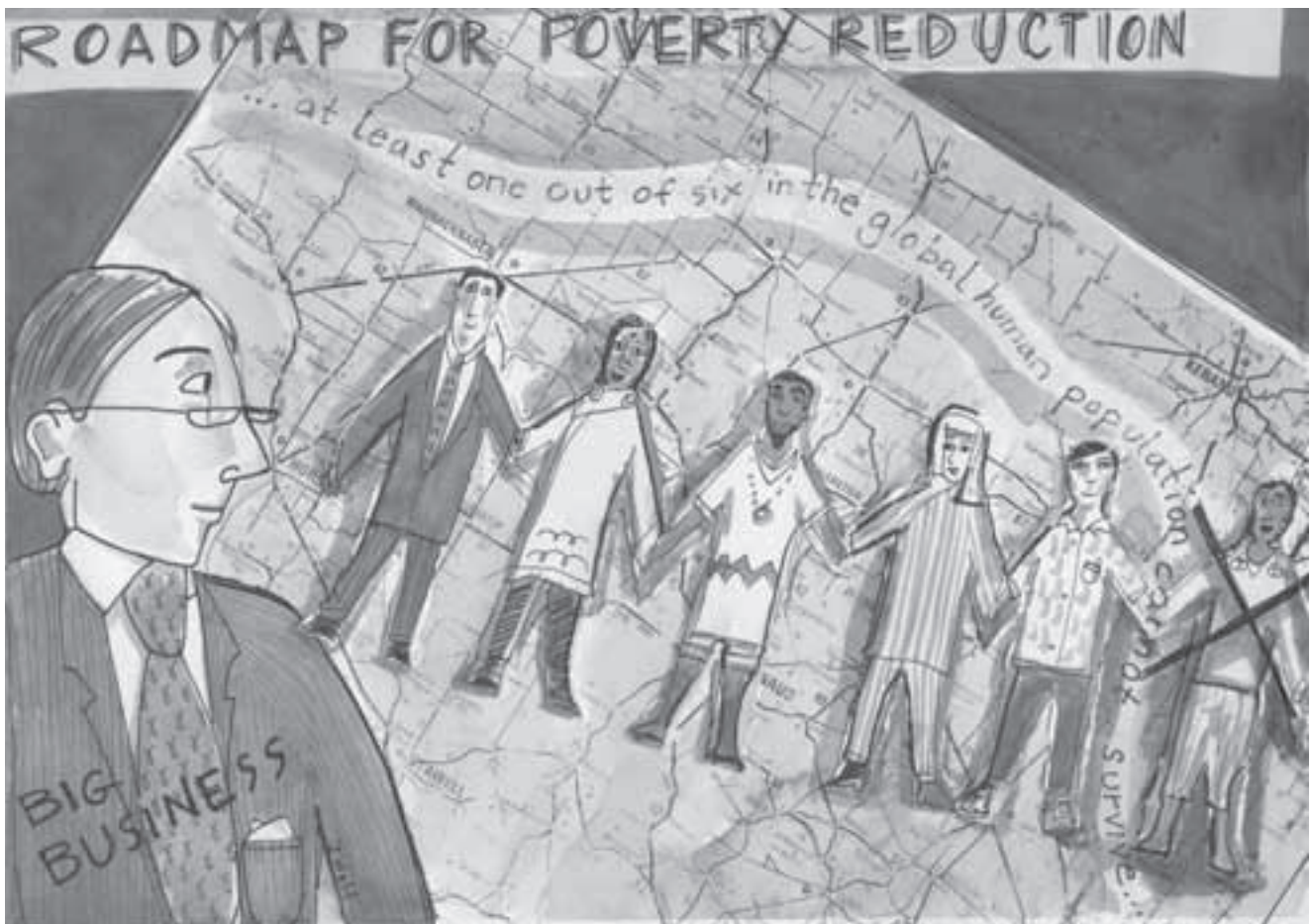
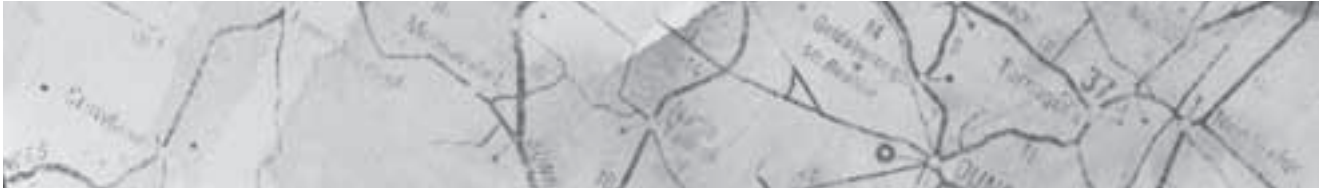


