Poverty Alleviation as Big Business?

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1. Introduction: an ambiguous state of affairs

Since the beginning of the 21st century, the potential contribution of corporations to a large number of societal issues has received increasing attention and controversy. This also applies to arguably the biggest global challenge of the moment: alleviating poverty. Until recently, the issue of poverty was largely ignored in management theory and practice (Jain, Vachani, 2006). There are at least three reasons for this. Firstly, because poor people generally do not operate on 'markets' and have limited buying power. Secondly, the issue of poverty itself is complex. Do we consider absolute or relative poverty for instance? What about 'working poor'? Thirdly, the issue of poverty has many 'issue owners' and it is extremely hard to identify primary responsibilities. Poverty for some is a macro-economic issue that is related to the growth of economies in general, to others poverty can be directly associated with the alleged unemployment effects of relocation strategies of Multinational Enterprises (MNEs), whilst again others consider poverty primarily a mental state that can largely be attributed to personal traits and abilities.

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

This rather ambiguous state of affairs, however, has not prevented the issue from

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appearing prominently on the agenda of corporate decision makers. Neither did it prevent business gurus from devising formulas in which poverty is considered an opportunity rather than a threat. Consequently, the mood towards the involvement of firms in general and MNEs in specific in poverty alleviation is changing. Will this mood-change prove sustainable or is it merely a new management gimmick? What is the influence of other issues like global warming? The answer to this question largely depends on a proper assessment of the involvement of firms in poverty alleviation and the nature of the issue. This contribution takes stock of the many ways in which big firms can and do take up the issue of poverty. It discusses first the many manifestations of poverty; secondly how this challenge has become an 'issue' for corporations; thirdly, how firms can deal with this issue and how leading (big) corporations actually have been dealing with the issue up till now. This analysis will finally help us to identify the challenges that are still ahead.

2. The many manifestations of poverty

Poverty reduction is generally acknowledged to be the most important precondition for worldwide economic growth. Poverty goes together with weak human assets, a high degree of economic vulnerability and chronic malnutrition due to insufficient purchasing power for (good/safe) food and water (FAO 2002). Poverty is associated with forced labor. Poverty causes child labor as children need to complement the insufficient income of their parents. Poverty breeds an unequal distribution of diseases in developed as well as developing countries. Poverty contributes to a lack in education (general and illiteracy in specific). Poverty leads to social and political discontent, it triggers migration and is a breeding ground for terrorism and corruption. Poverty triggers unsustainable agriculture practices and a less than efficient use of other scarce resources. Poverty basically comes in three sometimes overlapping forms: (1) absolute poverty, (2) relative poverty and (3) working poor.

Absolute poverty is a relatively undisputed phenomenon as regards its size, impact on economic growth and human dignity. Poverty measurements are usually based on incomes or consumption levels. The minimum level needed to meet basic needs is called the "poverty line". The preconditions for satisfying basic needs vary across time and societies. Living on $1 a day represents a situation of extreme poverty, whereas the $2 a day margin still can be considered below the poverty line around the world. During the 1990s GDP per capita in developing countries grew by 1.6 percent a year. The proportion of people living on less than $1 a day fell from 29 percent to 23 percent of the world's . While the number of people in extreme poverty decreased by 10 percent, the number of people living on less than $2 a day in the 1990s, increased to 2.5 billion (World Bank, 2004). Poverty thereby is unequally distributed over the world. Around half of humanity earns less than what is considered the minimum to sustain a decent life ($ 1,500 PPP per year). The least developed countries (LDCs) are a group of 49 countries that have been identified by the UN as "least developed" in terms of their low GDP per capita. LDCs are specifically located in sub-Sahara Africa. Even when the biggest part of the world's poor are – by definition – located in the least developed countries, many of the industrialized countries contain substantial numbers of poor people as well. According to the UN

Human Development Report in 1998, the percentage of poor people in the US was 19%, in the UK (13.5%), whereas in France it was registred at 7,5% of the population.

Relative poverty is a more controversial concept. It is in particular related to an unequal distribution of income. The inequality in the world's aggregate income distribution increased more or less continuously since the beginning of the 19th century until World War II, after which it stabilized. But in the early 19th century income inequality arose mostly within countries, whereas at present more than half of it is found to be due to differences *between* countries. Income inequality hampers economic growth in particular at per capital income levels below U$ 2,000 (Barro, 1999; Easterly, 2002). Income disparity (even more than absolute poverty) has been considered the source of many other human problems: sickness, criminality, wars, education, safety.

Income inequalities within societies are usually measured by the *Gini-coefficient* which can range from perfect equality (0, everyone has the same income) to perfect inequality (1, where one person has all the income). The United States has the highest Gini-coefficient of all high income countries (0.408 in 2004), whereas most European countries and Japan have a considerably lower Gini coefficient (between 0.247 and 0.327) (United Nations, 2004). Around 50 countries in the world – all low income countries – have a more unequal distribution of income than the United States. Higher income inequality also breeds higher degrees of corruption (and vice versa). Income disparity in society is also strongly associated with the remunerations policies in leading companies. Research of Towers Perrin (see benefit database, www.towersperrin.com), shows that the income inequality within firms is particularly big in the United States, because of the remunerations earned at the top of companies. An average CEO in the USA earned around $ 1.9 million in 2002, whereas in Thailand or China, CEOs earn on average 5% of that amount

Working poor. Poverty is often associated with unemployment or working in the informal sector or 'shadow economy'. But working poor people are in fact working or looking for work in the formal sector (during at least 27 weeks per year in the United States), while earning an income below the poverty line. At the end of 2002, the number of working poor – defined as workers living on $1 or less a day – was assessed at 550 million. Defining the poverty line at $2 a day, the number of 'working poor' increases to 1.4 billion people (2006 figures). Working poor represent a substantial group of the workers in developed countries as well. In 2002, the US department of Labor registred about 7.4 million "working poor" people, representing around 5% of the work force (US, 2005). In Europe, it has been estimated on the basis of a different definition, that 8% of employees in the EU can be considered as working poor (European Industrial Observatory, www.eio, eurofound).

