, representing around 5% of the work force (US, 2005).

The development of poverty as a corporate issue

Issues are first and foremost societal matters that lack unambiguous legislation (Van Tulder with Van der Zwart, 2006). The issue of 'poverty' is more complex than other issues because

it can not be 'regulated away' by national legislation. In ethical terms, poverty alleviation represents a 'positive duty' rather than a 'negative duty' for corporations. Even the issue of 'minimum wages' proved very difficult to regulate. Consequently, there is no government that requires firms to address poverty (or solve it) in any comparable manner as has been the case with environmental or human rights issues.

Issues, however, can also appear as a result of expectational gaps (Wartick and Mahon, 1994). Expectational gaps are created when stakeholders hold different views on what acceptable corporate conduct is and/or should be with regard to societal issues. It concerns the disjunction between the factual and actual interpretation (what is) and the desired interpretation (what should be). In this way, the birth of an issue marks a gap between being and belonging, between perceptions of corporate conduct or performance, and expectations of what it should be. So even if there is no real problem, an issue will develop once it is perceived as such. Poverty became a real issue for firms in the early 21st century in particular due to expectational gaps with a specific number of stakeholders.

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 Laureate and former vice president Gore). The transition to this phase is often initiated by a triggering event, usually organised by a visible and legitimate stakeholder.

For the poverty-as-business-challenge issue, important triggering events became meetings of international organisations like the World Trade Organisation, the World Bank and the G8 Summits where 'anti-globalisation' campaigners highlighted global inequalities and laid the blame for this squarely with MNEs. Further triggering concepts became: 'The Millennium Development Goals', 'Decent work', 'outsourcing', the 'Wal-Mart effect', and the 'race to the bottom'.

In 2000, the Millennium Development Goals, formulated by 189 countries, served to renew interest in poverty. The prime goal (MDG1) specified halving poverty – defined as those people living on less than a dollar a day - by the year 2015. 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 attention for the involvement of the business sector in the eradication of poverty was also picked up by multilateral organisations 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 issue of poverty reduction has since been kept on the agenda due to a variety of NGO campaigns targeting international government meetings. A good example is the 'Make Poverty History' campaign, marked with a short influential clip in which well-known film stars and musicians snapped their fingers every three seconds to represent a child dying unnecessarily as the result of extreme poverty. 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.

Related to the earlier conception of poverty as the 'working poor', an important dilemma on which the poverty-as-business-challenge debate has focused is on working conditions, both in developing countries and developed countries. 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 'globalisation' (two clear triggering events), the issue received renewed attention in particular by western trade unions and NGOs. Thus, 'Fair Labour' and 'Fair Trade' movements have targeted 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.

In the United States, Wal-Mart has been accused of unfair labour practices. 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). Concerns about the 'Wal-Mart effect' have been joined by concerns over outsourcing, whereby western firms 'relocate', 'outsource' or '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.

MNEs have been accused of actively stimulating a 'race to the bottom', whereby developing countries – and even developed countries – are played-off against each other and encouraged to relax labour regulation, and lower wages and taxes to attract 'big business'. One response has been the International Labour Office's intensified campaign for 'decent wages'. 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.

Options for business

Once an issue has emerged, it develops when important stakeholders, individually or collectively, demand concrete changes to corporate policies and scholars develop models, approaches and strategies that can solve the issue. In the mature or settlement phase, the issue is addressed by concrete strategies, new legislation and the like, which implies that the expectational gap gets bridged. If corporations do not develop credible strategies in this phase the issue remains controversial – depending on the relative strength of the stakeholders and on the extent to which 'issue fatigue' can also appear. The above triggering events precipitated a large number of initiatives, some of which already existed long before the actual events appeared.

One response has been to try to measure the impact of MNEs activities on poverty alleviation. The Global Reporting Initiative (GRI, 2004) has tried to link the core activities of businesses to the MDGs in the form of concrete reporting guidelines, for example by measuring the creation of jobs in the formal sector, which is considered critical in escaping the poverty trap. However, measuring the direct contribution to poverty alleviation itself has proved too difficult and too politically sensitive. Instead, the 2006 update of the GRI

guidelines (G3) has opted for a set of more general social and economic indicators on working conditions.

