BUSINESS APPROACHES TO POVERTY: THE ROAD FROM CHARITY TO RESPONSIBILITY

HIMAKSHI PIPLANI

Abstract

Businesses have traditionally been involved in philanthropic activities of many kinds. One of the focus of these initiatives by businesses has had to do with reduction of poverty. This enmeshing of business houses and corporates in the area of poverty reduction increasingly involves six kinds of approaches: corporate philanthropy, microfinance, entrepreneurship, bottom of the pyramid approach, the triple bottomline approach; and, CSR. This article discusses all these six approaches and argues for an emergent method for dealing with an issue as complex as poverty.

Introduction

According to a recent study by the World Bank, India is the world`s third-largest economy on the basis of purchasing power parity.[1] The country`s gross domestic product (GDP) growth rate for next fiscal year has been predicted to reach 7.5%.[2] However, the GDP per capita rankings paint a more accurate picture, pegging India at an abysmal 141.[3] These figures need to be seen in conjunction with the controversial report by the C. Rangarajan Committee in 2014, which estimated three in 10 Indians to be poor.[4] India`s shining growth story clearly has a darker side, exposing income and wealth inequalities, as well as widespread poverty. Against this backdrop, the Government of India notified new rules on Corporate Social Responsibility (CSR) under the Companies Act in 2013, making India the only country to have legislated on CSR. Behind this historic move is the recognition of the business sector`s capacity, and to some extent responsibility, to contribute towards development goals on health, education, employment, and particularly poverty alleviation, all of which were traditionally the domains of

Himakshi holds a Masters degree in Development from Azim Premji University and a double-bachelors degree in Law and Arts from Symbiosis Law School, Pune. Keenly interested in health philanthropy and advocacy, she has been a member of the International Advisory Committee of AIDS Fonds, a Netherland-based philanthropic initiative since 2010. She has also worked with HIV Young Leaders Fund, a health-focused global funding initiative, leading the Small Grants programs across South-east Asia, Central Asia and Eastern Europe. Presently, she works at Arghyam, a water and sanitation focused philanthropy, as the Monitoring and Evaluation lead.

state actors, non-governmental organisations and civil society. Following this, in 2014–2015 alone, a whooping 5,563 crore was spent by companies through CSR, even though this was only 79% of the prescribed spending.[6]

Businesses have a long-standing tradition of engaging with the issue of poverty, primarily through philanthropy. CSR seems to have opened up new avenues for increasing their collective impact on poverty, by encouraging more companies to direct their resources towards improving the lives of the poor and marginalised. This shift is also contributing to the changing narrative of business`s role in the poverty story. Earlier narratives in development literature placed companies squarely as actors that are responsible for perpetuating poverty through land, labour, and environment issues. However, over the last decade, businesses, globally and nationally, have begun engaging with poverty alleviation more vigorously, developing their own analysis of the problem as well as approaches to solving it, so much so that they are being heralded as the missing piece to the poverty puzzle (Prieto-Carrón et al. 2006). Does this shift in narrative really hold merit? Is it just another smokescreen for capitalism to pacify the "threat of the underfed against the overfed"? The answer lies in a deeper analysis of the business rationale and approach to addressing poverty. This article looks at the trajectory of these approaches, breaking down the problem analysis, the self-perceived role of business in the story, and the primary strategy advocated by the approach. The underlying objective is to better understand the shift from a 'no-responsibility` position of businesses to a 'social responsibility` stance.

Economic Theories on Poverty

Different schools of economic thought have attempted to define poverty and theorise both the context and the factors causing poverty. A quick review shows that classical economics locates the causality in individual factors, particularly individual productivity, whereas neoclassical traditions look beyond the individual to market factors as well. The Keynesian school identifies macroeconomic causalities, holding both the state and the market responsible for poverty.

Marxian traditions clearly hold the capitalist mode of production responsible for the exploitation of the labour class, creating conditions for wealth accumulation, on the one hand, and poverty, on the other. More recent theories, described as "social capital" and "social exclusion", give more comprehensive explanations for poverty, incorporating structural factors that go beyond the realm of economics and are situated in political and social landscapes (Davis and Sanchez-Martinez 2014). One can already see, at this nascent stage, a link between the causes of poverty and the location of "responsibility" for being poor as well as for addressing poverty.

The business narrative, however, tells quite a distinct story, one that starts with the no-responsibility approach of corporate philanthropy and arrives at the present discourse of "ethical business models" that recognise the negative impact of businesses on communities, particularly in terms of loss of assets, livelihood, and opportunities.

Of Profits, People, and Poverty

Businesses first became interested in the question of poverty in the early nineteenth century. In the wake of the Industrial Revolution, businesses set up "company villages" for their workers driven by the motive to prevent unionisation and some measure of "enlightened self-interest" as Tulder (2008) puts it. Since then, there have been several approaches developed by companies to engage with poverty alleviation, each with its own motive and strategy. While there is a chronological timeline to the development of these approaches, many are followed together in the present day and age by the corporate industrial sector. Some of the prominent approaches have been analysed here, examining how the problem of poverty has been understood and whether a specific "responsibility" of businesses has been located in the strategy.

