

Joining the Fight Against  
Global Poverty

A Menu for  
**CORPORATE  
ENGAGEMENT**

by Staci Warden



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# Menu of Options for Alleviating **GLOBAL POVERTY**

## **Standards COMPLIANCE**

*Raising the bar for corporate behavior*

## **Charitable GIVING**

*Funding activities or organizations that help the poor*

## **Resource ENGAGEMENT**

*Committing core resources—goods, services, expertise—to help the poor*

## **Commercial LEVERAGE**

*Doing well by doing good*

## **Development ENTREPRENEURSHIP**

*Poverty reduction as business*

## **Policy ADVOCACY**

*Pressing for policies that improve the business climate and foster shared growth*



## Preface

In the last decade more and more of the world's leading corporations have sought and found ways to join in the fight against global poverty. This is no doubt one outcome of globalization. In an increasingly interdependent world, there are many opportunities to do good while doing well commercially. Yet the approaches taken, and the logic of different tactics by different companies, have not been much studied. To learn what is happening, we at the Center for Global Development commissioned interviews and analyses of 15 corporations that have been active in "development" work in poor countries. We are pleased to share it with all our readers and especially with our corporate supporters, in the hope that it provides guidance on what is possible and smart, and catalyzes still more engagement on development issues by the corporate community. We hope it also is useful for public sector policymakers and for the leadership of non-governmental organizations as they seek an increasing range of public-private partnerships.

One of the guiding principles of the report is that companies bring much more to the table than money. Financial resources are often necessary, but corporations' skills, ideas, and ways of operating in the marketplace can make a much greater contribution. A particular area of interest to CGD is how and where the private sector can encourage better public policy—in their home countries, at the global level, and in the low-income countries where they increasingly buy, produce, and sell. In many poor countries, and in sub-Saharan Africa in particular, the lack of a strong middle class or a powerful independent local business sector is a major impediment to improving the investment climate. We believe global corporations can help fill that role which has been so crucial in the creation of wealth in the now-rich world.



Nancy Birdsall  
President  
Center for Global Development  
Washington, D.C.

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## Executive Summary

Many global corporations today feel a global responsibility in the same way that large companies traditionally felt to their local communities. Customer awareness about corporate practices in the developing countries where they operate has also increased sharply. In response to a sense of obligation, external pressure and self-interest, many companies have begun to focus their resources on international development.

This paper speaks to companies seeking practical ways to alleviate global poverty. The private sector has several inherent competitive advantages to bring to bear in this effort through which they can enhance their impact – both to themselves and to their intended beneficiaries.

Based on interviews with 15 companies, the paper presents a framework to help companies formulate their options. A menu of six approaches, with their benefits and risks, is presented: Standards Compliance (adhering to high standards for workers' rights, environmental protection, or other development issues); Charitable Giving (through a company's own foundation or by supporting public or non-profit charitable organizations); Resource Engagement (directly contributing its own goods or services); Commercial Leverage (companies can do well by doing good); Development Entrepreneurship (where an explicit commitment to the poor is the core business strategy); and Policy Advocacy.

The paper also discusses the issues around collaborating with non-profit partners in development efforts. It concludes by summarizing some of the advantages companies have found in pursuing a developmental agenda, such as reputational benefits, attracting informed customers, and even a strengthening of their corporate culture and human resource agendas. Finally, it catalogues some intuitive reasons for the compelling competitive advantages that the private sector might bring to bear in a global effort to improve the lives of the world's poorest people.

# Joining the Fight Against Global Poverty: A Menu for Corporate Engagement

*Today large companies have a broad and deep range of contact with people in developing countries, as their employees, suppliers and customers. As a result, many companies have become increasingly interested in the welfare of the developing world. As global companies, many feel a global responsibility in the same way that large companies have traditionally felt responsibility to their local communities. Companies of all sizes are also finding that their customers and their employees are ever more aware of and concerned about the plight of poor people in poor countries. Responding to a combination of perceived moral obligation, self-interest and outside pressure, many companies have begun to think seriously about how they can “do something” to help the world’s poor, and have focused increased attention and resources on international development.<sup>1</sup>*

*At the same time, private sector companies are fundamentally different from not-for-profit organizations or aid agencies in that they are accountable to shareholders whose overriding concern is the profitability of the business. Globalization has also increased competitive pressures for most industries. In the case of low-margin textile and manufacturing industries that operate largely in the developing world, such pressures to contain costs in these locations can be particularly acute.*

There is a multi-faceted debate around the appropriate boundaries of a company’s responsibility to society: Is “the business of business just business,” to paraphrase Milton Friedman, or does a company have social obligations beyond obeying the law and providing the goods and services that its customers want, at a price they are willing to pay? If so, are some activities more appropriate than others? On what basis?

Of course one way to resolve this question is to define oneself out of the dilemma. In this spirit, companies are encouraged to think in terms of a “triple bottom line” that incorporates not just economic but also environmental and social impact criteria in overall measures of corporate health. And it is true that corporate efforts to be good global citizens—often described as Corporate Social Responsibility (CSR) programs—have grown more popular. Many larger companies have dedicated CSR departments, often with significant budgets. The number of firms that issue CSR reports or

include CSR information in their annual reports rose from 13 percent to 41 percent between 1993 and 2005.<sup>2</sup>

This paper does not attempt a thorough survey or evaluation of current CSR initiatives, nor does it engage in the broader debate about the appropriate level of private sector activity in development assistance or CSR in general. Rather, it speaks to companies that, for whatever reason, seek practical ways to do something to contribute to the alleviation of global poverty. We argue here that the private sector has several inherent comparative advantages to bring to bear in the fight to alleviate global poverty, and that companies can enhance their impact—for themselves and their intended beneficiaries—by keeping in mind some basic lessons of effective engagement.

This paper is based largely on in-depth conversations with 15 companies that have made a significant commitment to a development agenda (see Appendix B).<sup>3</sup> Based primarily on their experiences

<sup>1</sup> The terms poverty reduction, welfare enhancement, and development are used interchangeably in this paper.

<sup>2</sup> KPMG International Survey of Corporate Responsibility Reporting 2005. KPMG Global Sustainability Services and University of Amsterdam. KPMG International: Amsterdam.

<sup>3</sup> All quotes in the paper are attributed to companies rather than the individuals interviewed in order to improve readability. The names of interviewees are provided in Appendix B.

and observations, we put forward a menu of possible approaches that we hope will provide a useful framework for helping companies conceptualize and organize their options. We also hope that this paper can assist development-focused, not-for-profit entities frame requests for financial assistance or other kinds of cooperation from the private sector in ways that will be compelling to private companies.

In the sections that follow, we elaborate on this menu of options, describing each approach and setting out its relevance, risks and benefits. For each, we draw on anecdotal observations from the companies interviewed and draw stylized lessons based on their experiences. We then discuss some of the mechanisms, advantages and issues around collaborating with not-for-profit partners in development efforts. We conclude by summarizing some of the advantages companies have found in pursuing a developmental agenda, and cataloguing some intuitive reasons that the private sector might bring compelling comparative advantages to bear in a global effort to improve the lives of the world's poorest people.

## A Menu of Options

Companies have many options for engaging in the effort to alleviate global poverty, and a framework can be a useful tool for evaluating alternatives and organizing an overall strategy. Below we group the universe of possible activities into a menu of six approaches.

Some options naturally entail a higher commitment than others, and they are sequenced below according to an estimation of the scope of commitment required and the degree to which they are integrated with core business activities. However, we do not attempt to rank these approaches in terms of their effectiveness, or in an otherwise normative way. We also make no attempt to quantify or evaluate the impact of these efforts on poverty reduction or on the companies themselves.

We do argue, however, that irrespective of the approach taken, a company will likely enhance its potential impact if its poverty reduction activities are coherent with its overall business model. By coherent we mean that these activities are focused, that they relate in a straightforward way to a company's corporate mission or culture, that they leverage its knowledge or expertise, and that they are congruent with its commercial objectives. For each option below, we suggest what a coherent approach might entail.

### **STANDARDS COMPLIANCE:** **Raising the bar for corporate behavior**

Companies can improve the lives of the poor by complying with standards—unilaterally or through international forums—that raise the bar in terms of their interactions with people and the impacts of their business operations. Committing to a safe working environment for employees or ensuring a benign environmental footprint in foreign direct investment are straightforward examples. Companies can leverage the impact of their compliance with standards they wish to uphold by engaging in a range of supporting activities, such as policy advocacy or charitable giving.

### **CHARITABLE GIVING:** **Funding activities or organizations that help the poor**

Companies can set up charitable foundations or other mechanisms to provide direct financial support to public or not-for-profit organizations that work to alleviate poverty. Coherent charitable giving arguably focuses on a limited number of initiatives that are reasonably aligned with a company's interests and corporate culture. This can be an especially important tool for companies with limited resources, scope, or opportunity for more hands-on engagement.

## **RESOURCE ENGAGEMENT: Committing core resources to help the poor**

Companies can engage actively to support poverty reduction efforts by directly providing their own goods, services, or expertise. This direct commitment of core company resources arguably provides greater leverage to development activities than cash because it brings to bear a company's particular competitive advantages.

## **COMMERCIAL LEVERAGE: Doing well by doing good**

Companies can leverage their commercial presence and activities in support of initiatives that also improve the lives of poor people. Focused attention on the poor as a means to improve productivity, enhance efficiency, or increase revenues can generate win-win opportunities for the company. A strategic approach looks to actively leverage commercial activity in pursuit of these opportunities.<sup>4</sup>

## **DEVELOPMENT ENTREPRENEURSHIP: Poverty reduction as a business**

A for-profit company can have a corporate mission with poverty reduction as a core component. Here, poverty reduction is not an appendage to a company's everyday activities; it is its business model. Microfinance initiatives are the most well-known examples of development entrepreneurship, but there are many others.

