



# How Can Business Help Alleviate Poverty in India?

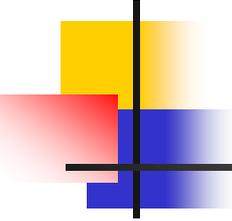
IDCA Second East Regional Conference, Washington, D.C.

Working Together to Eradicate Poverty and Mitigate Climate Change in India

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University of Maryland, College Park  
& India-US World Affairs Institute, Inc.

August 14, 2010



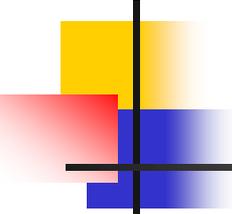
# Role of Business in Poverty Alleviation

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- Poverty alleviation in India – progress and how we compare with others
- What is the purpose of business?
  - Shareholder value maximization?
  - Social value creation?
  - Both?

Does business have a role in poverty alleviation?

- How businesses are contributing to poverty alleviation and other social issues?
- What is the role of business schools in social value creation?



# Poverty in India

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## % Population Below \$1 (PPP) Per Day:

1994: 49.4%

2005: 41.6%

## % Undernourished Population:

1991: 24%

1996: 20%

2001: 21%

2005: 22%

Source: [www.mdgmonitor.org](http://www.mdgmonitor.org)

## % Population Below National Poverty Line:

	Total	Urban	Rural
1994	36.0%	32.4%	37.3%
2000	28.6%	24.7%	30.2%

Source: [www.mdgmonitor.org](http://www.mdgmonitor.org)

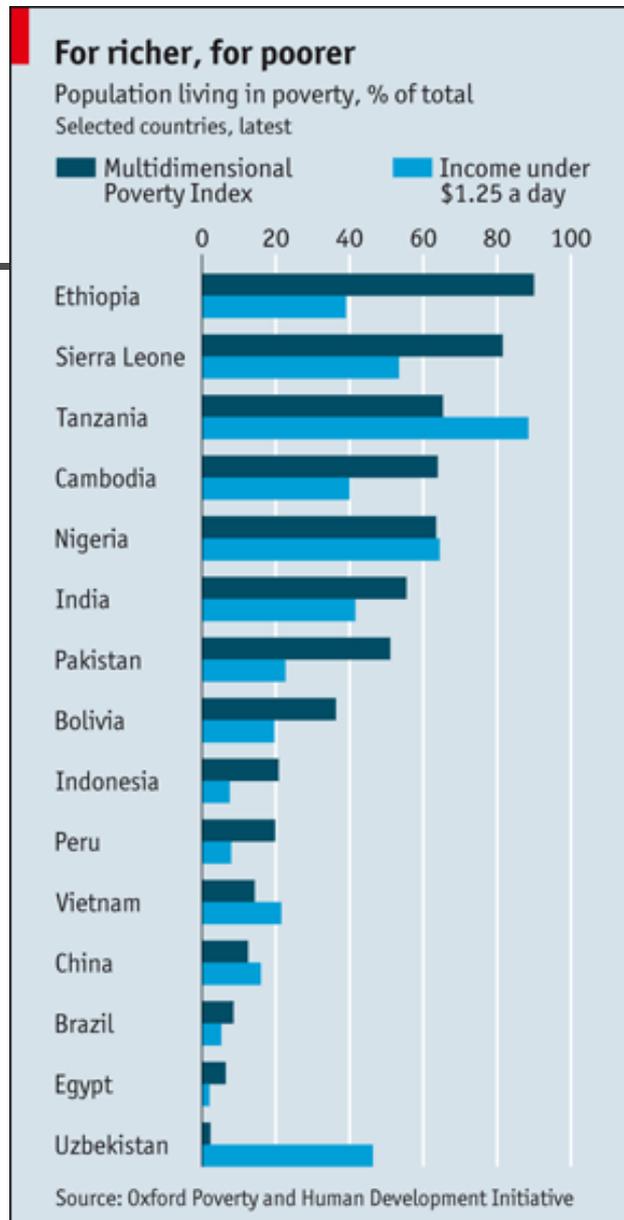
## Multidimensional Poverty Index (2005):

