

Synopsis of

Poverty Eradication through Profitable Ventures:

A Comparative Study of Three Business Models

A Thesis

to be submitted by

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at

Indian Institute of Management Calcutta

in

December, 2011

through

the Thesis Advisory Committee comprising of

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Introduction

overty is the most pressing problem for majority of mankind, even in the modern society. This is evident from the fact that in the September 2000 meet of United

2 The Problem

Over the years the focus has been on several approaches for poverty eradication. However, since the earliest times the key emphasis has always been on the monarchy i.e. the king or the elected state representatives i.e. the government. Though, it has been widely observed that nations depending on the sole onus of their government, through various policies and programs, have not been very successful in eradicating mass poverty prevailing amongst their citizens. Therefore, in the due course, the roles of various other bodies, in poverty eradication have also been contemplated. In different phases the emphasis has been placed on one or several of the following: Non-Government Organizations (NGOs) and charitable foundations; foreign aid; social activists; Corporate Social Responsibility (CSR) and so on. There are and have been critics and proponents of each of these. But even these have struggled throughout for achieving any substantial and sustainable impact on poverty.

Hence, over the years the society has been constantly encountering different tangents to the theories of development and poverty eradication. However, in the past decade some alternative approaches to poverty have received much ado. These are grounded in the belief that “generation of private surplus and the achievement of social objectives can be complementary rather than contradictory” (Rosengard, 2004). Which is contrary to the common belief that private profit is always at the expense of mass well-being. Two of these key approaches are ‘the Bottom of the Pyramid (BOP) perspective’ and ‘Social Business’. Both these approaches suggest distinct business models through which they claim that poverty eradication is possible. Also, both these approaches believe that a profitable business organization is the most efficient form which can handle the responsibility of poverty eradication.

a. The Bottom of the Pyramid Business Model

Prahalad the key proponent of the BOP perspective believes that corporate bodies are capable of eradicating poverty from the society and the element that could motivate them to do this is, ‘Profit’. According to Prahalad (2002), corporatization of poverty eradication measures or ‘Inclusive Capitalism’ is the answer to the widespread problem of poverty. He believes that it is possible for companies to do well by doing good” and have a “profitable win-win engagement” for both, themselves and the poor (Prahalad, 2005, pg. xv). Prahalad (2002), states that “for

companies with the resources and persistence to compete at the bottom of the world economic pyramid, the prospective rewards include growth, profits, and incalculable contributions to humankind”. Therefore, he proposes the need for corporations to “co-create unique solutions” to achieve the dual purpose.

b. The Social Business Model

Similarly Muhammad Yunus, the proponent of the concept of social business, ascertains the responsibility of poverty eradication to a set of organizations, formed specifically with a social motive. He calls them social businesses. According to Yunus (2008), “a social business is not a charity. It is a business in every sense”. He states that, “operated in accordance with management principles like a traditional PMB², a social business aims for full cost recovery, or more, even as it concentrates on creating products or services that provide a social benefit” (Yunus, 2008, p. 21). Also he believes, “such a project is self sustaining and enjoys the potential for almost unlimited growth and expansion and as the business grows, so do the benefits it provides to the society” (Yunus, 2008, p. 21). According to him the initiatives that combine best features of both ‘Social Entrepreneurship’ and ‘Business Entrepreneurship’ can lead to the maximum impact on poverty. Just like Prahalad (2005) Yunus (2006) also suggests that poverty

c. The Traditional Commercial Business Model

The importance of private enterprise is well established when it comes to eradicating poverty. It is widely believed that, ‘Capitalism’ or ‘Free Enterprise’ is the “system that has lifted mankind out of mass poverty” (Hazzlitt, 1973). This conventional less fashionable model has actually proven its ability by bringing most of today’s developed nations out of poverty. The approach is well grounded in belief that just by doing strategic, ethical business a corporation can lead to mass prosperity and thus poverty eradication. This approach of simple ethical, strategic business is named as the ‘Traditional Commercial Business’ model for the purpose of this research. A traditional commercial business refers to mainstream economic entities operating in traditional industries like manufacturing. As these companies have a greater involvement and interaction with the poor in form of employees, customers, neighbors etc. As Dhanarajan (2008), also states that “a company’s structure is important in determining its connection to poor people”, “...whether they are employees, suppliers, customers, competitors or neighbors”.

