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**POVERTY ALLEVIATION THROUGH PARTNERSHIPS:
A ROAD LESS TRAVELED FOR BUSINESS, GOVERNMENTS & ENTREPRENEURS**

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RUNNING HEAD: Poverty Alleviation through Partnerships

ABSTRACT: While investigating the role of business and accepting that profitable partnerships are the primary solution for poverty alleviation, we voice certain concerns that we hope will extend the authors' discourse in *Alleviating Poverty through Profitable Partnerships*. We present a model that we believe can serve as an effective framework for addressing these issues. We then establish the imperative of inclusive growth. Here we engage with the necessity of formulating strategies that focus on the pace and, importantly, the pattern of economic growth, including its social and cultural dimensions. We also deliberate on the parameters of inclusive growth with the overriding objective of ensuring that multiple strata of society share the benefits of globalization. Turning to the critical role of institutions in promoting social welfare, we explore the impact of government policy vis-à-vis the leverage enjoyed by other social institutions. Despite the reality that state and private interests often operate at cross purposes, we argue that government must still be an integral part of the solution matrix. With direction from other social institutions, entrepreneurship can be unleashed to tackle endemic poverty prevalent in the base of the pyramid. We then provide an in-depth case study in which the availability of telecommunications in rural areas was utilized as a means to foster development and ensure inclusive growth. The conclusion examines lessons that can be learned while operationalizing our model, and spells out the impact of our enablers at ground level.

KEY WORDS: base of the pyramid
collaborative entrepreneurship
inclusive growth
poverty alleviation
profitable partnerships
social institutions

POVERTY ALLEVIATION THROUGH PARTNERSHIPS:
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Alleviating Poverty through Profitable Partnerships (APPP), a recently published book, argues that for-profit multinational enterprises (MNEs) can, and do have a moral duty to help alleviate poverty by establishing profitable partnerships with the poor[i] for mutual gain. The authors rightfully acknowledge that the poor at the "Base of the Pyramid" (BoP) (Prahalad, 2005; Prahalad and Hart, 2002) must be viewed as more than an additional set of consumers for a firm's products and services—they must also be recognized as valuable producers, employees, and service providers themselves. We concur with this premise. Our intent through this essay is to broaden their persuasive argument by filling in what we perceive as potential gaps, and to propose additions to further strengthen their thesis.

The implicit goal, we share with the authors of APPP, is the laudable objective of getting the maximum number of people out of poverty in the shortest time. Accepting, as we do, that the optimum way of achieving this is to persuade business (we prefer not limiting our set of actors to MNEs, as do the authors of APPP)[ii] to establish inclusive growth models, our overarching research question becomes, "How can the power of business and markets be leveraged to enable the eradication of poverty?"

We have presented our arguments in six sections. In the first section, while investigating the role of business and accepting that partnerships are *the* solution for poverty alleviation (Werhane, et al., 2010), we voice certain concerns that we hope will extend the authors' discourse. We also present a model that we believe can serve as an effective framework for addressing these issues. The second section establishes the imperative of inclusive growth. Here we engage with the necessity of formulating strategies that focus not only on the pace but, more importantly, on the pattern of economic growth, including its social and cultural dimensions. We also deliberate on the parameters of inclusive growth, with the overriding objective of ensuring that multiple strata of society share the benefits of globalization.

The third section highlights the critical role of institutions in promoting social welfare. Here we deliberate the impact of government policy vis-à-vis the leverage enjoyed by other social institutions. Despite the underlying reality that state and private interests are often at loggerheads, we argue that government must still be an integral part of the solution matrix (see also footnote 4).

In the fourth section we illustrate how entrepreneurship can be unleashed to tackle endemic poverty prevalent in the BoP. The fifth section describes an in-depth case study in which the availability of telecommunications in rural areas was utilized as a means to foster development and ensure inclusive growth. Section six discusses a few lessons that can be learned while operationalizing our model, and spells out the impact of our enablers at ground level.[iii]

EXTENDING THE ARGUMENT: THE POWER OF BUSINESS

…in recent years business has become the predominant institution in the social landscape, eclipsing family, polity, community, and church in importance.
(Lewin and Stephens, 1993: 401)

Werhane, et al. (2010) initiate their argument with an overview of the extent and distribution of poverty. Suffice to say, in the limited space we have here, that the problem is both widespread and devastating. We wish to begin by addressing a definition of this phenomenon—how it is framed—because any attempt to engage with a problem depends on its conceptualization. The commonly accepted, narrow definition of poverty is “the lack of what is necessary for material well-being—especially food but also housing, land, and other assets…leading to physical deprivation” (Narayan, et al., 1999: 26). Sen (1999) suggested that focusing merely on inadequate income and wealth does not provide a holistic picture. It is more pertinent to examine choices, or the lack of them, that the poor are compelled to confront.

In the same vein, the authors of this paper argue that poverty, which needs to be defined more broadly, is life encompassing—not only do people suffer from material shortages but, more importantly, encounters severe challenges in virtually all aspects of their lives. It is a multidimensional social phenomenon (Narayan, et al., 1999) characterized as capability deprivation from lack of economic opportunities, political freedom, social facilities, transparency guarantees, and protective security (Sen, 1999).