MPI: 0.296

Incidence of Poverty: 55.4%

Source: <http://ophi.qeh.ox.ac.uk>

# MPI: Poverty in India Compared to Other Developing Countries

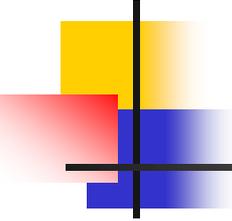


Source: The Economist, July 29, 2010

## The Ten Factors in MPI:

1. Schooling
  2. Child enrollment
  3. Child mortality
  4. Nutrition
  5. Electricity
  6. Sanitation
  7. Drinking water
  8. Floor
  9. Cooking fuel
  10. Assets
- Education** (Factors 1-2)  
**Health** (Factors 3-4)  
**Living Standard** (Factors 5-10)

Source: <http://ophi.queh.ox.ac.uk>



# Poverty in India Compared to the BRICs

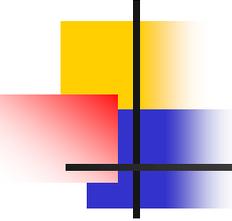
## Multidimensional Poverty Index

(Oxford Poverty and Human Development Initiative, July 2010)

	MPI	Incidence of Poverty
India (2005)	0.296	55.4%
China (2003)	0.056	12.5%
Brazil (2003)	0.039	8.5%
Russian Federation (2003)	0.005	1.3%

Lower numbers represent less poverty

Eight Indian states account for more poor people than the 26 poorest African countries combined.



# Does Business Have a Role in Poverty Alleviation?

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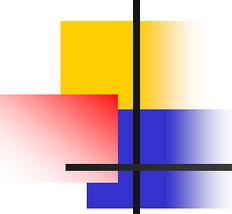
## What is the purpose of business?

“... the one and only responsibility of business [is] to increase its profits...”

- Milton Friedman (1982)

“The strategic aim of a business is to earn a return on capital, and if in any particular case the return in the long run is not satisfactory, then the deficiency should be corrected or the activity abandoned for a more favorable one.”

- Alfred P. Sloan, Jr. (1875-1966)



# What is the Purpose of Business?

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## Shareholder Value Maximization

**The Value Maximization Principle:** Maximization of the long-term market value of the firm

- Based on over 200 years of research in economics and finance
- Fiduciary responsibility of managers

**OR**

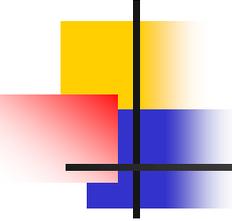
## Social Value Creation

**Stakeholder Theory:** Managers should make decisions that take into account the interests of all stakeholders in a firm; firms should contribute to social value creation

- Rooted in sociology, organizational behavior, etc.

Can a firm attempt to achieve both objectives?

Must a firm attempt to achieve both objectives?

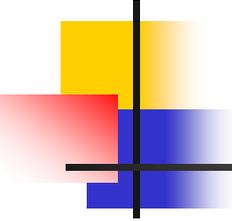


# Some Conclusions

(Michael Jensen, 2001)

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- To maximize value, corporate managers must not only satisfy, but enlist the support of all stakeholders.
- In fact, managers can disregard the interests of their key stakeholders only at grave risk to the very legitimacy and survival of the firm.
- Social value is maximized when all firms in an economy attempt to maximize their own total firm value.