# Alleviating global poverty through profitable partnerships: moral imagination and economic well-being

*Laura Hartman, Patricia Werhane, Dennis Moberg and Scott Kelley*



*While at least one out of six in the global human population cannot meet the basic demands of survival and they have little ability to buy goods and services, this situation also presents potential new markets for multinational enterprises seeking long-term sustainability. If economic growth is a continuing and positive goal for the planet and for global companies, then, as markets in developed economies become saturated, these new markets provide fresh opportunities to satisfy this objective.*



In a 2007 address to Harvard University graduates, Bill Gates articulated a simple principle as a roadmap for poverty reduction. He explained that, '[i]f we can find approaches that meet the needs of the poor in ways that generate profits for business and votes for politicians, we will have found a sustainable way to reduce inequity in the world' (Gates 2007). Though the simplicity of this principle led him to overlook two critical elements in a system he identified one year later by the term, 'creative capitalism', this same principle reminds us that answers to world poverty are well within our reach.

The central purpose of this article is to demonstrate that it is feasible to alleviate, if not actually eradicate, global poverty, but only if we change our narratives about global free enterprise, and only if we re-think our mental models regarding how poverty issues are most effectively addressed. Proposals surrounding poverty alleviation are greatly affected by the ways in which we think about the poor and poverty; the success or failure of those proposals, when operationalised, depends upon our mental models and the way in which we calibrate and then integrate the narratives we encounter. While others have envisioned a role for multinational enterprises (MNEs) in alleviating global poverty, these

schemes lack the catalysts of moral imagination and systems thinking necessary to modify MNE mental models towards sustainable solutions that also create broad-based stakeholder value. We will outline the parameters of the challenge, explain the elements of the 'profitable partnerships' approach, illustrate it via an example and distinguish it from alternative approaches. A more extensive explanation is also available by contacting the authors directly.

### The challenge

The topic of global poverty is of critical interest to the United Nations, the World Bank, the International Monetary Fund and myriad other international

including environmental degradation, urban slums, refugee suffering, and market stagnation, all costly to the developed as well as the developing world. Yet, as economist William Easterly reminds us, the industrialised world neither has been remiss in trying to address poverty nor has it been entirely unsuccessful. Nevertheless, traditional approaches to poverty alleviation (through philanthropy and foreign aid, with over \$2.13 trillion dollars earmarked for poverty reduction since the middle of the last century) have failed to bring about hoped-for results (Easterly 2006).

At its core, poverty eradication by aid or philanthropy is an imperfect idea (see Figure 1). Rather, evidence demonstrates that a