## **POLICY ADVOCACY: Pressing for policies that improve the business climate and foster shared growth**

Companies can use their influence to advocate for better policies among officials in countries where they operate, in their home countries, and at the global level.

There is, of course, some conceptual overlap among the approaches. For example, the line between selling useful products to poor people as a business line (commercial leverage) and making it the entirety of the business model (development entrepreneurship) is not clear-cut, and improving working conditions is standards compliance as well as commercial leverage, because a better work environment improves labor productivity. Furthermore, the level of engagement in the above list does not, strictly speaking, increase linearly. Standards compliance, for example, can entail a much broader and more profound corporate commitment than charitable giving, depending on how seriously the company commits to those standards.

Nevertheless, we find this menu framework useful for analyzing company options, as well as for comparing and evaluating the development activities of different companies on a common basis. And we will see that a comprehensive approach will surely encompass a variety of mechanisms.

In the next section, we briefly describe the activities of our interviewees in each area and offer some stylized lessons based on their experience. We also indicate the relevance, advantages, and risks or other considerations that are particular to each approach.



<sup>4</sup> To the extent that doing good works enhances corporate image, all of these menu options can be considered to promote corporate self interest. However, commercial leverage differs from other options in that it seeks a quantifiable impact on the firm's bottom line.

# 1 Standards compliance

According to a KPMG study, “Standards and guidelines adopted by international organizations continue to be the main reference for companies reporting on their social performance.”<sup>5</sup> Many groups have created international norms, but the most commonly cited guidelines for business and labor practice are those of the International Labor Organization (ILO), the United Nations (UN), and the Organization for Economic Co-operation and Development (OECD). A smaller number of firms have signed other, more specialized, agreements like the Equator Principles which govern the environmental management of project finance.

Through higher standards for business practice in areas such as labor rights, working conditions, environmental protection, or anti-corruption, companies can significantly improve the work and living environment for the poor people with whom they associate. For example, companies that move labor-intensive manufacturing operations to developing countries usually do so because of the relatively cheap cost of labor in those countries. This means, perforce, that they employ the relatively poor and have the opportunity to improve the lives of their workers by taking steps to improve labor conditions or workers’ rights in the plants they operate. By providing their typically young female employees with a source of independent income and an important role in providing for their families, companies help to improve the monetary and social welfare of these women.

## Examples of Standards Compliance: Liz Claiborne and Levi Strauss

Clothing manufacturing companies such as Liz Claiborne and Levi Strauss make it a core part of their long-term business strategy to uphold baseline standards for working conditions in the factories from which they source, as well as to promote workers’ rights in international forums.

Liz Claiborne, for example, is a founding member of the Fair Labor Association (FLA) which sets codes of conduct, monitors members, and reports regularly on factory conditions. Levis has developed internal standards, and markets its own “Levis Certification.”

The effect of international codes of conduct is not fully understood, and critics argue that their development impact is limited because the guidelines are voluntary and because there are few mechanisms to enforce compliance. However, Liz Claiborne maintains that the industry attitude toward improving labor standards in the clothing industry has improved significantly over the years. “In the 1990s, many companies wanted the FLA to fail. We even had pressure from local business associations who thought we would hurt the local business environment if we brought transparency to these issues. Today, though, there is a much stronger consensus around the importance of labor standards, and we all get better at it each year.”

However, real welfare improvement will arguably only take place if standards are raised uniformly throughout the industry in question. And, if standards are raised across the board and all companies must comply, then no one company suffers a competitive disadvantage from the potentially higher costs that higher standards impose. If this happens, what Jane Nelson calls “new social and market value” can be created, improving the market environment for all participants.<sup>6</sup> These benefits are compounded to the extent that market participants are motivated to pursue a virtuous “race to the top” in finding compelling business reasons to raise their standards.

Levi Strauss found it was able to help raise the industry-wide bar by acting unilaterally. “When we launched our requirements, people said we were going to destroy the cost advantage of outsourcing. But we started noticing that after a time, factories were surprisingly eager to fix any violation or

<sup>5</sup> KPMG (2005).

<sup>6</sup> Nelson, J. (2006). Leveraging the Development Impact of Business in the Fight against Global Poverty. Corporate Social Responsibility Initiative Working Paper No. 22. John F. Kennedy School of Government, Harvard University: Cambridge.



problem. We then discovered that they were selling their production capacity to other brands on the basis of their Levis certification." Its certification increased Levis' bargaining power with those factories, as the factories themselves had significantly raised the stakes of losing it. Levis was therefore able to create a competitive advantage for itself, and in so doing to provide an important "showcase effect" to the market as a whole.

However, both companies argued that cooperation with the host government in promulgating and enforcing improved labor laws was

critical to engendering a broader market-wide effect. And both companies found that the best (and often only compelling) way to accomplish this was to bring their market power to bear on the government's decision-making process.

Levis has very specific country guidelines that determine whether it can do business in a particular country. "In

Guatemala, for example, there

was a real chance that we would have to pull out, based on our internal guidelines. We lobbied the government and also worked closely with it to strengthen its own domestic workers' rights laws so that we could continue to operate there."

Likewise, given the host-country competition in the global textile industry, Liz Claiborne finds that it can argue effectively to a host country government that "it has to find a way to distinguish itself on labor standards." But market power is greatest before factories are set up. For Liz Claiborne, after it has set up operations the bargaining power "shifts considerably" to the local government, so

that it tries to "extract maximum cooperation" from governments before making its investment.

### **Beyond Altruism: Corporate Benefits of Standards Compliance**

For companies, the advantages to adhering to improved standards go beyond altruism. First, there is an intuitive case to be made that workers that are treated better will be more productive and turnover rates will be lower. Second, the public relations damage with respect to home country consumers can be enormous if companies are seen to be engaging in "sweat shop" labor practices abroad.

The most famous catalyst for adopting international standards of compliance came from the public relations disaster that Nike, a sporting goods and clothing manufacturer, suffered in 1996 when *LIFE* magazine did a feature on child workers making Nike soccer balls in Pakistan. Nike was subsequently accused of using child labor in the production of shoes and clothing in Cambodia. Nike's initial response was to deny responsibility, claiming the difficulty of verifying the standards compliance of its subcontractors. It then shifted to a variety of public relations strategies, but sales continued to plummet from consumer boycotts. Finally, it promised that any child found working in one of its factories would be enrolled in school at Nike's expense. It also opened itself to independent monitoring and pledged to work only with firms that were certified free of child labor by independent monitors. Other companies took notice.

But a public commitment to uphold standards also entails risks. This is especially true because standards compliance is highly dependent on a "seal of approval" by the non-governmental organization (NGO) community. And with this community it can often be the case that "enough is never enough." As Levis argues, "If you support an NGO, you have to be comfortable with where it might go once you let it loose. For example, we support NGOs that have criticized the factories that we source from. You have to be comfortable with your ultimate goal, and be prepared to accept that something like that might happen."



## 2 Charitable Giving

Perhaps the most straightforward way for a company to help reduce poverty is to give financial support to not-for-profit or public sector organizations that work directly on those issues. All the companies with whom we spoke engaged in some kind of corporate giving program. Charitable giving is also a mechanism for those companies that don't have the orientation, contact, or resources to engage in more elaborate projects for poverty reduction.

The traditional model of charitable giving is that of a community bank. To support its depositors, and (more importantly) to get to know its borrowers, banks in the United States engaged in various community-based philanthropic activities such as supporting local charities, funding the local arts, sponsoring local sports teams and youth leagues, and engaging at the executive level in various civic activities in the community. This model is motivated largely by a sense that the bank, or any company, should be seen to be supporting the community in a visible and wide-ranging way.

But most of the companies we interviewed argued for a focused approach. They found that their ability to sustain enthusiasm and budgetary resources for their charitable activities has come in large part from the coherence that their target causes have with their corporate culture or business interests. This is true in part because a well-aligned strategy makes corporate giving easier to justify to shareholders, customers, employees and other stakeholders. This helps protect charitable budgets from downsizing, and mandates from reinvention, in the face of changes in management or market conditions.

Companies offered several specific lessons for a coherent charitable giving program:

- Focus on a short list of themes and keep them constant over time. This is critical to securing ongoing management buy-in and public understanding.
- Select clear themes that are in the corporate interest and/or that are easily associated with

the company. It should make intuitive sense to the average person why a company supports what it does.

- Integrate, to the extent possible, charitable giving into the overall operations of the company and insist on the same accountability for charitable giving as for other business expenditures.

The companies we interviewed found that a focused, consistent approach gives clarity to stakeholders as to "what the company is about," enables better monitoring of charitable spending, and improves the efficiency of resources spent.

### Examples of Coherent Giving: Chevron, Merck and others

Chevron, a global energy company, has made poverty reduction an important theme in its global charitable giving program. Requests for funds come from country managers in the field (an approach typical of the companies we interviewed) and vary somewhat according to the local environment, but all funding requests should conform to this overarching theme. Chevron believes that "having one theme gives focus to our activities, is easy for every employee to grasp, and generates knowledge economies across the company."

Merck, a pharmaceutical company, financially supports education and other efforts around HIV/AIDS prevention and treatment as a straightforward extension of its HIV/AIDS pharmaceuticals business. Merck has a number of partnerships throughout the developing world but has devoted significant resources to a key partnership in Botswana with the Bill & Melinda Gates Foundation. It has contributed US\$56 million to this country in an attempt to cover "all aspects" of its public health needs with respect to the prevention and treatment of HIV/AIDS. This includes drug distribution, public education, and training local teachers and health-care workers. Merck found that "To tackle this kind of a problem, we had to address all of its facets; we think that we will make more of an impact by focusing deeply on one country than by spreading our resources more broadly."