3. The geneology of an issue: poverty alleviation as a business responsibility

Issues are first and foremost societal matters that lack unambiguous legislation (Van Tulder with Van der Zwart, 2006). Prime examples of the existence of such a 'regulatory gap' include the sinking of Shell's Brent Spar storage tank in the Atlantic Ocean in the summer of 1995, and the question of whether or not to do business in Burma. There was

no international legislation that prohibited the sinking of the Brent Spar and there was also no ban on doing business in Burma. Nevertheless the issue materialised due to pressure by critical NGOs, which forced these firms to take action. The issue of 'poverty' is more complex, because it can not be 'regulated away' by national legislation. In ethical terms, poverty alleviation represents a 'positive duty' rather than a 'negative duty' for corporations. Even the issue of 'minimum wages' proved very difficult to regulate. Consequently, there is no government that requires firms to address poverty (or solve it) in any comparable manner as has been the case with environmental or human rights issues.

Issues, however, can also appear as a result of *expectational gaps* (Wartick and Mahon, 1994). Expectational gaps are created when stakeholders hold different views on what acceptable corporate conduct is and/or should be with regard to societal issues. It concerns the disjunction between the factual and actual interpretation (what is) and the desired interpretation (what should be). In this way, the birth of an issue marks a gap between being and belonging, between perceptions of corporate conduct or performance, and expectations of what it should be. So even if there is no real problem, an issue will develop once it is perceived as such. Poverty became a real issue for firms in the early 21st century in particular due to expectational gaps with a specific number of stakeholders. Such issues generally follow a life-cycle: from birth and growth, towards development, maturity and settlement. What occasions have developed as regards the issue of poverty-as-business-challenge/responsibility?

Birth and growth: triggering incidents and growing societal discontent

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

Absolute poverty. The issue of *absolute poverty* has been on the agenda of governments for most of the post-war period. But renewed attention was triggered in the year 2000, when 189 countries formulated eight Millennium Development Goals (MDGs) and specified halving poverty – defined as those people living on less than a dollar a day - by the year 2015 as their prime goal (MDG1). Perhaps more importantly, an instrumental goal (MDG8) was formulated, in which partnerships with private corporations and a good business climate were considered vital to achieve sustainable development. The growing attention for the involvement of the business sector in the eradication of poverty was also picked up by multilateral organizations such as the World Bank and the IMF. They started to stress the importance of a favorable climate for 'doing business' and the related importance of 'good governance' for development. The intellectual foundation for this

strategy was based on the research of Hernando de Soto (2000) who argued that one of the most important causes of poverty has been bureaucratic barriers and the lack of property rights – linked to lacking access to credit - that prevented poor people from setting up an own business.

The issue of quickly achieving (some) poverty reduction has since been kept on the agenda due to a variety of NGO campaigns targeting international government meetings. A good example of the way in which this mechanism works, is provided by the G8 Summit in July 2005 in Gleneagles (Scotland). This occasion triggered the 'make poverty history' campaign. In a short influential clip well-known film stars and musicians were able to present the issue probingly by snapping their fingers every three seconds, with the text: "A child dies completely unnecessarily as the result of extreme poverty every three seconds" (www.makepoverty history). The supporting book 'The end of Poverty" by MDG architect Jeffrey Sachs (2005) – with a foreword by singer and entrepreneurial activist Bono – highlights the alliance of scholars and activist to keep the issue on the top of the agenda.

Relative poverty and working poor. The issue of *working poor and relative poverty* has been set on the agenda by trade unions since the beginning of the industrial revolution. In many countries this issue became regulated through the institution of 'minimum wages' - in particular in Europe where trade unions have been better organized and institutionalized. In Anglo-Saxon countries, a (decent) minimum wage has been much less obvious, for fear of disturbing the smooth functioning of labor markets. In most developing countries the issue is still in its infancy. With the increasing integration of developing countries into the value chains of western companies since the fall of the Berlin Wall in 1989 and the start of the era of 'globalization' (two clear triggering events), the issue received renewed attention in particular by western trade unions. The most important allegation has been that a 'race to the bottom' would materialize in which developing countries – but even developed countries – would start to relax labor regulation, and lower wages and taxes to attract Multinational Enterprises. The flip side of this statement has been that MNEs were accused of actively stimulating such a race by playing off governments against one another in a search for the weakest possible regulation. The jury is still out whether this phenomenon is actually happening. The concept of a 'race to the bottom' triggered greater attention for the issue of working poor (as well as for poor labor conditions).

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

"Fair Labor" and "Fair Trade" movements targeted in particular the issue of working poor as a result of the unfair operation of the international trading system and the

(perceived) negative consequences of the inclusion of workers in the international supply chains of multinationals. The anti-Nike campaign in the 1990s on the use of child labor was followed by the 'clean clothes' campaign' and a large variety of 'stop child labor' campaigns.