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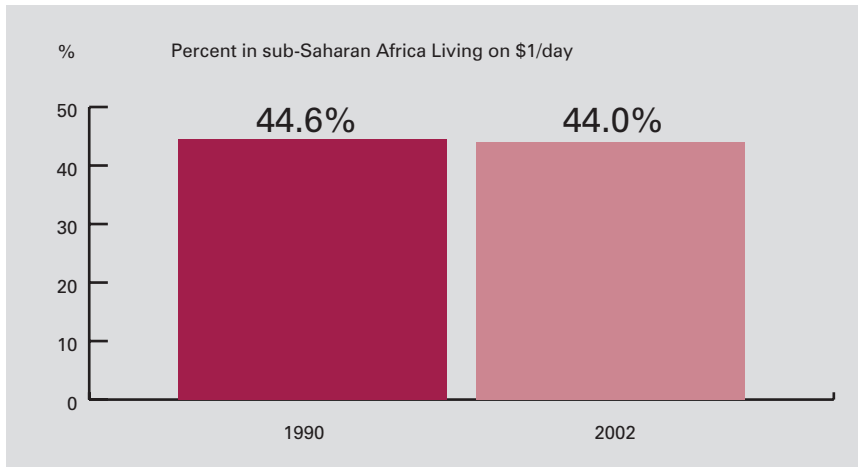
*Instead, companies should be developing markets for their products and creating opportunities for economic development and job creation in the poorest countries that will, in turn, expand these markets and create added value for shareholders, as well as for new stakeholders.*

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foundations, intra-governmental and non-governmental organisations, and a number of economists. Poverty is a dreadful and intolerable human condition and certainly not an issue for developing countries alone. There are enormous spill-over effects from global poverty,

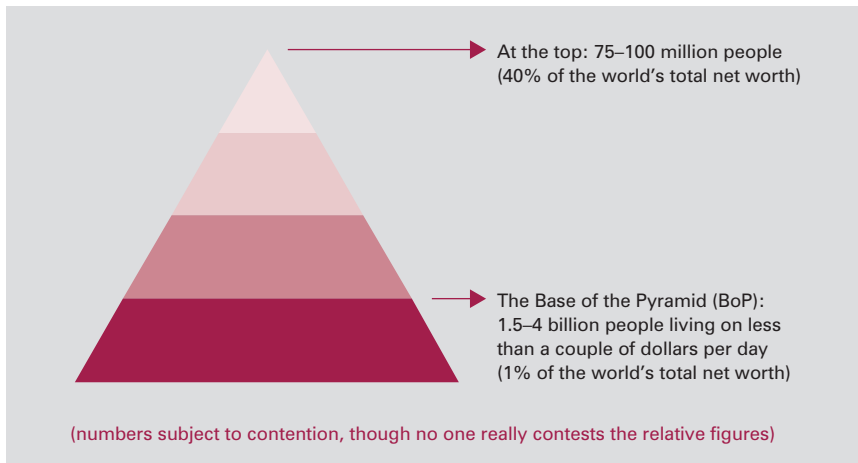
revised mental model embracing initiatives that are developed by global corporations in response to the poverty challenge is significantly more effective. These poverty-reducing initiatives, established by global corporations, need not concentrate on social responsibility,

Figure 1: US\$ 2.3 trillion has been spent on development aid since the 1950s, and this is the ongoing impact



Source: Adapted from P. Polak, 2008, *Out of Poverty*, San Francisco, Berrett-Koehler Publishers, p. 32.

Figure 2: The Economic Pyramid



Source: Adapted from C.K. Prahalad and S. Hart, 2002, *The Fortune of the Bottom Pyramid*.

charity or philanthropic corporate citizenship, for the most part, though all are worthwhile ideas. Those programs are often temporary and later orphaned by the corporations. Instead, companies should be developing markets for their products and creating opportunities

for economic development and job creation in the poorest countries that will, in turn, expand these markets and create added value for shareholders, as well as for new stakeholders. We shall return to these profitable partnerships in a moment.

Scholars C. K. Prahalad and Stuart Hart (2005) have identified a significant sector of the world's poor using the term, 'Base of the Pyramid' (BoP), referring to the economic pyramid, a demographic portrait of the global community indicating where population and economic growth are or are not occurring and where the persistence of poverty in certain regions has frustrated decades of attempted solutions (see Figure 2). The base of the economic pyramid comprises those living in 'extreme poverty', who have incomes of less than US\$1 per day, as well as those living in 'moderate poverty', who have incomes of between US\$1 and US\$2 per day, according to the World Bank (Sachs 2005, p. 20).