Sen's freedoms are critical to our argument that business can and must adopt the role of a facilitator in aiding the poor out of poverty, but it cannot conceivably assume this responsibility by itself. Other social institutions need to be intimately involved as well. To illustrate our point, let us examine the situation of Mufia Khatoon, as described at the beginning of APPP:

> Mufia Khatoon is from a small village in Bangladesh. She was married by her father at age thirteen to a fisherman, Jamiruddin, and went to live with his family, as is the tradition in Bangladesh. While he was at sea, Mufia's mother-in-law verbally abused her and made sure she received little to eat. When Jamiruddin was at home, he often beat Mufia. Suffering from malnutrition and anemia, she had three miscarriages, but finally gave birth to three children. The beatings and semi-starvation continued until a village elder arranged for a divorce. Now Mufia was free, but very poor. She received no support from her former husband for herself or the children, and she was reduced to begging in order to survive (Yunus with Jolis, 2003: 67-68).

Clearly Mufia suffers the traditional understanding of poverty, and falls within the category of physical deprivation previously defined by Narayan, et al., (1999). But Sen would point out that she is hardly free in other aspects of her life: she is illiterate, she had no say in reproductive choices, she had no choice in her personal relationships, her physical safety is often threatened, as a female she has insufficient political options, authorities provided her with little protective security, and so on. To combat Mufia's poverty, she must gain more than the economic security that profitable partnerships can provide. Indeed, it is impossible to achieve economic security without also acquiring Sen's other aspects of freedom. Significant social institutions such as the government, family, education, and religion must also be involved and help change the social fabric to enable her to have the choices that Sen envisions. We expand on this issue in the section titled "Role of Institutions."

Second, Werhane, et al. (2010) point out that the poor are experts in the forces and processes that bind them into poverty, and that they must be full partners in pursuing any solutions. Recognizing that MNEs must find a way to fully engage with the poor for profitable partnerships to evolve, these scholars point to the use of moral imagination (Werhane, 1999) as a means to allow executives to view them in this light. Once this view is established, it will allow deep dialogue to occur between MNEs and the poor. "Perhaps ironically, deep dialogue is a well-developed skill for business, since most MNEs have a great deal of marketing sophistication to take customer viewpoints seriously. However, unless and until Mufia is viewed as a potential consumer, those marketing skills are unlikely to shape the design and distribution of the products and services she needs" (Werhane, et al., 2010: 26).

We see at least two issues of concern in the authors' contention that MNEs can pursue profitable partnerships on their own accord. First, the description of MNEs skill at deep dialogue is, as pointed out, a marketing tool aimed at consumers. For the poor to rise out of poverty, they must be more than consumers of the firms' products, as correctly noted in other parts of the book. It is arguable whether a marketing skill geared toward getting consumers to buy products will translate into a vehicle that can produce mutually beneficial business partnerships.

Second, we are hesitant to believe whether business, on its own initiative and in the absence of an external catalyst, will provide the type of negotiating interface necessary to form profitable partnerships. We question whether business has built the mechanisms (Collins, 1997) needed to make a true dialogue with the poor possible. As Stone (1975) illustrates, such interfaces between corporations, especially large ones like MNEs, and individuals are rare. Currently the poor have no corporate representation through which they can negotiate effectively with business—there is no countervailing power for the poor (Galbraith, 1952).

Our third concern with the arguments in APPP is the excessive reliance placed on moral imagination (Werhane, 1999) in motivating business entities to add eradicating poverty to their list of top priorities. We have no dispute with the desire for business leaders to have and utilize moral imagination. Clearly, enlightened business leaders are beneficial for society at large. However, we view moral imagination as a necessary, but not sufficient characteristic to bring about the kind of changes required to significantly impact poverty. We concur with the view that "it is certainly within the responsibility of an organization's leaders to develop socially responsible practices, but the nature of industry and the institutional environments in which organizations exist jeopardize the competitiveness of organizations that implement such practices….Although such calls [for corporate social responsibility] are laudable and planted in solid ethical ground, an organization's leaders, however enlightened and empathetic, must be responsive to the competitive forces emanating from their industry and institutional environments" (Delios, 2010: 25-26). For business leaders to include alleviating poverty as an additional goal of their operations, even if done through profitable partnerships, will require them to incur additional discretionary costs in the short term. This would likely reduce current incentive pay for these very owners and managers, and many stakeholders would object. "Markets, shareholders, and bankers are single-mindedly focused on profits, and are notoriously impatient" (Delios, 2010: 32).

A related concern we have is the role of compassion in the motivation to alleviate poverty. The authors note, "But there is one other important factor that drives visionary companies to create profitable partnerships. Simply put, they engage stakeholders. Poverty alleviation is uplifting. Compassion is a universal human emotion, and it is activated in people who engage in projects that promise to enrich the lives of those who are suffering" (Werhane et al., 2010: 3). Indeed, compassion is a universal human emotion—unfortunately, business entities are not human. Corporate cultures may elevate compassion as a corporate value. But corporate cultures tend to change in the face of financial realities; if corporate finances take a nosedive, compassion is likely to be jettisoned in favor of survival. Senior managers, or the board of directors, or shareholders, will do what is necessary to sustain the continued existence of the firm. If they do not, the question of compassion is moot.

Our final concern with the arguments in APPP is the notion of allowing business to define its own ends. This, in a nutshell, is the root cause of many of the ills confronting society. Business is unparalleled in ensuring efficiency and creating wealth (Hertz, 2001). A significant reason for this is the narrow definition and constricted set of goals—namely the pursuit of profit—under which businesses have typically been allowed to operate. This constrains (or permits) them to focus on those markets that can best fulfill the firms' limited objectives, while largely ignoring the poor, who, in all likelihood, are not consumers.