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

Development and maturity: measurement and implementation

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

Measuring the MDGs. The concrete aims of the Millennium Development Goals stimulated a number of organizations to try to measure the concrete contributions of corporations to achieving these goals. The contribution of the private sector to MDG1 was first identified by the UN Millennium Project (2005) itself as (1) increasing productivity, (2) creating jobs, (3) paying taxes and (4) the supply of necessary goods for reasonable prices. The Global Reporting Initiative (GRI, 2004) additionally tried to link the core activities of businesses to the MDGs in the form of concrete reporting guidelines. GRI considered (1) affordable products, (2) building local linkages and (3) creating employment opportunities as key indicators of MDG1. In particular measuring the creation of jobs in the formal sector is considered critical in escaping the poverty trap. It was also proposed – but not implemented - to look at employment and job creation in distressed or disadvantaged regions, to make this indicator more specifically useful for MDG1. Measuring the direct contribution to poverty alleviation itself, however, proved too difficult and too politically sensitive. The concept of poverty was deemed too multi facetted and too complex. GRI also wanted to avoid the introduction of a misleading measure like the one-dollar-a-day measure of poverty. Instead, the 2006 update of the GRI guidelines (G3) chose for a set of more general social and economic indicators on

working conditions. Another measurement project was pioneered by the Dutch Sustainability Research organization (DSR, 2007). First applied to the ABN AMRO bank and later also to Philips, Akzo Nobel, BHP Billiton and TNT, the project identified two indicators particularly relevant for MDG1: (1) community development (local entrepreneurship, the provision of essential products and services), and (2) the provision of employment and living wages (through local recruitment, living wages, the right to organize and the attention to vulnerable groups). The exercise primarily measures intentions rather than performance. It is planned to make this MDG Scan available on internet.

Labelling enables a company or a group of companies to communicate its commitment to society and provide consumers with information on the quality and contents of products. Especially fair trade labels aim at communicating the corporate approach to poverty alleviation. The first "Fair Trade" Label was introduced in the late 1980s in the Netherlands. The issue of labeling as a way to deal with poverty picked up steam since 2002 when Tesco, the UK's largest retailer started selling Fair Trade bananas. The label serves as an "independent guarantee that disadvantaged producers in the developing world are getting a better deal" (i.e. a fair price). The fair trade movement thus aims at poverty alleviation through the fairer operation of international markets. But it remains exceptionally difficult to address a complicated CSR problem by means of a label. Consumers do not always convey the message correctly and there is hardly any internationally coordinated accreditation of labels. The market penetration of fair trade labels is therefore still below 5% in most product markets. A vital problem with increasing the effectiveness of labels is how to coordinate and monitor labels. Active firms are inclined to adopt an own label as a unique selling point towards customers, but coordination and standardisation (for instance through the Fair Trade foundation) is often required to make the label into an actually effective poverty alleviation strategy.

Codes of conduct can help corporations to level the playing field and promote standards that can overcome the 'regulatory gap'. A cascade of codes has developed, some of which refer to the issue of relative poverty and working poor, through provision on labour conditions. But not many dealt directly with poverty alleviation (Kolk et al, 2006). Industry codes that focused on labour conditions were introduced, for instance in Toys (1995), Apparel (1997), Sporting Goods (1997), Fertilizers (1990, 2002), Iron and Steel (1992, 2002), Cyanide (2000), Mining and Metals (2000), Coffee (2004). Also coalitions (or networks) consisting of corporations, governments and NGOs started to formulated standards, declarations or guidelines. Particularly relevant for poverty alleviation have been the Ethical Trading Initiative (ETI, 1998) and the Fair Labour Association (1998). In particular the ETI Base Code tried to apply a multi-dimensional definition of well-being and poverty for instance by referring to a 'living wage' and 'no excessive working hours' (IDS, 2006).

Codes of conduct proposed by international NGOs include generally much stricter, specific and inclusive, measurable criteria than company codes. International NGOs also place high value on external monitoring and verification, as well as clear sanctions in the event of failure to comply with the codes By contrast, research on the content of codes of conduct (Kolk and Van Tulder, 2005) shows that companies favour *internal* monitoring of compliance with the code. Hence, NGOs keep questioning the *likelihood of*

compliance with codes – the probability that companies will conform to their codes of conduct and behave responsibly. The content of most international codes or Guidelines is still relatively weak. They are hardly objectively monitored for compliance, contain often only a few verifiable criteria and they tend to lack a thoroughly worked out objective. For a large part this can be attributed to the nature of issues like poverty that are often too complex to capture in codes.

Bottom Of the Pyramid (BOP). Since 2002, a number of business scholars started to stress the opportunities in doing business with the poor. In particular the 'bottom of the pyramid' approach (Prahalad and Hart, 2002) has become popular. In the words of C.K. Prahalad (2005) it should be possible to 'eradicate poverty through profits'. The "fortune" to be gained at the Bottom of the Pyramid (Prahalad and Hart, 2002; Prahalad, 2004), referred to the four billion people that live on a per capita income below U$ 1,500 (PPP). Combined, these people represent a 'multi-trillion dollar market' that outsizes industrialised countries – certainly for basic commodities such as food and clothing.

