# SWIMMING AGAINST THE TIDE OF MAINSTREAM ECONOMICS:

# AN EVALUATION OF CORPORATE SOCIAL RESPONSIBILITY

# IN INTERNATIONAL DEVELOPMENT

By

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# ABSTRACT

# SWIMMING AGAINST THE TIDE OF MAINSTREAM ECONOMICS: AN EVALUATION OF CORPORATE SOCIAL RESPONSIBILITY IN INTERNATIONAL DEVELOPMENT

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With Honors

*"Millions of people around the world live in poverty. For decades, Corporate Social Responsibility (CSR) attempted to address this issue, spurring an intense debate about the proper role of business in society. Recently, the idea of CSR has extended to the business of private firms in developing countries, which is also highly contested by academics, development workers, international organizations, business managers, and professionals from the public sector. This paper seeks to analyze the extent of CSR's potential effectiveness in a developing country context, attempting to answer the question, "Where should business fit within development?" Beginning with a literature review of CSR, the paper then analyzes prominent CSR challenges and presents a new conceptual framework for thinking about business and development. In this new framework, two ideas about CSR, business, and development are reconciled. CEMEX, a large multinational corporation (MNC), is then analyzed through the new conceptual framework. It is concluded that if business conducted in the firm's self-interest is combined with voluntary social programs under a certain set of conditions, it will create a mutually beneficial relationship between business and development, creating value for firms and their shareholders as well as alleviating poverty and contributing to development."*

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# LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| AFD | French Development Agency |
| BMZ | German Federal Ministry for Economic Cooperation and Development |
| BOP | Bottom of the Pyramid |
| BRIC | Brazil, India, and China |
| CEC | Commission of the European Communities |
| CIDA | Canadian International Development Agency |
| CSR | Corporate Social Responsibility |
| DfID | Department for International Development (UK) |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GFI | Global Financial Integrity |
| GTZ | German Technical Cooperation |
| HDI | Human Development Index |
| HPI | Human Poverty Index |
| IBLF | International Business Leaders Forum |
| IDB | Inter-American Development Bank |
| IMF | International Monetary Fund |
| IC | Industry Canada |
| ICC | International Chamber of Commerce |
| IFC | International Finance Corporation |
| InWEnt | Capacity Building International |
| IPO | Initial Public Offering |

| | |
|---|---|
| ITO | International Trade Organization |
| MBZ | Dutch Ministry of Development Cooperation |
| MDG | Millennium Development Goal |
| MNC | Multinational Corporation |
| NGO | Non-Governmental Organization |
| NVCA | National Venture Capital Association |
| ODA | Official Development Assistance |
| OECD | Organization for Economic Co-operation and Development |
| PPP | Public-Private Partnership |
| ROCE | Returns on Capital Employed |
| SIDA | Swedish International Development Cooperation Agency |
| SME | Small and Medium Enterprise |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nation's Development Program |
| USAID | United States Agency for International Development |
| VC | Venture Capital |
| WBCSD | World Business Council for Sustainable Development |
| WBI | World Bank Institute |
| WEF | World Economic Forum |
| WIRES | Women's Information Resource Electronic Service |
| WRC | World Reconstruction Conference |
| WRI | World Resources Institute |

## 1. Introduction

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On a global scale, there are 2-4 billion people who live on less than two dollars a day. These several billion people have access to only 1 percent of the world's net worth, while the top 75-100 million people in highly-developed countries control 40% of the entire wealth of the planet (Werhane et al. 2009). This profound economic paradox in which a small percentage of people benefit from the intense economic growth amidst a vast majority of the human population who are plagued by poverty, conflict, corruption, hunger, illness, and illiteracy, is arguably the most important global challenge in existence today. Efforts to diminish the gap between rich and poor, however, are nothing new. For years, myriad governments, non-profits, and international institutions have attempted to alleviate poverty through mechanisms such as direct monetary assistance and various economic and social development programs. Although these methods have seen some success, it is undeniable that major challenges to poverty reduction in the developing world still remain.

The international development industry, for example, has long been engaged in the debate between the merits of foreign development assistance and business in development. Advisor to the United Nations' (UN) secretary general on the Millennium Development Goals (MDGs), Jeffrey Sachs espouses the opinion that aid can work (Sachs 2006). Others vehemently disagree with this fundamental concept. Economist Dambisa Moyo, for example, is one of the most recent espousers of anti-aid sentiments, forcefully arguing that international aid targets like the MDGs have failed the world's poor by perpetuating a misguided aid-led approach to development (Moyo 2009). Economist William Easterly also argues that current experience and history speak loudly that the only real engine of growth out of poverty is private business, and that there is no evidence that aid fuels such long-term growth (Easterly 2007). Indeed,

development aid cannot continue indefinitely. If the international development community is to accept that aid is necessary for now, but insufficient in the long-term, the next question must be, “Where does business fit in to development?”

## Problem Statement

There are those within the international development diaspora whom have increasingly championed Corporate Social Responsibility (CSR) as a development tool, a relationship that carries significant impacts on the public and private sectors. The marriage of international development goals and the profit-seeking aspirations of private firms mean that companies are no longer simply expected to act responsibly with concern for their shareholders, but also to play a significant role in public interventions like the MDGs. International organizations such as the UN and the World Bank, as well as worldwide development agencies such as the Department for International Development (DfID) in the United Kingdom and the U.S. Agency for International Development (USAID) in Washington, have embraced CSR in hopes that the private sector has the capacity to play a pivotal role in achieving international development goals aimed at poverty alleviation and economic development (Jenkins 2005).

USAID, for example, has engaged in multiple partnerships with large international firms such as ChevronTexaco, Microsoft, and IKEA to provide support and partial funding for initiatives such as building new homes in Armenia or renewable energy schemes in the Philippines (USAID, 2004), and the organization has housed a Socially Responsible Business Unit since 1997 (Jenkins 2005). In December 2005, the UN’s special envoy for HIV/AIDS in Africa even proposed that multinational firms should contribute 0.7 per cent of their annual pre-tax earnings to combating HIV/AIDS, a figure that corresponds to the UN’s target for developed nations’ contribution to development aid as a proportion of Gross Domestic Product (GDP)

(UNDP 2008). Although the latter example represents a rather radical opinion, it is undoubtedly indicative of the growing expectations placed on the private sector in developing countries.

Corporate Social Responsibility (CSR) is essentially a corporate response to modern philanthropic questions, but it, too, is not a modern concept. Since the industrial revolution of currently developed economies, the ethics and societal obligations of business have been debated. Throughout the second half of the 20th century, the expectations of corporations have progressively increased, and since the 1990s, the concept of CSR has attracted worldwide attention and acquired a new resonance in the global economy. This heightened awareness of CSR can be linked to the declining confidence in the role of the state as an agent for development, to global economic deregulations from the 1980s that resulted in a more limited role for the state in the economy, and to the advent of globalization and international trade. Regardless of its origins, these factors have led to a range of civil society and market actors taking over development functions traditionally associated with the state (Newell et al. 2002). New ideas about CSR have also created new and complex expectations for businesses operating in the international market, raising ethical and philosophical questions for businesses interacting with developing economies where societal needs often outstrip government capabilities.

With this newfound emphasis on the private sector came a number of new conceptual approaches to CSR in the academic community and public sector. DfID has popularized the "Making Market Systems Work Better for the Poor" concept, suggesting that improved access to markets and services can help people in poverty increase their livelihood opportunities (DfID, 2003). The academic business community has also contributed, introducing the influential "Base of the Pyramid" concept most closely associated to C.K. Prahalad and Stuart Hart (Prahalad et al. 2002). This emerging business argument for the use of CSR in international markets suggests

that private firms can help reduce poverty and make profits at the same time by inventing new business models for providing products and services to the world's poor, or the bottom of the pyramid (BOP). The theory assumes that when combined, these 4 billion people living on less than $2,000 dollars a year have access to enough disposable income in order to buy products from international firms. Large international companies and those in the international business community, however, spend their time targeting middle-income and high-income consumers, assuming that the poor have no disposable income or means to buy their products. According to the "Bottom of the Pyramid" hypothesis, these assumptions are incorrect. If partnerships among Non-Governmental Organizations (NGOs), development agencies, local communities, and large private firms were formed, the development of new markets could take place and businesses could provide the poor with access to markets and services that they previously had little access to (Hart et al. 2002; Hammond et al. 2002; Prahalad et al. 2002; Prahalad 2005).

A contrary school of thought first espoused by Milton Friedman in the 1970s works against these ideas, stating that businesses have no responsibility toward social issues and should only be interested in maximizing profits under the framework of their legal obligations (Friedman 1970). The tension between these two broad conceptions of the place of business in society and how this relates to poverty can seem detached from the world of business and investment, but surging interest from many multinational companies in recent years has changed that. Some of the countries where Westerners are building the most factories, gaining the most consumers, and accruing the most shares are the same countries that face enormous development challenges. How these development challenges, whether they are in health, education, infrastructure, employment, or a host of other issues, are met will have an enormous impact on how emerging, as well as developed, markets evolve, rendering the debate about business and

poverty applicable to the broadest possible audience (*Financial Times*, 2010). A critical aspect to meeting these challenges will be how the business and development communities define CSR and handle the debate between traditional business and CSR in international development.

## Objectives

As providers of goods and services, as employers and investors, and increasingly as shapers of developing countries' policies, there can be little doubt that the private sector is central to the developmental efforts for mitigating poverty. But how, when, and through what means can business hope to effectively address issues of poverty, economic exclusion, and other development challenges? Can this role be performed through business-as-usual practices – voluntarily and through the market – or does it need to be guided by CSR priorities that place broader social needs on business? If the private sector can be a positive force in development work and poverty alleviation, what new tools, strategies, and methodologies are required to harness this potential contribution? These questions and others present an enormous challenge for development practitioners. With its emphasis on win-win scenarios, many believe that CSR can provide the answer. This paper seeks to examine the validity of this idea.

To address the aforementioned ideas and questions, this paper first provides a literature overview of CSR studies in different context. Part one discusses the background and rise of CSR in a historical sense. Part two outlines and defines several definitions of CSR to examine the nature and scope of the idea. Part three outlines the CSR debate in terms of the narrow, neoclassical economic viewpoint so beloved by Milton Friedman, and the broader view of CSR that goes beyond profits, examining the historical role of business in society. The paper continues with a discussion of the challenges to effective CSR implementation and then seeks to analyze these issues, presenting a new conceptual framework for thinking about business and

development. Based on this analysis, the paper proposes a synthesis of the two sides of the CSR debate, seeking to reconcile two schools of thought about CSR, business, and sustainable international development. Through the lens of this newly synthesized framework, the paper considers a case study of CEMEX, a large Multinational Corporation (MNC) engaged in in CSR activities aimed at sustainable development and value creation for shareholders, concluding with a discussion of the limitations of the study, directions for future research, and implications for the future across a variety of sectors.

The paper finds that despite the ubiquity of the term CSR in academic, non-profit, and private sectors, there remains a confusion about what CSR really means and how it relates to the business community. There are a number of different definitions for CSR, corresponding to a number of various opinions regarding the appropriate scope and nature of a firm's social responsibilities, yet this paper holds that all international businesses that make a profit in developing communities have a responsibility to contribute to the meaningful development of those communities. Despite the criticisms of CSR, this paper asserts that businesses not only can play a positive role in international development, but that they have a moral obligation to do so, suggesting that there are ways to create mutually-beneficial and effective relationships between businesses and development goals. While business objectives can differ from development objectives, there are clear zones of compatibility between business-led CSR programs and efforts by the development community that should be drawn on and collaborated upon by both sectors in order to improve their respective communities and make a positive impact on the lives of the poor.