The amoral theory of business views the economic institution as separate from other social institutions, largely insulated from all of the moral norms adhered to by the rest of society (Shepard et al., 1995). The economic institution has been separated morally in certain significant ways from other social institutions such as the church, the state, the community, and the family.

As a result, it has largely come to be exempt from some generally accepted norms. Or, as some scholars have observed, economic norms have become the only ones that matter (Harris, 1999).

Emile Durkheim, like other early sociologists, had seen the effects of the profound disruption of society engendered by the shift just outlined, including the growing separation of the economy from the rest of society. “For two centuries economic life has taken on an expansion it never knew before. From being a secondary function, despised and left to inferior classes, it passed on to one of first rank” (Durkheim, 1937/1996: 11). Durkheim explored the problems of an advanced, complex society in which the economy had become so detached from other social institutions that it became an end in itself. He wrote that in Western societies neither government nor society held moral sway over the economic institution; a state of anarchy within the economic sphere was therefore inevitable. He made several references to “the anarchy of the economy” in this work (a concept virtually identical to the amoral theory of business). According to Durkheim, “We can give some idea of the present situation by saying that the greater part of the social functions (and this greater part means to-day the economic—so wide is their range) are almost devoid of any moral influence…” (Durkheim, 1937/1996: 29). Authors of more current work also note that the separation thesis “tries to separate business activities from ethics and seeks to make sense out of corporate responsibility as a discretionary idea” (Werhane et al., 2010: 5).

Self-interest, as philosophers throughout the ages have observed, is a powerful motivator. If one is allowed to choose one’s own ends, without constraints, it is likely that self-interest will play a central role therein. That same actor is also likely to develop highly effective means of achieving those ends. Allowing business to define its own ends has resulted in an institution that has established strong self-interested goals and incredibly efficient means of achieving them.

Although the establishment of checks and balances is widely viewed as a logical means of avoiding concentrations of power in other social realms, business has somehow evaded this concept, and has become a dominating force, while pursuing its own narrowly constrained ends. To add insult to injury, business has also been able to shift social costs to the broader society by avoiding the costs of externalities (Hacker, 2008).

If, as we suspect, the amoral theory of business is the dominant paradigm, it is difficult to visualize how a continued "hands off" approach will result in firms voluntarily adopting poverty alleviation as a core value. As long as firms perceive their role primarily as economic actors, while the state and civil society are expected to bear the onus of poverty alleviation efforts, growth will be neither inclusive nor sustainable.

A framework for addressing these issues

Our proposal rests on a few suppositions: 1) Self-interest and compassion are both universal human emotions—but when in conflict, self-interest usually trumps compassion. 2) Business entities do not have compassion in the same sense that individuals do. Compassion can be a corporate value, embedded in the firm's culture, but when financial difficulties arise, corporate survival overrides culture. 3) If suppositions 1 and 2 are accurate, it is unlikely that business leaders and other members of society will "change our shared narratives about global free enterprise" (Werhane et al., 2010: 1). Experience shows that economic systems, without adequate interventions, provide highly stratified outcomes to different socioeconomic classes. "Left to themselves, economic forces do not work out for the best except perhaps for the powerful" (Galbraith, 1973: xiii).

Insert figure 1 about here

We propose a model (see Figure 1) that has four enablers addressing our concerns. The model's commencement is in cell 1. As we have previously argued, left to its own ends, business is unlikely to choose alleviating poverty as one of its priorities. Therefore, we suggest that other institutions must create the milieu for business to establish inclusive growth patterns in its planning and operations. Combating poverty has been attempted for generations, albeit with limited success. We intend to move beyond effort to attainment. The state, accompanied by other social institutions, has significant roles to play to ensure this pleasant outcome.[iv]

In Cell 2 inclusive growth is recognized as a strategy to maximize citizens' welfare. As discussed earlier, this can best be achieved by ensuring freedom of choice in concurrence with economic security. The focus, as further elaborated in our discussion, must consequently be on both the pace and pattern of economic growth. This will ensure that outcomes are broad based and cover multiple sectors of the economy.

In cell 3 we propose that it is mandatory for business, even from a self-serving perspective of ensuring its own long-term survival, to recognize the necessity of social development while continuing to be profitable. If, as we have presumed, it is unable or reluctant to alter the dominant paradigm by itself, other entities must facilitate this. For example, we have previously noted the importance of a countervailing power (Galbraith, 1952) to represent the poor in negotiating with business. This need arises due to the lack of a negotiating interface and power differentials between the parties. If profitable partnerships are to work beyond maintaining the status quo and actually address poverty in a meaningful way, we must ascertain that the poor are indeed beneficiaries of the union.

This finally leads to cell 4 of our model wherein large firms operating in BoP markets succeed in collaborative entrepreneurship efforts, resulting in a significant impact on poverty alleviation efforts. They achieve this laudatory, and mutually beneficial, objective by establishing relationships with need-based entrepreneurs. We elaborate upon this in the relevant section.

The model has a virtuous cycle. Institutions provide the impetus for the promulgation of inclusive growth strategies intended to impact poverty. In this ambience, firms are encouraged to leverage the power of collaborative entrepreneurship and include the poor in their supply chain. As they discover a positive impact on their bottom line and under pressure from stakeholders and managers, they redouble their efforts towards this end. Finally, social institutions, ascertaining success in achieving their intended outcomes, will likely seek further interventions to ensure that inclusive growth strategies become the *de facto* paradigm. While these enablers play out, the poor, experiencing an enhancement in their daily lives, are supportive of government policies and more likely to vote for incumbent policy makers.