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

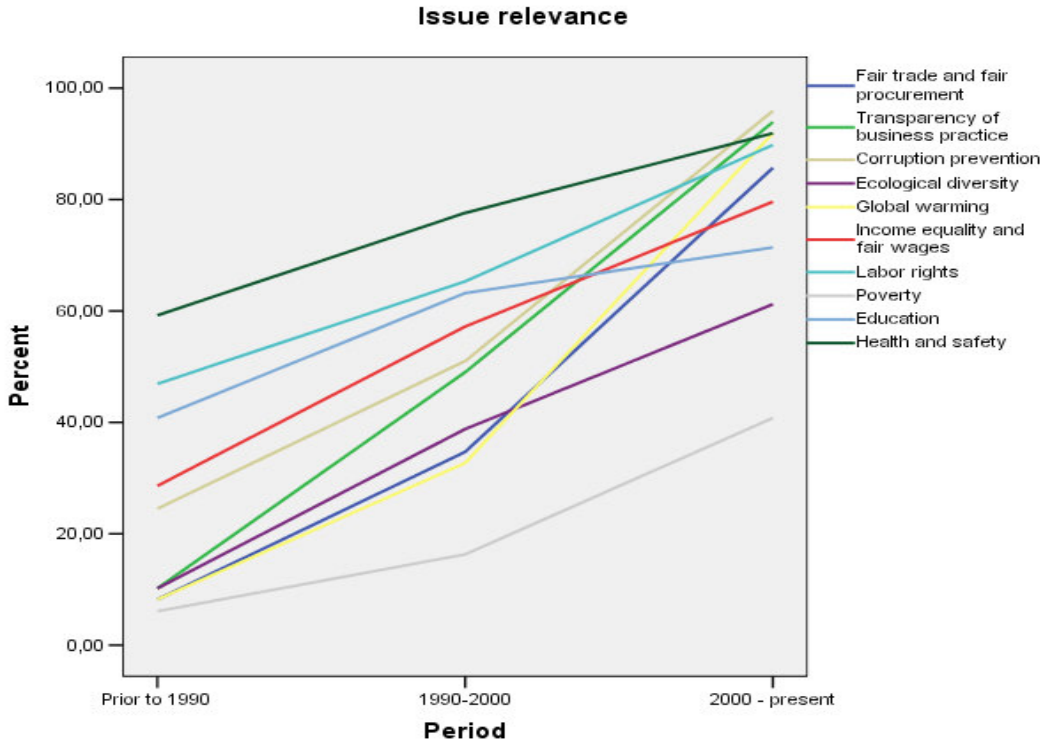
There are therefore basically two types of BOP strategies: a 'narrow BOP' strategy that only focuses on the market opportunities and a 'broad BOP' strategy that takes the wider repercussions and the net effects of the strategy into consideration. The latter also requires that critical NGOs are involved in evaluations of the strategy. A good example of a broad BOP approach is provided by the 'learning partnership' of Oxfam/Novib and Unilever. In a case study of Unilever Indonesia, they explored the link between international business and poverty reduction (Clay, 2005). No final conclusions could be reached, however.

Micro-credits provide an entrepreneurial way out of poverty. The micro-credit movement started in Bangladesh and India in the 1980s and received global recognition in the 21st century – with the UN declaring 2005 'Microcredit year' and the 2006 Nobel Peace Prize awarded to Mohammed Yunus, founder of the Grameen Bank. Micro-credits not only provide cheap capital to poor people, but give high yields for the banks involved. In 2006 around 125 million people were involved in micro-credit schemes. But the micro-credit movement developed largely outside of the mainstream (multinational) banking system and was part of local (small) private sector development initiatives. In case big western firms take up the provision of micro-credits, two strategies can be distinguished: micro-credits as a relatively marginal activity (managed for instance by the corporate philanthropy department) and micro-credits as a core business activity (with

substantial volumes). The latter has not really materialised so far.

The issue. In the 1990s corporate responsibilities towards societal issues gained in general importance. Research of RSM Erasmus University (Kaptein et al, 2007) under a representative sample of the CEOs of the 200 largest firms in Europe, shows that these firms over the 1990s and early 21st century have started to integrate CSR strategies into their mainstream or 'core' strategies. This implied that the CSR staff increased, that the CEO (33%) or another board member (34%) has become responsible within the company, with a growing number of measures taken to operationalise this strategy (reports, whistleblowing procedures, standardization, codes, CSR issues in marketing campaigns). The attention for a large number of issues – including poverty – increased substantially. Figure 1 shows the increasing attention for a sample of ten issues. In 2007 CEOs indicated that they perceived the impact of the following issues as highest: corruption (4.6 on a scale of 5), transparency, health and safety (4.5), labour rights, climate change (4.3). Somewhat less score income equality, fair wages, fairt trade and procument (3.9), ecological diversity (3.7), education (3.5) and poverty (3.0). Even the general issue of poverty scores above the mean. European firms are leading in this respect (Van Tulder with van der Zwart, 2006) with an increasing number of firms setting quantitative targets for a large number of issues (34% of the companies for instance set quantitative targets for at least 5 CSR issues).

Figure 1 Issue Relevance: 1980s – 2007



Business approaches towards poverty. As the issue ranking of European CEOs illustrates, poverty eradication as a business challenge is still in the approximate development phase of its life-cycle. The issue is far from being mature, let alone resolved. Triggering events have resulted in relatively concrete aims and goals; new concepts have been developed that structure the debate; but the issues are not yet resolved, let alone clearly addressed. New concepts are not undisputed, the operationalisations are not always clear and are not well coordinated, whilst the relationship between business strategies and the resolution of the issue at hand are not yet clear as well. There is abundant room for 'PR' activities of firms in which a concept (like micro-credits or the BOP) can be embraced only to ward off critical stakeholders. The area is relatively new for firms, stakeholders and researchers alike. Given this degree of uncertainty, what concrete strategies can firms develop?