# 2. Background

## The Rise of CSR

The current wave of CSR dates from the early 1990s (Henderson 2001), but in many ways, this newest wave of interest is only the latest manifestation of the longstanding debate about the relationship between business and society. Since the Industrial Revolution and the rise of the modern corporation in the late nineteenth century, the debate has ebbed and flowed between periods when businesses extend their control and periods in which government attempts to regulate the growth of corporate power. During these periods of general distrust toward business, which is often fostered by the state, corporations attempt to re-establish their legitimacy in the face of public criticism (Jenkins 2005). The most recent term for this idea is Corporate Social Responsibility.

The historical roots of CSR can be traced in three waves. First, in the 19th century, large, powerful corporations in the United States and other relatively developed countries stimulated the anti-trust movement, the regulation of utilities, and boycotts of products such as foodstuffs produced with slave labor (Jenkins 2005). The moral vision of entrepreneurs such as Cadbury and Marks was also influential during this time period (Blowfield et al. 2005). The public demands for the stemming of corporate power led to major US companies emphasizing corporate responsibility as they sought to demonstrate that corporations had the potential to be good without the coercive push of governments and unions (Bakan 2004). The second wave came after the Great Depression of the 1930s, in which regulations exemplified by Roosevelt's New Deal in the United States and the nationalizations and regulations of the postwar Labour government in the United Kingdom contributed to national regulations. On the international level, the International Trade Organization (ITO) attempted to include measures in a draft charter

that addressed international investment, employment standards, and restrictive business practices, but the charter was never signed in the United States (Jenkins 2005). The third period of increased efforts to regulate corporate activity occurred from the mid-1960s to early 1970s, although within the United States the main focus was on consumer and environmental protection (Richter 2001).

In the developing world, this time period saw increased efforts to regulate the activities of foreign investors, marking the first time corporate activity became an international development issue. There were many attempts within organizations such as the UN to establish codes of conduct for corporate activity. This regulation of multinational corporations emerged from the perception that the growth of large international businesses threatened the sovereignty of small, relatively poor nations and represented an attempt to redress the balance between the growing power of MNCs and vulnerable developing nations. The response of corporations and some Western governments was to propose self-regulation as an alternative to global attempts at mandatory regulation of MNC activities, and during this time period a number of large US companies adopted codes of conduct launched by the International Chamber of Commerce (ICC) (Jenkins 1999).

By the 1990s, the increased mobility of capital over the second half of the twentieth century found firms moving abroad at an increasing rate, leading to major criticisms for the global environmental and labor practices of large international firms. Global value chains in which Western buyers controlled a web of suppliers in developing countries also led to calls for businesses to take responsibility not only for their shareholders, but also for economic and social impacts. At the same time, the increased use of brands, technology, and global communication in marketing and information transfers made companies particularly vulnerable to bad publicity. As

a result, companies responded once again to the negative opinion surrounding their practices by espousing corporate social responsibility (1998). Levi Strauss was one of the first companies to respond, adopting its Business Partner Terms of Engagement in 1992 after accusations of treating their overseas workers as indentured slaves. By the mid-1990s, other leading US brands such as Gap, Nike, and Disney, among others, faced campaigns against the use of sweatshops and child labor that highlighted the practices of market leaders, leading the year of 1995-1996 to be described as the "year of the sweatshop" in the United States (Klein 2001). Extractive industries faced a similar battle, the most famous example of which occurring with Shell's controversies over Brent Spar and its operations in Nigeria, leading to Shell becoming a CSR leader in the extractive industries. These developments are significant in the history of CSR because they represent a movement in which international trade unions, development NGOs, human rights organizations, and environmental groups all contributed to the demand for greater social responsibility from businesses (Bendell 2004).

Though CSR was initially a corporate activity adopted by individual companies and their organizations, in the late 1990s it began to be taken up by international organizations such as the World Bank and UN, as well as national development corporation agencies such as DfID and the Canadian International Development Agency (CIDA). Since this time, these agencies have dictated to a large extent the changing views on the main objectives of development and the best means of bringing it about. For instance, these organizations led the shift from economic-focused development to a much greater emphasis being placed on the social dimensions of development. These changes are exemplified by the creation of the Human Development Index (HDI) by the United Nations Development Program (UNDP) and culminated with the adoption of the UN's MDGs which focus on reducing poverty. Along with these changes came a decline in the

confidence in the role of the state as an agent for development, most intensely illustrated by the Washington Consensus which emphasized liberalization, deregulation, and a reduced role for the state in developing economies. Along with these ideas came increased expectations for the private sector to play a role in these developing economies. Indeed by the 1980s, Foreign Direct Investment (FDI) was running three times the level of Official Development Assistance (ODA).

By the 1990s, it became clear that the private sector alone was not enough to bring about the development of emerging economies. There were a number of significant market failures in these economies that prevented businesses from operating in a socially responsible way. For example, firms driven by short-term financial profitability did not make the long-term investments necessary to promote human development or benefit the poor in the future. Large international development institutions believe that firms which are concerned primarily with the financial bottom line have the capacity to meet social objectives as well. They see CSR as a way of reconciling support for private enterprise and a market-based system with their central aim of reducing global poverty. DfID pioneered this thinking, creating the Socially Responsible Business Unit in 1997 following the publication of the first White Paper on international development. This unit committed DfID to promoting ethical business on labor standards and was linked to ethical trading. The second White Paper also featured CSR as an important factor in poverty reduction.

Multilateral development agencies have also been active in promoting CSR as a development tool. In the late 1990s, for example, the World Bank started the CSR Practice within the Private Sector Development Program, advising developing-country governments on ways to deploy and encourage CSR. The World Bank Institute (WBI) and the Inter-American Development Bank (IDB) also organize periodic conferences on CSR. In 2000, the UN launched

the Global Compact, drawing on business, labor, government, and NGOs to promote FDI in developing countries as an important objective and even regard it as a manifestation of CSR. (Zammit 2003) Other agencies promoting CSR as an effective means of development are CIDA, the Swedish Development Agency, the German Federal Ministry for Economic Cooperation and Development (BMZ), and the Dutch Ministry of Development Cooperation (MBZ).

## Defining Key Concepts: Poverty, Development, and CSR

Before scrutinizing CSR in more detail, it is important to clarify and define the concepts of poverty and development for the purposes of this paper. Ideas about development and poverty have shifted greatly throughout time, undergoing complex processes of change that have varied widely with the time period. Today, a widely used development indicator is given by the Human Development Index (HDI), which uses a combination of both monetary and non-monetary indicators – life expectancy at birth, school enrollments, and adult literacy and GDP – to rank countries on a scale determined by the level of human development they possess (UNDP, 2008). Although not completely sufficient, HDI is generally thought of as a comprehensive indicator for development, combining health, economics, and education. From its creation has also come the Human Poverty Index (HPI), an indicator used to measure the amount of a nation's population existing under the poverty line. This is measured by the availability of water sources, the proportion of underweight children at the age of five, and the probability of death before the age of 40 (UNDP 2008). Together, both of these indicators are greatly relied upon by the international development community, and they have shifted ideas about development to include social issues, going beyond the older, more polarized view of the term that merely takes economic growth into consideration.

Some researchers go even further to define development as the desired change from a life with many sufferings and few choices to a life with satisfied basic needs and many choices, made available through sustainable use of natural resources (Rosling et al, 2006). These more recent definitions introduce a broad understanding of the ideas of poverty and development, including basic needs such as water, food, and housing, but also including other forms of material welfare such as health services, education, human rights, gender equality, democracy and freedom, and a fair distribution of economic growth while considering the sustainable use of resources (Sen, 1999). These definitions view basic needs to make them a means to achieve progress, rendering economic growth necessary, but insufficient for meaningful development. Today, a general international consensus has developed that poverty is a multidimensional state of being in which many interactive dimensions determine a person's well-being, and that economic dimensions must be coupled with social ones in order to gain a clear picture of progress in developing countries (OECD 2001). Material living standards such as income, consumption, and wealth do play a part, but they are not the only determinants. Equally as important are health and education, personal activities including work, political voice and inclusive governance, social connections, capital, and relationships, economic and physical security, and the present and future condition of the environment (Stiglitz et al. 2009).

As with the concepts of poverty and development, the meaning of CSR has changed with time. There are an abundance of CSR definitions in the academic and corporate world, and there have been many attempts to establish a concrete understanding of CSR in order to develop a robust definition. Despite numerous efforts to bring about a clear definition, there is still confusion about how to reach an unbiased, holistic, and specific definition of the concept. Part of the difficulty of articulating a formal definition of CSR can be attributed to the confusion about

how CSR is a socially constructed concept that can change in specific contexts, and as such is impossible to develop an unbiased definition (Dahlsrud 2008). Despite this challenge, there seems to be a great deal of similarity among the major definitions of CSR.

Most definitions in the business and academic literature focus on five dimensions: environmental, social, economic, stakeholder, and voluntariness (see Figure 1) (Dahlsrud 2008). The first category focuses on the natural environment, using phrases like "a cleaner environment" (CEC 2001), "environmental stewardship" (Khoury et al. 1999), and "environmental concerns in business operations" (Lea 2002). The second category focuses on the relationship between business and society, most frequently stating that businesses should "contribute to a better society", "integrate social concerns in their business operations" (CEC 2001), and "consider the full scope of their impact on communities" (IC 2003). The third category concentrates on socio-economic or financial aspects, including describing CSR in terms of a business operation. These definitions use language like "financial performance," "creation and maintenance of employment" (Khoury et al. 1999), and "preserving the profitability" (Hopkins 2003). The fourth focuses on stakeholders or stakeholder groups, commenting on how businesses interact with their stakeholders, or "employees, suppliers, customers, and communities" (Lea 2002). The fifth focuses on the fact that companies partake voluntarily in actions not prescribed by the law, using language like "voluntary" and "beyond legal obligations" (UK Government 2001), or "based on ethical values" (IBLF 2003). Indeed, one of the most frequently cited definitions of CSR comes from the Commission of the European Communities' (CEC) Green Paper (CEC 2001), which calls CSR, a "concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

Figure 1. The Five Dimensions of CSR

| Dimensions | The definition is coded to the dimension if it refers to | Example phrases |
|---|---|---|
| The environmental dimension | The natural environment | 'a cleaner environment'<br>'environmental stewardship'<br>'environmental concerns in business operations' |
| The social dimension | The relationship between business and society | 'contribute to a better society'<br>'integrate social concerns in their business operations'<br>'consider the full scope of their impact on communities' |
| The economic dimension | Socio-economic or financial aspects, including describing CSR in terms of a business operation | 'contribute to economic development'<br>'preserving the profitability'<br>'business operations' |
| The stakeholder dimension | Stakeholders or stakeholder groups | 'interaction with their stakeholders'<br>'how organizations interact with their employees, suppliers, customers and communities'<br>'treating the stakeholders of the firm' |
| The voluntariness dimension | Actions not prescribed by law | 'based on ethical values'<br>'beyond legal obligations'<br>'voluntary' |

This type of definition, however, is lacking. Lines between voluntary and mandatory action in large companies operating in developing countries are often blurred. Voluntary initiatives, for example, may utilize mandatory aspects, and regulatory frameworks may utilize voluntary aspects. In some countries, it is a struggle simply to get companies to comply with the mandatory legal framework, let alone engage in voluntary activities for the benefit of others. Furthermore, few definitions specifically state that a goal of CSR is to alleviate poverty or aid in international development, and most use vague language.

Notable exceptions include the definitions of the World Business Council for Sustainable Development (WBCSD) and Patrick Hopkins, whose definitions focus on the commitment of businesses to contribute to development and the improvement of the quality of life for society at large (Hopkins 2003; WBCSD 1999; WBCSD 2000). Hopkins states in 1998 that CSR is concerned with treating the stakeholders of the firm (any individual or collective person or thing

that is affected by the actions of a firm as a whole) ethically or in a socially responsible manner. He assumes that stakeholders exist both within and outside the firm and that as a result, businesses that behave in a socially responsible manner will increase the human development of stakeholders both within and outside the corporation (Hopkins 1998). He later expands on this definition by stating that the wider aim of CSR is to create higher and higher standards of living for people both within and outside the corporation (Hopkins 2003). In a similar vein, the WBCSD states in 1999 and 2000 that CSR is the commitment of businesses to contribute to sustainable economic development by working with employees, their families, and the local community and society at large to improve their quality of life (WBCSD 1999; WBCSD 2000). Expanding on this in 2003 is the CEC which changed their original definition to emphasize the fact that CSR is also the concept that an enterprise is accountable for its impact on all relevant stakeholders and that these stakeholders do not only exist within the corporation (CEC 2003).