Companies also argued that their charitable giving was most effective if it supported the business and the philosophy of the company. SABMiller, a beer brewery company, directs the majority of its charitable giving to support the local business environment in which it operates, rather than to support local NGOs. It tells NGOs that ask it for funds to come up with a business plan for a partnership that is about improving the environment for business (but it finds that “almost none” do so).

A company may also find easy coherence in supporting the welfare needs of a well-defined set of stakeholders—typically, but not necessarily, a demographic that represents the company’s customers or workers. The Liz Claiborne Foundation, for example, funds women-related issues both because 70 percent of its workers are women and because its customer base is female. “We have never had to explain why we chose to support women’s issues; it is just obvious.”

One benefit of a charitable giving approach is that it can be easier to set up and administer than other approaches, at least until undertaken on a large scale. Sometimes it may be the only approach available for certain kinds of companies, such as those that do not have direct business contact with developing countries. Charitable giving also implicitly encourages a competitive and transparent process to ensure the best use of funds.

Sterling Stamos Capital Management, a private investment firm, gives 10 percent of its net income to poverty reduction activities, focused on four countries. It finds another advantage to charitable giving. As a provider of funds, it is able to bring together a wide range of public sector and non-governmental participants to work together on a well-defined development initiative that they would not be able or willing to do otherwise. “We provide the cheese that they all want; so we can force them to work together constructively.” This is another way that it tries to bring focus to its philanthropy.

The risks with charitable giving are that external recipients of funds may be more difficult to monitor than programs administered by the

company itself. Companies must also contend with a common view that the private sector is simply there to fund projects. Several companies with whom we spoke emphasized that a major challenge in working with partners was to get away from the mentality that they were “just there to write checks.”

### Corporate structure around charitable giving

Both Liz Claiborne and Levi Strauss have established separate foundations to undertake their charitable giving activities, but they keep foundation giving tightly integrated with corporate priorities. The Levi Strauss Foundation was set up to avoid “same dealing” prohibitions, and is funded through gifts from the corporation. The Corporate Community Affairs Department also makes grants, and the grant lines are virtually identical. “It’s just that with one line we use corporate money and with one line we use foundation money. But it is essentially the same thing.” The head of the Levi Strauss Foundation reports directly to the CEO of Levis, which the company considers crucial to the success of the foundation.

Liz Claiborne maintains a “close, two-way conversation” with its factories and other local organizations to identify funding priorities for the foundation. “The factory owners and non-profit groups on the ground identify needs and communicate these back to the foundation. This dialogue with factory owners in particular invests them with a more conscious awareness of the needs of their communities and their workers.”

Chevron uses a strictly “bottom up” approach and does not fund money through a separate foundation. “All field managers report directly to a business unit leader, and they have to submit their budget to that unit. It is not a conversation with an outside director of a foundation; it is a conversation with their own management who have their own P&L [profit and loss] issues. They are competing for funding just like every other part of the business.”

## 3 Resource Engagement

In a resource engagement approach, companies directly contribute goods or services to alleviate global poverty. Although this approach is not possible for all firms in all industries, it is a straightforward way to contribute if a company makes a product that is inherently beneficial to the poor, or if it has an area of substantive, logistical, or other expertise that help address a development challenge.

Companies to whom we spoke attributed much of their success to focusing on those activities in which they had a particular competitive advantage. This approach also maximized the productivity of the assets that they brought to bear on those activities. They offered the following stylized lessons for resource engagement:

- Stick to activities where there is a competitive advantage, such as unique experience or expertise to bring to bear on a problem.
- Avoid external demands or internal inclinations for “mission creep” by finding a niche and staying there.
- Integrate with the business as much as possible.
- Maintain a long-term, unwavering commitment.
- Ensure the buy-in and active support of local government.

FedEx, an international shipping company, leverages its logistics and transportation expertise to provide free shipping and storage of emergency supplies on both an emergency and ongoing basis to partner organizations such as the Red Cross. For example, after the 2004 tsunami, FedEx partnered with six relief agencies to deliver first aid and other supplies to disaster



victims in affected countries.<sup>7</sup> In another example, Google, an internet search company, and its partners developed a web crawling system based on Google’s search technology that scans local websites for early notifications and stories about disease outbreaks. By tying these stories together, public health officials can better anticipate potential disease outbreak patterns.<sup>8</sup>

Levi Strauss wanted to target its 501 jeans to “urban, influential young people” in South Africa, the same cohort that was most rapidly succumbing to the AIDS epidemic. It partnered with a very “in your face, hip” NGO working on AIDS issues to showcase South Africa’s most popular music bands (through a concert series, CDs, and a nationally-televised documentary) as a vehicle to promote AIDS awareness in its target demographic—an urban, at-risk cohort. The local NGO provided the substance and Levis contributed its marketing expertise to the design of the program.

For companies whose business it is to produce welfare-enhancing products, it is relatively straightforward to subsidize the provision of those products in the service of international development. Merck and Novartis, for example, donate or subsidize drugs to treat developing country diseases like HIV/AIDS, leprosy, malaria and river blindness. Both companies concentrate their efforts on drug development and manufacturing, and partner with the World Health Organization (WHO) or established NGOs for their distribution.

Again, the importance of focus was stressed by both companies. Novartis engages “where we have the only product or the best product on the market, as this maximizes the impact of our own contributions.” Merck’s choices are based on a similar rationale. “There are an infinite number of things we could do, so we had to sort through them with two criteria in mind: where do we have a competitive advantage

<sup>7</sup> FedEx was not interviewed directly for this paper. For details, see <http://www.fedex.com/us/about/responsibility/relief.html?link=4>.

<sup>8</sup> Google was not interviewed directly for this paper. See Hafner (2006) for more details.

and bring unique capabilities to bear, and where can we have the biggest impact. This is how we choose.”

Accenture, a consulting firm, provides management consulting services to development NGOs at a substantially reduced rate. It has also had to resist requests to go beyond its core business model. “Although we get requests to do lots of things, we will not engage in activities like managing school construction or the distribution of antiretrovirals (ARVs). We only do our core activities. This means things like supply-chain consulting for disaster relief organizations or implementing e-learning for training nurses. We have found a very different kind of client base, but it is a client base for our same skill set.”

The benefits of the resource engagement approach are that companies contribute where they can be most efficient or effective, and that their activities are, by definition, thoroughly integrated with the normal business activities of the firm. The risks lie in the temptation and external pressure for mission creep beyond core activities, and in the essential reliance on local ownership and cooperation. Companies found the active engagement of the host government to be a *sine qua non* to success. This is arguably much truer for resource engagement initiatives than for charitable giving.

Merck puts it clearly. “Without political commitment on the part of the government, you will fail. You absolutely cannot fly into a country and say, ‘We are here to help, now get out of the way,’ and expect to have any chance of success. The local government absolutely has to feel as though it is in the driver’s seat throughout the process, and one cannot overemphasize the need for constant communication throughout.” Government partnerships can also be trying, however. In Botswana, it took Merck and Gates two years of planning with the government to get the HIV/AIDS project formally launched. “It was frustrating at the time

because we had done our corporate planning and put together our objectives and milestones, and were eager to begin implementation. But there is a strong cultural emphasis in Botswana on consensus building, and we learned how critical it was for that process to take place. In the end, the time spent at the beginning was important in getting the right groundwork in place.”

Discovery Communications, a worldwide media company, runs a Global Education Partnership program that equips underserved schools internationally with learning centers, the key components of which are its specially produced programs and access to its 70,000-hour library of educational programs. But Discovery insists that its host-country governments be full partners in these learning centers. It first gets buy-in from the ministry of education; then, once a community is selected, it meets with local groups to ensure that they will take ownership for content selection as well as process.

Discovery notes that “it is not in the business of developing the curriculum for the local education, only in enhancing its effectiveness.” For this reason, it also makes an explicit commitment to hand off its projects entirely to local groups within three years. After that training period, the learning center must be self-sustaining and locally run. Discovery argues that its insistence on eventual country ownership has been a key factor in the success and growth of the program.

### Corporate structure around resource engagement

Most companies we interviewed have tried to integrate their resource engagement activities with their core business activities by having these initiatives report up through a regional business manager with profit and loss (P&L) responsibility for the country or region. Others have found public relations advantages to running resource engagement activities through a separate not-for-profit entity.

Chevron has managers in the field dedicated full-time to implementing poverty reduction projects. While there is now a corporate department to help



coordinate these activities, field officers typically report directly to the overall business manager in each of the countries in which Chevron operates. This structure reflects its belief that the success of its development activities is integral to the success of its country-level operations as a whole, and that its charitable aspirations are not separable from its business goals.

At Merck, the Mectizan (river blindness) project is managed out of Merck's Office of Corporate Responsibility. The program management is done by an external third party set up by Merck, with oversight by the foundation. Its other programs, however, are run through its business units because "That is the best way to ensure that they are aligned with what we are trying to accomplish in that part of the world, and also aligned with the business interests in those regions." For example, the Merck/Gates Foundation joint HIV/AIDS project in Botswana established an independent charitable foundation as its funding vehicle. Each company has two board members. At Novartis, their oldest project, targeting leprosy, is a donation program run out of Novartis's independent foundation, but its other programs, such as its malaria program, are run out of the business itself in order to be close to where the scientific expertise resides.

Discovery runs its program through a non-profit agency established for this purpose. The agency has a staff of eight people, the three most senior of which are "in-kind staff donations" from corporate headquarters. It also employs about 25 local staff. The non-profit was created in order to bring in other partners and more funding. "We have been successful in getting additional support from other actors, and we do not believe that this would have been possible had we not established ourselves as a separate not-for-profit entity."

Accenture Development Partnerships is also registered as a not-for-profit organization. It has a board made up primarily of Accenture partners and directors of NGOs, and a staff of eight that provides oversight for their projects. All projects are staffed with Accenture employees. "Our organization within the company is somewhat of a hybrid. Though we are lumped together with much of the corporate citizenship work, we are managed just like any other consulting practice within the firm. We have a set of clients and a P&L that we must manage to ensure sustainability. Mainly, the not-for-profit status is helpful in attracting clients, as it would be more difficult for some charities to justify hiring a management consulting firm."