This is the area of 'corporate social responsibility', abbreviated as CSR. But the catch-all category of CSR in fact obscures important strategic variability and contextualisation. The contribution of CSR strategies to align the interests of the poor depends on the circumstances and the concrete elaborations of business strategies in developing countries (Blowfield, 2005). While a more advanced categorization could be made, for the purpose of this chapter, we suggest four approaches with different procedural attributes in which the very CSR abbreviation also has four different meanings: in-active, re-active, active and pro/inter-active (Cf. Preston and Post, 1975; Van Tulder with van der Zwart, 2006). The continuum of CSR business strategies is conceptually related to the basic distinction in conventional moral theory between what is required and what is desired, or between the 'morality of duty' and the 'morality of aspiration' (Michaelson, 2006). Table 1 summarizes the most important characteristics of these four approaches to CSR and suggests some operationalizations of indicators of poverty strategies.

Table 1 Four CSR approaches

IN-ACTIVE	RE-ACTIVE	ACTIVE	PRO-ACTIVE
"Corporate *Self* Responsibility"	"Corporate Social *Responsiveness"*	"Corporate Social *Responsibility*	"Corporate *Societal* Responsibility"
Legal compliance and utilitarian motives	Moral (negative) duty compliance	Choice for responsibility and integrity; virtue	Choice for inter-active responsibility; discourse ethics
Inside-in	Outside-in	Inside-out	In-outside-in/out
'doings things right"	"don't do things wrong"	"doing the right things'	"doing the right things right"
'doing well'	'doing well and doing good'	'doing good'	'doing well by doing good'
Poverty approach: o No explicit statements on poverty o We create jobs and employment (as byproduct of profit maximization) o Payment of taxes o Affordable products o No code of conduct and/or low compliance likelihood o No support for labels	**Poverty approach:** o Contribution to economic growth o Narrow BOP: mention of market changes in poor regions o Creation of local employment used defensively o Micro-credits as (small) part of philanthrophy o Transfer of technology and knowledge mentioned, but not specified o Vague code and low specificity as regards poverty o Support for Global compact and modest support for GRI o Dialogue vague-ly mentioned	**Poverty approach:** o Explicit statement on moral unacceptability of poverty o Definition of decent wage o Broad BOP: explicit view on how this strategy addresses poverty alleviation (net effect) o Creation of local employment opportunities at suppliers o Micro-credits as part of business strategy o Transfer of technology and knowledge is specified o Explicit support for MDG1 o Wholehearted support for GRI o Philanthropy is aimed at poverty in general o Specific code and/or labelling on poverty and/or fair trade o Specific	**Poverty approach:** o Strategic statement on poverty o Explicit support for all MDGs (including #8 on partnerships) o Active partnerships with NGOs and international organisations on poverty o Very explicit code and support of highest possible transparency (GRI) o Transfer of technology and knowledge is specified and discussed for its impact on poverty alleviation o Codes and labelling activities part of a contract with third parties (high specificity and high compliance likelihood) o Dialogues as an explicit tool to raise strategic effectiveness
"what is required" Economic Responsibility [Wealth oriented] Narrow (internal) CSR	←		"what is desired" Social Responsibility [welfare oriented] Broad (external) CSR

The *inactive* approach reflects the classical notion of Friedman that the only responsibility companies (can) have is to generate profits, which in turn generates jobs and societal wealth and can therefore be considered a form of CSR. This is a fundamentally inward-looking (inside-in) business perspective, aimed at efficiency in the immediate market environment. Entrepreneurs are particularly concerned with 'doing things right'. Good business from this perspective equals operational excellence. CSR thus amounts to 'Corporate *Self* Responsibility'. This narrow approach to CSR requires no explicit strategy towards poverty alleviation. It aims at the prime 'fiduciary duties' of managers vis-à-vis the owners of the corporation, which could imply affordable products and job/employment creation, but only as indirect by-product of a strategy aimed at profit maximisation. When faced with the trade-off between job creation and efficiency enhancement (or share holder value maximisation) these firms will chose for the latter. The company is relatively indifferent towards the issue of poverty.

The *re-active* approach shares a focus on efficiency but with particular attention to not making any mistakes ('don't do anything wrong'). This requires an outside-in orientation. CSR translates into Corporate Social *Responsiveness.* Corporate philanthropy is the modern expression of the charity principle and a practical manifestation of social responsiveness. In this approach the motivation for CSR is primarily grounded in 'negative duties' where firms are compelled to conform to informal, stakeholder-defined norms of appropriate behaviour (Maignan, Ralston, 2002). The concept of 'conditional morality' in the sense that managers only 're-act' when competitors do the same, is also consistent with this approach. This type of firm deals with the issue of poverty primarily when confronted with actions of critical stakeholders, for instance in the area of 'working poor' and in an effort to limit the negative influences of firm strategies on poverty (Singer, 2006) or restore corporate legitimacy (Lodge, Wilson, 2006). Primarily in reaction to concrete triggering events – and often not spontaneously - these companies legitimise their presence in developing countries or in socially deprived regions by arguing that they potentially transfer technology, contribute to economic growth and create local job opportunies, but without specifying it in concrete terms or taking up direct responsibility. The company wants to reduce its vulnerability as regards the issue of poverty. Poverty (the bottom of the pyramid) becomes in particular an opportunity when the growth possibilities in the existing markets are declining. The bottom of the pyramid is primarily the base of the pyramid. Support for guidelines like the UN's Global Compact - that is neither specific nor requires high compliance likelihood – is the typical approach of a re-active CSR strategy (See Kolk and Van Tulder, 2005).