A comprehensive analysis of the current debate over the exact number of those within each stratum of the pyramid is beyond the scope of this article. However, when evaluating the feasibility and potential for poverty reduction of proposed partnerships, one should keep in mind the definition proposed by Amartya Sen, who advocates poverty measurements beyond inadequacy of income and includes other measures of human flourishing. Sen suggests that poverty in the broadest sense can also mean illiteracy or an exclusion from full participation in political or economic life. Thus, Sen describes poverty as a form of capability deprivation, which can be measured in the life that is actually achieved or in the relative freedom to achieve alternative functioning combinations. Describing extreme poverty means more than quantifying the drastically different life spans

across the globe; it must also include a qualification of relative capability (Sen 1999).

However defined, at least one out of six in the global human population cannot meet the basic demands of survival (Sachs 2005, p. 24), are almost all unemployed or underemployed, and therefore without economic resources or opportunities, and have little ability to buy goods and services. But, these same people are also potential new suppliers of labour and entrepreneurial skill, and also consumers of goods and services. If economic growth is a continuing and positive goal for the planet and for global companies (arguable, though

not necessarily universally accepted), then, as we saturate markets in rich nations, these new markets provide opportunities for alternative satisfaction of this objective.

### **A feasible future: profitable partnerships**

The key to the concept of profitable partnerships is the evolution from the mental model of the separation thesis, a perspective that colours the perception of business and ethics (or social responsibility) and unintentionally promotes the idea that they involve two discrete concepts (Freeman et al. 2006, 2008). Instead, the profitable partnerships concept encourages a new mental model, one based

on 'strategic convergence', which occurs when business and values are aligned by incentives. Under these circumstances, firms invest capital into relationships and support long-term strategic interests, thereby enhancing a sustainable investment. The resulting mindset is profitable to the stakeholders involved and, as a result, they have a vested interest in the relationship, a commitment based on aligned strategic objectives rather than on charity or kindness which underlies philanthropy.

Of course, for some potential stakeholders, profit is a suspicious partner in poverty alleviation. The socially conscious are often sceptical of business interests,



considering well-publicised examples of exploitation. From a business perspective, poverty alleviation is often seen as tangential to core interests, which raises a counterintuitive question about the potential of the market to respond to these fundamental human needs. Concerning this question of market response, Stuart Hart makes a strong argument that future economic growth will not come from the top of the pyramid but from the base — considering the population growth, he contends that the base is where business will find its next customers, employees, markets. Capitalism

it understands and in which it has a stake, it can have a greater impact on social good than any other institution or philanthropic organization' (Porter and Kramer 2006). Poverty alleviation may be simply one such societal challenge. If, in the realm of their core competence, firms addressing this social issue can gain competitive benefit, their creation of shared value will lead to self-sustaining solutions that do not depend on private or government subsidies. If these firms apply their vast resources, expertise, and talent to poverty alleviation — a challenge in

that, as a result, they will make a greater impact for social good than any other institution or philanthropic organisation.

**Through this re-conception, not only are derivative profits sustainable, thus creating positive returns for economic stakeholders, but the corporate commitment thereby becomes sustainable, creating concomitant**

**positive partnerships with the communities served: The Profitable Partnership.**

The notion of a 'future', previously a relative novelty for those living in extreme poverty, becomes realised. Moreover, the commitment from the community is enhanced as well. As explained by Nobel Prize winner Mohammed Yunus, 'it is tough to bring efficiency to charity'. However,

the moment you bring in a business model, immediately you become concerned about the cost, about the revenue, the sustainability, the surplus generation, how to bring more

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*If these firms apply their vast resources, expertise, and talent to poverty alleviation — a challenge in which they now have a stake, through profitable partnership opportunities — the contention is that, as a result, they will make a greater impact for social good than any other institution or philanthropic organisation.*