## 4 Commercial Leverage

It is first worth recalling that simply through its commercial participation in the economy, a for-profit company has enormous scope to improve the socioeconomic welfare of the community in which it operates. These benefits accrue by virtue of the fact that the company engages in normal, self-interested economic activity, seeking simply to maximize its own shareholder value.

As Gordon Macay, CEO of SABMiller, argued in a recent speech: “We must continue to run successful, profitable companies that operate in a responsible and accountable way and provide markets to suppliers and distributors of our products. Our core business activities are far more likely to make a long-term and sustainable impact on Africa than corporate social investment programs explicitly aimed at meeting development challenges.”

Companies satisfy consumer demand, perhaps the most direct way to improve welfare. But there are important second order effects as well, particularly for the very poor. As C.K. Prahalad argues, the poor gain an important economic and even political voice that comes with purchasing power.<sup>9</sup> This kind of empowerment cannot be achieved simply through charitable giving.

Companies also create jobs in the formal sector, both providing employment opportunities and strengthening the formal sector as a whole. They can also have a positive impact on wage levels through increased demand for labor, and because foreign investment tends to boost labor productivity (by increasing capital/labor ratios). The training of local workers and managers (some of whom branch off to start their own companies) reinforces this process and enhances its positive effects.

For governments, private sector companies provide tax revenue, both directly and through their impact on consumption and employment. This role in

revenue generation can be especially important in low-income countries, which tend to rely heavily on a few large corporate taxpayers. Foreign direct investment for re-export provides governments with trade taxes and improves the overall balance of payments position of the country.

Foreign investment can have consequential second-order effects as well. If a company's level of economic activity encourages investment by other market participants (e.g., as competitors, suppliers, or distributors etc.), the total “spillover” impact can be large. Moreover, empowering the poor as workers and consumers has in itself a positive social impact. For example, working women gain an important measure of economic—and thus social—empowerment as family breadwinners.

In fact, the mere presence of a company can improve the business environment in poor countries. A company that operates in a successful or otherwise enviable manner can provide an important showcase effect for other market participants that can strengthen the competitive environment as a whole, to the benefit of all participants. Again, these benefits accrue as part of a company's normal business operations, without any particular or explicit welfare enhancement goal.

### Win-win opportunities of commercial leverage

Companies can leverage the positive impact of their commercial activities through targeted efforts to pursue their commercial agenda in concert with, or even through, activities that help improve the welfare of the poor. Strategically minded companies will look for these win-win opportunities. In fact, arguments about whether companies should stray from core business activities in order to pursue social value enhancing initiatives of any kind disappears to the extent that those initiatives also provide quantifiable value to the companies themselves.<sup>10</sup>

<sup>9</sup> Prahalad, C.K. (2005). *The Fortune at the Bottom of the Pyramid*. Wharton School Publishing: Upper Saddle River.

<sup>10</sup> Porter and Kramer (2002) argue that for philanthropic activities to be truly “strategic” they must improve the “competitive context—the quality of the business environment in the locations where they operate.” In a framework, this means improving factor conditions, demand conditions, supporting industries and/or the context for strategic rivalry. By their criteria, the “acid test” for calling a philanthropic activity strategic is to ask whether it would be worth doing even with no recognition or credit.

There are several income statement channels through which to generate economic value in line with explicit goals of poverty reduction. For example, on the cost side, providing worker training, health care, day care, and other benefits can enhance employee productivity and aid in talent retention. On the revenue side, companies

can find new markets for their products by explicitly targeting low-income consumers, as well as through the natural increase in purchasing power that comes with income gains. They can also appeal to socially conscious consumers in their home countries. A few of these areas are explored below.



### **TRAINING, HEALTH CARE AND SUPPORT SERVICES FOR WORKERS = IMPROVED PRODUCTIVITY**

Companies operating in developing countries can undertake explicit activities to improve the welfare, and thus productivity, of their workers. Worker training and the provision of an adequate working environment are two examples. In the first section, we saw the attention that Levi Strauss and Liz Claiborne devote to upholding basic worker rights, in part because, as Liz Claiborne argued, “A happy, healthy worker is a productive worker.”

In the late 1990s, Cisco Systems, a networking hardware company, famously started a comprehensive computer hardware training program for high-school and college students that has now grown to over 10,000 academies around the world. While the program has indeed provided life-changing opportunities for high school youth to develop professional skills, Cisco’s fundamental interest was in guaranteeing for itself a large and steady stream of workers, well-trained on its systems (and ensuring that its customers had the same).<sup>11</sup>

SABMiller provides free ARVs to all of its workers, their partners, and up to four dependants. Overall, approximately 30 percent of its African workforce is HIV positive. Although the cost of ARVs is approximately half the company’s wage bill in many countries, SABMiller believes “The cost is worth it because a seasoned manager that understands both the company and the local market is very difficult to replace.” The company now provides safe sex education, despite prevailing taboos, in addition to business training as part of its core training program because “Keeping trained and seasoned workers and managers alive and healthy is now an integral part of doing business in Africa.”

<sup>11</sup> Cisco Systems was not interviewed for this paper. For details, see Murray (2000) and <http://www.cisco.com/web/learning/netacad/academy/About.html>.

## SUPPORTING LOCAL PRODUCER = ENSURE A MORE RELIABLE, COST-EFFECTIVE SUPPLY CHAIN

Companies can support local firms as a means to increase or improve their supply chain network. This can be critical where local supplies are specifically required. For the company, reliable local suppliers bring down the transportation and other costs of intermediate inputs and enable more reliable just-in-time delivery. For the host country, it helps spur the development of small and medium-sized enterprises, creating jobs, tax revenues, and a local entrepreneurial class.

SABMiller tells an instructive story about what it took to develop local brewing capacity in Uganda, where beer was prohibitively expensive to produce because of an excise tax on imported barley, a key ingredient in beer making. The company turned to experimenting with making beer from sorghum, a barley substitute plentiful in Uganda. After it developed an acceptable product, it worked with the government and local farmers to create a reliable and affordable supply of sorghum. The company also worked with the government to substantially reduce the excise tax on sorghum, arguing that doing so would support domestic agriculture, and that with increased volume, the revenues to government would increase.

SABMiller initially faced distrust and resistance from farmers, as “They had been made promises before that did not work out.” It decided to guarantee a purchase volume and price in exchange for a guaranteed supply, and partnered with an NGO to help farmers with the implementation. Eagle Beer is now the number one selling beer in Uganda, with almost 10,000 small-scale farmers engaged in its supply chain.

Caterpillar, a heavy equipment manufacturer, has put resources and training into developing a local industry of independent agents that can service its machinery. “As our equipment becomes more and more complex, we need to find and cultivate independent dealers that can service the machines locally. It is more efficient to do this than to send components back to the United States for rebuilding, so Caterpillar devotes considerable time and resources to developing this local industry. “We train them thoroughly, but we are also often surprised at the innovative ways they find to keep the things running.”





## DEVELOPING LOCAL FRANCHISES = EFFICIENT SALES AND DISTRIBUTION

For companies that sell to local markets, it is necessary to work through local distribution networks and sales outlets. Where these do not exist, a company must usually create them itself. This provides jobs and training, and encourages small business development in the host economy.



SABMiller relies on local franchisees because they have “a better understanding of local market conditions, as well as the credit risk of their customers.” To develop its distribution network, it gives new hires interest-free loans on trucks and puts them through a salaried training program. If they perform well, they are moved to a franchise model and given their own territory, where they earn a return on sales. These franchisees become employers themselves, as trucks can have up to five staff on them. To deepen its distribution infrastructure SABMiller funds depots and secures premises on behalf of its franchisees. This model has

“worked well” in South Africa, Tanzania, and Zambia, and has created “no small number of well-off middle class African entrepreneurs.”

Similarly, in Zambia, where it is the bottling agent for Coca-Cola, SABMiller sells Coke through small roadside shops, again operating on the independent franchisee model. SABMiller leases the shop and a refrigerator. An area manager services the shops and provides training and practical help in skills such as bookkeeping and accounting. SABMiller has created almost 2,000 jobs and franchisees over the past eight years, the majority of them for or run by women.

Sometimes companies can help advance a development issue while solving a commercial problem. In Saudi Arabia, Proctor & Gamble (P&G), a consumer products firm, found that local marketing companies did not hire women due to restrictions against men and women working together. So it set up all-female marketing and distribution companies for its products. As a company with a large female consumer base, it was important to P&G to support efforts for equal opportunity for women. But this distribution method also proved very effective in moving its merchandise, as these small franchisee companies were able to go directly to women’s homes to market P&G products, something men cannot do in Saudi Arabia.