An *active* approach to CSR is explicitly inspired by ethical values and virtues (or 'positive duties'). Such entrepreneurs are strongly outward-oriented (inside-out) and they adopt a 'positive duty' approach. They are set on doing 'the right thing'. CSR in this approach gets its most well-known connotation – that of Corporate *Social* Responsibility. This type of firm has a moral judgement on the issue of poverty and tries to come up with a number of activities that are strategic (core activities) and/or complementary to its own corporate activities. Such firms for instance can define what 'decent wages' are and can come up with substantial philanthropy activities towards poverty alleviation in markets where it is not active. The re-active firm will primarily locate its philanthropy in the vicinity of its corporate activities (thus the growing attention for so-called 'strategic

philanthropy). The active company accepts (partially) responsibility for the issue of poverty in particular where it is directly related to its own activities and responsibilities. Poverty (the bottom of the pyramid) is explicitly addressed as a morally unacceptable issue for which perhaps entrepreneurial solutions exist. The (indirect) job creating effects of the company with its suppliers are also specified. In case this company embraces for instance micro-credits it is not only seen as a regular market opportunity or a PR instrument , but as a strategic means for reaching the real bottom of the pyramid for which concrete criteria should be developed to measure its effectiveness and create ethical legitimacy.

A pro-active CSR approach materializes when an entrepreneur involves external stakeholders right at the beginning of an issue's life cycle. This pro-active CSR approach is characterized by *interactive* business practices, where an 'inside-out' and an 'outside-in' orientation complement each other. In moral philosophy, this approach has also been referred to as 'discourse ethics', where actors regularly meet in order to negotiate/talk over a number of norms to which everyone could agree (cf Habermas 1990): 'doing the right things right' (or 'doing well by doing good'). This form of Corporate *Societal* Responsibility (Andriof, McIntosh, 2001:15) shifts the issue of CSR from a largely instrumental and managerial approach to one aimed at managing strategic networks in which public and private parties have a role and firms actively strike partnerships with non-governmental organisations. Firms that aim at a pro-active poverty strategy are most open to the complex and interrelated causes on poverty and acknowledges that poverty can only be solved through partnerships and issue ownership of all societal stakeholders involved. This type of firms is also willing and able to see the problematic relationship between low wages and/or low prices with low economic growth which could hamper a more structural approach to poverty. A possible legal elaboration has been provided by Lodge and Wilson (2006) who introduced the construct of a "World Development Corporation" - a UN-sponsored entity owned and managed by a number of MNEs with NGO support.

4. Specific implementation: from frontrunner firms to mainstream business strategy?

In an earlier study we explored the codes of conduct on poverty of a number of frontrunner MNEs (Kolk et al, 2006). Most of these firms were not (yet) very outspoken on poverty alleviation, whereas the compliance likelihood of their codes of conduct relevant for poverty alleviation remained rather limited. Companies tended to address only a few dimensions of poverty, in particular so called content issues that were directly relevant to work conditions. Broader approaches that had the largest potential to help eradicate poverty such as local community development, training and monitoring and relative poverty were hardly ever addressed. Although the approaches of frontrunner firms showed considerable divergence, on a sectoral level a higher level of resemblance could be observed. MNEs appear only willing to state active commitment if others in their sector do as well. We inferred that MNEs might fear that, because of their involvement in poverty alleviation, they might lose out to others that do not have a strong policy (and/or that pretend to be active but fail to enforce it). So, whereas pressure from

civil society puts a 'floor' (a minimum level that is expected) on corporate social responsibility in a sector, at the same time, competitors – other MNEs in this sector – can also put a 'ceiling' on CSR when it comes to being involved in alleviating poverty.

Factors that seem to shape the inclination of MNEs to show commitment to poverty issues are firstly size and product familiarity for large groups of consumers, and their readiness to put societal pressure on companies. Next, the domestic origins, the home-country institutional context, of MNEs seemed to play a considerable role. Compared to US and Asian companies, European MNEs show a greater tendency to pro-actively approach poverty. Finally, firms with a spread of activities over developed as well as developing countries seem most prone to being involved in the development of poverty-alleviating policies. Other research on the CSR reporting strategies of Fortune's 2004 Global 250 firms (KPMG, 2005) found that, compared with environmental issues, the coverage of social and economic issues and topics is far more superficial. Although social topics (core labor standards, working conditions, community involvement and philanthropy) are discussed by almost two-thirds of the companies, reporting performance remains sketchy. It was also found that especially European firms that release a sustainability report are active in reporting on their economic impact on the host (developing) economies in which they are operating (Fortanier and Kolk, 2007).

For this chapter we went one step further and made a first inventory of the overall poverty related strategies of the 100 largest Fortune Global firms from 2006. We applied the framework of Table 1 to each of these firms in order to classify their strategy. We analyzed codes of conduct, websites, and corporate sustainability reports of each of these firms. Half of the Global Fortune 100 list of 2006 comprises European firms, around one third is American, whereas one sixth is Asian. Around 58 of these corporations had undertaken some initiative on the issue of poverty. At least four firms (Citigroup, # 14 on the list, Deutsche Bank, #48, Electricité de France, # 68, and Deutsche Post, # 75) explicitly communicated a moral statement that poverty is unacceptable. Some corporations acknowledge the issue of poverty, but link it primarily to economic growth – thus supporting the mainstream approach to poverty alleviation which does not require an active corporate involvement. Matsushita Electric (#47 on the list) for instance argues in its 2006 Global Corporate Citizenship report that "at present, the world has a large number of people living in poverty and needs a level of economic growth sufficient to raise their standards of living". Other corporations express more explicit (active) concern over issue of poverty and link it to the own corporate responsibilities. For instance BP (#4) in its 2005 sustainability report states that its 'primary means of making a positive impact on poverty is through aligning our own operations with local people's needs". Petrobras (#86) states in its social and environmental report of 2005 "what motivates us is the ongoing quest to improve the quality of life in the communities in which we operate. Our initiatives are in areas such as job creation, income generation, combating poverty and hunger (…)".