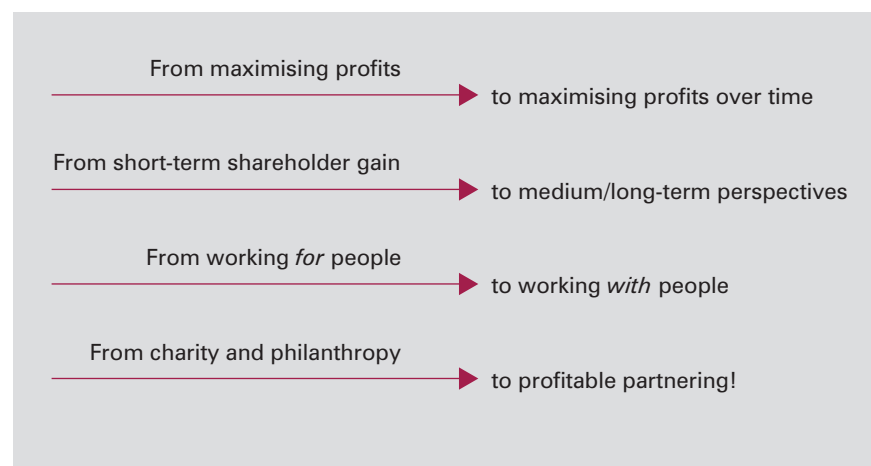
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is at a crossroads, he believes, because the top of the market is saturated and current patterns of growth and resource exploitation are unsustainable (Hart 2005). The common mental model that the base of the pyramid offers no commercial opportunities can result in missed opportunities.

The profitable partnerships concept is not a new strategy, but merely novel as applied to poverty reduction. Porter and Kramer articulated a similar approach in connection to their concept of strategic philanthropy when they said, '[w]hen a well-run business applies its vast resources, expertise, and management talent to problems that

which they now have a stake, through profitable partnership opportunities — the contention is

Figure 3: Embracing the concept of 'profitable partnerships' means an effort towards new mental models



efficiency, how to bring new technology, how to redesign, each year you review the whole thing ... charity doesn't have that package. ... There is a time and place for philanthropy. When Katrina happens, you don't go run a social business right away... your immediate response is ... to save people (Yunus 2008).

Such claims involve a reversal among stakeholders of their many concerns about global companies, e.g., that they exist to exploit rather than to develop and to contribute to these burgeoning new markets, and about the communities with whom they partner. Moral imagination will be required in order to recalibrate the original mental models from those biases from all sectors. Such claims require more future-directed corporate and managerial thinking (see Figure 3).

Within organisations, especially profit-driven corporations, managers who strive towards success and excellence find themselves in many cases bounded in a cognitive trap, where only a narrow, partial perspective on reality emerges as possible. Moral imagination can serve as a release:

a necessary ingredient of responsible moral judgment ... [that entails] ... the ability to discover, evaluate and act upon possibilities not merely determined by a particular circumstance, or limited by a set of operating mental models, or merely framed by a set of rules or rule-governed concerns. (Werhane 1999, p. 93)



Moral imagination is the mental framework that allows corporate decision-makers to envision and operationalise new possibilities that are not merely context or organisation-dependent, and evaluate those possibilities. Applying moral imagination to global poverty, the original mental model based on direct foreign aid and philanthropy suffers from a dependence on paternalism. By instead stimulating moral imagination, the profitable partnerships approach avoids this bias and opens up new possibilities for enhanced stakeholder satisfaction. Aid and philanthropy also emphasise the role of the poor as consumers, while the concept of profitable partnerships allows the decision-maker to emphasise productive roles for the poor (as entrepreneurs and employees).