## Business in Society: The Proper Role of Private Firms

Central to the CSR discourse is the idea that corporations should transition from a state of mere compliance to a mode of engagement, from harm minimization to value creation (Luetkenhorst 2005). It is also implied at the core of the CSR debate that the private sector is the dominant engine of growth, meaning that it is the principle creator of value and the principal supplier of managerial resources. As such, CSR tends to hold that businesses have a responsibility to contribute to equitable and sustainable growth, an obligation to become a more active partner in international development to increase the opportunities and welfare of the poor. Indeed, business is playing an increasingly important role for development (Newell et al. 2007). Despite these ideas, there is a lingering confusion as to what CSR precisely entails and a lack of consensus about what it is and what it is not. This reflects a more fundamental, long-running

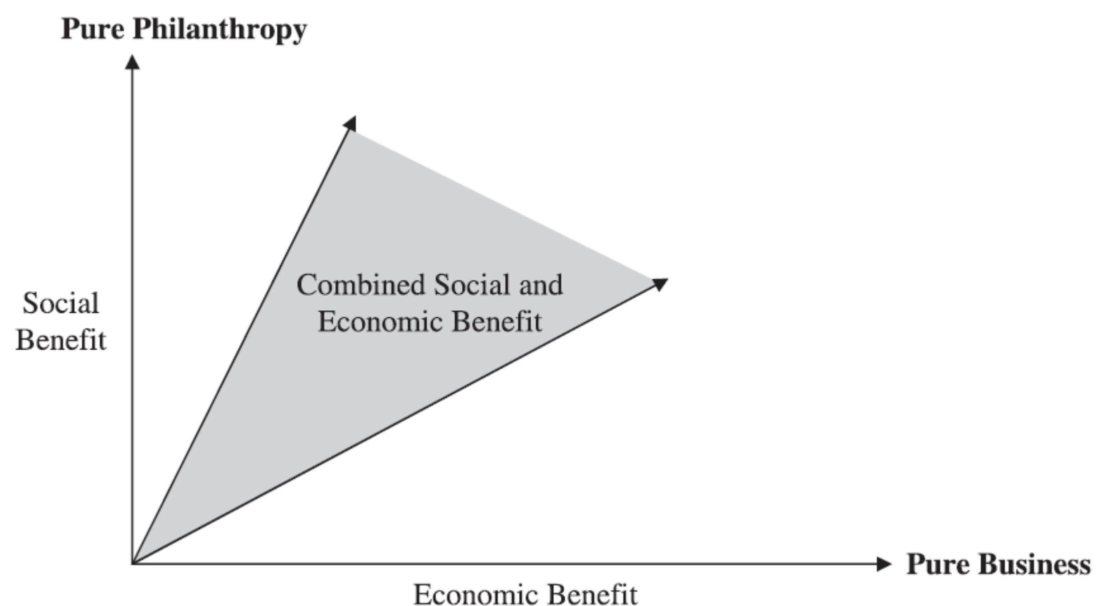
debate about the appropriate role of the private firm in society. The question of business's role in society is currently caught between two contrasting ideological opinions.

Some, including many businesspeople and corporations, firmly believe that corporations are simple legal constructs that have two responsibilities according to the law: making money for a corporation's owners and obeying relevant rules (Greenfield 2004). The first view, espoused mainly in Anglo-Saxon economies (Davis 2005), is a more narrow conception of CSR as simply entailing economic and legal obligations that holds with the classical perspective, suggesting that the main function of business is to provide goods and services that lead to the maximization of profit within the framework of legal requirements (Friedman 1970). In other words, this camp holds that firms serve to tackle poverty primarily in their roles as investors, employers, and tax-payers and not through acts of philanthropy, holding that it is in the day-to-day management of the firm and through the taking of key investment decisions that development gains come to be realized or denied. This implies that social issues are peripheral to the challenges of corporate management and that the sole legitimate purpose of business is to create shareholder value. According to this theory, while well-intended, the isolated and discrete activities of firms in developing areas hold no development gains (Davis 2005).

This Friedman philosophy is far from universally shared, even within the business community. In 1979, for example, Kenneth Mason, the President of Quaker Oats, wrote in Business Week that Friedman's philosophy is a demeaning view of the role of business and business leaders in society. He stated that making a profit is "no more the purpose of a corporation than getting enough to eat is the purpose of life…getting enough to eat is a requirement of life; life's purpose, one would hope, is somewhat broader and more challenging. Likewise with business and profit" (Mason 1979). This camp believes that corporations act

intentionally via the international actions of their members and therefore bear the responsibilities of any ordinary citizen, but on a corporate scale, representing a broader conception of CSR that entails a wider range of economic, legal, ethical, moral, and philanthropic responsibilities (Hancock 2005; Goodpaster et al. 2003; Pettit 2007). It includes attempts at meeting a wider spectrum of expectations like conserving resources of developing the community (Quazi et al. 2000), and it assumes that businesses have the capacity to conform to the principles of morality, accountability, and integrity with a much broader scope for potential contributions and interventions for international development. The tension between these two schools of thought has greatly influenced thoughts on development policy, and the debate has continued to take on global significance as academics, development workers, and business people try to come to terms with the role of business and CSR in society.

Figure 2. A Convergence of Interests between Business and Philanthropy



Historically, there were few attempts to reconcile the two ideas. The first notion of strategic CSR came from Peter Drucker (1984), who popularized the idea that profitability and social responsibility are not necessarily incompatible and that business ought to convert its social responsibilities into business opportunities. In a similar vein, Porter and Kramer suggested in 2003 a context-focused philanthropic approach requiring companies to use their individual attributes to address social needs in the corporate context, promoting a convergence of interests between business and society (see Figure 1) (Jamali 2007). This reconciliation of social and economic goals is the basic idea of strategic CSR, aligning philanthropic contributions with business goals and strategies. While revolutionary, these concepts tend to focus on company gains, not on community development. Also, far less research has been done on these concepts in an international framework, a major gap within the literature.

# 3. Challenges to Effective CSR

## Lack of research

The first major challenge to successful CSR implementation in the developing country context is the lack of appropriate research on the subject. Despite the confident opinions espoused from some prominent multinationals and major development institutions ("Literature Review"), this lack of research makes it difficult to ascertain whether or not CSR as it stands today contributes significantly to the reduction of poverty in the world's developing countries.

The first research-related issue has to do with context. Because CSR in the developing country context is by definition concerned with the responsibilities of international enterprises with regard to other actors in society, it must be studied in the context of where it is being practiced. Development factors between developed and developing countries, as well as among developing countries themselves, can be vastly different, making it unrealistic to expect successful CSR initiatives in developed countries to work exactly the same in developing ones. Indeed, many researchers have begun to stress the inability to transfer CSR concepts from one place to another without making contextual considerations (Fox 2004; Prieto-Carrón et al., 2006), making it vital that researchers study the concept of CSR in the context of developing, or "transition" economies. Little research, however, is done on this topic (Luken 2006), a major problem because it limits the capacity for organizations and the individuals that work in them to understand and work on pressing CSR issues in different cultural contexts. This is even more important since there are huge gaps in issues such as social provision and governance in developing countries that hinder development. CSR research on this topic has the potential to have a huge impact on development outcomes.

In addition, many more critical perspectives on the CSR debate are needed. Many reports claim total win-win scenarios for development and business if CSR is applied to global development initiatives, but few have called for a critical group of perspectives. Exceptions include researchers such as Peter Utting and Tom Fox who have both highlighted the need for an alternative, critical research agenda in response to this lack of research (Fox 2004, Utting 2003; Reed et al. 2004), essentially arguing that the potential and limitations of CSR initiatives in developing countries should be assessed more thoroughly. One pertinent example is the fact that a common way proponents of CSR claim that CSR accomplishes poverty reduction is through the use of FDI. This is an assumption that has not been fully researched, a surprising fact due to the increased significance of FDI as a source for capital in developing countries in recent years, as well as the newfound emphasis development agencies have placed on poverty reduction as a prominent goal.

It is useful to examine the mechanisms through which FDI does or does not contribute to decreased poverty in developing nations. Organizations such as the UN Conference on Trade and Development (UNCTAD) and the Organization for Economic Co-operation and Development (OECD) provide extensive literature on the impacts of FDI and growth (OECD 2002; UNCTAD 1999). Assuming that there is a direct relationship between FDI and growth is shaky, and there is much disagreement among academics about the relationship. Indeed, existing literature on the topic says little about the actual mechanisms that link FDI to poverty reduction.

Another concern in the field of CSR is that despite the call for development-oriented business by the development community, CSR has not dealt explicitly with the poverty impacts of business activities (Prieto-Carrón et al.2006). For example, despite the increased concern about the ethics of business in recent decades, most companies do not include a firm’s impact on

poverty as a specific criterion in the assessment of a firm's performance. This is a major problem, because although poverty reduction has not always been an explicit goal of CSR, firms have always had an impact on poverty. Papers that attempt to identify methods in which MNCs can more generally impact poverty do exist (Klein et al. 2001; Hopkins 2001), but none have developed a systematic framework for analyzing the poverty impacts of FDI. Clearly there is room for a more development-oriented approach in CSR research.

The last major issue within CSR literature is the lack of definition of terms. In much of the CSR literature, the terms "poverty" and "development" are not defined, and the relationship between business, economic growth, and living standards has been mostly overlooked. It is essential to clearly define what is meant by poverty and development in order to create meaningful methods of analyzing CSR programs, as the most generally-accepted definitions of these ("Literature Review") include social dimensions of poverty and growth as well as economic ones. These social issues must be incorporated into current debates about CSR. If this is ignored, many critical issues – though perhaps unintended – will continue to produce negative consequences on people in developing countries where CSR-driven business is attempting to help. For example, women in Bangladeshi factories are often forced to work inhumane hours due to a lack of choices under terrible working conditions determined by powerful buyers in global supply chains (Bloomer 2005), and women working on banana plantations in Nicaragua are forced to pull their daughters from school in order to care for the family because the mothers work too many hours to care for their family (Prieto-Carrón 2005).

## Poor Governance

As described in the previous section, there has been far more CSR research completed in developed countries than in developing countries. There are critical differences between societies, however, that make context-specific CSR research vital to understanding CSR initiatives at the BOP. One of those differences is variations among governance between developed and developing countries. Developing countries are often home to weak institutional environments that involve bureaucratic inconsistency, insecure property rights, illegal financial outflows, tax fraud, and antitrust and corruption cases, contributing to a lack of critical development resources and the continuation of failed states (Jamali et al. 2007; Kuznetsov et al., 2009). Indeed, recent measures from Global Financial Integrity (GFI) indicate that illicit financial outflows from poor countries to rich ones are ten times the size of the inflow of global foreign aid to developing countries (Dobers et al. 2009), and estimates show that 500 billion dollars a year comes out of developing and transitional economies into Western bank accounts (Baker 2005). Furthermore, assets stashed in tax havens located around the globe are estimated to be 11.5 trillion dollars (Baker 2005). This enables tax evaders, drug cartels, and terrorist organizations and hurts the world's poor by causing stagnating development. According to Baker, this global corruption is not diminishing, but rising.