## Summary of

# MENU OPTIONS

	Standards COMPLIANCE	Charitable GIVING	Resource ENGAGEMENT
Description & Key Characteristics	<ul style="list-style-type: none"> <li>Adhere to high standards in conducting business, typically in terms of labor conditions and a benign environmental footprint</li> <li>Do no harm</li> </ul>	<ul style="list-style-type: none"> <li>Donate funds to support activities for poverty reduction or specific causes</li> </ul>	<ul style="list-style-type: none"> <li>Donate time, expertise, resources, or products</li> </ul>
Typical Company, Industry & Country Characteristics	<ul style="list-style-type: none"> <li>Operations in the host country</li> <li>Low-cost, assembly-line labor</li> <li>Extractive industries</li> </ul>	<ul style="list-style-type: none"> <li>All types</li> </ul>	<ul style="list-style-type: none"> <li>Produce an inherently beneficial product or service</li> <li>Have logistics or other expertise</li> <li>Have spare capacity</li> </ul>
Advantages and Benefits	<ul style="list-style-type: none"> <li>Can have multiplier effects</li> <li>Better standards can improve productivity</li> <li>Improve branding; avoid PR problems</li> <li>Available accepted practices</li> </ul>	<ul style="list-style-type: none"> <li>Can be an easy way to start</li> <li>Can target specific priorities</li> <li>Inherently transparent and competitive</li> <li>Convenes actors and elicits cooperation</li> <li>Supplements other efforts</li> <li>Can use to leverage support of other goals</li> </ul>	<ul style="list-style-type: none"> <li>Integrated with core company operations</li> <li>Easy for management and stakeholders to understand</li> <li>Uses competitive advantages</li> <li>Relatively easy to measure impact</li> </ul>
Risks and Other Considerations	<ul style="list-style-type: none"> <li>Competitive disadvantage if not universally adopted</li> <li>Good is “never enough”</li> <li>Promises are very public</li> </ul>	<ul style="list-style-type: none"> <li>Difficult to measure impact</li> <li>Exposure to conduct of funded organizations</li> <li>Important to manage role</li> <li>Scale may require separate institution</li> </ul>	<ul style="list-style-type: none"> <li>Mission creep</li> <li>Managing expectations</li> <li>Needs partners</li> </ul>
Key Lessons	<ul style="list-style-type: none"> <li>Partnership with NGOs and other firms is critical</li> <li>Use leverage to influence host-country policies</li> <li>Buttress with advocacy and charitable giving</li> </ul>	<ul style="list-style-type: none"> <li>Stay focused</li> <li>Integrate with business priorities</li> <li>Measure and monitor for spending accountability</li> </ul>	<ul style="list-style-type: none"> <li>Focus on competitive advantage</li> <li>Partner with others to draw on expertise</li> <li>Government buy-in is critical</li> <li>Long-term commitment</li> </ul>



Commercial LEVERAGE	Development ENTREPRENEURSHIP	Policy ADVOCACY
<ul style="list-style-type: none"> <li>• “Doing well by doing good”</li> <li>• Incorporate poor as part of business model, as consumers and suppliers, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Company dedicated to producing a good or service that benefits the poor</li> </ul>	<ul style="list-style-type: none"> <li>• Lobby home and host governments to enact and enforce policies that support the poor</li> <li>• Work individually or together with other like-minded actors through formal or informal alliances</li> </ul>
<ul style="list-style-type: none"> <li>• Large consumer base in country for products</li> <li>• Use of local suppliers or resources</li> </ul>	<ul style="list-style-type: none"> <li>• Produce an inherently beneficial product or service</li> </ul>	<ul style="list-style-type: none"> <li>• Industries that have a large domestic economic impact</li> <li>• Policies that address domestic and international public concerns</li> <li>• Policies that are not seen to favor individuals or industries</li> </ul>
<ul style="list-style-type: none"> <li>• Expand customer base</li> <li>• Improve supply chains</li> <li>• Apply lessons back to core products</li> <li>• Can help poor in ways that charity cannot (empowerment, etc.)</li> <li>• Motivation is transparent/understood</li> <li>• Relatively easy to measure impact</li> </ul>	<ul style="list-style-type: none"> <li>• Complete alignment of activities</li> <li>• Efficiency gains from 100% focus</li> <li>• Can benefit from affinity with clients</li> </ul>	<ul style="list-style-type: none"> <li>• Reinforces other activities</li> <li>• Can have broader, long-term impacts</li> <li>• Increases public awareness of issues</li> <li>• Leverages the work of other actors as well as public opinion</li> </ul>
<ul style="list-style-type: none"> <li>• Often requires rethinking production and distribution</li> <li>• Mission creep in providing critical business infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Business model risks (profitability, sustainable operations)</li> <li>• Obsolescent Bargaining</li> </ul>	<ul style="list-style-type: none"> <li>• Not always fully aligned, with companies’ commercial interests</li> <li>• Can be seen as self-serving</li> <li>• Often a long process, requiring extended commitment and ongoing coordination</li> <li>• Invites public exposure</li> </ul>
<ul style="list-style-type: none"> <li>• Develop sustainability model</li> <li>• Partner with NGOs and public organizations where possible</li> <li>• Long-term commitment</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain business-like approach</li> <li>• Scale up methodically</li> </ul>	<ul style="list-style-type: none"> <li>• Work together with like-minded organizations in established fields to add weight</li> <li>• Use commercial clout as provider of jobs, etc.</li> <li>• Can work best if issue is currently getting lots of public attention</li> <li>• Strategy can be either public or “behind the scenes”</li> </ul>



## MEETING THE NEEDS OF LOCAL CONSUMERS = INCREASED REVENUES

C.K. Prahalad has done path-breaking work in drawing attention to the tremendous purchasing power of the very poor and persuading companies to think strategically about how they can tap into that market by making appropriate modifications to their products, sales strategy and delivery mechanisms. Not only does this provide revenues for companies, argues Prahalad, but turning the poor into consumers has an enormous positive impact on their welfare.

One of P&G's flagship products for developing countries is a water treatment product called PUR. Although it was a technological success, P&G could not ultimately cover its go-to-market costs. "Donation was not a sustainable model over the long term, but company employees were invested in the product, and studies showed that clean water could mean a 40 percent to 50 percent reduction in child diarrhea, so we thought hard about how to do something." P&G decided to put up money for the initial fixed costs and now sells the product at the marginal cost of production. Although the price of PUR is low, it is not free. This enables distributors and wholesalers to make profits. It also helps satisfy consumers "because consumers associate less value with free goods." P&G sells the product in large quantities to NGOs working in disaster relief. This has built the initial volume that has enabled them to drive down the unit costs enough to be affordable at the retail level.

For P&G's retail products, the challenge is that the same product is often more expensive for a poor person in a developing country than it is for an average consumer in the United States. "In the U.S., the cash registers of retail stores are hooked in directly to P&G's inventory management system in one step, but in developing countries, this kind of integration does not exist and the product changes hands seven to nine times, with each step taking a bit of profit. And, because the poor tend to buy in smaller quantities, the 'packaging per use' ratio goes up. All of this adds to the overall expense to the consumer." P&G's challenge is to lower the distribution costs and simplify the product offering. "One effective strategy we have used is to develop a product that gives only 80 percent of benefit but that can be produced for only 20 percent of the cost."

A recent publication by the World Business Council for Sustainable Development details 40 examples of these kinds of activities, including:<sup>12</sup>

- Unilever created a new supply chain to produce iodized salt in Ghana packaged in smaller sizes and priced affordably for poor populations, in the process helping to combat iodine deficiency
- Vodafone partnered with a Kenyan bank to allow customers to use their mobile phones like a bank account and debit card, targeting small businesses and microfinance institutions
- SC Johnson partnered with a local Kenyan NGO to make and distribute low-cost, human-powered irrigation pumps to pyrethrum farmers in Kenya.

<sup>12</sup> World Business Council for Sustainable Development. Development: Case Studies. <http://www.wbcd.org/templates/TemplateWBCSD2/layout.asp?type=p&MenuId=MTY3&doOpen=1&ClickMenu=LeftMenu>



## APPEALING TO CUSTOMERS THAT CARE ABOUT POVERTY = INCREASED REVENUES

“Cause-related marketing” appeals to home-country consumers with the argument that a portion of profits will go to charitable causes. For P&G, cause-related marketing in core product lines is used to subsidize the costs of its charitable ventures. For example, it uses cause-related marketing to build business sales in Crest, Tide or Downy, and then donates a portion of that money to disaster relief partners.

The (RED) effort has received a lot of attention since it was launched in January 2006. Partners include American Express, Apple, Gap and Motorola, and products include clothing, accessories, cell phones, iPods and credit cards. Partners have committed to donate approximately 40 percent of (RED) profits to the Global Fund to Fight AIDS, Tuberculosis, and Malaria. (RED) maintains that it is not a charity but a business model that offers fashionable, quality products to satisfy the “conscience-driven consumption” needs of its customers.

As the Levis example of the AIDS campaign in South Africa demonstrates, it is sometimes possible to pursue simultaneously product sales goals and a development agenda. The strong CD sales and television exposure helped spread AIDS awareness, but Levis also saw a 35 percent increase in 501 jeans sales. And, seeing that campaign fundamentally as a business activity, it was financed entirely out of the local office’s marketing budget, not through the corporate foundation. However, Levis acknowledges that “It is rare that opportunities like that come together.”



## IMPROVING MARKET INFRASTRUCTURE = IMPROVING THE OPERATING ENVIRONMENT

One of the critical issues facing foreign companies is the difficult business climate in most developing countries. Poor infrastructure and unreliable public services, weak regulatory regimes with poor enforcement, shallow capital markets, and excessive bureaucracy can be a major constraint on economic growth. Moreover, because the poor are arguably both disproportionately adversely affected by inadequate public goods and also less able to cope with these adverse effects, improvements in a country's economic and regulatory infrastructure may help the poor disproportionately.<sup>13</sup>

Companies can lobby local governments to make policy regime changes such as easing burdensome regulations to improve the market environment for all participants. While such efforts are typically made quietly, they can have a major effect on politicians seeking new investment, especially from high-profile international companies. Companies can also work in partnership with governments to make changes, often by contributing expertise on regulatory issues specific to the industry. Globeleq, a power generation and distribution company that works exclusively in the world's poorest countries, finds that regulatory regimes are typically so nascent that it often works at the ministerial level to help draft laws and regulatory frameworks in the energy sector.

Companies can also step in to provide critical components of physical infrastructure. At SABMiller, it is common that a local manager spends his operational budget on things like paving roads from suppliers to its processing plant and providing other infrastructure critical to its own operations.