MNEs imbued with the promise of profitable partnerships also effectively develop viable business ventures by forging ongoing cooperative partnerships with local stakeholders in place of far less sustainable, one-shot market transactions. Generally, these relationships are not the one-on-one interactions that traditionally place the firm at the centre of a number of isolated connections. Instead, they tend to involve a system of interactions with customers, local communities, the government, and other stakeholders, and requires from the MNE what Werhane has called elsewhere 'systems thinking' (2002, 2008). By recalibrating the mental model towards a systems approach to decision-making, an MNE can more successfully ensure the sustainability of a proposed partnership because the scaffolding is in place to support both its structure and its stakeholders, rather than relying solely on the MNE or profitability of the project.

### Illustrative example

Consider the case of Cemex, a global manufacturer of cement with headquarters in Mexico. Cemex leaders had the moral vision to distribute cement products to about

2.5 million impoverished residents of Guadalajara, Mexico, who live in extremely crowded and unfinished housing in and around the city. Without the support of any real civic, societal, or economic infrastructure, it would require a typical homebuilder over a year to construct a single room and over 13 years to finish a modest, four-room dwelling.

Using moral imagination and systems thinking, Cemex leaders created 'Patrimonio Hoy',<sup>1</sup> a program in which Cemex offered very low-income families (households with incomes of less than \$5 per day) financing to build or expand their homes. In order to qualify, customers were required to participate in savings groups each comprising three 'partners', and each with well-established rules to aid the partners throughout the borrowing process. In return, participants in the program were offered technical assistance, educational programs, guaranteed quality materials and delivery, guaranteed prices, and free storage of materials.

Cemex, for its part, has earned a foothold in a market previously unexplored by them, and in a market that will become increasingly critical as the markets at the top experience saturation. Low-income homebuilders' use of cement has tripled, from 2300 pounds consumed once every four years, on average, to the same amount being consumed in 15 months, increasing the demand on programs like Patrimonio Hoy (Herbst 2002). Cemex decision-makers began with a vigilance for opportunities to respond to a desperate situation in socially responsible ways, but also in a way that allowed them



to survive, to flourish, and to enhance their long-term financial performance. As a direct result of its choices, Cemex reported a profit of \$1.5 million by the end of 2005 and anticipated expansion into Colombia, Venezuela, Egypt and the Philippines (Johnson and Nhon 2005). Moral imagination is demonstrated effectively by Cemex's Patrimonio Hoy program, which uses it to transform institutional constraints into strategic opportunities.

### **Distinctive qualities of Profitable Partnerships**

In January 2008, Bill Gates introduced a new term into the lexicon of global poverty reduction, 'creative capitalism' (Gates 2008). According to Gates, creative capitalism is a system in which the incentives to make a profit drive a MNE's principles and commercial competencies to do more for the poor. Both Prahalad's original contentions and Gates' creative capitalism are based on two ideas: (1) there are

huge, unexplored markets at the BoP; (2) these markets should be explored if global economic growth is to be sustained and if the lives of the poor are to be improved. As examples of creative capitalism, Gates cites the efforts of two MNEs. One is pharmaceutical manufacturer GlaxoSmithKline, which is developing medicines targeted for the poor; and the other is Sumitomo Chemical, which used its expertise to build a bed net factory that it donated for the prevention of malaria. The central core of creative capitalism is its focus on market-based rather than aid-based incentives. In Gates' words:

Some people might object to this kind of market-based social change, arguing that, if we combine sentiment with self-interest, we will not expand the reach of the market, but reduce it. Yet Adam Smith, the very father of capitalism and the author of *The Wealth of Nations*, who believed strongly in the value of self-interest for society, opened his first book with the following lines: 'How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it.' Creative capitalism takes this interest in the fortunes of others and ties it to our interest in our own fortunes in ways that help advance both. This hybrid engine of self-interest and concern for others can serve a much wider circle of people than can be reached by self-interest or caring alone (Gates 2008).