Additionally, the two models which openly make claims of ‘doing well by doing good’ and ‘business with development motives’ can be countered with beliefs of economist Milton Friedman, who goes to an extreme in criticizing the expectations of indulging in social welfare from corporations. Friedman (1970) believes that “the discussions of the ‘social responsibilities of business’ are notable for their analytical looseness and lack of rigor”. According to him it would be unjustified to expect corporations to do anything else except engaging in profitable business. Therefore, the traditional commercial business model is based on the premise that companies must single mindedly engage in conducting ethical profitable business without any conscious effort for poverty eradication. The model rests on the belief of the capitalist

though all three approaches advocate profitable business solutions to poverty, the types of business models they propose are different from each other. They can be distinguished in terms of their primary and secondary objectives. Under the BOP model, profitability of the business is the primary objective, while benefiting to the poor, is its secondary, though consciously chosen and declared, objective. Under the social business model, poverty eradication or tackling a pressing social problem is the primary objective, while doing this profitably, for the impact to be self-sustainable and scalable, is a secondary objective. However, in case of the traditional commercial business model, there is only one core objective which is maximizing profitability and hence the returns for shareholders. In this case it is believed that poverty eradication is an obvious byproduct of ethical, strategic and efficient business activity undertaken.

Hence, this study focuses on exploring these three business solutions to poverty. It assesses the nature and extent of the impact of these approaches on the well-being of the poor in the society. For this purpose three independent case studies have been compiled, choosing a case example under each business model. These individual case studies also explore whether and to what extent it is possible to eradicate poverty and simultaneously earn profits. Further, a comparative analysis of the three case examples is undertaken with an objective to understand that a business strategy or an initiative classified under which of the three approaches holds a greater and more sustainable promise to positively impact the well-being of its key participants.

3 Objectives

On the basis of the problem defined above can be stated as follows:

1. Analyze whether it is actually possible to eradicate poverty while simultaneously making profits.
2. Study the nature and extent of the impact of the selected case examples on poverty situation of
3. Assess, whether the three chosen profitable business models, can successfully sustain their positive impact on the key participants in long run.

4 Methodology

This study utilizes case study research methodology. An in-depth case study was conducted under each of three business models. Best efforts were made to choose the most suitable case examples. Also, a blend of both qualitative and quantitative methods was utilized and data was collected using both primary as well as secondary sources. The primary data collection techniques for the three case studies involved survey research through beneficiary questionnaires, semi and unstructured interviews, panel discussions, field interviews, open discussions and capturing real life caselets depicting qualitative impact on the key participants. Further, the quantitative data analysis was conducted using Microsoft Excel and SPSS. Additionally, the qualitative data was organized into caselets and other systematic information using content analysis for inclusion in the case study.

In fact, the methods for each case study were unique but comparable. Therefore, as a guideline a customized Impact Assessment Framework was utilized in each of the three case studies and also during the comparative analysis. This framework is derived from Amartya Sen's concept of 'Well-Being' and R.K. Mukherjee's parameters of 'Quality of Life'. Mukherjee (1989) came up with six parameters, which he believes, are the indicators of a good quality life. These parameters are survival, security, economic status, well-being, social status and spiritual gain. Similarly Sen (1993) considers that there are three dimensions of overall well-being, which he believes are economic, capacity and relational well-being. The framework helped in assessing the impact on the poverty situation of the participants in a boarder perspective and not just on the basis of an increase in their income. Further, this framework also made possible a systematic comparison of the impact of the three case examples. These case examples, each chosen under the three business models, are presented below:

a. The Bottom of the Pyramid Business Model: ITC E-Choupal initiative

ITC E-Choupal is one of the world's most awarded initiatives by one of the India's largest private sector organizations ITC Ltd. The initiative has been discussed about at most global forums discussing the initiatives based on the BOP perspective. It was also included as an example in the original and one of the most popular books in this domain 'The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits', authored by Prahalad. ITC E-

from the local community as well as the senior and middle management of Bandhan and its field staff.

c. The Traditional Commercial Business Model: Mirza International Ltd.

Mirza International Ltd. is a part of a very traditional and labor intensive industry i.e. leather tanning, which is often criticized for its insensitiveness and irresponsibility towards its worker's health and the environment. However, Mirza International Ltd. is one of the largest tanneries in India with global market presence. It is also one of the largest foreign revenue earners for India in this category. The Chairman and Founder of the company has also been conferred the prestigious Padma Shri award in the category of 'Trade and Industry' in 2010. Therefore, Mirza International was chosen as a suitable case example for this approach.

The field study for this case example was conducted at Mirza International's Magarwara village factories in Unnao district of Uttar Pradesh, India. The location was chosen on its several merits, as Magarwara was the location where Mirza International first started its operations with a very small tannery. These were the oldest factories of Mirza International. Additionally, the factories were located close to one of India's oldest leather tanning and trading hubs i.e. Kanpur. Also, the factories were located in a village with no employment opportunities for those not

as on other stakeholders. The Bandhan case example, in turn, has the deepest impact. Also, due

Format of the Thesis

The thesis is organized as a collection three individual comprehensive case studies. It begins with a chapter introducing the problem and the key concepts essential for understanding this research study. This introduction chapter is followed by the three individual case studies as distinct chapters. Finally, the thesis ends with a chapter which presents a comparative analysis of the nature, extent and sustainability of the impact of the three case examples on well-being of the key participants. This comparative analysis chapter also includes the common conclusion and recommendations sections.

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