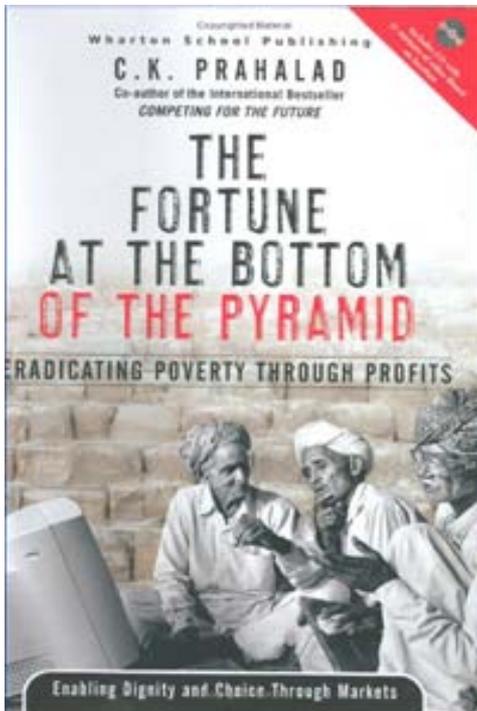


# How Business Contributes to Poverty Alleviation

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- Serving the bottom-of-the-pyramid market
- Microfinance
- Social entrepreneurship; micro enterprises
- Other approaches

# Serving the Bottom-of-the-Pyramid Population



“Helping people improve their lives by producing and distributing products and services in culturally sensitive, environmentally sustainable and economically profitable ways.”

**C.K. Prahalad and Stuart Hart**

“The Fortune at the Bottom of the Pyramid”  
*Strategy+Business*, January 2002

# ToP Producers → BoP Consumers

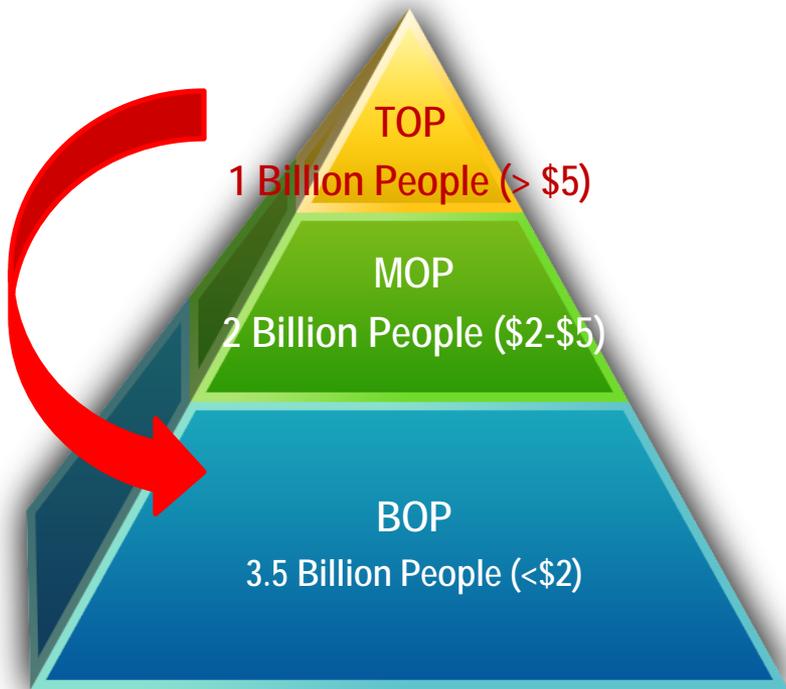
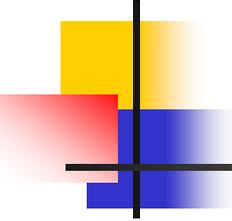


Figure source: Edelweiss Research

- Huge collective purchasing power at the BoP, \$5-13 trillion (PPP)
- Large and small companies can make significant profits by selling to the BoP
- Business Model: Low prices, small margins, and large volume
- ToP corporations' **developmental impact** is in selling quality and needed products to the BoP, and by helping the BoP customers participate in the market economy



## How is this different?

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### BoP is Not

- Corporate social responsibility
- Charity
- Philanthropy

### Instead...

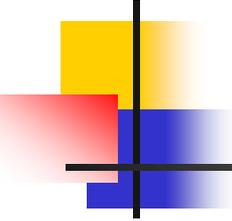
- It's a commercial, business venture
- "Eradicating poverty through profits"
- People at BoP are seen as consumers and partners with a voice, who can lift themselves out of poverty by participating in the market economy