This, we hope, will ultimately lead to significantly alleviating poverty, fulfilling Mohammed Yunus's ideal of eradicating poverty and placing it in a museum (Nobel Peace Prize, 2006).

INCLUSIVE GROWTH

…wealth is clearly not the good we are seeking, since it is merely usefu, for getting something else.
Aristotle (2000: 7)

Governments worldwide, irrespective of political affiliation, should be concerned with maximizing their citizens' welfare. We understand and appreciate the desire of the state to improve the well being of its population. However, as discussed earlier, policy makers' limited focus on income deprivation—as reflected by traditional measures like gross domestic product

(GDP) or the more recently used purchasing power parity (PPP)—does not accurately capture the nuances of this complex affliction. With the advent of welfare economics in the 1980s, it was realized that if poverty elimination is the ultimate objective, economic growth and consequential wealth generation is only one indicator of its success. Aristotle's sage comment, made many centuries ago, which we have quoted at the start of this section, is a reflection of that sentiment.

A word of caution here is appropriate. We are not economists and hence unable to share their overriding concern with Pareto efficiency models. Our analysis of issues is from a management or policy-making perspective, intended to ensure that growth is sustainable over an extended period of time. Our research, through the case study at the end of this paper, clearly illustrates that this can best be achieved if growth is inclusive across socio-economic strata, as well as broad based over multiple sectors of the economy.

In line with social choice theory (Arrow, 1951, 1963), it is important to focus on individual interests, values, and welfares, and then aggregate that to the level of society. Our argument is that there is crying need for a change of focus from a firm level of analysis to understanding the plight of individual citizens and the impact that globalization has on their lives. It is necessary to place people at the center of the development process rather than concentrating on markets. Towards this end we propose that policy makers should focus not only on the pace but, equally importantly, on the pattern of growth. Our contention is that it is imperative that growth covers multiple sectors of the economy and all citizens enjoy its benefits. While economists use terms like broad based growth, shared growth and pro-poor growth, we suggest that inclusive growth, besides having a focus on the pace and pattern of growth (Ianchovichina and Lundstrom, 2009), also be concerned with its sustainability over an extended period.

We accept the argument that a high pace of growth over extended periods of time can significantly contribute to poverty reduction (Dollar and Kraay, 2002). However, our concern is that the advantages offered by globalization may be lost if there is a perception that the marginalized poor are not stakeholders in growth. In this context, the inequalities in wealth distribution witnessed in the developed world often pale into insignificance with the stark disparities prevalent in emerging markets like China and India. The fact that significant population segments have historically been involved in marginal agriculture or trapped in low productivity activities aggravates the problem. This often leads to a perception that the opportunities of globalization, and the consequential opening of markets, are well beyond their grasp. This in turn fuels dissatisfaction, ultimately leading to social strife.

We refer to a few recent manifestations of this phenomenon to justify our arguments. The red shirt movement in Thailand was, in part, a result of the alienation of the rural poor. Similarly, the communist-backed armed Naxalite movement in large tracts of central India is a sign of the underlying hostility of indigenous tribes toward industrialization when their mineral-rich lands are acquired by the state on behalf of MNEs. Finally, the spate of attacks on schoolchildren in China once again reinforces the need for sensitivity on these issues.

Inclusive growth embodies not only the economic facets of development, but also its social and its cultural dimensions. We hence suggest that in addition to its pace and pattern, a critical element of inclusive growth is the creation of employment opportunities for all citizens, especially traditionally marginalized groups. It is only through this inclusion that we can proactively ensure the widespread benefits of economic growth. This approach is in contrast to supply side economists, who have long argued in favor of trickle-down policies of development.

De Soto, who is often credited with eliminating the Shining Path guerrilla movement in Peru, argued that no society could possibly have a strong market economy as long as a majority of its population was excluded from mainstream activities. He pointed out "the existence of such massive exclusion generates parallel economies, legal and extra legal. An elite majority enjoys the economic benefits of the law and globalization while the majority of entrepreneurs are stuck in poverty where their assets—adding to more than US $10 trillion worldwide—languish as dead capital in the shadows of the law" (Institute of Liberty and Democracy, 2010).

Another concern we voice is the prevalence of a vast urban-rural divide. There exists a real danger of the rural poor getting isolated from markets, not only economically but also psychologically. While this is often viewed as a lack of adequate skills and income deprivation, equally important are factors like the absence of physical infrastructure, paucity of credit, and the prevalence of an information asymmetry about the very existence of markets. Our research corroborates that, contrary to popular belief, the rural poor are extremely entrepreneurial, but limited by lack of opportunity and choices. Beyond geographic isolation, they are additionally disadvantaged by substantially lower initial starting conditions. As long as these disparities persist, growth may not be sustainable and may even lead to the social tensions to which we have previously referred.

The lack of opportunity in rural areas has another manifestation—migration to urban centers in search of gainful employment. While some studies show that households with at least one migrant have been able to reduce their poverty levels (Human Development Report, 2009), this poses significant managerial and policy implications. Migration can be an urban planner's nightmare, with issues ranging from urban squatting and environmental degradation, to health challenges like sanitation and availability of potable water. Recent studies paint an extremely bleak picture and warn of urban decay and a declining quality of life for citizens with the urban transformation occurring in Asia (McKenzie Global Institute, 2010). Significantly, the study also observes that cities can be critical for inclusive growth if they offer improved access to jobs, markets and urban infrastructure.