Labelling represents another way companies can attempt to impact on poverty. Labels enable a company or a group of companies to communicate its commitment to society and provide consumers with information on the quality and contents of products. Especially fair trade labels aim at communicating the corporate approach to poverty alleviation. For example, in 2002, Tesco, the UK's largest retailer started selling Fair Trade bananas. The label serves as an "independent guarantee that disadvantaged producers in the developing world are getting a better deal" (ie a fair price). However, it remains exceptionally difficult to address poverty by means of a label. The market penetration of fair trade labels is still below 5% in most product markets, and a vital problem with increasing the effectiveness of labels is how to coordinate and monitor labels. Active firms are inclined to adopt an own label as a unique selling point towards customers, but coordination, standardisation and monitoring is required to make the label into an actually effective poverty alleviation strategy.

Codes of conduct, meanwhile, can help corporations to level the playing field and promote standards that can overcome the 'regulatory gap'. A cascade of codes has developed, some of which refer to the issue of relative poverty and working poor, through provision on labour conditions. But not many have dealt directly with poverty alleviation (Kolk et al, 2006). Important developments have been in the form of the Ethical Trading Initiative (ETI, 1998) and the Fair Labour Association (1998). In particular the ETI Base Code has tried to apply a multi-dimensional definition of well-being and poverty for instance by referring to a 'living wage' and 'no excessive working hours' (IDS, 2006). As with labelling, external monitoring and verification, as well as clear sanctions for non-compliance are instrumental in the success of codes of conduct. There is a tendency, however, for companies to prefer a 'light touch' (Kolk and Van Tulder, 2005). At the same time, codes of conduct may not be suitable to address a highly complex issue like poverty.

A more recent response to the poverty issue has come in the form of the 'Bottom of the Pyramid' thesis (BOP), which views the four billion people that live on a per capita income below $1,500 (PPP) as a potential 'multi-trillion dollar market', especially for basic commodities such as food and clothing. The thesis contends that it should be possible to 'eradicate poverty through profits' (Prahalad, 2005) as companies focus their resources on this market and innovate in order to develop products and services that meet the needs of the poor. Microcredit is perhaps the best know example of such a service.

The Bottom of the Pyramid thesis presents a compelling business case for poverty oriented strategies, but not many contributions have yet examined specific strategies for actually reaching that bottom. Since its inception, the number of critics has also mounted. In case MNEs provide complementary job opportunities and create new markets for cheap products that did not exist (such as mobile phones for instance), the BOP strategy works in alleviating poverty. But part of the 'market' at the bottom of the pyramid is in practice already served by local firms and the informal economy. Multinationals can 'crowd-out' more local firms and local employment than they create. Furthermore, at the real 'bottom' of the pyramid, the purchasing power of the population is much less attractive (and the transaction cost to reach considerably higher); so in practice the BOP strategy has already been redrafted into a "Base

of the Pyramid" strategy – a far more modest approach than the original claim. There are therefore basically two types of BOP strategies: a 'narrow BOP' strategy that only focuses on the market opportunities and a 'broad BOP' strategy that takes the wider repercussions and the net effects of the strategy into consideration. Only the latter will turn BOP strategies into a viable business contribution to poverty alleviation.

What is business actually doing?