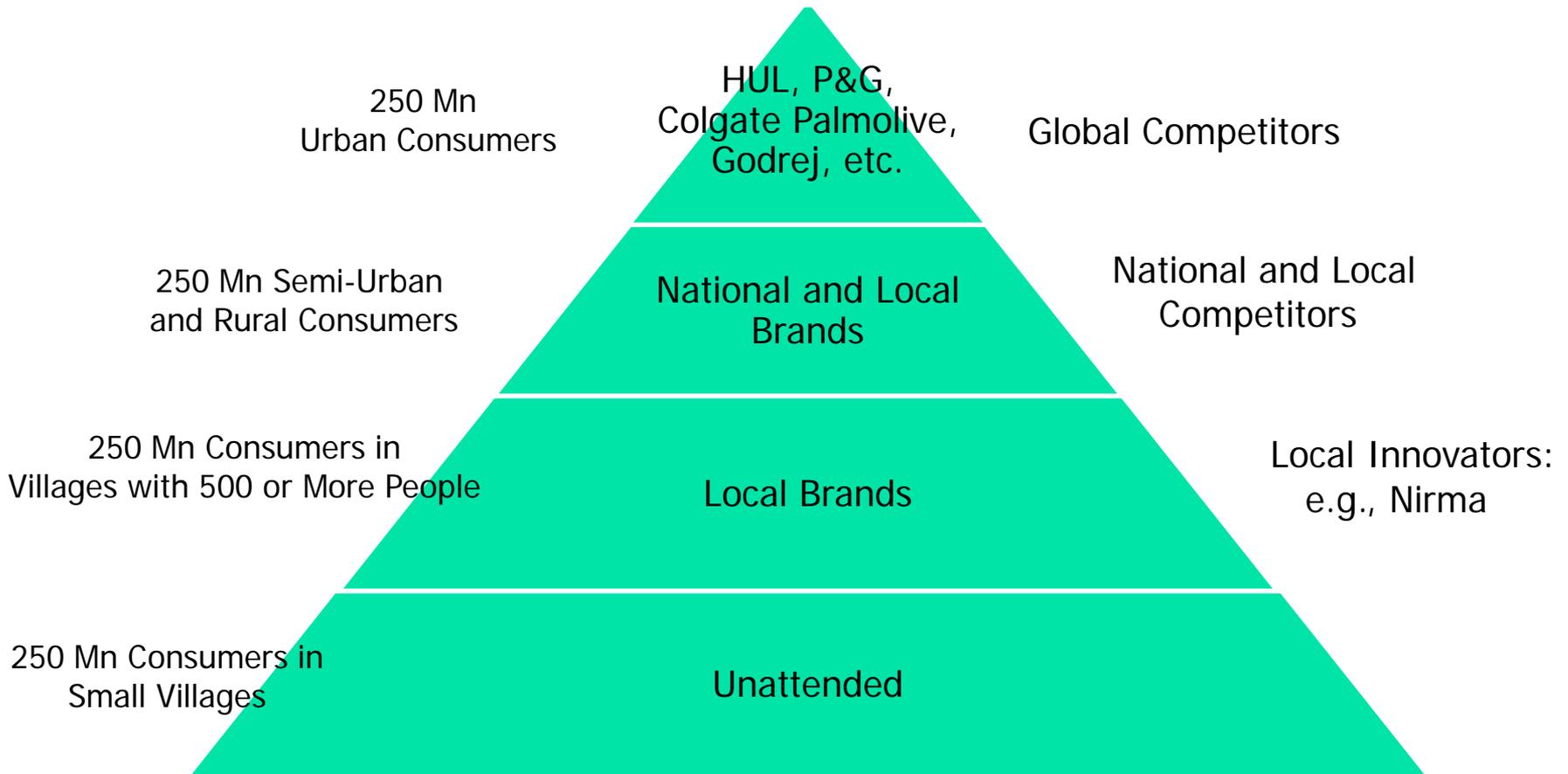
## Example: Hindustan Unilever Limited

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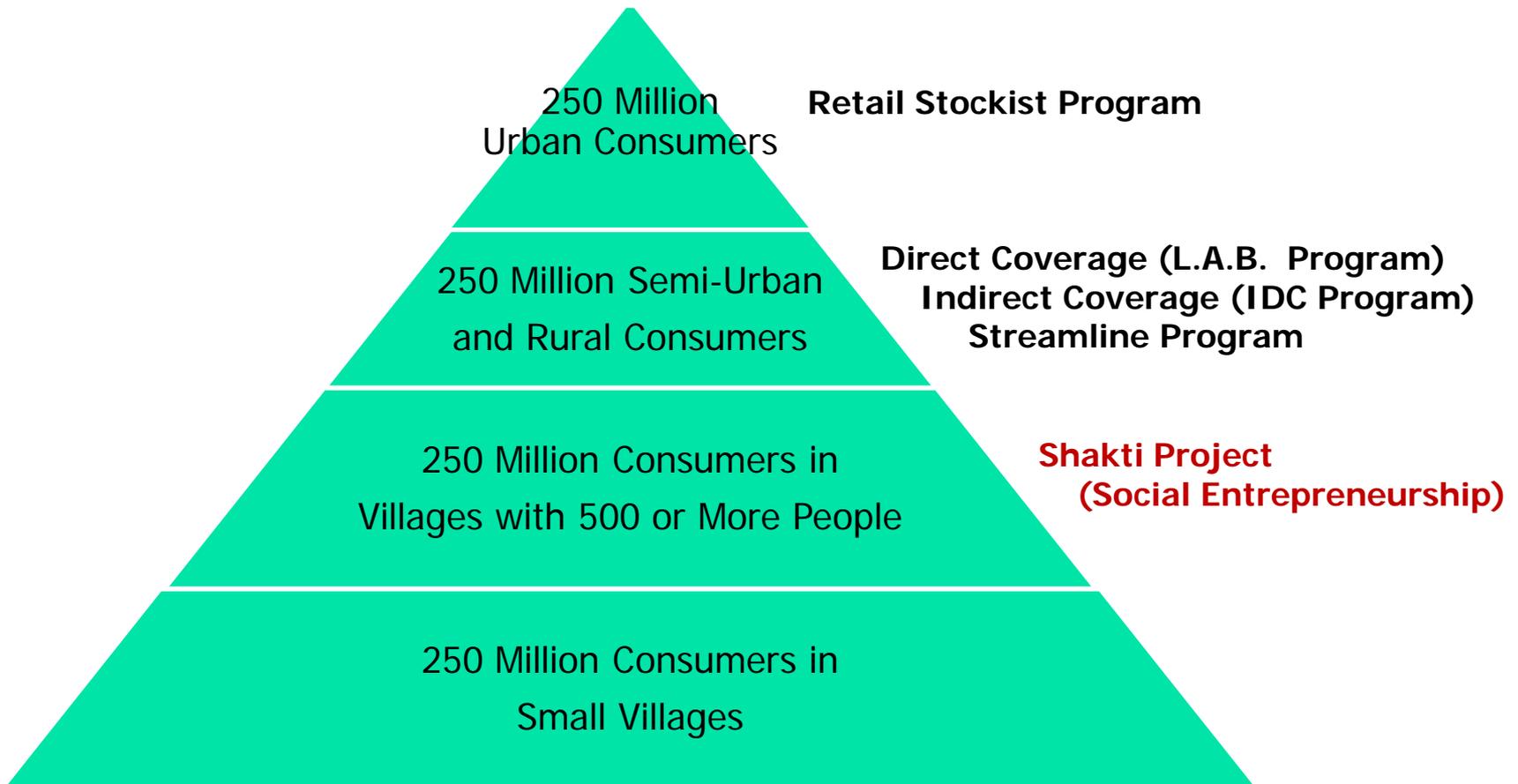
- A \$3.9 billion subsidiary of the \$55 billion global food giant (Unilever), with direct employment of over 15,000
- Has operated in India since 1933; Hindustan Lever Limited was formed in 1956
- Operates 4 business units in India – detergents, personal care products, beverages, foods
- Gross Margin (2009): \$481 million
- Market share of about 40-45% across categories and different price points
- A reputation for strong management and corporate values