ROLE OF INSTITUTIONS

> *Institutions influence government policies, which in turn influence growth and distribution outcomes, which then affect the pace of poverty reduction.*
> (Deolalikar et al., 2002: 6)

We are concerned that the proposed solutions offered by the authors of APPP tend to focus almost exclusively on the role of economic actors. This, in all likelihood, is due to space constraints and the inability to address all aspects of a complex system at once. However, we would like to see additional emphasis on related institutional roles in addressing this multifaceted predicament.

There has, over the years, been a debate on whether the state, represented by the government, or markets embodied by business, is better equipped to ensure growth. We recognize that the scope of this discussion is well beyond our paper. However, it is important to recognize that, especially in an emerging market context, there is an imperative to lift large numbers out of poverty in as short a time as possible. This, in our opinion, makes it mandatory for institutions to work jointly. We propose that, given the size and nature of the problem, the appropriate debate is how these two institutions can complement each other's roles, rather than which is better equipped to accelerate economic development.

We also appreciate the multiple perspectives on the role of the state. Governments were traditionally viewed as facilitators of economic development. They were expected to ensure a coherent regulatory environment, implement property rights and maintain efficient civic services.

However, in emerging markets they often pursue intervention, such as state ownership and agricultural supports, to serve political ends rather than for larger social welfare. Some researchers have been even more skeptical of their role, dubbing the descriptive model (what governments actually do, contrasted with what they should do) as evidence of "The Grabbing Hand" theory of governance (Shleifer and Vishny, 1998).

As explained in footnote 4, we recognize that there are instances in which the government is either too corrupt or dysfunctional to be an effective source of moral and practical leadership. This unfortunate reality further strengthens our call for inclusion of other social institutions in addressing the alleviation of poverty. In such instances, it will be necessary for ends to be determined by other institutions such as religious groups, the military, or civil society represented by institutions like the judiciary.

Social institutions would also be able to act as countervailing powers on behalf of the poor. Religion, for example, has historically been concerned with caring for the less advantaged among its believers. The education system is also a logical candidate to advocate for the poor as part of its mission. As we noted previously, poverty is a broad-based, complex problem, embedded in a variety of interconnecting systems. There is thus a pressing need to explicitly bring additional social institutions into the solution matrix to help address this complexity (Sud et al., 2009).

To accomplish their role as protectors of and advocates for their citizens, governments must provide the impetus, through policy incentives and sanctions. This will ensure that businesses operating in their jurisdictions implement inclusive growth strategies that incorporate the poor in meaningful and mutually beneficial ways. In response to their expanded affluence, the poor, who are large in numbers, will support the government's regulations, and will be more likely to vote for candidates who support these measures, hence completing the virtuous cycle. Thus, our model presents an opportunity to create a system in which we "find approaches that meet the needs of the poor in ways that generate profits for business and votes for politicians" (Gates, 2007: 1).

Delios (2010) appropriately observed that government regulation is no panacea for business, especially when different jurisdictions have dissimilar or even contradictory rules. He contends that business leaders need to proactively lobby governments to create "an environment of formal and informal norms that promotes a harmonization in cross-national standards for levels of social responsibility" (Delios, 2010: 26). We view his proposal in the same way we see relying on moral imagination to bring about needed social change—an extremely well intentioned idea, but unlikely to really happen. Therefore, we propose that governments take the first step toward inclusive growth strategies, and then rely on business to promote uniformity of regulation across jurisdictions.

COLLABORATIVE ENTREPRENEURSHIP

> *If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value conscious customers, a whole new world of opportunities can open up.*
> Prahalad, C. K. (2005: 25)

At first glance the intuitive correlation between entrepreneurship and economic development is that entrepreneurs, recognizing opportunities, start new businesses, creating jobs that ultimately fuels economic growth. However being a multi-faceted phenomenon, the reality is much more complex. Acs and Varga (2005) hypothesized that if entrepreneurship includes any type of self-employment, the inverse relationship might even hold true; i.e., a high level of entrepreneurship may be indicative of slow economic growth. This may arise if bottlenecks exist that discourage new firm formation or as a consequence of institutional failure, both of which manifest themselves in high unemployment rates.

It is thus mandatory to understand the nature of entrepreneurial activity prevailing in varied economic settings. Developed markets have high technology agglomerations, where entrepreneurs acting on unexploited opportunities create wealth. The classic example is Silicon Valley, which has spawned a number of regional counterparts the world over. Unfortunately, the ground reality, in some emerging markets, is often vastly different, where substantial numbers of the population are either underemployed or unable to find regular employment.

In order to better understand the relationship between entrepreneurship and economic development, a multi-country Global Entrepreneurship Monitor (GEM) survey was initiated in 1999. As comparable national data over an extended period became available, researchers soon realized that entrepreneurship varied significantly with economic development. In factor driven economies, i.e., those with low levels of economic development (Porter et al., 2002), researchers identified need or necessity based entrepreneurship, wherein the poor are propelled into self-employment due to lack of opportunities (GEM, 2009).

This is vastly different from the innovation-based entrepreneurship referred to previously. Classical economic theory dictates that as economic development occurs and industrial activity picks up, there will be a decrease in self-employment, due to the division of labor. The growth cycle ultimately leads to a mature economy accompanied by a rise of opportunity-based entrepreneurship. This encourages creative destruction (Schumpeter, 1976) wherein entrepreneurs discover new and more creative ways of manufacturing products and providing services, thereby sustaining long-term economic growth. Interestingly, emerging markets have a prevalence of both types of economic activity, i.e., the presence of need and opportunity-based entrepreneurship prevalent in different geographic regions. An example here is the existence of the so-called "Silicon Plateau," a description often given to India's technology capital, Bangalore, with its high growth start-ups and plethora of outsourcing firms. A few hundred miles in the rural hinterland, the ground reality is often harshly different.