The above discussion provides an overview of some of the options available to MNEs who are serious about the issue of poverty. But what are companies actually doing? An earlier study explored the codes of conduct on poverty of a number of frontrunner MNEs (Kolk et al, 2006). Most of these firms were not (yet) very outspoken on poverty alleviation, whereas the compliance likelihood of their codes of conduct relevant for poverty alleviation remained rather limited. Companies tended to address only a few dimensions of poverty, in particular so called content issues that were directly relevant to work conditions. Broader approaches that had the largest potential to help eradicate poverty such as local community development, training and monitoring and relative poverty were hardly ever addressed. Although the approaches of frontrunner firms showed considerable divergence, on a sectoral level a higher level of resemblance could be observed. MNEs appear only willing to state active commitment if others in their sector do as well. We inferred that MNEs might fear that, because of their involvement in poverty alleviation, they might lose out to others that do not have a strong policy (and/or that pretend to be active but fail to enforce it). So, whereas pressure from civil society puts a 'floor' (a minimum level that is expected) on corporate social responsibility in a sector, at the same time, competitors – other MNEs in this sector – can also put a 'ceiling' on CSR when it comes to being involved in alleviating poverty. Factors that seem to shape the inclination of MNEs to show commitment to poverty issues are firstly size and product familiarity for large groups of consumers, and their readiness to put societal pressure on companies. Next, the domestic origins, the home-country institutional context, of MNEs seemed to play a considerable role. Compared to US and Asian companies, European MNEs show a greater tendency to pro-actively approach poverty. Finally, firms with a spread of activities over developed as well as developing countries seem most prone to being involved in the development of poverty-alleviating policies.

To bring the above analysis one step further, a first inventory was made of the overall poverty related strategies of the 100 largest Fortune Global firms in 2006. Codes of conduct, websites, and corporate sustainability reports of each of these firms were analysed. Half of the Global Fortune 100 list of 2006 comprises European firms, around one third is American, whereas one sixth is Asian. Around 58 of these corporations had undertaken some initiative on the issue of poverty. At least four firms (Citigroup, # 14 on the list, Deutsche Bank, #48, Electricité de France, # 68, and Deutsche Post, # 75) explicitly communicated a moral statement that poverty is unacceptable. Some corporations acknowledge the issue of poverty, but link it primarily to economic growth – thus supporting the mainstream approach to poverty alleviation which does not require an active corporate involvement. Matsushita Electric (#47 on the list) for instance argues in its 2006 Global Corporate Citizenship report that "at present, the world has a large number of people living in poverty and needs a level of economic growth sufficient to raise their standards of living". Other corporations express more explicit concern over issue of poverty and link it to their own corporate responsibilities.

For instance BP (#4) in its 2005 sustainability report states that its 'primary means of making a positive impact on poverty is through aligning our own operations with local people's needs". Petrobras (#86) states in its social and environmental report of 2005 "what motivates us is the ongoing quest to improve the quality of life in the communities in which we operate. Our initiatives are in areas such as job creation, income generation, combating poverty and hunger…)".

One out of five corporations is searching for 'partnerships' with NGOs and international organisations on the issue of poverty. A similar percentage had also developed poverty oriented programmes in their philanthropy activities. The Shell (#3) foundation for instance aims to support sustainable solutions to social problems arising from the links between energy, poverty and environment with a $250 million endowment. It issued a well received report Enterprise solutions to Poverty. However, intentions and philanthropy activities do not necessarily reveal the implementation of concrete core strategies. So we considered in more detail to what extent the 100 largest firms in the world at the moment are making their commitment to alleviate poverty more concrete. One out of ten firms on average – in particular American and Japanese firms – consider the provision of 'affordable products' as an important contribution to poverty alleviation. One out of four firms on average (24 firms) identified the creation of local employment opportunities as a major issues, half of this group (12) further specified the inclusion of indirect employment at suppliers. Decent wages, however, are only defined by four corporations.