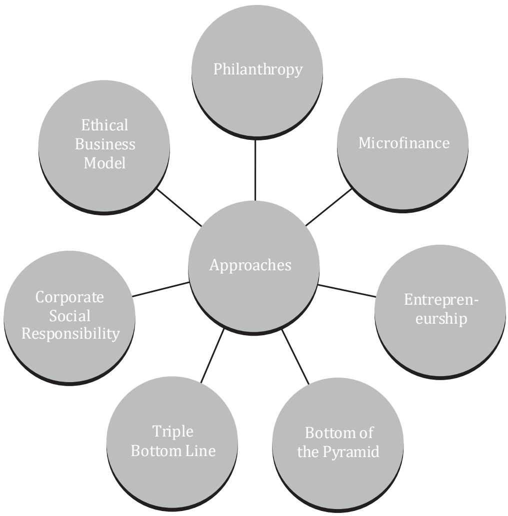

Figure 1: Business Approaches to Poverty

i. Corporate Philanthropy

Strategy: Philanthropy essentially involves individual-driven redistribution of wealth where chief executive officers (CEOs), founders, and other high-net-worth individuals “give” a small part of their wealth as “charity” to a cause they espouse.

Rationale: Poverty alleviation is understood as the domain of the state and civil society or the development sector. The “giving” often comes from the personal ethics of individuals and may also be linked to their religious beliefs. In some societies, the culture of giving is linked with building public image and, consequently, generation of public relations and goodwill for the company.

Analysis: The understanding of poverty is not holistic as it excludes the economic lens and the role of markets. Thus there is no question of locating any responsibility on businesses and companies. Corporate philanthropy could at best be seen as treating the symptoms without addressing the root cause.

ii. Microfinance

Strategy: This approach, developed by Muhammad Yunus, focuses on providing the poor access to credit so that they are able to increase their incomes through building microenterprises. The concept of financial inclusion, which has recently been in focus, can also be seen as an extension to this strategy.

Rationale: Poverty is conceptualised from a microeconomic lens arguing that lack of assets and lack of access to credit perpetuate poverty. The role of business here is seen as providing that access through its operations.

Analysis: Structural causes of poverty, including macroeconomic causes, are not recognised. Businesses fail to examine their own role in limiting access to credit for certain socio-economic groups or their role in causing deprivation of assets, especially in the context of land and labour. Like the earlier approach, there is no notion of corporate responsibility.

iii. Entrepreneurship

Strategy: The focus here is to promote entrepreneurship as a means of lifting the poor out of their poverty. Programmes that provide vocational training could be seen as one such example. Another could be the efforts of big businesses and multinational corporations (MNCs) to integrate small enterprises into global supply chains. Social entrepreneurship is yet another variation within this broader strategy where enterprises prioritise a social goal over the financial gain. This could be directed to address poverty or any other developmental goal as well.

Rationale: The approach proposed here comes from an, understanding that economic growth is essential to address poverty and enable a favourable business climate. In particular, the approach believes that the removal of obstacles for small- and medium-sized enterprises (SMEs) would provide the poor with the opportunity to be self-employed and create their own wealth story.

Analysis: The issue here is more complex. A favourable business climate for SMEs often involves relaxed regulation, decreased risk burden and decreased liability on the enterprise, and incentives for investors, all of which create an environment where both land and labour are often left to the free market, exacerbating conditions that create and perpetuate poverty. There are obvious merits to this approach, especially when viewed from the sustainability perspective, as it focuses on making the poor self-reliant as opposed to working as wage labour. However, in order for these enterprises to actually become competitive, they often have to forego regulatory standards, especially those concerning safety. Prieto-Carrón (2006) argues that MNCs, on the other hand, owing to pressure from activist groups, put additional burden on SMEs to adhere to social and environmental standards (often using the threat of switching suppliers) without providing any support or incentive to do so. This further reduces margins, putting SMEs in a precarious position. All of this has a direct impact on poverty because SMEs as well as the vendors and workers who work in these are pushed to be the cheapest option in order to compete.

iv. Bottom of the Pyramid

Strategy: This approach developed by C K Prahlad encourages businesses to produce low-cost products and services for the poor, viewing them as a new lucrative market that has almost 5 billion potential consumers. This was later modified into the base-of-the-pyramid approach to broaden the market scope from the poorest of poor to low-income groups. The approach also lays emphasis on businesses` capacity to innovate and sustain delivery models that meet the basic needs of this group, as opposed to the state or non-profit actors.

Rationale: The underlying motivation is to address poverty by making profits. The poor are viewed as “value-demanding” consumers as opposed to beneficiaries of charity.