The GEM report concludes that for "factor driven economies, getting the basic requirements right is key to the generation of sustainable businesses that can contribute not just to local economic activity but to health and education of the next generation" (GEM 2009: 11). We hence propose that in order to significantly impact poverty alleviation, firms must leverage need-based entrepreneurship, and include the poor in their supply chain. This is in line with Prahalad's (2005) thinking at the start of this section.

The term collaborative entrepreneurship (Miles et al., 2005) was envisioned as a multi-firm network of small and medium firms that could gain a competitive advantage by enabling entrepreneurship beyond firm boundaries. We, however, envision this collaboration at an entirely different level—one between large firms and need-based entrepreneurs operating in the BoP segment. The power of this collaboration, if accompanied by appropriate institutional intervention, can significantly impact poverty. There are a number of examples of this success in our case study.

We intentionally suggest that large firms are better positioned to enable entrepreneurship, for three reasons. First, given the multiple constraints in BoP segments, there is a pressing need for substantial investment with patient capital to achieve this objective. Simultaneously, firms will have to work with entrepreneurs on the ground to be able to transfer adequate knowledge and the skills that entrepreneurship mandates. Given resource constraints and shorter term planning horizons, small and medium firms are less likely to able to succeed in this endeavor.

Second, alliances with need-based entrepreneurs must be over an extended time horizon, before results at the ground level become apparent. This places large firms, with their greater operational and financial stability, and the brand recognition they enjoy, at an advantage. From the entrepreneurs' perspective, this leads to a higher degree of confidence and consequently a greater willingness to invest in the relationship.

Finally, large firms are in a better position to benefit from both economies of scale (through increased volume procurement at multiple locations) and scope (through synergies and by increasing the capacity and purview of the firm), ultimately leading to a mutually beneficial relationship. This will ensure sustainability and impact poverty alleviation by encouraging investment in other critical areas like health and education, as envisioned in the GEM recommendation we referred to earlier.

The next section provides an overview of the results that can be achieved from these collaborative entrepreneurial efforts in the case of the Indian telecom industry.

CASE STUDY

India's telecom revolution: Strategy for inclusive growth

> *The success of the sector can be attributed in no small part to the strong regulatory environment provided by the Government. The policy initiatives coupled with numerous growth oriented steps taken by private players and other stakeholders, have created a truly stimulating environment….today every fifth person in rural India is connected; from wage earners to shopkeepers; farmers to fishermen; mobile phones are helping in increasing their productivity.*
>
> (Indian Telecom 2009, quoting a senior officer, Department of Telecom, GoI)

India, soon after gaining independence from the British in1947, opted for a mixed economy with a socialistic pattern of development. The Government of India (GoI), through a labyrinth of laws and regulations, carefully controlled industrial output and impacted citizens' daily lives in numerous ways. Foreign direct investment (FDI) was controlled and domestic companies largely protected from foreign competition. During this period, often referred to as the “license raj,” state policies emphasized import substitution and resulted in a system of governance in which corruption and control were endemic. Telecom was largely a government-controlled monopoly with low penetration levels and extremely poor service.

In 1991, with the economy rapidly collapsing, debt levels reaching unserviceable levels, and barely enough foreign exchange to cover a few weeks of imports, GoI reversed track and decided to implement market friendly economic policies. A decision was also made to proactively pursue strategic interventions in the telecom sector, in line with a desire to spur economic development and ensure inclusive growth. A national telecom policy was formulated to serve as a blueprint towards this end and participation invited from both domestic and foreign players to ensure that market forces prevailed.

Soon after opening up the sector, an independent regulator—Telecom Regulating Authority of India (TRAI)—was established. TRAI was mandated to establish tariffs, advise on introducing new technologies, and protect consumers by ensuring adherence to guidelines and service benchmarks. TRAI, through extensive nationwide public hearings, consulted with civil society, social institutions and private citizens in formulating its bylaws. GoI also invested it with quasi-judicial authority to adjudicate and settle disputes and ensure fair competition in the market.

In 1994, with state owned enterprises continuing to operate in this sector, private bids were invited for services in four metropolitan areas and eighteen non-metro circles. Telecom companies, based on projections of a large urban middle class population with discretionary spending, quoted huge license fees. Tariff rates were proportionally expensive, resulting in poor demand. The problem was accentuated by the high cost of mobile handsets and large investments needed to set up infrastructure. Given this scenario, by 1998 the entire industry was on the brink of bankruptcy.

TRAI intervened and a new telecom policy was enunciated. License fees were waived and the entire industry moved to a revenue sharing model. This strategic move allowed for the entry of a larger number of mobile operators into each telecom circle. TRAI also ensured convergence of technology to enable economies for the entire industry. In 2003 a "calling party pays" regime was introduced which further boosted demand. With lower tariffs, increased competition and a rapidly growing economy the market eventually began picking up.

Over the past two decades India's telecommunication network has grown to be the second largest in the world. The mobile subscriber base alone has increased from a little over 5 million in 2001 to 584 million in March 2010 (India Telecom, 2009). Prevailing tariffs are as low as two cents per minute as compared to thirty cents in the developed world. The industry, often labeled a "poster boy" of successful economic liberalization policies, is expected to reach a size of $77 billion by 2012 and generate employment to ten million people both directly and indirectly.