SABMiller's disposition to do this reflects its overall view on dealing with developing country governments. As a South African company, a large part of its initial customer base was, by policy definition, highly disenfranchised by the government at the time. SABMiller claims that these roots have bred in the company a deep, cultural "get out of the way" entrepreneurial attitude that has been "absolutely critical" to its success in Africa. "Everything works differently when the customer base is disenfranchised; you can't use traditional



<sup>13</sup> Birdsall, Nancy. (2006). The World Is Not Flat: Inequality and Injustice in Our Global Economy. WIDER Annual Lecture 9. UNU-WIDER: Helsinki.

retailers or suppliers, and you certainly can't expect help from the government for anything. Even now, we believe that if we wait for governments to help us, we will never get anything done."

There is, however, an ever-present risk of mission creep in these activities. Governments may simply look to companies to make up deficits in physical or other infrastructure. In addition, there is the risk that governments will require companies to undertake additional support of the community, apart from (and often without relation to) its core activities.

P&G recalls that in Venezuela, it had a successful program delivering personal sanitation and cleaning products to the hillside slums outside of Caracas. The key component of this program was that it would—unlike local suppliers—deliver a "single price all the way up the hillside."<sup>14</sup> While successful, P&G had to terminate the program because it could not guarantee the safety of its distributors. "We discussed providing security support as well, but then decided that we simply could not get into the provision of things that are clearly a responsibility of the government."

However, examples abound of multinational corporations in Africa directly funding schools, health clinics, community rehabilitation programs and other institutions. It has become in many countries simply a cost of doing business. This is particularly true for extractive industries, where economic rents do not typically accrue to the local population. As the head of BHP Billiton, an aluminum extraction firm in South Africa, Vincent Maphai, reported in *The Economist*, "Don't even dream of doing business in Africa if you're not prepared to leave a visible legacy... Investing in communities is taken for granted. You do not get rewarded for doing it. You get punished for not doing it."<sup>15</sup>

Foreign companies struggle with establishing these boundaries, fearing mission creep if they start on this path. While thematically, the support of local communities may be an important component of a coherent strategy to reduce poverty, companies must also take care to avoid signing on to commitments that they are not good at, and/or that may not deliver the intended benefits.

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<sup>14</sup> The slums around Caracas are built on steep, high hills. The price of all goods is greater as one goes higher up the hill. This is also where the poorest people live. P&G set up a single distributor and made each hillside store post the same prices.

<sup>15</sup> *The Economist*. (2006). The Flicker of a Brighter Future. September 7.



## 5 Development Entrepreneurship

For development entrepreneurs, an explicit commitment to the poor is their core business model such that there is no contradiction in serving the poor and generating shareholder value. For example, on the cost side a development entrepreneur may use handicapped or otherwise disenfranchised labor as its core work force. On the revenue side, a company may specifically target the poor.

Again, these categories are somewhat blurred. It is also possible to practice development entrepreneurship at the business-line level, which we have considered one kind of commercial leverage. For example, Accenture Consulting runs its development consulting practice in the same way that it manages its other consulting practices, although the rates it charges are much lower. This means that all projects come with deliverables, client expectations and performance monitoring, just like any other project. The company expects to eventually make it a self-sustaining practice.

### Examples of development entrepreneurship: Globeleq and ShoreBank

Although development entrepreneurship is not the focus of this study, we spoke to two companies that can be considered development entrepreneurs. Globeleq, as mentioned above, generates and distributes electricity in the world's poorest countries. ShoreBank, a community development bank, was founded over 30 years ago in Chicago to promote community development.

Globeleq's initial capital came from CDC Capital Partners, which is owned by the British government and charged by its Department for International Development (DFID) to provide development aid to former colonies and poor countries around the world. Its charter requires that it invest only in

countries whose median income per capita is below the world average, and that 70 percent of its investments be in countries that are the "poorest of the poor."

ShoreBank began doing international microfinance consulting in the early 1980s when it was approached by Muhammad Yunus of Grameen Bank for advice. From there, requests for ShoreBank's assistance continued, primarily from Eastern Europe and the Commonwealth of Independent States countries. After several years of consulting, it began to take a stake in the financial institutions with which it worked.

Both these firms have to run their activities like a business to stay in business, but their bottom line must also incorporate more than just positive net income. To be successful, they must achieve results in terms of improving the lives of their customers. In this effort, both companies argue that their ability to align the entire company around their core mission is critical for their success.

Globeleq sees itself as a commercial company with a development mission. "We want to be a profitable, commercial company that sells things for more than it costs to make them, that compensates people commensurate to the marketplace, and that expects returns similar to any other private investor in the international market. That is half of our goal. The other half is to do it in the poorest countries on the planet." And it attributes its success to its orientation around developing countries. "We feel that one of the reasons that we have been able to succeed in the emerging markets is that this is our day job. One of the reasons that some Western companies haven't done very well at times is that emerging markets represent a tiny fraction of their overall income. A company that has only 5 percent of its earnings tied to a business line is not committed to that business line."

Investing in ShoreBank counts toward a commercial bank's compliance with the Community Reinvestment Act, "so we are directly accountable to our shareholders (often other banks) for economic development. There is a modest dividend, but essentially the investors are investing for those economic development results." For ShoreBank, there was a natural progression of increased engagement. "After doing consulting for a while, some people argued that if our mission is really the creation of permanent development finance institutions, we really ought to take the same risks as those who are trying to expand microfinance institutions on the ground." Then "it followed naturally" to set up a non-profit foundation to provide technical assistance to those institutions in which it had an equity stake. Thus, the three pillars of its international development agenda mutually reinforce each other, and all contribute toward the corporate objective of "expanding the access of poor people to financial services, and improving the operations of those services."

For Globeleq, constant engagement with local governments is also critical to its success. "We know when the promise of foreign direct investment is not completely delivered, international investors will be the first blamed. Therefore we spend a significant amount of time engaging with the community, and we do this on an ongoing and broad basis, and at the highest policy levels." However, it views its corporate mission as poverty alleviation and therefore does not feel the need to respond to pressure for local charity.

ShoreBank attributes its success primarily to its easy ability to identify with local institutions. "Whether it be Kenya, Azerbaijan, or Bangladesh, when these lenders come to Chicago to see ShoreBank, they see an institution that is not unlike theirs. It is in a poorer neighborhood, does its lending to small borrowers, and has a community development mission. We did not appreciate this when we first got involved, but there is a very powerful connection in the peer to peer relationship."



## 6 Policy Advocacy

While it is often difficult, practically speaking, to draw a clear distinction between advocacy for development and advocacy to advance business interests, several of the companies we spoke to also considered policy advocacy an important component of their overall development agenda.

For example, at Levis, the department that sets standards works closely with its community affairs department to advocate supporting policies, “which for us is primarily that workers’ rights provisions be included in trade agreements.” Levis engages in a “three-pronged” approach of its sourcing department, its government affairs department and its community affairs department. “Our government affairs and public policy people advocate for workers’ rights provisions to be included in trade agreements and also to further advance our corporate values in other areas.” Their lobbying efforts are mainly in the United States, but they also work directly with host country governments to improve worker rights laws and their implementation.

Caterpillar works actively to advance a free trade agenda both in Washington, D.C., and Brussels. “We are a global company with dealers represented in more than 200 countries around the world, and we think a key to their success is their ability to bring equipment into the country in a way that maximizes added value and minimizes frictional costs around trade. And the best way to do that is through an agreement like a multilateral World Trade Organization (WTO) round, so we work actively to help make that happen.” Caterpillar makes use of formal organizations such as the Foreign Trade Council, the Equipment Round Table, the Manufacturers Institute, and the Engine Manufacturers Institute.

“Those are all very good, broad-based organizations, and when it comes down to a particular barrier in a particular country, we always try to have partners at the table.”

SABMiller engages around a variety of lobbying efforts that put forth the message that in Africa, “what is good for business is good for development” in the sense that strengthening the local business environment will have positive benefits for all participants. This means helping policy-makers create business environments that stimulate local economic activity and remove obstacles to foreign investment. “At the international level, this involves advocating a fairer international trading system.”

It works with Business Action for Africa, an international network of more than 100 companies and organizations, which is working to “move the debate on what the private sector can do away from corporate philanthropy toward supply and distribution chains, market-based solutions to poverty, and favorable investment climates.” Together with Anglo American, Shell and Unilever, SABMiller also contributes to the Investment Climate Facility (ICF), a new public-private partnership focused on improving investment climates in Africa.



## Tailoring a Strategy

In the above sections, we have tried to map out some menu options for engaging in the fight against global poverty, drawing stylized lessons from conversations with a range of companies engaged in these activities, and highlighting the benefits and risks of the various approaches. For each, we have argued that effectiveness will be increased if they also contribute to the franchise value of the company.

The distinction among these various approaches is not clear cut. For example, in strict economic terms there is no real distinction between contributing funds (charitable giving) and contributing their in-kind equivalent (resource engagement). And standards compliance can provide a kind of commercial leverage in that it can improve labor productivity and reduce labor unit costs, while resource engagement may help home market sales, and so on.

Moreover, a comprehensive strategy will naturally entail the simultaneous pursuit of two or more of these approaches. For Liz Claiborne, “Our mandate is to ensure that working conditions are fair and just. It’s not poverty reduction directly, but there are important positive spillover effects to the community from healthy, productive workers, so we try to make sure that our charitable activities support these connections.”

SABMiller also uses charitable giving to support its business philosophy and objectives. To operate locally, SABMiller needs to cultivate franchisees for its distribution and retail sales networks. It gives 1 percent of its net income to support these activities, with the money primarily going to supporting entrepreneurship in the countries in which it operates. Its approach has become more focussed and more tied to its commercial needs over time. It now tries to “pick winners” where it used to give money more widely, and its initial selection process closely mirrors its internal hiring process. For example, it initially screens entrepreneur candidates through the same personality screening process it uses for internal hires. (Successful

candidates are given two weeks of training and then compete in regional competitions for small business grants.)