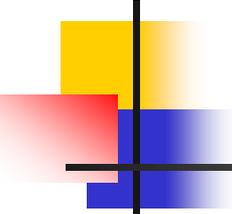


# Structure of India's Consumer Market



# Hindustan Unilever Limited's Market Reach in India





# Hindustan Unilever's Project Shakti

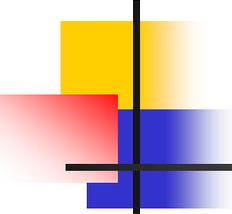
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- Launched in 2001, the Shakti project helps rural women create micro-enterprises – to sell HUL products in small, affordable packages in their own communities
  - The program now covers 15 states in India with over 45,000 **Shakti Entrepreneurs** in 135,000 villages
  - By the end of 2010, Shakti aims to have 100,000 Shakti Entrepreneurs covering 500,000 villages, touching the lives of over 600 million people
- HUL's other social programs include health and hygiene education, reduction of greenhouse gases, reduction of energy consumption, and reduced water use in manufacturing plants

# A Shakti Entrepreneur





# Economic and Social Benefits

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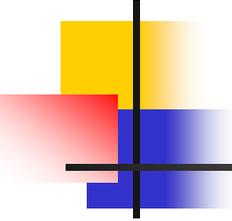
Shakti

## Shakti Entrepreneur:

- Sales \$250/month; \$3,000/year
- Earnings about 7%, after 3% goes towards principal (\$250) and interest
- Improves her per-capita income by about 50% - 100%
- 100,000 Shakti entrepreneurs by 2010
- Social benefit equals \$20 to \$30 million

## Hindustan Unilever Limited:

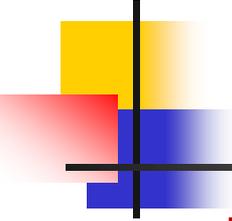
- Sales turnover of about \$250 million
- Net margin of about \$25 million



## Example: \$35 Laptop

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- The world's cheapest laptop, with touchscreen (similar to iPad's), developed by the students and professors of the IITs and IIS Bangalore (announced on July 22, 2010)
  - No hard drive, but with a USB port, 2GB of memory, videoconferencing, and Internet browsing
  - Linux operating system and Open Office software
  - Power Source: Solar, batteries, or electricity
  - Price: \$35
  - To be rolled out to 110 million school and college students in India; in the first phase to 1 million college students
  - To become available starting early 2011

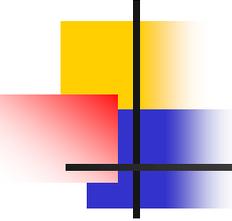


# Microcredit → Microfinance

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- **Microcredit** – started by extending tiny loans to poor women to invest in micro-businesses
  - Grameen Bank (Bangladesh)
  - ACCION International (Latin America)
  - Self-Employed Women's Association, SEWA (India)
- **Microfinance** – financial systems tailored to the demographics and financial needs of the poor
  - Links capital markets to the needs of the poor
  - Growth of economic activity as MFI clients participate in the market economy through micro-enterprises
  - Equal or superior returns for MFIs compared to conventional banking → sustainable business model

Both designed to help launch micro-enterprises



# Business Schools and Social Value Creation

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- Growing interest among business schools to develop programs in social value creation
- Example: Robert H. Smith School of Business, University of Maryland (<http://www.rhsmith.umd.edu/svc/>)
  - Focus Areas
    - Social entrepreneurship
    - Business models for the social sector
    - Environmental sustainability
  - Approach
    - Curriculum
    - Experiential learning (social venture consulting program)
    - Research
    - Career development



# INDIA-US

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