Rural inclusion

Initially, fast growing urban areas were the focus of interest of telecom providers. It was, however, the rural population that GoI sought to actively engage with as part of its inclusive growth agenda. Indian villages, home to 70 percent of India's population, are widely disbursed and often lack vital infrastructure. Attempting rural penetration hence posed significant challenges. Hurdles confronting telecom providers included affordability, average revenue per user, low literacy levels, and lack of locally relevant content (news, weather alerts, etc.). Clearly, market forces proved inadequate to spur investment in these areas with all players, including state owned enterprises, displaying a marked reluctance to fulfill any social responsibility.

Meanwhile social institutions highlighted that broadband connectivity and mobile telephony in rural areas could offer multiple advantages like improved growth in literacy/vocational skills, increase in employment, real time health care, etc. Planners and politicians realized that telecom could also help blur the urban-rural divide that had plagued Indian since independence. Independent studies corroborated that improved communication technology could facilitate poverty reduction in low-income countries with farmers, fishermen and entrepreneurs using mobile phones to improve their livelihoods (Bhavnani et al, 2008).

Attempting to tackle these challenges and ensure inclusive growth, a Universal Service Obligation Fund (USOF) was set up in 2003. This bill, approved by a special act of Indian Parliament, provided subsidies to private players establishing rural infrastructure. Any cost incurred by operators in offering telecom services in rural areas was reimbursed from the fund. Indirectly every urban consumer using the network ended up contributing to the USOF, which by 2009 had swelled to $5 billion.

GoI, from the proceeds of this fund, commenced a massive investment effort in rural telecom infrastructure. Telecom towers were set up, wire line broadband connectivity provided to telephone kiosks and fiber optic cable connectivity established. Companies with expertise in decreasing costs and working in remote areas were invited on a pilot basis to demonstrate their technology with the stated intention of placing orders with successful bidders. A broadband policy was enacted in 2004 to spur Internet growth in the country, which in turn was expected to be a key driver of inclusive economic growth.

The private sector meanwhile, soon realized the multiple technological advantages that broadband offered. From their perspective it also provided access to large numbers of geographically disbursed customers at extremely competitive costs. Firms soon began operating in multiple domains as widely disbursed as mobile banking, tele-education, financial and agricultural services, e-governance, telemedicine, health and veterinary services, etc.

Despite the success, a word of caution is, however, appropriate, as this case has not been without its share of controversies. The Comptroller and Auditor General, an internal wing of the government that routinely scrutinizes policy implementation, has pointed to substantial losses as a result of 2G spectrum width being allocated to some telecom providers in 2008 without following a transparent bidding process. The country's supreme court has recently intervened and is now hearing the matter. The minister in charge has also resigned.

These recent developments serve to reinforce our argument for the necessity of multiple social institutions as an oversight to the government.

CONCLUSIONS AND A FEW LESSONS

In this section of the paper we seek to operationalize our model and draw on a few lessons that can be learned while doing so. Figure 2 highlights the impact discernible on the ground as the four enablers, working in conjunction with each other, focus on poverty alleviation. In doing so, we examine a few lessons in the context of one particular firm— ITC Limited— which has attempted to harness collaborative entrepreneurship in BoP segments for nearly two decades.

<Insert figure 2 about here>

The first lesson is that both entities, the large firm and the entrepreneur, must find the relationship to be mutually beneficial. ITC, an Indian conglomerate seeking to expand its footprint in commodity trading, gained a competitive advantage in exports as a result of substantially increasing its procurement of soya from individual entrepreneur farmers (Sud and VanSandt, in press). Advantages of scale and scope also accrued to them. The BoP entrepreneur, meanwhile, utilized the vastly improved supply chain created by ITC and leveraged telecom infrastructure to be able to eliminate an information asymmetry and connect directly to markets. This enabled the entrepreneur to be extricated from an unproductive cycle that had long indebted him to rent seeking middleman and usurious village moneylenders. This virtuous cycle has resulted in an unintended, but certainly non-trivial, benefit to the large firm. As a direct consequence of an increase in their discretionary buying power, BoP entrepreneurs have begun purchasing agricultural as well as consumer goods from the rural hypermarkets that ITC set up at the distribution centers where it procures the soya.

This leads us to the second lesson, that of transparency. Despite massive investments in rural infrastructure, ITC gives the entrepreneurs the choice of selling their products anywhere in the market. However, it proffers numerous advantages in terms of immediate payment, accurate weighing and saving of multiple handling costs. The entrepreneurs, utilizing the business platform (e-Chupal) that ITC has set up, are able to make informed harvesting decisions after checking prices prevailing in various markets, including the Chicago Board of Spices. Thus, there is complete transparency and freedom of choice in all aspects of the transaction. As a result of these initiatives, need-based BoP entrepreneurs, earlier largely marginal farmers, are willing to accept a degree of risk and make substantial investment in fertilizers, insurance, and good farming practices. This in turn increases their yields, while providing additional volumes to ITC.