One out of five corporations is searching for 'partnerships' with NGOs and international organizations on the issue of poverty. A similar percentage had also developed poverty oriented programs in their philanthropy activities. The Shell (#3) foundation for instance aims to support sustainable solutions to social problems arising from the links between energy, poverty and environment with a $ 250 million endowment. It issued a well received report 'Enterprise solutions to Poverty'. However, intentions and philanthropy

activities do not necessarily reveal the implementation of concrete core strategies. So we considered in more detail to what extent the 100 largest firms in the world at the moment are making their commitment to alleviate poverty more concrete. One out of ten firms on average – in particular American and Japanese firms – consider the provision of 'affordable products' as an important contribution to poverty alleviation. One out of four firms on average (24 firms) identified the creation of local employment opportunities as a major issues, half of this group (12) further specified that to include also indirect employment at suppliers. Decent wages, however, are only defined by four corporations.

Another way of concretizing an ambition is to link to international initiatives and codes. For instance 43 of the 100 largest firms subscribed to the UN's Global Compact in the 2000-2006 period (36 of which are European corporations). But the Global Compact only provides general and indirect reference to poverty, whilst it is very weak on implementation. 17 corporations have expressed general support for the Millennium Development Goals (MDGs). One quarter of the European firms, and less than 7% of the American and Asian firms, support the MDGs. A number of in particular European firms have been very active in further operationalizing the MDGs for their business context. Firms like Royal Dutch Shell (#3) and ABN Amro (#82) have explicitly linked their sustainable reporting to each of the eight MDGs. As regards poverty related international codes and labeling initiatives, the most popular initiative up to now has been the 'Fair Trade' label, which has been endorsed for a number of products in their product range by at least four international retailers. The Ethical Trading Initiative is supported by three corporations, of which two are American computer and office equipment producers. On average, however, most large companies still tend to favor own labels and own poverty related codes, whilst not endorsing already existing codes or standards – such as the ILO standards.

Finally, we distinguished in this chapter two entrepreneurial approaches towards poverty alleviation – micro-credits and the Bottom of the Pyramid (BOP) – for which corporations can adopt a narrow and a broad strategy. As regards micro-credits, many firms have embraced the idea. 23 firms from a wide variety of industries consider micro-credits an interesting option as complement to their main business strategy. For instance ExxonMobil has a number of partnership projects with USAID on microfinance in areas related to its oil projects (Kazakhstan and Sakhalin). The corporation presents its microfinance activities as 'one of many ways ExxonMobil fosters eduction and increased opportunities for women [….] as part of the company's community investment initiative" (2005 Corporate Citizenship Report). An additional 9 of the 17 banks of the sample present micro-credits as an interesting part for their general business strategy. The Dexia Group (#55) for instance asserts itself as one of the world leaders of the international financial market of microfinance, with total assets of around U$ 89 in 2005 (Sustainable development report 2005). Other international banks have followed suit, making micro-credits a mainstream instrument. The actual volume of the efforts, however, remain rather limited which serves as an illustration of the relative difficulty with which this market can be developed. Micro-credits, therefore, are still a relatively marginal activity for most banks.

As regards the BOP, leading firms are still rather ambiguous. Eight of the 100 largest firms have mentioned the BOP as a possibility, but have primarily embraced it as yet another market change to sell products in a poor region. Only two firms (Citigroup, #14;

Nestle, #53) have been arguing in favor of a more broad BOP strategy in which they are developing an explicit view on how this strategy actually addresses poverty alleviation as a result of direct and indirect effects.

Table 2 Business approaches to Poverty: an exemplary Score Sheet (2006)

Fortune 500 position	Company	Country	Sector	Approach to poverty			
				Inactive	Reactive	Active	Pro-active
1	Exxon Mobil	USA	Petroleum Refining				
2	Wal-Mart Stores	USA	General Merchandisers				
3	Royal Dutch Shell	NLD	Petroleum Refining				
4	BP	GBR	Petroleum Refining				
9	Ford Motor	USA	Motor Vehicles and Parts				
12	Total	FRA	Petroleum Refining				
14	Citigroup	USA	Banks: Commercial and Savings				
17	Volkswagen	DEU	Motor Vehicles and Parts				
23	Sinopec	CHN	Petroleum Refining				
24	Nippon T&T	JAP	Telecommunications				
25	Carrefour	FRA	Food and Drug Stores				
32	State Grid	CHN	Utilities				
41	Nissan Motor	JAP	Motor Vehicles and Parts				
46	Samsung Electronics	KOR	Electronics, Electrical Equipment				
47	Matsushita Electric Ind.	JAP	Electronics, Electrical Equipment				
53	Nestlé	CHE	Food Consumer products				
59	Tesco	GBR	Food and Drug Stores				
68	Électricité De France	FRA	Electric and Gas Utilities				
69	Nippon Life Insurance	JAP	Insurance: Life, Health (mutual)				
81	Procter & Gamble	USA	Soaps, Cosmetics				
88	Dell	USA	Computers, Office Equipment				
96	Suez	FRA	Energy				