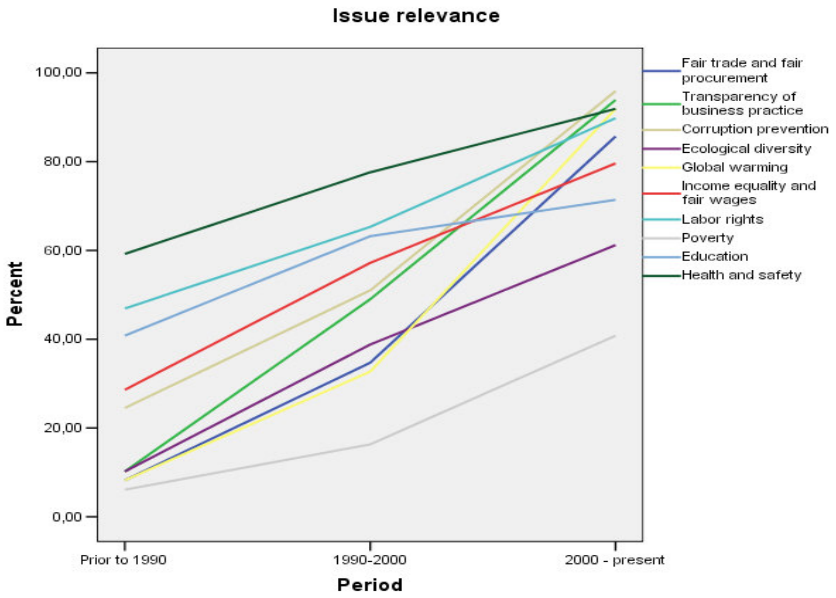
Another way of concretising an ambition is to link to international initiatives and codes. For instance 43 of the 100 largest firms subscribed to the UN's Global Compact in the 2000-2006 period (36 of which are European corporations). But the Global Compact only provides general and indirect reference to poverty, whilst it is very weak on implementation. Seventeen corporations have expressed general support for the Millennium Development Goals (MDGs). One quarter of the European firms, and less than 7% of the American and Asian firms, support the MDGs. A number of in particular European firms have been very active in further operationalising the MDGs for their business context. Firms like Royal Dutch Shell (#3) and ABN Amro (#82) have explicitly linked their sustainable reporting to each of the eight MDGs. As regards poverty related international codes and labelling initiatives, the most popular initiative up to now has been the 'Fair Trade' label, which has been endorsed for a number of products in their product range by at least four international retailers. The Ethical Trading Initiative is supported by three corporations, of which two are American computer and office equipment producers. On average, however, most large companies still tend to favour own labels and own poverty related codes, whilst not endorsing already existing codes or standards – such as the ILO standards.

Finally, two entrepreneurial approaches towards poverty alleviation – micro-credits and the Bottom of the Pyramid (BOP) – were distinguished for which corporations can adopt a narrow and a broad strategy. As regards micro-credits, many firms have embraced the idea. Twenty three firms from a wide variety of industries consider micro-credits an interesting option as complement to their main business strategy. For instance ExxonMobil has a number of partnership projects with USAID on microfinance in areas related to its oil projects (Kazakhstan and Sakhalin). The corporation presents its microfinance activities as "one of many ways ExxonMobil fosters eduction and increased opportunities for women [….] as part

of the company's community investment initiative" (2005 Corporate Citizenship Report). An additional nine of the 17 banks of the sample present micro-credits as an interesting part for their general business strategy. The Dexia Group (#55) for instance asserts itself as one of the world leaders of the international financial market of microfinance, with total assets of around U$89 billion in 2005 (Sustainable development report 2005). Other international banks have followed suit, making micro-credits a mainstream instrument. The actual volume of the efforts, however, remain rather limited which serves as an illustration of the relative difficulty with which this market can be developed. Micro-credits, therefore, are still a relatively marginal activity for most banks.

As regards the BOP, leading firms are still rather ambiguous. Eight of the 100 largest firms have mentioned the BOP as a possibility, but have primarily embraced it as yet another market change to sell products in a poor region. Only two firms (Citigroup, #14; Nestle, #53) have been arguing in favour of a more broad BOP strategy in which they are developing an explicit view on how this strategy actually addresses poverty alleviation as a result of direct and indirect effects.

Figure 1 Issue Relevance: 1980s – 2007



Poverty as a corporate issue: where next?

Research undertaken by the Rotterdam School of Management, Erasmus University (Kaptein et al, 2007) asked a representative sample of the CEOs of the 200 largest firms in Europe about their issue prioritisation. They could indicate the issue importance on a scale from 1 (not at all) to 5 (very much). The research shows that the issue of poverty has increasingly been seen as important, although still less important than issues like corruption and health and safety (see figure # above). Its growing importance suggests that poverty eradication as a business challenge is still in the approximate development phase of its life-cycle. The issue is far from being mature, let alone resolved. Triggering events have resulted

in relatively concrete aims and goals; new concepts have been developed that structure the debate; but the issues are not yet resolved, let alone clearly addressed. New concepts are not undisputed, the operationalisations are not always clear and are not well coordinated, whilst the relationship between business strategies and the resolution of the issue at hand are not yet clear either. There is abundant room for 'PR' activities of firms in which a concept (like micro-credits or the BOP) can be embraced only to ward off critical stakeholders. The area is relatively new for firms, stakeholders and researchers alike.