Analysis: This approach has been much critiqued and debated in the business academia. Karnani (2006), the most prominent critic, has argued that, first, the market at the base claimed by Prahlad is not actually that lucrative since the consumption patterns and purchasing power of the poor have been overestimated. On a more fundamental level, however, he highlights the flaw in viewing the poor as consumers instead of producers. He argues that raising the incomes of those who are poor can alleviate poverty. In my opinion, there is another lacuna in this approach. The underlying rationale or understanding of the problem does not take into account factors that cause or perpetuate poverty. By providing the poor with low-cost products, in theory at least, there may be a positive impact on *abject poverty*. However, relative poverty would still remain a problem. Additionally, the rationale does not explain the factors that cause and perpetuate poverty. For example, if MNCs were to focus on low-cost products, they may displace the small-scale entrepreneurs already providing for that market or they may dispossess poor households of skills that they were using to make these products at home, such as hand-sewn clothes. These shifts would have to be factored in when accounting for the impact of the bottom-of-the-pyramid approach on the poor. Thus, this approach also does not locate any "responsibility" or "obligation" of businesses as it does not see any role of businesses in causing, perpetuating and exacerbating poverty.

v. Triple Bottom Line

Strategy: While this is not a poverty-specific approach, it places an obligation on businesses to address poverty by meeting the needs of the communities they work with. Businesses evaluate their performance on three parameters: profits, planet, and people. The third parameter, i.e., people, essentially means that businesses ensure the welfare of employees, communities, and other stakeholders through their operations. Examples of businesses adhering to the triple bottom line (TBL) could be ensuring fair-trade supply chains or instituting employee friendly or labour friendly policies.

Rationale: The roots of this approach come from the concept of sustainable development, defined in the Brundtland Commission Report. John Elkington formally developed the triple bottom line as a sustainability accounting framework in 1994. The underlying assessment here is that for businesses to be sustainable, they need to focus on the optimal use of not just capital (i.e., profits) but also environmental (planet) and social resources (people).

Analysis: The TBL framework was developed as a result of extensive lobbying and pressure from environmental and labour activists. The framework while recognising the importance of social justice in sustainable businesses opens up the dialogue on businesses` "responsibility" to people and society. The approach hints at but does not explicitly locate the role of businesses in processes and structural factors that perpetuate poverty. With this approach, we see the first shift from "no responsibility" to some semblance of corporate responsibility.

vi. Corporate Social Responsibility

Strategy: Businesses actively allocate part of their profits to strategically impact development goals including poverty alleviation. This could be done through an external agency, an in-house department, or a registered society or foundation set up for this purpose.

Rationale: This approach takes on from the TBL approach and expands its scope beyond the business`s immediate environment. The CSR approach locates businesses as corporate citizens with responsibilities towards the planet and the society on the whole. Thus, poverty alleviation can be seen as one of the focus areas of CSR.

Analysis: While most of the earlier strategies are market oriented and draw largely from an economic analysis of the issue, CSR brings in a new dimension where the business-economic discourse interacts with the broader multidisciplinary development discourse on poverty in a collaborative attempt to deliver solutions. However, CSR still falls short of recognising businesses` impact on the structural socio-economic and political factors that perpetuate poverty. While TBL pushes businesses to clean up their own act (i.e., within the company`s own domain), CSR has the potential to ensure that businesses (individually and as a sector through institutions like the Federation of Indian Chambers of Commerce and Industry and the Confederation of Indian Industry) strategically alter their impact on the local, national, and global institutions and processes towards economic justice and mitigation of poverty.

Conclusion

The notion of responsibility can be understood in two ways. The first arises from being part of the causal story, a key actor in creating or perpetuating the problem or issue at hand. The second notion derives from the capacity to resolve the problem and thus the attached obligation to do so. When businesses engage with the issue of poverty from the "charity" lens, it is an example of the second notion of responsibility. The idea of giving back or doing something for the less fortunate arises from the capacity to use one`s resources for changing another`s life. However, Harriss-White (2006) talks of the former notion of responsibility. Her analysis, like that of Prieto-Carrón (2006) brings to light the active role of businesses in processes that create and perpetuate poverty. However, such recognition of the role of business in poverty is yet to be done by the business sector itself. The TBL approach pushes businesses to look within and engage with this notion of responsibility, placing the responsibility to create profits for investors on the same platform as the responsibility for ensuring employee welfare and adequate environmental safeguards or proper waste management. The debate on CSR is engaging with these very questions. While many studies are looking into businesses`s motivations for CSR to find the answers, the modality of CSR is where the negotiation is actually taking place. The interaction between the development narrative of poverty and the business narrative of poverty is where the notion of responsibility is being unpacked. As businesses evolve their CSR strategies, using evidence from the development sector and weigh the impact of a livelihood intervention vis-à-vis a healthcare intervention on poverty mitigation, their understanding of their role in the causal story will also shift. It is this shift that will take CSR from strategic, compliance, and philanthropy models to ones that may deliver ethical businesses and socio-economic justice.

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