This type of illegal activity does not only originate from a small group of radical organizations or individuals. In some cases, businesses themselves have practiced mispricing, abusive transfer pricing, and fake transactions in order to evade taxes (Dobers et al. 2009), an idea particularly important from a CSR perspective yet rarely discussed in CSR literature. This is particularly shocking since some development researches view the flow of illicit capital out of developing countries as one of the main reasons why countries remain underdeveloped (Baker

2005). Businesses and researchers in the area of CSR must take the issue of governance more seriously. Although some argue that this type of legislation is the work of public politicians and government bodies (Dobers et al. 2009), governance questions become CSR issues in weak institutional environments where international businesses have the potential to legally misuse government systems and where non-compliance, tax evasion, and fraud can be a norm rather than an exception. Abiding by rules and regulations, therefore, is the responsibility of a responsible corporation, making it an important aspect of CSR (Jamali et al. 2007).

## Business-Development Relations

In addition to a lack of research and poor governance structures, there are also immense challenges to forming partnerships between business and development that make CSR difficult to implement. If firms are to be taken seriously in international development and are expected to play a significant role in poverty reduction, CSR cannot simply be seen from the business perspective. Firms that implement shallow profit-maximization techniques under the guise of CSR, or those that simply view the idea as an avoidance of environmental or social irresponsibility, must experience fundamental change in their ideas about development and the communities in which they work to make profit. It is also essential to assess the current and potential contribution that private companies can make to international development goals from society's perspective. This requires a certain amount of cooperation.

Due to the historical divergence of interests among the public, private, and non-profit sectors, there remains a great amount of distrust between sectors. Prior to globalization, businesses did not view global poverty as a business issue. When individual business leaders became aware of the plight affecting the world's poor, they acted on an individual basis, not as agents of the companies they held. By the mid-20th century, these business leaders began

thinking of philanthropy as strategic for their bottom lines, choosing only to engage in CSR activities that were important for their developed-world stakeholders or relevant to their operations. During the second half of the 20th century, many MNCs moved their operations abroad and were eventually forced to take international poverty and CSR issues more seriously (Werhane et al. 2009).

Because of this history, development NGOs, have been for the most part extremely critical of the voluntary programs undertaken by corporations (Jenkins 2005), saying that businesses are mere exploiters and commoditized donors that are not truly invested in the well-being of the people they propose to help (Werhane et al. 2009). In 2004, for example, Christian Aid stated that "CSR is a completely inadequate response to the sometimes devastating impact that multinational companies [have]" (Christian Aid 2004), and Oxfam International published several reports highlighting the way in which supply-chain and other business practices undermined professed corporate aspiration to social responsibility (Oxfam 2004).

Official development agencies tend to take a much more positive view of the potential development impacts of CSR. DfID, for example, states that, "By following socially responsible practices, the growth generated by the private sector will be more inclusive, equitable and poverty reducing" (DfID, 2004), and the World Bank and UN both actively promote CSR through their Corporate Social Responsibility Practice and Global Compact programs. The Inter-American Development Bank (IDB) went even further to state that "CSR, by its very nature, is development done by the private sector, and it perfectly complements the development efforts of governments and multilateral development institutions" (Vivos, 2004). While this is an extreme opinion, it is representative of the highly enthusiastic attitude espoused by most official development institutions toward CSR in recent years. The differing opinions among

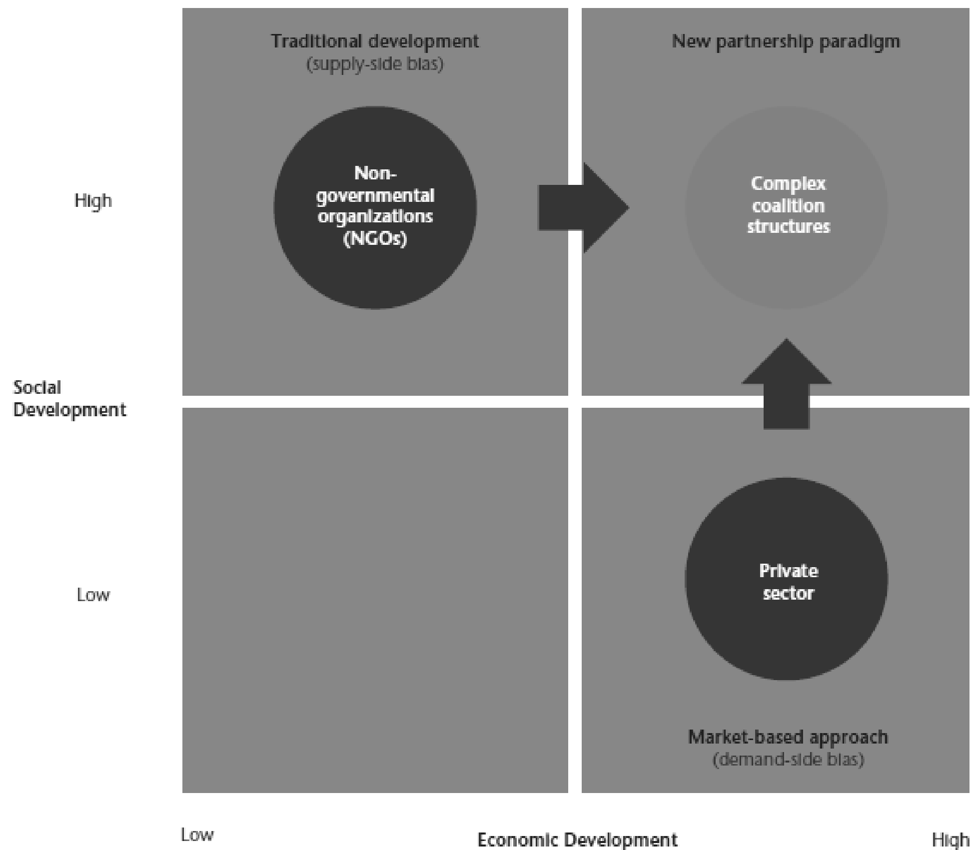
development workers and institutions make it difficult to come to a consensus about how to deal with the burgeoning role of the private sector in development. The fact that many NGO activists make poverty reduction and sustainable development social goods achievable only through nonprofit entities that eliminate the "ill-intentioned" business community also makes it impossible to create meaningful partnerships among sectors.

Businesses, too, have predetermined thoughts about development agencies and developing countries that may be incorrect. Many companies, for example, assume that poor people in developing countries have little or no money to spend on goods and services outside their basic needs, and they assume that certain economic and non-economic barriers to commerce such as corruption, illiteracy, lack of infrastructure, currency fluctuations, and rampant bureaucracy make it next to impossible to do business profitably in developing countries (Hammond et al. 2002). As this paper later demonstrates, the idea that MNCs cannot conduct profitable business in development countries is for the most part incorrect, selling short not only the potential contribution of the BOP in the global economy, but also leading many MNCs to miss out on potentially lucrative business opportunities. In addition, many companies view people and organizations in the non-profit world as inefficient, unrealistic, and anti-business, which contributes to the inability for meaningful partnership creation.

There is a need to bring together all efforts aimed at poverty alleviation into one system that has true potential to benefit the world's poor. In order to accomplish this, businesses cannot work alone in their CSR efforts. They must create new partnerships with the public sector, with NGOs, and with other international and national institutions to work to decrease global poverty (Werhane et al.2009). Creating these meaningful partnerships between non-private actors and the private sector is of crucial importance in the struggle against poverty on a global level, and it is

in the private enterprise's best interest to do so. The diverse nature of these partnerships, for example, create strategic coalitions called "new partnership paradigms" that have the potential to provide multiple perspectives and areas of expertise that make current and future issues easier to spot, increasing informed planning and enabling organizations and businesses to identity and prepare for risks before they have a large negative impact (WBCSD 2010). In this way, NGOs and private firms work together on their respective goals – NGOs on social development issues and the private sector on value creation for their firms – in order to advance both of their self-interest, leading to a heightened level of social and economic development. This makes both poverty alleviation, as well as business, more effective (see Figure 2).

Figure 3. Building Complex Coalitions for Social and Economic Development



## Representation and Voice

Perhaps the most concerning issue in the current CSR debate is the lack of developing-country voices. Although pressure for adherence to CSR comes from some developing nations, as well as the majority of international development agencies, the people to whom businesses are most accountable come from developed countries. In addition, the issues central to CSR debate have so far been dominated by Western voices, namely those of MNCs, NGOs, various governments, trade unions, and academics (Fox 2004). This has important implications for the issues which have taken center stage in the CSR debate. The concerns of most developed-nation stakeholders tend to be environmental impacts, working conditions, and human rights. Since companies are concerned largely with the potential damage to their reputations that have the potential to accrue as a result of media exposure of corporate malpractice, these priorities have led to a tendency to see CSR in negative terms. In other words, there is an emphasis when speaking about CSR on things that companies should not do, such as employing children or exploiting communities, rather than on seeking positive development outcomes and outlining what companies should do, such as helping to eradicate poverty. The current CSR movement is as significant for what it does not include as for what it does (Jenkins 2005).

Because of this, a new agenda for CSR research in the developing world is urgently needed. CSR is a complex concept that continues to encompass an ever-widening range of issues to include not only corporate conduct issues such as the direct impact of business activities on social, environmental, and human rights issues, but also the role of business in relation to the reduction of poverty in developing countries. This means that perspectives that reflect on the ground experiences in developing countries are vital. So far, they have been lacking. In addition, if CSR programs are to be considered legitimate, they must also be adapted to the country,

region, or area in which they are being implemented (Prieto-Carrón et al. 2006), which is difficult to accomplish unless local experts in development are brought on board to a CSR project. If these voices from developing countries were systematically taken into account, CSR discourse would immediately increase in globalization, reach, and effectiveness.

# 4. New Conceptual Framework

## Combining Two Schools of Thought

The idea that there is only one valid way for businesses to engage in international development and poverty reduction is naive and unrealistic. Both sides of the business in society debate ("Literature review") have strengths and limitations in international development. Despite unique problems, they both also have the potential to create positive outcomes in developing countries. If MNCs are expected to take on a serious role in the development of their host countries, public, private, and non-profit sectors must all reconcile the two schools of thought, realizing that when business as usual practices meet specific criteria, they already fit under the umbrella of CSR activity. If businesses take an active role in this process, they can recast the business and development debate in their favor to capture the intellectual and moral high ground from critics, improving their own self-interests while moving closer to effective poverty alleviation in developing countries.

Both schools of thought, in their own ways, obscure the significance of social issues to business success. The traditional business case, for example, obscures several important realities. First, it makes social issues divergent from business issues, when in fact they are intertwined and fundamental to it. This leaves companies vulnerable to negative public sentiment, increasing risk (Wilson et al. 2006). It also leads them to miss out on strategic opportunities for increasing corporate profitability, as many social pressures indicate the existence of unmet social needs or consumer preferences (Davis 2005). Examples of this include social pressures on international pharmaceutical companies to improve access to HIV/AIDS medication for people living in developing countries, as well as many social and political pressures that have shaped and redefined the international oil and mining industries over recent decades. In these cases, billions

of dollars of shareholder value have been put at risk as a result of social issues that end up acting as the fundamental drivers of corporate performance, and the business-as-business attitude of some of these major international corporations blinded these companies to the important shifts in the implicit social contracts between business and society that could have been anticipated. These same businesses could have gained advantage by identifying and supplying products and services demanded through social and political pressures before their competitors did (Davis 2005). This example illustrates how the fixation on business-as-usual practices and the neglecting of important long-term opportunities and issues such as customer trust and innovation in some companies has actually led to a hindrance of shareholder value and profit maximization.

Second, companies that refuse to address questions about their ethics and legitimacy in international markets or treat these issues with contempt are working against their own well-being. Regardless of whether or not specific criticisms levied against certain corporations are valid, companies must at minimum address the issues with words, and if necessary, with actions, in order to protect their own self-interests. If this is ignored, especially in developing country markets where the rule of law and basic public services are for the most part absent, companies risk facing mounting criticisms and political tension due to their activities in these regions (Davis 2005).