Further, the available set of options for engagement arguably differs depending on company, market, country and issue characteristics. Important variables include:

### Company characteristics

- The type and range of its engagement with developing countries (e.g., as an exporter to the country, as a foreign investor serving an export market, as a foreign investor serving the domestic market, etc.)
- Its exposure to developing countries in general (e.g., extent of globalization, vulnerability to developing country issues, brand recognition, etc.)
- Its operating model (e.g., supply chain structure, distribution model, etc.)
- Its corporate structure (e.g., size, profitability, organizational structure, ownership structure, corporate culture, etc.)

### Industry and market characteristics

- The industry in which it operates (e.g., consumer goods, wholesale goods, service, extractive, etc.)
- The characteristics of that industry (e.g., labor requirements, product lifecycles, customer characteristics, etc.)
- Market characteristics (e.g., degree of competition/pricing power, relative power of suppliers, relative power of customers, etc.)
- The company’s competitive position in that market (e.g., market share, competitive advantages, etc.)

### Country characteristics

- The level of development of the country (e.g., quality of government, quality of hard and soft infrastructure, etc.)
- Its development needs (e.g., health profile, etc.)
- Other characteristics (e.g., location, natural resource endowment, etc.)



## Issue characteristics

- What is the cause of interest? (e.g., health, nutrition, education, microfinance, etc.) and what are its salient characteristics
- What is needed in terms of resources and expertise?
- Issue industry characteristics (e.g., who are the private and public sector players, who is doing what, what are the collaborative opportunities? etc.)

All of these factors will influence what countries are able and willing to do, as well as what makes the most sense for them to do. This is a point sometimes lost in exhortations that companies practice a strictly “strategic” approach. Some companies may not be positioned to influence the market environment by a Porter and Kramer definition, given their own limited range of influence. However, they may want to contribute to developmental causes for reasons that benefit them and/or that are wholly coherent to what they are interested in or stand for as a company.



## Working with Partners

All companies interviewed found a benefit in working with other NGOs, not-for-profit organizations, aid agencies, public sector actors, and in many cases, other firms in their own or similar industries. These benefits were:

- Economies of scale that come from partnerships where each partner brings a particular expertise.
- Increased numbers bring increased moral authority.
- Partnerships facilitate project implementation and mitigate reputational risk.
- They learned a lot from partners.
- Partnerships can generate a momentum that keeps projects on track.
- Goodwill is built that can be called upon when circumstances get difficult.

Perhaps most important for many companies, working with local NGOs is indispensable for learning “what really goes on” in the host country. Liz Claiborne’s “Ah-Ha” moment came in 1994, when a woman held up a Liz Claiborne sweater in the U.S. Senate that she said she made when she was thirteen. “It turns out that she had fake working papers at the time, and this showed us that we really didn’t actually know what was going on in lots of these countries, and that we had to work more closely with NGO partners on the ground.” Both Liz Claiborne and Levi Strauss now use NGOs to provide independent monitoring of their factories. For Levis, “With 700 factories, the NGOs we fund play a critical role in helping us police the factories that we don’t own. We could not possibly do all this on our own.”

Public-private partnerships are naturally more contentious in standards compliance than in other kinds of relationships, where companies strictly provide financial or other support to the NGO sector. Here, companies must work together with NGOs that often have different, even opposing, agendas.

Liz Claiborne worked with a variety of NGOs and other apparel companies to form the basis for what became the Fair Labor Association (FLA) standards. It found working with the group highly contentious and sometimes “next to impossible,” as NGO participants had “wildly different agendas” and often violated confidentiality agreements to leak discussions to the press. “People were entrenched. People on both sides walked out entirely, and the whole thing was ready to crumble on numerous occasions because it was so difficult.” However, Liz Claiborne continued with the process because “We felt that the only way we could do more than what we were currently doing was to do it collaboratively.”

Looking back, Liz Claiborne believes that the process was “absolutely worth it” for several reasons. First, it brought out different perspectives on the labor standards issue. Second, it brought accountability to agreed processes and timelines. “Having a formal, agreed program kept us focused and on track. When you are a signatory to a wide agreement that has elaborated milestones, you cannot ‘simply wait till next year.’” Third, it helped build trust and form cooperative relationships with NGOs so that “If something does go wrong, they are much more likely to give you the benefit of the doubt.”

Partnerships between corporations, NGOs, and the public sector can also be an effective way for companies to leverage their charitable giving. However, companies cautioned that these partnerships need to be managed carefully. One of the biggest risks is that “Partners can sometime assume you are there to write a check and then go home.” Merck therefore makes it a requirement that each partner bring something “concrete and significant” to the table, play a well-defined role, and formally articulate what it will contribute.

Chevron has the same goal. “What we are trying to do is get away from the days when we just write the check. We are much more interested now in partnering with those organizations that accept us as equal partners, both in planning and

also in setting up the metrics for monitoring and evaluation. Of course at the end of the day there is always a funding component to it, but we try to leverage that money as best we can.”

Chevron’s project in Angola, for example, obtained matching funds from organizations like the United States Agency for International Development (USAID), GTZ, World Vision and Save the Children, to leverage its initial US\$25 million contribution to a combined contribution of over US\$100 million. “We brought together some of the biggest international development agencies and international NGOs, and we have now formed 15 different projects ranging from a microcredit bank (the first private bank in Angola) to agricultural projects, to development and training for small and medium enterprises (SMEs). We are the anchor in all of it, and we are proud of what we could turn that into.”

For companies that engage their own resources toward a development agenda, partnerships with NGOs and other like-minded organizations enable them to focus on activities in which they have a comparative advantage. This spares them from devoting resources to developing in-house capacities unrelated to their core business interests, and which are vulnerable to cutbacks during times of economic uncertainty or changes in senior management. For these reasons, the companies taking a resource engagement approach found partnerships with NGOs to be indispensable.

First, they have benefited from the logistical and other capabilities of their partners. Both Merck and Novartis rely on the distributional capabilities of the World Health Organization (WHO) and other public health organizations to distribute their products, and this has enabled them to focus on research and production. They also find public sector partners to be critical sources of local knowledge. For Merck, “We don’t know these countries the way the World Bank and the UN foundations know them. We learn so much from them, and this extends to the training of key individuals at Merck.”

For Novartis, “The basic assumption is that our focus is delivering the product and that the WHO is responsible for forecasting and distribution. We might contribute, for instance, education materials for the local healthcare institutions and things like this, and we will also support the WHO in logistics and forecasting expertise, but we have less involvement in the local distribution in the developing world, because that is their expertise.”

Several of the companies we interviewed have partnered with NGOs to help leverage their commercial activities toward development goals. For example, NGOs can play a valuable role in supporting public education or other kinds of information dissemination. Proctor & Gamble partnered with foundations, NGOs, and the U.S. and U.K. governments to help defray the costs of marketing and public education for its PUR water filter. In Uganda, partner NGOs mobilized local teachers, church leaders, and doctors to educate people about the importance of safe water and to demonstrate PUR’s use. Likewise, SABMiller teamed up with an NGO called Africare to work with Ugandan sorghum farmers to help them improve their crop husbandry and production.

Some argue that a business-focused approach to development on the part of the private sector may actually bring companies increased credibility with NGOs. A study by Edelman, the Harvard University

Kennedy School of Government, and the Prince of Wales International Business Leaders Forum, for example, found that NGO partners trusted corporations more when they couched their activities in business terms rather than as charity:

“Business should be clear about its motives and activities in the developing world. Companies should focus on both their core impacts and competencies, and both present and assess activities from a business-case perspective. Civil society is prepared to accept that companies operating in the developing world are driven chiefly by the profit-motive. When companies attempt to frame their activities only as good works or charity, they actually lose credibility.”<sup>16</sup>



<sup>16</sup> Edelman, Harvard University’s Kennedy School of Government, and Prince of Wales International Business Leaders Forum. (2005). Business and International Development: Opportunities, Responsibilities and Expectations. Edelman.



## Benefits to Companies

Companies reported several benefits to their activities in support of poverty reduction: an overall reputational benefit, attracting customers that care about international development issues, and even a strengthening of their corporate culture and human resource agendas by helping them recruit top talent, improve employee retention, and provide important learning opportunities for employees.

For a global energy company like Chevron, charitable giving in support of the local community is “fundamental.” “Unlike manufacturing companies, we are in a location for sometimes 80 years. And investing in a community and having meaningful partnerships to deliver needed services to the community quite literally keeps us in business. Because of the type of business we are in, and where our future growth is going to be, there are fundamental issues of stability around ensuring that community members have the basic necessities to survive, grow, get an education, and perhaps break out of the cycle of poverty. If they do that, the place is a much more stable place in which to operate. And if they also see us as having played a role, our relationships with those communities—and remember that’s where our employees also live—are going to be more robust and healthy.”

Several companies believe that their poverty reduction activities have helped substantially with the recruitment and retention of corporate talent at home. Accenture, for example, started its international development consulting practice primarily as a way to retain middle-management talent that was leaving the company to “do something different.” The partners that dreamed up the program had individual interests in development, but “in pitching the idea to senior management, talent retention was the overriding selling point that got us the green light.”<sup>17</sup>

Accenture claims that the program, now with 150 participants on 74 projects in 37 countries, has been positive for the firm. “We get more experienced staff upon completion of the project, and those consultants have on average a more positive perception of the company and a lower overall attrition rate.” In addition, Accenture finds that the college recruits expressing interest in the program are typically the best candidates and that internal candidates tend to be the best performing employees.

In general, enhanced reputation is a commonly perceived benefit. As a pharmaceutical company, Novartis argues that its engagement is critical, given its unique ability to fundamentally improve the lives of sick people. “There is a need for life-saving products that is always going to be greater than what the government and non-profit sector can address on their own. And there is an ever-growing number of stakeholders in global health issues. On top of that, the pharmaceutical industry does not have the best reputation these days, so for all of these reasons it is important for us to step up, and to be seen as doing so.”