Table 2 shows some excerpts from the poverty 'scoresheet' that was drawn on the basis of the previous indicators for the 100 largest Global Fortune corporations in 2006. 43 of these firms could be positioned in one of the four CSR categories, 52 firms combined two (adjacent) CSR categories, whilst 4 spread their activities over three categories.
Around 2/3 of the corporations have adopted an inactive and/or a reactive strategy towards poverty. The four corporations that could be classified a 'proactive' have still adopted rather modest strategies in this area, whilst also embracing re-active and active traits. No corporation can be classified as wholly pro-active, whereas 40% of the corporations can indeed be classified as completely 'inactive'.
Typical (pro)active strategies are primarily embraced by European corporations, whereas the typically in-active strategy is embraced by Asian corporations. American corporations

are somewhere in between, however, with a strong inclination towards the adoption of in-active and re-active strategies. This involves a 'buffering attitude' towards critical NGOs that address the issue of poverty. A good example is provided by Wal-Mart (#2) which in response to the allegations contained in the Wal-Mart effect first created a public relations 'war room' in 2005 and, next, sponsored a 'working Wal-Mart families' site which stresses the importance of the jobs provided by Wal-Mart for the local community. Wal-Mart stresses in its other communication in particular the fact that it offers affordable products to customers – with the suggestion, although not specified, that this might substitute for the weak buying power of its employees. "If we can go without something to save money, we do. It's the cornerstone of our culture to pass on our saving. Every penny we save is a penny in our customer's pocket' (corporate website:www.walmartstores, consulted March 2007). Most of the action of Wal-Mart can be interpreted as re-active, with no efforts to work on the issue of poverty in collaboration with critical societal groups.

As regards specific industries, motor vehicles, electronics and retailer are on average the least active in the area of poverty alleviation. In these sectors, the internal sector dynamics has put a 'ceiling' on individual activities towards poverty alleviaton. Active and pro-active attitudes towards the issue of poverty involve 'bridging' strategies. These bridging strategies are easier adopted in Europe, and in particular by the banking and petroleum refining industry. Regulation in Europe as well as with these specific industries has created a 'floor' on which more active poverty alleviation strategies have been required (See Kolk et al, 2006).

5. Conclusion: an issue with a future?

Although most entrepreneurs and corporations do not yet see the alleviation of global poverty as a strategic priority (Singer, 2006), this contribution has shown that the issue itself has steadily climbed up the corporate strategy ladder. The bottleneck of making it a real strategic priority in which firms adopt active or pro-active strategies seems less the complexity of the issue, but more the regulatory framework in which firms are operating, as well as the conceptual and strategic 'poverty' that surrounds the issue. Narrow approaches for entrepreneurial solutions to poverty still prevail. It is not easy to change the strategic orientation of a big corporation. But the narrow approach also receives more attention because broader approaches have not yet been elaborated and operationalized into scientifically sound models and generally acceptable principles and guidelines. A limited number of corporations have yet adopted guidelines and labeling relevant for addressing poverty. Poverty is a global problem and it is therefore logical that general guidelines should be developed. The Millennium Development Goals have triggered the attention of an increasing number of firms, but a clear bottleneck remains the difficulty of operationalizing the MDGs in clear measurement, including reporting standards such as GRI.

MNEs can also be held back by sector issues and dynamics. Keeping the dialogue at the global level, and treating all MNEs from different sectors the same way (as tried, for example in the UN's Global Compact efforts), focusing on compliance with one and the same standard, will (and does) not work. Different sectors face different problems and are

at different stages when it comes to alleviating poverty. So a way forward in this regard might therefore to not approach single, individual (often high profile) MNEs, as some NGOs and international organizations tend to do, but to create an enabling environment that facilitates dialogue and subsequent action at the sector level. Complementary, GRI and other international organizations might develop reporting guidelines and develop specific poverty alleviation indicators per sector.

The final and perhaps most worrying future dimension of the business interest in poverty originates in the very dynamics of issue management. Issues are always prone to strategic re-assessments of the CEOs. In the research under 200 European CEOs that was referred to earlier (Kaptein et al, 2007), we also asked to indicated the expected increase in urgency of the ten selected CSR issues. The following ranking (Table 3) was the result of this exercise. CEO could indicate the issue importance on a scale from 1 (not at all) to 5 (very much).

Table 3 Future urgency of issues

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

Source: Kaptein et al, 2007

The issue of poverty will not increase in urgency (viz. Figure 1). The attention of corporate CEOs will remain low, but stable for the issue. This is a breach of the trend of increasing attention of the past decade. More importantly a number of poverty-related issues like income equality and fair wages, and education are declining in importance for the European CEOs. This is a remarkable development and is caused by at least two developments that are inherent to 'issue management'. First, the issue of 'global warming' is starting to get most of the attention in as well the public debate (the Gore effect) as with stakeholders and shareholders of large corporations. This 'crowds out' other issues like poverty and poverty related issues. Secondly, the supporters of the Millennium Development Goals in their 2007 evaluation reports have stressed that in particular MDG 1 (halving poverty) might be reached. In issue management, the relative

urgency defines the willingness of managers to address the issue. As soon as policy makers started to emphasize that MDG1 might be reached, the issue loses importance. So the issue of poverty might not only fall victim to a substituting issue (global warming), but also to claimed success in addressing it. This poses a problem, since the issue will certainly not be solved. On the contrary, the 1$ a day benchmark has been criticized as relatively low (or not very ambitious), whereas the goal is relatively easily reached through the gigantic economic growth of in particular China and India. It can be anticipated that relative poverty will not decrease and many regions and countries – in particular in Africa - will not reach MDG1.

It can be concluded that the business involvement in addressing the issue of poverty is far from settled, first by a lack of meaningful benchmarks, approaches and measurement tools. Secondly, however, it was also suggested that too low ambitions – and too optimistic expectations - might also dampen the efforts of the business sector in explicitly addressing poverty. The 2007 Max Havelaar lecturers have been invited to respond to this dual perspective.

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