The traditional concept of CSR, too, has its limitations. First, as described in the Literature Review, CSR in the modern sense is for the most part a defensive tactic on the part of corporations to appease public criticism toward the firm. In addition, companies have used traditional CSR as a way to avoid NGOs, the public sector, and other activists (Davis 2005), creating negative consequences for the Business-Development relationship ("Challenges to CSR"). This opens up CSR initiatives to criticism and hinders the ability of corporations to make

a meaningful impact on development. Second, traditional CSR minimizes the positive impacts that businesses have in development. International corporations provide large and critical contributions to society, especially in developing countries. These contributions, such as productivity gains, innovation, research, employment, large-scale infrastructure investments, human-capital development, and organization should not be ignored. Indeed, in developing countries, MNCs have used FDI in order to contribute critical capital, technology, skills, and other poverty-alleviating transfers that have made most developing-country governments committed to attracting international corporations to their economies. Band-Aid CSR initiatives that attempt to throw money at a particular issue in order to mitigate social pressures completely undermine this concept (Davis 2005). As discussed before, the third downside to traditional CSR initiatives is that they often fail to capture the potential importance of social issues for long-term corporate strategy, limiting the ability of corporations to become aware in advance of potential issues.

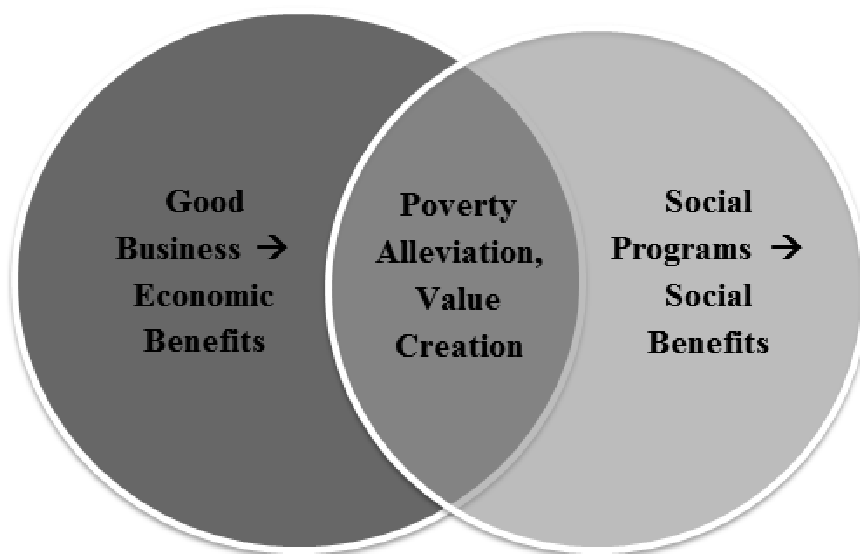
Taking these limitations into account, a new approach to thinking about business in developing countries is needed. As will be discussed in the next three sections, poor people in developing countries can be viable suppliers, employees, and customers, but they are often ignored by multinational enterprises. At the same time, these same enterprises are being pressured by their consumers and the international development community to increase their efforts in economic and social development in developing countries and produce clean, sustainable products and services. These companies rarely respond with efforts based on a strong business case, instead choosing to engage in Band-Aid philanthropic activities that produce little or no long-term effects in the communities they are intended to help. This needs to change. Development should be removed from the CSR background and firmly placed in the core

business interests of the international corporation. This does not require a business revolution. It simply means conducting good business in developing markets based on sound economics while viewing the poor not merely as consumers, but also as potentially profitable employees, buyers, and suppliers. If this good business is combined with firms fulfilling their social, political, and legal obligations and collaborating with the public, non-profit, and academic sectors ("Challenges to effective CSR"), it will generate both a profit for firms, as well as create major economic benefits for the communities in which firms are located, leading to both poverty alleviation and value creation (see Figure 3).

In this scenario, business people can continue serving their shareholders the same way, seeking to create value for their stakeholder with minimum risk. As noted above, businesses already do a lot, just by being businesses. This should not be taken for granted, and it is just as important to CSR as voluntary initiatives undertaken to specifically impact poverty reduction and development. They can, however, do more to understand poverty and the lives of their customers, suppliers, and employees before doing business with them. Indeed, it makes sense for them to do so. International managers doing business abroad will do a better job if they understand the dynamics of income, opportunity, and wealth in the host country. An integral part of this process should be altering the perspective of the multinational company to include the more holistic approaches to poverty discussed in the "Defining Key Terms" section above, including social issues as well as economic dimensions in its definition. The complexity of poverty should not be a source of concern for companies operating abroad, either, as it can actually present an opportunity. Companies can expand their potential workforce by offering information, overcoming discrimination, and creating meaningful employment as well as

develop efficient suppliers by helping them gain access to financial mechanisms that previously hindered their capacity to conduct business.

Figure 4. Mutually Beneficial Framework for Effective CSR




Companies are not required to take on this task alone. As described above, meaningful non-profit, private, and public sector partnerships are vital to accomplishing development tasks. By gaining a deeper understanding of poverty in the specific context of a company's home country, enterprises have the ability to prioritize development issues that most directly apply to the firm's value creation and call upon development resources from other sectors to take care of the rest. In this way, companies have the ability to act as catalysts, problem-solvers, and conveners even before they choose to spend any money on random philanthropic initiatives. This will make business more successful, and it will help the poor. By actively seeking to become

more benevolent, multinational companies can identify new routes to their own self-interest and create value for their businesses, while at the same time accomplishing important goals for development.

## Overcoming Misperceptions

As described the "Challenges to CSR" section of this paper, the business community operates under a host of assumptions about the developing world, many of which are incorrect. Even when true, some of the "limitations" of the developing world actually present business opportunities, not limitations, for the business world. First, most of the developing world is more market driven than investors believe. Take, for example, the case of Sub-Saharan Africa. Besides widespread cell phone use, most countries feature airports with planes from many international airlines such as China, Qatar, and Turkey, and many countries host Western-style shopping malls and streets that feature not only domestic restaurant chains, but also increasingly global brands like Kentucky Fried Chicken and Wal-Mart (Moyo 2012).

One reason why Western investors are skeptical of investing in Africa is because between the late 1990s through 2008, Africa went through a period of isolation from the rest of the world. During this period, Western policy makers focused on one set of development policies such as trade, foreign direct investment, and capital market access for the countries of China, India, and Brazil (BRICs), but they prescribed an aid-centric policy for other, mostly African, countries. As a consequence, the continent of Africa's share of world trade hovers around 2 percent, and the region receives only 3 percent of global FDI (Okonjo-Iweala 2010). This needs to change. For one thing, Africa is less exposed to the recent economic fallout of the developed world due to its previous isolationism, and the region is expected to grow at a consistently faster rate than currently anemic developed economies. Although risk remains high in comparison to developed

countries, there have also been real efforts over the past decade to address many of the reasons for this, such as corruption, lack of transparency, and inefficient property rights. Yet good investment opportunities in Sub-Saharan Africa are still starved for capital. Food preferences across Africa are changing as incomes rise as well, underlying a boom in food producers. In the services industry, for example, Africa is home to 2 billion people who have a cell phone but no bank account. The rapid integration between financial products and cell phone technology creates a myriad of opportunities to directly serve the consumer and to cut out bureaucratic middle men (Moyo 2012).

The idea that the poor have nothing to offer the business community also reflects a narrow and outdated view of the developing world, and it leaves a vast market of buying power and intellect untapped. There is an enormous economic potential that lies at the bottom of the pyramid, firstly because the aggregate buying power of the world's 4 billion poor is so large. The average per capita income of villagers in Bangladesh, for example, is a mere 200 dollars. Yet as a group, these consumers generate average revenues of 90-1000 dollars a month per village for telecommunications services owned by a single entrepreneur. Stated differently, customers of these village phones spend about 7 percent of their income on phone services, a far higher percentage than consumers in traditional markets (Hammond et al. 2002).

It is also incorrect to assume that the poor are too concerned with taking care of their basic needs to waste money on non-survival goods as the poor do buy luxury items. In the shantytown of Dharavi in Mumbai, for example, 85 percent of households own a television, 75 percent own kitchen appliances like a pressure cooker and electric mixers, 56 percent own large kitchen appliances like a gas stove, and 21 percent have telephones. These people accept the realities of their lack of access to large commodities like houses and cars, and they learn to live

with poverty issues like a lack of running water and a lack of sanitation. Rather than saving for purchases they know or believe will never be an option, they spend their incomes on things that can make a difference on their current quality of life in their daily lives (Hammond et al. 2002).

One example of demand for a Western product in a developing market is the case of Krispy Kreme Doughnuts in China. After seeing the immense growth of China, one Western corporation decided to make the most of a developing country's growth. Krispy Kreme Doughnuts opened up its first franchise shop in Bangkok, Thailand in 2010, and at the grand opening crowds queued around the block for days. The longest wait was five and a half hours, and the reception surprised even franchise owners. Over the past five years, the franchise has grown with dozens of additional stores. Clearly, it is possible for Western companies to take established brands of some traditionally Western products and move them to developing markets (Johnston 2010).

Another significant misperception about developing markets is that the local goods sold in them are extremely cheap, eliminating the potential for multinational companies to come in and make a profit through competitive pricing and marketing. In reality, the poorest consumers in the world pay higher prices for most things than middle-class consumers do. This means there is a real opportunity for large corporations with economies of scale and efficient supply chains to capture a market share by offering higher quality goods at lower prices while maintaining attractive margins (Prahalad et. al. 2002).

Across the developing world, goods such as packaged foods can cost the poorest urban slum dwellers 20 – 30 percent more than middle and upper-class families because of a lack of access to grocery stores. On the service side of things, local moneylenders often charge interest rates as high as 10 – 15 percent per day with annual rates running as high as 2000 percent – rates

that are illegal in most developed countries. When the costs of essential goods in Dharavi, the same shantytown in Mumbai in which people buy luxury items with an incredibly small income, to the cost of essential goods in the middle to upper-class areas of the city, a disturbing picture emerges. The credit premium for those in poverty is 53 times that of the upper-class inhabitants, the municipal-grade water costs 37 times as much, phone calls cost 1.8 times as much, diarrhea medication costs 10 times as much, and rice costs 1.2 times as much (Hammond et al. 2002). This pattern is common throughout the developing world, and it makes clear the fact that costs could be dramatically reduced for the poor if they could benefit from the scope, scale, and supply-chain efficiencies of large enterprises as their middle and upper-class counterparts do.

It can also be unexpectedly cheap to market and deliver products and services to the world's poor. Most cities in developing countries already have distinct ecosystems with shops, small businesses, clinics, schools, and limited financial services, and these commercial sectors are surprisingly productive (Moyo 2012). Dharavi, for example, generates an estimated 450 million dollars of manufacturing revenues, and established shantytowns in São Paulo, Rio, and Mexico City are equally as productive (Hammond et al. 2002). These cities are also densely populated, a trend which will only increase in the future. The UN and the World Resources Institute (WRI) indicate that by 2015 in Africa and Latin America, 225 cities will each have populations of more than 1 million. Asia will have 903, 27 of which will have populations over 8 million. Collectively in the developing world, the largest 1300 cities will account for 1.5 to 2 billion people (WRI 1996). Half of these will be BOP consumers currently served by informal economies. If companies operate in these areas, they will have access to millions of potential new customers that collectively have billions of dollars to spend. Poor people living in

shantytowns in Johannesburg, Mumbai, and Rio de Janeiro, for instance, each have a purchasing power of over 1.2 billion dollars (Hammond et al. 2002).