However, surprisingly few of the companies we interviewed made systematic efforts to measure the impact of these activities on their bottom line. The exceptions were those that had a natural congruence between their business and development efforts: Globeleq, ShoreBank, Proctor and Gamble, SABMiller, and Accenture. And the ability to measure impacts more easily is of course an additional benefit of this kind of engagement. All companies acknowledged the importance and desirability of having a better understanding of the impact of these activities on both their bottom line and their overall operations. But most found it difficult to measure benefits that are long-term and intrinsically difficult to quantify.

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<sup>17</sup> The objections raised focused on risks such as: Would NGOs pay for Accenture consultants, even at reduced rates? Would client teams release their best performers? Would the consultants come back?

## Conclusion: An Intuitive Case for Private Sector Engagement in the Fight Against Global Poverty

This paper does not attempt to evaluate claims about the benefits of supporting international development or any other social welfare enhancing activities, either for the companies themselves or for the intended beneficiaries. It merely argues that development-related activities that are also seen to be directly beneficial to companies arguably will: enjoy a broader and deeper commitment throughout the company, probably be in areas in which the company excels, and perhaps be more consistently applied. And that these qualities—consistency, continuity, clarity, expertise—are in turn important determinants of the success of international development assistance efforts in general.

As companies are not philanthropic organizations, they will always have to balance business requirements with ambitions in this area. This paper suggests that the desire to do good and the desire to do well are managed strategically, companies can go far in achieving both goals in a mutually enhancing manner, and through a variety of approaches.

**To conclude, we suggest that private firms have four innate features that are well-suited to the pursuit of effective development initiatives:**

**First, a critical pillar of development and poverty reduction efforts is the strengthening of the private sector *per se*.** A vibrant private sector creates untold benefits for poor people in terms of jobs, products, and social empowerment. And, as we have argued, a private sector company has several channels through which to improve the welfare of the poor. The point is that these channels are part and parcel of doing business. Thus, by their very nature, private sector companies have the tools that are simply not available to the public and non-profit sector.

**Second, private sector companies are accountable to customers and shareholders in a way that is fundamental to their survival.** They have institutionalized habits of putting client needs first, of responding to changes in demand, of deploying capital on the basis of its highest marginal return, and of real accountability in spending. This is not to suggest that every company does this well, or that public sector organizations do not possess many or all of these skills. But these concepts are more important in a competitive market than in the not-for-profit sector: by definition the most successful private sector companies will have the above-mentioned skills in their corporate toolkits, available for the fight against poverty.

**Third, private sector companies are self-funding.** They have a budgetary approval process, of course, but they do not have to spend significant amounts of time and resources in a constant search for money. This confers on them important advantages over public sector organizations, both in terms of resource efficiency and autonomy. Furthermore, initiatives that are tied to the success of a business are inherently scalable in the way that publicly funded projects are not.

**Last, a private-sector company will naturally, and without conflict of interest, want its international development issues solved.** A company has to spend its own money on a development issue—and it will genuinely be more than happy to be able to stop spending that money. On the other hand, there have arguably been few if any NGOs in the history of international development eager to write themselves completely out of existence by proclaiming a problem solved.



## Appendix A

# Menu for Corporate Engagement Advisory Group<sup>18</sup>

Matt Arnold,  
Sustainable Finance Ltd.

Martin Baily,  
Peterson Institute for International Economics

Ann Bernstein,  
Centre for Development and Enterprise

Aron Cramer,  
Business for Social Responsibility

Steve Crane,  
Crane International

Scott Demarais,  
Development Alternatives, Inc.

Diana Farrell,  
McKinsey Global Institute

Tammy Halevy,  
McKinsey & Company

Suellen Lazarus,  
ABN Amro

Joe Minarik,  
Committee for Economic Development

Roberto Murray Meza,  
Agrisal Corporación Constancia

Jane Nelson,  
Harvard University

Jan Piercy,  
ShoreBank Corporation

Witney Schneidman,  
Schneidman & Associates International

Elliot Schwartz,  
Committee for Economic Development

Lee Smith,  
Former President, Levi Strauss International

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<sup>18</sup> The advisory group provided comments on early drafts of the paper and helped to arrange interviews. They served in a strictly personal capacity and their affiliations are listed solely for the purpose of identification.

## Appendix B

### List of Interviews

#### Accenture Development Partnerships

Gib Bulloch, Senior Partner

Chris Jurgens, Senior Manager

#### Caterpillar

John Disharoon, Manager of Corporate Sustainable Development

#### Chevron

Steve Burns, Manager, Community Engagement, Corporate Policy, Governance, and Public Affairs Group

#### Citigroup

Bruce Schlein, Vice President for Environmental Affairs

#### Discovery Channel Global Education Partnerships

Gail G. Ifshin, Executive Director

#### Globeleq

Robert Hart, Chief Executive Officer

Steve Morisseau, Vice President for Corporate Affairs

#### Levi Strauss

EJ Bernacki, Senior Manager, Worldwide Corporate Communications Department

Stuart Burden, Director Community Affairs and Director of Levi Strauss Foundation

#### Liz Claiborne

Roberta Karp, Senior Vice President, Corporate Affairs and General Counsel

Melanie Lyons, Vice President of Philanthropic Programs

#### Merck

Jeff Sturchio, Vice President for External Affairs, Human Health Intercontinental Division

#### Novartis

Martin Tanner, Director of Corporate Citizenship

#### Proctor & Gamble

George Carpenter (retired)

#### Pricewaterhouse Coopers

Tony Kingsley, Director, International Development Assistance Network

Tess Mateo, Director

Sonia Thimmiah, Senior Manager, Sustainable Business Development Solutions

#### SAB Miller

Susan Clark, Director of Corporate Affairs  
SABMiller

#### ShoreBank Holding Company

Jan Piercy, Executive Vice President

#### Sterling Stamos

Chris Stamos, President of Sterling Stamos Corporate Philanthropy

\* The Majority of the interviews were conducted between March and June 2006.



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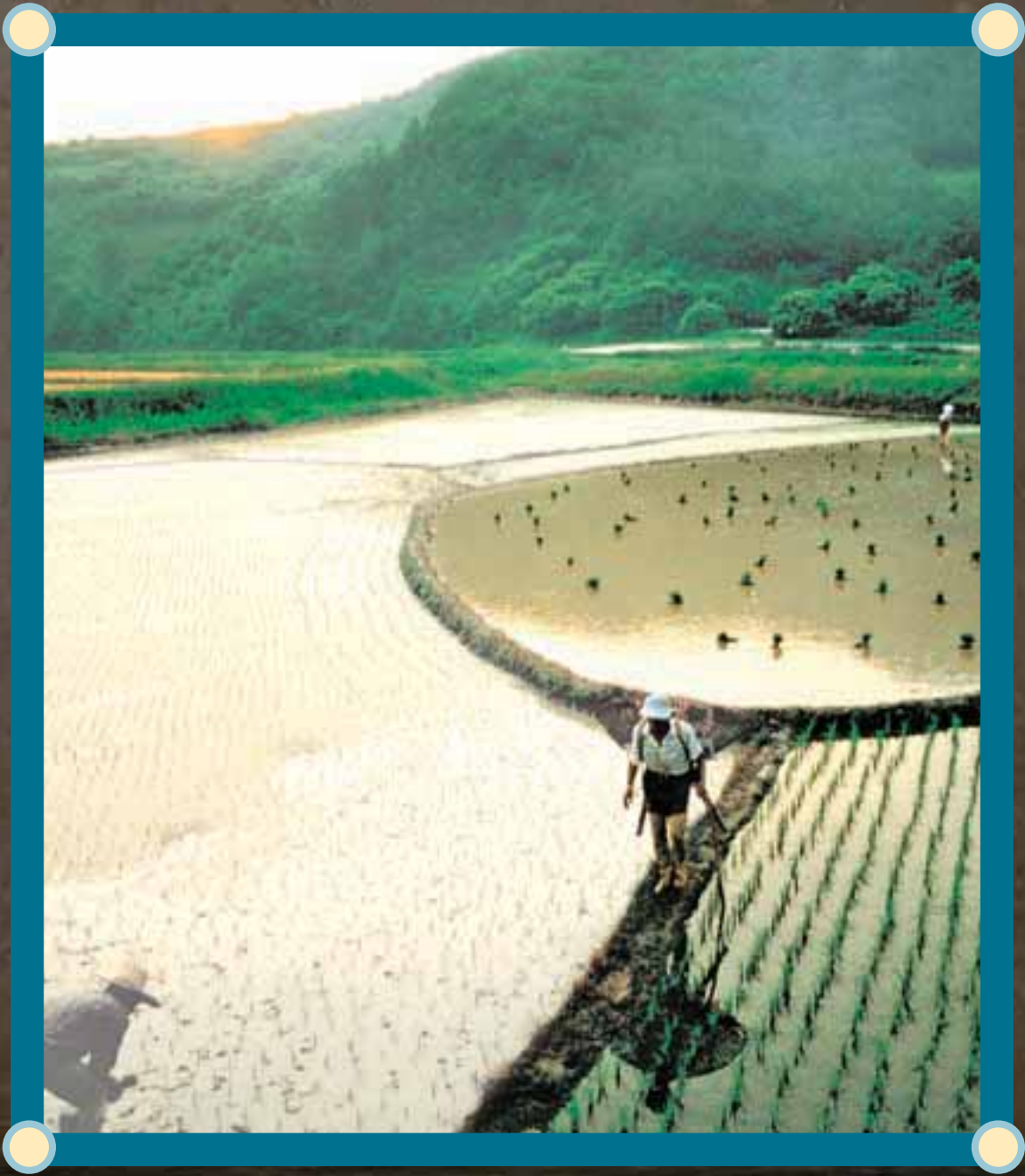
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