A number of challenges prevent companies from fully embracing the issue of poverty and pro-actively developing solutions. Most importantly, great uncertainty remains about how exactly to approach the problem. Poverty is a global problem and it is therefore logical that general guidelines should be developed. The Millennium Development Goals have triggered the attention of an increasing number of firms, but a clear bottleneck remains the difficulty of operationalising the MDGs in clear measurement, including reporting standards such as the Global Reporting Initiative (GRI). A clear regulatory framework remains absent. More pro-active approaches have not yet been elaborated and operationalised into scientifically sound models and generally acceptable principles and guidelines.

Sector dynamics also play a role. While globally agreed guidelines should be the starting point, details will have to be worked out at a meso-level. Keeping the dialogue at the global level, and treating all MNEs from different sectors the same way (as tried, for example in the UN's Global Compact efforts), focusing on compliance with one and the same standard, will (and does) not work. Different sectors face different problems and are at different stages when it comes to alleviating poverty. So a way forward in this regard might therefore to not approach single, individual (often high profile) MNEs, as some NGOs and international organisations tend to do, but to create an enabling environment that facilitates dialogue and subsequent action at the sector level. Complementary, GRI and other international organisations might develop reporting guidelines and develop specific poverty alleviation indicators per sector.

A final challenge lies in the very dynamics of issue management itself. Issues are always prone to strategic re-assessments of the CEOs. In the aforementioned research among 200 European CEOs (Kaptein et al, 2007), we also asked them to indicate the expected increase in urgency of the ten selected CSR issues. The following ranking (Table 1) was the result of this exercise:

Table 1 Future urgency of issues

Expected increase in issue urgency	Mean
1. Global warming	4.4
2. Transparency of business practice	3.8
3. Ecological diversity	3.7
4. Fair trade and fair procurement	3.5
5. Corruption prevention	3.5
6. Labour rights	3.4
7. Health and safety	3.4
8. Education	3.2
9. Income equality and fair wages	3.1
10. Poverty	3.0

Source: Kaptein et al., 2007

The issue of poverty will not likely increase in urgency (viz. Figure 1). The attention of corporate CEOs will remain low, but stable for the issue. This is a breach of the trend of increasing attention of the past decade. More importantly a number of poverty-related issues like income equality and fair wages, and education are declining in importance for the European CEOs. This is a remarkable development and is caused by at least two developments that are inherent to 'issue management'. First, the issue of 'global warming' is starting to get most of the attention in the public debate (the Gore effect) as well as with stakeholders and shareholders of large corporations. This 'crowds out' other issues like poverty and poverty-related issues. Secondly, the supporters of the Millennium Development Goals in their 2007 evaluation reports have stressed that in particular MDG 1 (halving poverty) might be reached. In issue management, the relative urgency defines the willingness of managers to address the issue. As soon as policy makers start to emphasise that MDG1 might be reached, the issue loses importance. This poses a problem, since the issue will certainly not be solved. On the contrary, the $1 a day benchmark has been criticised as relatively low (or not very ambitious), whereas the goal is relatively easily reached through the gigantic economic growth of in particular China and India. It can be anticipated that relative poverty will not decrease and many regions and countries – in particular in Africa - will not reach MDG1.

It can be concluded that the business involvement in addressing the issue of poverty is far from settled. Firstly there is as yet a lack of meaningful benchmarks, approaches and measurement tools. Secondly, a lack of ambition, especially compared to other issues, might also dampen the efforts of the business sector in explicitly addressing poverty. The 2007 Max Havelaar lecturers have been invited to respond to this dual perspective.

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