Although rural populations in developing countries pose a different challenge, the main issue is that they are harder to reach than poor people living in cities, not a lack of purchasing power. Indeed, 60 percent of India's GDP, for example, is generated in rural areas. Yet even distribution and access issues are improving with new information technology and communications infrastructures. These technological improvements have the potential to become inexpensive ways to establish marketing and distribution channels in rural developing country communities (Hammond et al. 2002). It is also clear that poor people in developing countries are ready to adopt new technologies that improve their economic opportunities and their quality of life. Poor rural women in Bangladesh, for example, use cell phones despite never having previously used phones of any type (*The Economist* 2012). In Kenya, teenagers from slums are being successfully trained as website designers. Poor farmers in El Salvador use telephone centers to negotiate the sale of their crops online (Higgins 2013). Poor women in Indian coastal villages learn how to use PCs in less than a week to interpret real-time satellite images showing concentrations of schools of fish in the Arabian Sea in order to direct their husbands to the best fishing areas (WRC 2011).

The big picture here is that large MNCs should not hesitate to deploy advanced technologies or invest in developing countries. By doing so, MNCs have a great potential to help the poor, and they will do so with a clean conscience. The issue of exploitation is not just about cost, but also about quality in the range and fairness of goods and services. The informal economies that now serve poor communities are full of inefficiencies and exploitive intermediaries, so if a small financial institution charges 50 percent annual interest on loans

when the previous alternative from informal moneylenders was either 1000 percent or no loan at all, that financial institution improves the life and expands the choices of the poor. If even larger financial companies use their economies of scale to offer loans at 20 percent interest, they too help the poor. When MNCs provide basic goods and services that reduce costs to the poor and help improve their standard of living, they are benefiting everyone. Whether or not the companies make a profit or not makes no difference in the issue of exploitation. Indeed, it may be in the best interest of the poor for large companies to make profits from their communities because it provides incentives for large companies to keep operating in those communities, continuing to improve the range of options and quality of life for the poor.

## What Firms Gain from Serving the Poor

Businesses can gain important advantages by serving the poor. First, they will acquire a new source of revenue growth. Although questions remain about the longevity of this growth, top-line growth is important for all companies. The challenge is especially critical for large companies today which have often saturated their existing markets. BOP markets, therefore, represent new sources of rapid growth potential for large companies if they invest and assist developing economies to expand and develop quickly. Because the latent demand for low-priced, high-quality goods and affordable services is so high in developing countries, investing in developing countries presents a real option for large multinational companies. Hindustan Lever, for example, recently introduced the new product of candy in bottom of the pyramid markets. The candy is higher-quality than previously existing candies, yet the candy sells for only a penny per serving. Within six months the company's candy became the fastest growing category in the company's portfolio, and the company estimates that it has the potential to generate revenues of 200 million dollars in India and even more in comparable markets within five years. Similar

successes have been seen with other commodities like low-priced laundry detergents and salt (Prahalad 2005). Services are not excluded from this. Small-business services such as centers run in Uganda by the Women's Information Resource Electronic Service (WIRES) provide female entrepreneurs with information on markets and prices, as well as credit and trade support services. All of this is packaged in easy, ready-to-use formats in local languages (Hammond et al. 2002).

Although it is true that with traditional business models it may be difficult to offer some services at a low-enough cost to make them profitable for companies, there are many examples of companies employing alternative technologies and utilizing aggregate community demand rather than individual consumer demand as a solution to this problem. Prodem, for example, is a microfinance organization in Bolivia that uses multilingual smart-card ATMs to greatly reduce its marginal cost per customer. These cards store a consumer's personal details, account information, financial records, and a fingerprint, all allowing cash dispensers to operate without permanent network connections. These features are key in rural areas. The machines are also equipped with touch screens and voice commands in local languages which allow Prodem to expand its customer base to the illiterate and semiliterate (Prahalad 2005). Another example includes Gyandoot, a start-up company in the Dhar district of India where 60 percent of the population lives below the poverty level. The company provides a network of 39 kiosks with online access to provide local entrepreneurs with Internet and telecommunications access, as well as with educational, governmental, and other services. Each kiosk serves 25 to 30 surrounding communities, reaching more than 600 communities and over half a million people total. Technology and networks like these can be useful channels for marketing and distributing many kinds of low-cost products and services (Hammond et al. 2002).

Secondly, companies will achieve greater efficiency as they decide to invest in cost-saving opportunities in developing economies. The most obvious way this occurs is outsourcing. Due to the rapid expansion of high-speed digital networks, companies are experiencing enormous savings by locating labor-intensive manufacturing and service functions abroad. This benefits the company financially as well as improves the quality of life for people in developing countries, which in turns benefits the company by providing them a better-off consumer base with more money to buy its products. Taking advantage of cheap labor pools is not the only way for companies to enhance their efficiency by operating in developing regions. Maintaining a low cost structure in developing areas will push companies to discover creative ways to configure their products, finances, and supply chains to enhance productivity out of competitive necessity. These discoveries will often be able to be incorporated back into operations in developed markets. One example of this occurring is through shared access models which disaggregate access from one individual consumer to many consumers. Goods like computers and Internet connections can be shared and paid for on a pay-per-use basis, garnering a company more revenue per dollar of investment than if one single user paid for the product with a flat fee. This shared access model creates the opportunity to gain large returns from many other kinds of infrastructure investments as well (Prahalad 2005).

In order to operate successfully in developing markets, companies must understand that the profit margin on individual units of a good will always be low. What will really be significant in determining profit is capital efficiency, the ability to garner the highest possible "returns on capital employed" (ROCE). Efforts to reduce capital investments by outsourcing manufacturing and services, streamlining supply chains, actively managing receivables, and paying close attention to distributors' performance will create great economic value for companies and their

shareholders. In other words, very low capital needs with focused distribution and technology investments as well as very large volumes at low margins will lead to very high ROCE businesses (Prahalad et al. 2002). ITC Limited, for example, is one of India's largest companies. The company's agribusiness division recently streamlined its supply chain by distributing a total of 970 kiosks to serve 600,000 farmers who supply the company with coffee, shrimp, and wheat from 5,000 villages across India. The kiosk system increases the farmers' productivity by disseminating information on weather and farming practices, by supporting farming practices like soil and water testing, and by facilitating the supply of quality inputs to both the farmer and the company. Because the program enables the company to eliminate multiple steps in the transport, bagging, and handling steps of the supply chain, the kiosks also help farmers earn higher prices by minimizing transaction costs involved in marketing farm produce and decrease the company's procurement costs (Hammond et al. 2002).

The last significant way that large multinationals can benefit from investing in developing markets is access to new innovation that makes them more competitive. Markets in developing countries are rife with commercial and technological experimentation (Prahalad 2005). For example, a lack of dependable electric power stimulated a UK-based company named Freeplay Group to introduce manually-powered radios in South Africa that eventually became popular with Western hikers (Hammond et al. 2002). Similar breakthroughs are being pioneered throughout the developing world in the use of solar-powered devices such as battery chargers and water pumps (Grimshaw et al. 2010). Companies that can find ways to lower connection costs and improve access to technology for their consumers stand to make profit and gain a strategic advantage.

Clearly large companies stand to gain from providing services to the world's poor, but they also stand to lose if they do not. For example, in the 1990s, only 1 in 300 Nigerians had a telephone line. Large multinational telecom companies such as France's Telecom, BT, and Vodafone misread this fact when businessmen in Nigeria decided to auction off GSM licenses in 2001. These international companies decided not to enter Nigeria's developing telecom market because according to them, it would be too risky and there were not enough Nigerians with enough money to afford a phone to make their investments worthwhile. The problem in Nigeria and other African nations was not that ordinary people did not have money to buy and use telephones, but that state-owned telecom monopolies had been running with extraordinary inefficiency.

Since that time, mobile phone use in African nations has exploded, paving the way for other service industries, most notably banks and insurance companies, to follow suit and proving that African markets are much deeper than imagined. Indeed, cellphone use from the mid-1990s to mid-2000s grew faster in Sub-Saharan Africa than anywhere else in the world. Currently, there are 110 million cell phone subscriptions for Nigeria's population of 160 million, and there are 475 million subscriptions in Sub-Saharan Africa as a whole. Clearly these large multinationals failed to read the potential for mobile phone use across Africa. Companies that did not miss the boat responded to corporate pressures to expand their current clientele and built a larger retail base by taking advantage of the developing world's vast population to make profit for their companies while simultaneously aiding the poor by expanding their options and efficiency (Wallis 2013).

## Innovation in Emerging Markets

Western medical technology companies like the UK's Smith & Nephew are looking for opportunities to cut costs. When traditional methods fail, often these companies turn to mergers and acquisitions to cut costs. But business deals are not the only way to cut costs of medical technology, especially as the momentum shifts away from established leaders like the US and UK toward emerging markets, which are led by the BRICs. As these developing nations become the leading markets for smaller, faster, and more affordable devices that enable delivery of care anywhere and help lower permit costs, they are changing the nature of innovation.

Despite comparatively weak healthcare system infrastructures, these BRIC countries are quickly taking the lead in developing lean, frugal, and reverse innovation, by simplifying devices and processes, retaining essential functions, and applying newer technologies that are more mobile and customized to the consumers' needs. These new innovations also tend to be less costly than those of their Western counterpart, and they will eventually enable BRICs and other developing markets to leapfrog developed countries in innovative healthcare delivery (Bond 2011). Indeed, China is expected to be on par with Europe in terms of medical innovation by 2020 (WEF 2012).

The reasons behind this rapid advancement in medical technology in emerging markets is due to a mixture of social, demographic, and technology changes such as investment in universities, medical centers, and research programs, repatriation of foreign-educated professionals, and leaps in mobile technologies that allow more people access to healthcare, that have resulted in a worldwide growth of a supportive environment for innovation. Financial incentives such as government reimbursements and the size of the local market, investment infrastructure such as research and development (R & D) spending, universities and research

centers, and patent laws, supportive regulatory systems, consumer demand for high-quality care, and a supportive investment community including private equity and venture capital all contribute to a successful innovative environment (Bond 2011).

Over the next 10 years, the US and the UK will lose ground to BRIC nations on all five fronts, and other developing economies are following suit. Indeed, both China and India's markets are forecast to see double-digit annual growth over just the next 5 years (WEF 2012). Although there are some negatives to doing business in the developing world such as weak protections for intellectual property and less developed local supplier networks, these risks do not dissuade the prediction that companies will soon begin to launch products in emerging markets before they do so in the United States or United Kingdom. This is a remarkable shift in an industry that many see as key to growth in the developing world. It allows the people who need medical technology most – those in developing countries – to reap the benefits of innovation before those in relatively developed countries. Moreover, the culture of innovation in developing markets in industries such as medical technology serves as an example of the potential benefits large multinationals stand to gain if they decide to engage in developing markets (Bond 2010).

Another example of developing market innovation lies in the auto industry. Developing countries do not just offer carmakers low-cost factory production opportunities because of their abundant low-skilled labor. They also offer four-fifths of the new demand for cars. Because of the new challenge this presents the auto industry, developing country car manufacturers decided that in order to attract consumers in the BRICs and beyond, they would need to push prices down by adapting products and creating new technology. They decided that developed country vehicle standards need not apply to cars sold in developing markets, and they began looking for ways to

use cheaper parts. This means more sourcing from suppliers in emerging markets, and contrary to the stereotype, it does not lower the quality of the finished product. These new innovations will increase the ability for people in developing countries to purchase vehicles, and they will also improve the quality of life for those unable to buy cars by providing jobs and strengthening the economy. Once carmakers make breakthroughs in one emerging market, they can spread them to other countries and even begin to utilize them in developed markets. This is another example of how innovation in emerging markets can drive the global economy (Mance 2010).

According to a 2010 survey released from Deloitte, a consulting agency, and the National Venture Capital Association (NVCA), an industry group, venture capital (VC) is yet another area where emerging markets are expected to outperform the developed world. In China, for example, 99 per cent of venture capitalists are in expanding industries. The same goes for 97 percent of Brazilian venture capitalists and 85 percent of Indian venture capitalists. In contrast, 92 percent of venture capitalists in the United States expect their industry to begin contracting by 2015. As these BRIC nations, as well as other developing nations, become increasingly competitive within traditional markets, the stage is set for those same economies to become drivers of innovation. VC firms in developing countries also expect more money to be available for investment, whereas most VCs in the US expect partners to be less inclined to invest due to the weak Initial Public Offering (IPO) market and unfavorable tax and regulatory policies. Although emerging market venture capitalists have their own set of challenges, these facts underscore an important shift in the global venture capital ecosystem in which the more favorable and optimistic environments for investment are now outside the United States (Bond 2010).