Despite this nod to a ‘concern for others’, Gates acknowledges that the profit motive, alone, may be

just as consumers, but as producers as well. In general, businesses that enable the poor to become producers

and taxation difficulties? While these are barriers to entry, we will propose that it is to the fundamental advantage of global companies to enter these markets. If the goal of any company is economic sustainability over a long period of time (and that is usually the case, although not always) then, with the hyper-saturation of developed markets, companies that remain blinded by the largesse at the top of the pyramid will atrophy. Poverty numbers will increase and global economic growth will be impeded.

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insufficient to drive a business to serve the very poor. In such cases, he points out,

... there needs to be another incentive, and that incentive is recognition. Recognition enhances a company’s reputation and appeals to customers; above all, it attracts good people to an organization. As such, recognition triggers a market-based reward for good behavior. In markets where profits are not possible, recognition is a proxy; where profits are possible, recognition is an added incentive (Gates 2008).

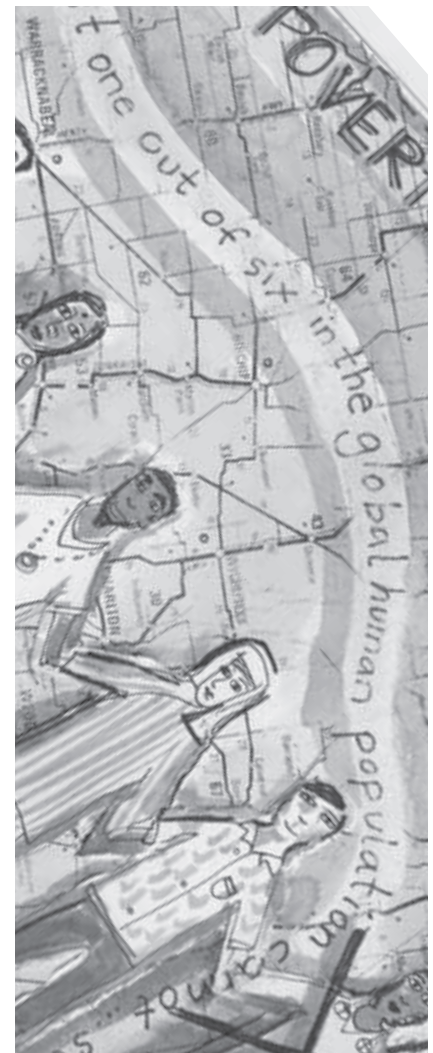
In a sense, then, creative capitalism is only slightly different from strategic philanthropy directed at the BoP. Enhanced recognition may align nicely with the strategic objectives of many multinational corporations; so perhaps, the ‘creative’ component in creative capitalism is Gates’ personal insight that capitalism does not contradict caring for others.

However, two ideas remain missing from his concept. First, the poor themselves are hungry for a chance to participate in economic activity, not

kindle an economic engine fuelled by true partners that may do more for economic development at the BoP than all the philanthropic aid and creative capitalism rich benefactors can provide.

Second, there is a need to bring together all the efforts at poverty alleviation into one system that actually benefits the poor. This means that, rather than acting alone, businesses should forge new partnerships with the other governmental and nongovernmental institutions that are working on global poverty.

We conclude with a difficult nagging question: why would a global corporation choose to work in these developing markets and respond to poverty? An MNE has plenty of opportunities; why would any company want to undertake projects, even for-profit projects, in underdeveloped markets where there is so little legal protection, possibly significant graft and corruption, potential environmental challenges, an undertrained workforce, and often transportation



Visionary firms that have the capacity to be morally imaginative risk-takers are now slowly entering these BoP markets. These firms have chameleon-like responses to the markets they serve, allowing them to best understand and then innovate to meet the demands of those most in need and of their own primary stakeholders. These pioneers will stake their claims, not only as leaders in the new economic windfall from a new market of billions of new consumers, but also become leaders in contributing to a sustainable future in partnership with the world's poor. ■

## ENDNOTE

- <sup>1</sup> Patrimonio Hoy means, literally, 'Patrimony Today' and refers to the tradition in Mexican society of creating something of value that can be passed down to future generations.

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