## The Potential of the BOP

At the fundamental level, opportunity is what makes business grow and prosper. As described above, many developing countries and regions have the potential to be viable business and investment opportunities. There are also major global transformations occurring that have the potential to represent vast opportunities for a broad range of business segments. Less than 40 years from now, 30 percent more people will be living on Earth. Ninety-eight percent of this growth will happen in the developing and emerging world, and the global urban population will double (WBCSD 2010). This brings good news for business, delivering billions of new consumers who want commodities, goods, and services. In addition, many people in developing and emerging markets are moving up the economic ladder to a middle-class standard of living. Most of this economic growth has occurred in developing or emerging market economies, and this trend shows no sign of changing (Kharas 2010). The demographics of local and national communities are also changing (WBCSD 2010). .

The countries of Sub-Saharan Africa, for example, represent a trillion dollar economy that has, as a whole, grown faster than Brazil and India between 2000 and 2010 in nominal dollar terms (Kharas 2010). Indeed, the International Monetary Fund (IMF) projected that it would continue to grow faster than Brazil between 2010 and 2015, and so far this has been the case. Some, like Nigerian Economist Ngozi Okonjo-Iweala, believe that Sub-Saharan Africa is on the verge of joining the ranks of the BRICs (2010). In recent years, the IMF and the World Bank have stressed that given the need for fiscal retrenchment in developed countries, a rebalancing of global demand is needed in order to sustain economic growth (OECD 2001). Africa can serve as this new source of global demand. This example demonstrates that doing business in developing

countries is not just about charity. Businesses *require* new markets in which to invest, and developing countries, at the very least, deserve consideration.

Sub-Saharan Africa is not a hard sell. There are a host of economic, political, and human development reasons why it makes sense to invest in Africa. Economically, real GDP growth rose significantly in Sub-Saharan Africa from 3.4 percent per year over the six years 1996 to 2001 to 5.2 percent per year during the boom period 2002-2008. Similarly, per capita GDP growth went from 0.7 percent per year over 1996 to 2001 to 2.7 percent per year over 2002 to 2008. The median inflation rate in the mid-2000s was about half that in the mid-1990s. Foreign exchange reserves including gold increased more than 300 percent from 37 billion dollars in 2001 to 154 billion dollars in 2008. And net FDI flows more than doubled from 14 billion dollars in 2001 to 34 billion dollars in 2008. Investment in telecoms with private participation virtually tripled from 4 billion dollars in 2001 to close to 12 billion dollars in 2008. And international tourism receipts increased from 8.5 billion dollars in 2001 to 23 billion dollars in 2008, while remittances grew from 5 billion dollars in 2002 to 21 billion dollars in 2008 (World Bank 2009).

There are also distinct signs of maturity on the political side. Democracy has taken hold on the continent, and the number of autocratic regimes has fallen from 36 in 1989 to only 3 in 2004. The security situation is also improving the number of state-based armed conflicts has gone down over the years (World Bank 2010). Population is another reason that investors should consider Africa. Sub-Saharan Africa's population rose from 672 million in the year 2000 to 820 million in 2008, and future population projections make it only a matter of time before Sub-Saharan Africa's population reaches that of China and India. Africa is also the world's youngest continent. About 43 percent of the population is under the age of 14 and about 65 percent under the age of 30. The number of youth in the region will peak in about 20-30 years, according to the

2009 World Population Data Sheet (World Bank 2009). If well harnessed, some believe that these factors can mean a future boom in the local private demand in decades to come, providing an incentive for investments in Africa (Moyo 2012).

Africa has also been resilient during the global financial crisis, rebounded faster than Latin America, Europe, and Central Asia. This demonstration of resilience was not an accident, but a byproduct of the deep commitment to reform as well as political and economic stability that many African nations have displayed over the past 15 years. Most of Sub-Saharan Africa's countries are now regarded as frontier emerging markets, including Botswana, Cape Verde, Ghana, Kenya, Mauritius, Mozambique, Namibia, Nigeria, Seychelles, South Africa, Tanzania, Uganda, and Zambia. These are some of the two-thirds of African economies that implemented reforms during the global financial crisis to make it easier for investors. In 2008–09 alone, Rwanda completed seven Doing Business-related reforms, Mauritius six, and Burkina Faso and Sierra Leone five each. Indeed, Rwanda's and Liberia's measures were so significant that they both received "top reformer" status: Rwanda was the number-one reformer worldwide in *Doing Business 2010*, and Liberia was number ten (IFC 2010).

Although Africa does face obstacles to investment, many of those obstacles, such as a lack of infrastructure needed to achieve scale economies, volatility, and a lack of skills and knowledge, are the same obstacles faced by the BRIC countries before their growth rates took off (Okonjo-Iweala 2010). All of this demonstrates that Africa is not only ready, but able to provide an attractive and realistic destination for international investment, not just aid. This idea is realistic and within reach, and if a second wave of serious investors invests in a handful of the most prominent markets, it could serve as an engine for the rest of the continent and jumpstart a period of intense growth. The same holds true for many developing countries around the world.

# 5. Case Study

## CEMEX: Homes for the Poor, Mexico

CEMEX is the largest cement manufacturer in Mexico, the second-largest in the United States, and the third-largest in the world, operating in four continents with recorded global revenues of 6.54 billion dollars in 2002 and a gross margin of 44 percent (Prahalad 2005). Through innovative business, social programs, and multi-sector partnerships, this clearly profitable large MNC has found a profitable and empowering way to house the poor in Mexico for a profit through the private sector, rather than leaving this job to the government or various non-profit organizations. As this case study will demonstrate the story of CEMEX's successful innovation fits into the conceptual framework described in the "New Conceptual Framework" section of this paper. The fact that CEMEX found a way to combine good business that benefited the firm, as well as social programs that benefited the poor, ultimately creating value for the firm and spurring growth for the company as a whole while at the same time helping to alleviate poverty and contribute to sustainable development in Mexico also fits in to the diagram of value creation and poverty alleviation described earlier in this paper.

**Innovation:**

The innovation of CEMEX started during the Mexican economic crisis of 1994 and 1995 when analysts noticed that although sales were down across the board, sales in the less-wealthy informal self-construction market had only fallen by about 15 percent compared to the 50 percent decrease in the formal sector (Budinich 2003). This informal sector existed for the most part in a state of poverty, so the company recognized that potential customers in that sector represented low revenue per customer, but a relatively steady demand as well as a high potential for growth (see Figure 5 and 6). CEMEX estimated that this sector had the power to generate 500 to 600

million dollars annually (Prahalad 2005) Using this information, CEMEX determined that by converting the majority low-income population into steady consumers, the revenues from this segment could be impressive.

Figure 5. Revenue per Customer

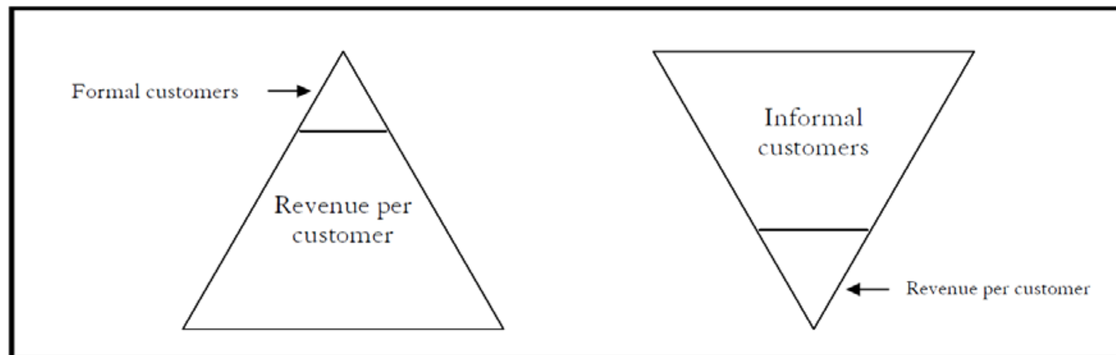



Figure 6. Comparison of Formal and Informal Market Sectors in Mexico

Comparison of Formal and Informal Market Segments

| Attributes | Formal Segment | Informal Segment |
|---|---|---|
| Sales | Higher revenue per customer | Low revenue per customer |
| Payments | Financing generally not required | Financing important |
| Demand | Depends on economy | More or less steady demand |
| Price sensitivity | Driven by bargaining power | Convenience driven (such as credit, delivery, and so on) |
| Brand equity | Recognized and trusted | Should build trust to deliver as promised |
| Growth | Slow growth | High potential for growth |
| Customer location | Usually located in places of easy access | Mostly located in remote areas |
| Relationships | Stops at the distributor-level | Requires close ties with end customers |

In order for CEMEX to be successful in their endeavor, managers knew they would have to consider obstacles to reaching the BOP market to move forward in an efficient, effective, and sustainable way. In order to do this, they performed in-depth market research to learn the habits of BOP consumers and find out what they needed and cared about, finding that BOP consumers needed better access to credit and improved distribution and construction practices. These changes, as well as an improved brand of CEMEX as a socially responsible company, would lead to improvements for CEMEX as well as BOP customers (Prahalad 2005).

The key way CEMEX began to make their innovative changes was through changing the *tanda* system of saving used by most low-income Mexicans. The system replaced formal banking mechanisms to save money by creating neighborhood or familial systems in which local people and family members pooled money if and when they had extra money to save. Typically, these informal savings were used for emergencies, but the only factor involved in managing the pools of money was social capital, which made pooling money for housing ineffective and difficult to manage, enforce, or discipline (Prahalad 2005). After analyzing its research about low-income housing construction in Mexico, CEMEX also recognized that it was low-income women, rarely men, who actively participated in these *tanda* systems and acted as principle savers in their communities. With further research, CEMEX determined that 70 percent of these female savers were using *tanda* systems to construct homes for their families, attempting to remedy low-income housing issues such as overcrowding and insufficient or unsafe living conditions (CEMEX 2010).

To capture profits from this group, as well as assist the group with achieving its goals, CEMEX engaged in innovation that altered the firm's mindset from including more in the firm's goals than the sale of cement. The firm actually modified the existing *tanda* system, calling it

Patrimonio Hoy, revolutionizing the idea of savings by changing the basic spending pattern of the poor in Mexico (CEMEX 2010). In this new model, the poor not only saved their money, but also obtained access to credit based on their savings and payment discipline, which mixes the traditional credit-only or savings-only system. The model also has strict enforcement rules, using only small groups as well as community ambassadors, usually women, to enforce rules and heighten accountability. As group members save money and eventually take turns paying for the product in installments, CEMEX delivers a portion of the total shipment of the product, allowing construction workers to build at their own pace and reducing the risk of stolen or mismanaged materials. In this way, savings and credit are the key drivers for the business model (Prahalad 2005). The model also revolutionized the traditional distribution network and supply chain model in which bargaining power and market dominance tend to be the key factors in price determination and distribution selection. Instead, Patrimonio Hoy chose distributors and resellers by analyzing which had the best understanding and appreciation for the new business model, which had the best delivery capabilities within the realities of local infrastructure, which had the capacity for storing raw material inventory, and which would create an exclusive relationship with CEMEX (Budinich 2003).

**CEMEX Today:**

After its first three years of operations, Patrimonio Hoy had 36,000 customers and over 10 million dollars in credit, and it operated in 23 cities and 19 states in Mexico. In 2003, the project began generating positive cash flows, and the customer base is still growing (Prahalad 2005). Patrimonio Hoy does not generate as high a margin as corporate CEMEX does through the sale of cement, but CEMEX believes the program has a strategic value (CEMEX 2010). Indeed, Patrimonio Hoy has helped CEMEX triple its cement sales in cities where the program is

present (Prahalad 2005). The more important and critical factor is that the program has created a successful, sustainable channel for selling cement and other construction materials in Mexico (Sharma 2003). In addition to this program, CEMEX is involved in other CSR initiatives, such as the improvement of school facilities and other infrastructure, technical assistance, employee training, and the creation of a safe and easy way to transfer remittances from the United States back to Mexico (Prahalad 2005)

Today, the mission statement of CEMEX includes a commitment to sustainable development, and sustainability is incorporated into the firm's strategy and day-to-day operations. CEMEX's main sustainability objectives are enhancing the firm's value creation and engaging the firm's stakeholders. The first goal aims to deliver innovative, high-performing products and services that serve as solutions in an ever-changing world in order to create a growing and profitable economy. This goal also includes building long-lasting competitive business advantages for the firm by fulfilling the needs of the construction sector in efforts to adopt more sustainable operational practices. The second goal fosters long term, positive, relationships with key stakeholders in order to address the emerging needs of society. In order to accomplish this goal, CEMEX collaborates closely with a wide variety of institutions that allow the firm to complement its core competencies and enable the company to generate social benefits that contribute to the strengthening of local communities. The company believes that this stakeholder approach is critical for the longevity of the company, for when the firm's stakeholders prosper, the firm prospers as well. Excelling in the employment, business partner, and corporate citizen categories, therefore, makes for a sound foundation for long-term business success. By building long term relationships with stakeholders, the company also increases its responsiveness to their needs and concerns, finding new ways to reduce its impacts and

contribute to sustainable development worldwide, ultimately making CEMEX a more competitive and profitable enterprise (Sharma 2003).

The company also strives to build sustainable partnerships with the private, social, and public sector, demonstrating continuous innovation and creativity by attempting to enrich their programs with additional services through partnerships (CEMEX 2012). This enables the company to have a greater impact on poverty reduction in order to provide a higher quality of life to its customers, securing sustainable growth for the program and more profits in the future. Academic partnerships include internship programs and collaborative research studies with top South American, American, and European universities. Private sector partnerships include an agreement with Banamex, the Mexican subsidiary of Citigroup, in order to improve financial literacy among poorer populations in Mexico. Government partnerships include working with local municipalities to improve the effectiveness of CEMEX's CSR programs. Development institution partnerships include agreements with the IDB that aim to facilitate the implementation and to improve the efficiency of CEMEX programs, a Public-Private Partnership (PPP) with German Technical Cooperation (GTZ), an international cooperation enterprise for sustainable development with worldwide operations (CEMEX 2012).

Its corporate objective is to improve people's living conditions on a sustainable basis that works to implement energy-efficient appliances with the aim to raise awareness among low-income families on climate change and enable them to save, a PPP with Capacity Building International (InWEnt) to implement a sustainable training program for the community promoters and achieve a higher skilled and more empowered workforce. Patrimonio Hoy also collaborates with Ashoka, the World Bank, SIDA, and the French Development Agency (AFD) in efforts to build potential partnerships for the future (CEMEX 2012). By creating these

partnerships and supporting people to become more self-sufficient through its programs, Patrimonio Hoy is bringing together economic, educational, and human resources in order to create innovative solutions to social challenges in the developing world and build sustainable communities.

Figure 7. CEMEX Stakeholder Representation

The firm actively participates in low-income housing programs and high-scale infrastructure projects as part of its commitment to community development. In addition to these activities, CEMEX is committed to engaging its key stakeholders, placing a particularly high priority on the health and safety of its employees, contractors, and communities, the development of local communities, and the collaboration with governments, NGOs, and opinion leaders to anticipate and address emerging social demands (CEMEX 2012). This is particularly demonstrated in a CEMEX project from 2011 that interviewed over 1500 managers, employees, community members, and many other stakeholders in order to garner opinions on company

performance from a variety of different sectors and stakeholders (see Figure 7) (CEMEX 2012). This further demonstrates the firm's commitment to working across multiple sector boundaries in order to create better solutions for the firm and for poverty alleviation.

CEMEX is committed to the research and analysis of its programs. Concerns are identified through stakeholder opinions and then prioritized into CEMEX operations, creating jointly developing project proposals that are relevant to the unique concerns of each community in which the firm operates (CEMEX 2012). These goals are validated through annual business and sustainable development analyses and reports that monitor the progress of both of CEMEX's goals, measuring the impact that the main sustainability issues have on its stakeholders and on CEMEX operations. These analyses help to reduce gaps between business strategy and sustainable development by allowing CEMEX to prioritize issues, risks, and opportunities using stakeholder inputs and company insights.

**Impacts:**

The objective of Patrimonio Hoy, and CEMEX in general, is to not only to maintain a profitable, self-sustainable business, but also to serve a social cause. In this way, CEMEX has allowed low-income families to obtain access to services and building materials on credit through a well-planned scheme, improving their quality of life, empowering local people through market-based solutions to address housing needs while at the same time using various CSR programs of the firm to improve living standards, empower the population, help close the gender gap, improve education, improve access to finance, and increase local economic development. These methods represent a win-win scenario in which the company makes profits and customers receive improved access to products and services, contributing to their economic and social development.

CEMEX's change in thinking about the poor represents a critical aspect of the paradigm shift in thought described in the conceptual framework outlined previously in this paper. As noted previously, incorrect perceptions about the poor can lead companies to ignore the potential of the BOP and miss out on profitable opportunities, and a lack of knowledge about poverty and the needs of the poor in a specific context can hold firms back from conducting the best business possible, ultimately hurting the poor ("New Conceptual Framework"). CEMEX's mission of stakeholder engagement and value creation has helped CEMEX gain a solid understanding of low-income populations in Mexico, clearing the misconceptions it originally had about the poor. It has also led to the realization that it is possible to capture profitable segments of developing country markets by changing traditional methods.

This case is important to consider when thinking about CSR in development because it demonstrates both sides in the debate between business as usual practices and philanthropic CSR. CEMEX worked in its own self-interest to make profit and serve its shareholders. As described in the "Literature Review" of this paper, this pursuit of traditional economic value creation brings meaningful contributions to society even without social programs. CEMEX, however, decided to go further, hypothesizing that by integrating social concerns into the main mission of the company and by better understanding the poor, the company would be more competitive and successful in the future. As outlined above, the firm was successful in this endeavor, tackling complex poverty issues through context specific research and multi-sector partnerships to create profit and become a world leader in its field. By acknowledging that poor people in Mexico could be viable customers, employers, and suppliers, and by conducting research about poverty to discover the best ways to engage them in this pursuit, CEMEX created social benefits and advanced the firm's own self-interest by creating a strategic business plan that

led to value creation for the company (Figure 4). The relationship between consumers and firms at the BOP is symbiotic, and both sides of the market serve as co-creators of value. In this way, this case demonstrates that it is possible to use market-based solutions to enhance the lives at those of the BOP while still maintaining a business profit.

# 6. Conclusion

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The tension between business as usual and CSR in international development is important, and both sides have merits and limitations. Yet as companies like CEMEX prove, it is possible for businesses to go beyond simple value creation and engage with developing markets in a new and innovative way, creating immense social benefits for people at the BOP while continuing to make a profit. As this paper demonstrates, this is in fact in a firm's best interest. Because this is possible, it follows that this type of engagement with developing markets is not only in a firm's best interest, but also a firm's ethical obligation. It is only when multinational firms are fulfilling their ethical obligations to innovate, reach across sector boundaries, and conduct research into the complex and varied needs of the poor, as well as fulfilling their economic and legal obligations, that they are fully engaging with the concept of CSR. This paper's synthesis of business as usual practices provides a reasonable reconciliation of these two ideas.

Besides what is noted in the body of this paper, there are several things that should be taken under consideration in the business and development world as the debate about CSR moves forward. First, opinions about CSR for business and development professionals can have significant consequences on the lives of the poor in developing countries, making it critical for managers, directors, and other actors aware of their own theoretical CSR position and how this may be affecting their business or non-profit decisions. This is especially important since the debate over CSR practices will continue to provoke discussion in an increasingly dynamic and global society. Second, as research on the issue continues, it is vital that researchers distinguish more clearly between local and global CSR, recognizing that what works in developed markets

may not always work in developing ones and that poverty is a varied state of being that is affected by many contextual factors. Researchers must also place more of an emphasis on little-researched subjects in order to fill gaps in literature that make it difficult to determine and analyze the potential effectiveness of CSR's impact on poverty in the future.

MNCs face a clear choice. They can ignore the CSR agenda, ignoring Bottom of the Pyramid potential, their own obligation to alleviate poverty in the countries in which they make a profit, and their own self-interest, or they can engage in strategic CSR by innovating, taking part in multi-sector partnerships, and partnering with the poor to advance their own self-interest and help alleviate poverty. If the business potential for people in developing countries is not realized by multinational firms, and if partnerships for new pathways of development are not made among business and development actors, developing countries run the risk of continuing their stagnant growth. Deflation can continue to threaten already-weak economies, the gap between rich and poor can keep widening, and incidents of economic chaos, governmental collapse, and civil and transnational war can continue to plague developing nations. Terrorism will remain a constant threat, and opposition to the global market system may intensify, making it increasingly difficult for multinational companies to expand and mitigate risk.

If, on the other hand, modern multinational firms and leaders in the private sector realize the potential of the positive impacts of effective CSR on communities in developing nations, the future may be much brighter. Driven by private investment and widespread entrepreneurial activity, the economies in developing regions will have the potential to grow vigorously, expanding the availability of jobs and access to wealth and bringing millions of new consumers into the global marketplace. Developing countries will have the potential to become new engines of global economic growth in order to promote prosperity around the world, and they will be

rewarded with a decrease in poverty for their citizens. The resulting range of social benefits will help stabilize many developing regions and reduce civil and transnational conflicts, benefiting developed countries by reducing the threat of terrorism and war. MNCs will expand and thrive in this era of intense innovation and competition. By stimulating commerce and development at the world's BOP, MNCs have the potential to radically improve the lives of not only the world's poor, but also the world's developed countries, bringing into being a more stable, just, and less dangerous world.

If companies rethink their products, services, and strategies and envision new opportunities that put the partnership between business and development at the center of business thought, they can become leaders in the wider world of business and create the best possible outcomes for the human population and the planet it lives on, thereby advancing the human condition. To play its essential role in this process, business needs to begin doing what business is best at: innovating, adapting, collaborating, and executing. These, along with partnerships among sectors in business, public, academic, and non-profit sectors, must change and develop in order to make a better future and get it right for everyone on the planet.

New global challenges of growth, urbanization, scarcity, and environmental change become key strategic drivers for business in the coming decade. In addition to new opportunities, there will be different external priorities and partners to engage with, as well as a myriad of risks to navigate and adapt to. Innovative and creative systems, innovative and creative people, and innovative and creative business will prevail. This will be the new agenda for business leaders, and they, too, will benefit from this global change by thinking about local and global challenges more than costs, which they will instead use as a stimulus for investments that open up the possibility of more opportunities being discovered.

In order for this radical world change to occur, companies need only act in their own enlightened self-interest. Although large companies cannot solve all the world's economic ills by themselves, it is clear that prosperity and poverty alleviation can come to the poorest regions through the direct and sustained involvement of multinational companies. It is also clear that multinationals can enhance their own prosperity in the process. As the 21st century unfolds, the international business and development community needs to come together to generate strong revenues, discover greater operating efficiencies, and uncover new sources of innovation to benefit not only individual businesses or public sector initiatives, but to benefit all of mankind. This vision for the future requires a fundamental shift in how the business world values social development and the choices they make. This ideal may not come if business, non-profit, academic, and public sectors are not able to work together and continue down the business-as-usual pathway of growth-led, trickledown economy in the continued dominance of mainstream economic assumptions. The potential magnitude of the global business opportunities that could arise from realizing this sustainable future is considerable, and they are worth striving for.

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