The third critical lesson from this successful collaboration is the necessity of a long-term vision. Faced with a non-existent supply chain and inefficient intermediaries, ITC in the early 1990s had to make substantial infrastructure investments. They are now doing the same while setting up hypermarkets that have long payback periods, but offer a platform into rural India. From the entrepreneurs' perspective, given the numerous events beyond their control (weather patterns, cost of inputs, crop prices ruling at the time of harvesting, changing government policy on agricultural subsidies, etc.), it is essential to have a long-term planning horizon. It is also important to factor in the reality that BoP entrepreneurs, being less sophisticated and exposed to entrepreneurial forces for the first time, are likely to have a steep learning curve.

Significantly, ITC's gains were achieved even as inclusive growth strategies initiated by institutional attempts to tackle poverty were beginning to take effect. The company has been very proactive in getting its rural engagement initiative off the ground while GoI's telecom policies were being given their final touches. This was because ITC visualized a competitive advantage in procuring and processing agricultural commodities through its own supply chain.

In summary, government and/or other social institutions must work with business to provide the impetus for profitable partnerships with need-based entrepreneurs, enriching both parties to the collaboration and broader society. Only by working together across geographic and institutional boundaries can we hope to fulfill the promise of profitable partnerships and alleviate poverty. Societies have grappled with poverty alleviation literally for millennia; we finally have the productive power contained in business to accomplish this task. Ironically, our efforts to alleviate poverty through profitable partnerships have the potential to help the poor while simultaneously enhancing corporate profits.

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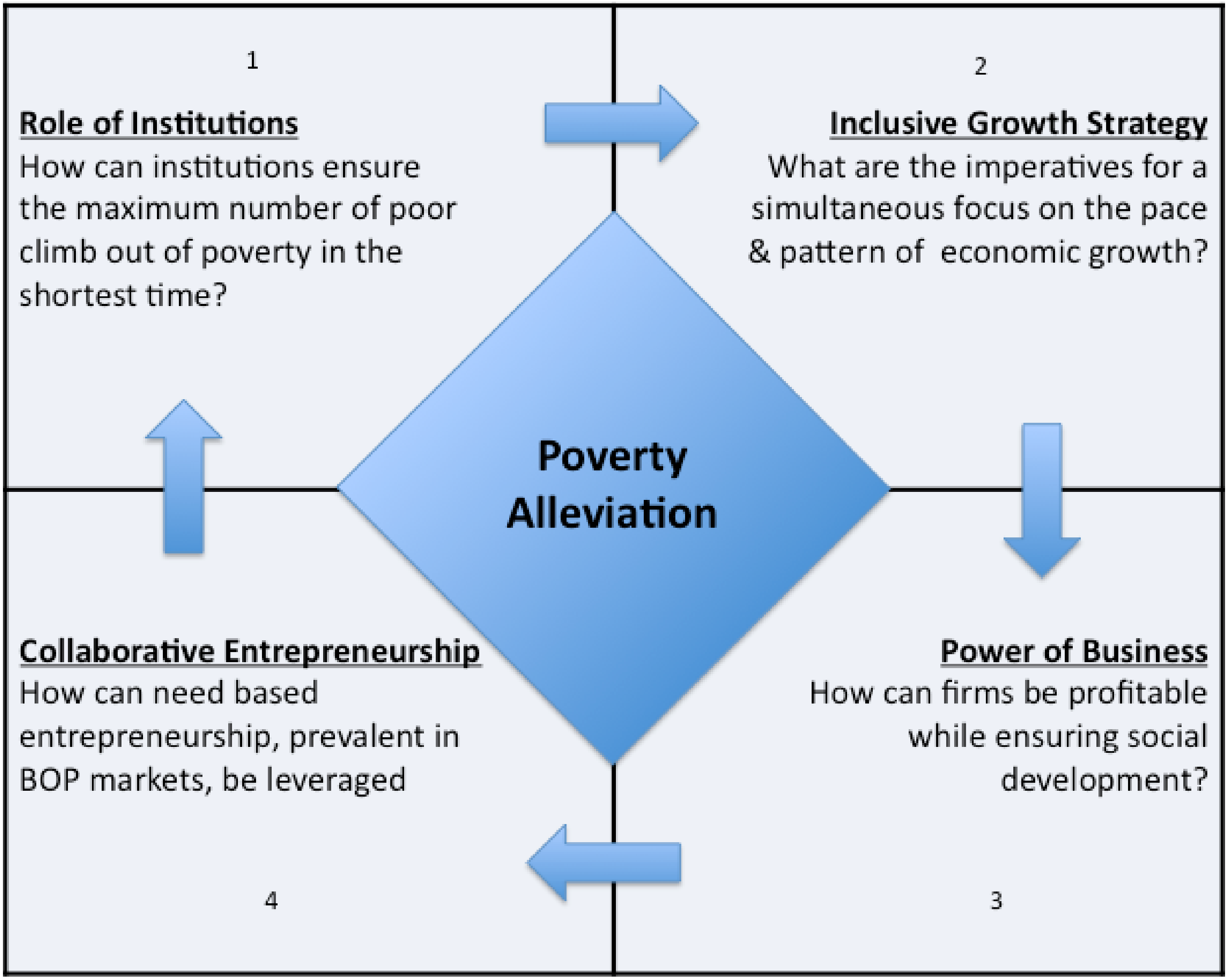
1
Role of Institutions
How can institutions ensure the maximum number of poor climb out of poverty in the shortest time?
2
Inclusive Growth Strategy
What are the imperatives for a simultaneous focus on the pace & pattern of economic growth?
Poverty Alleviation
Collaborative Entrepreneurship
How can need based entrepreneurship, prevalent in BOP markets, be leveraged
Power of Business
How can firms be profitable while ensuring social development?
4
3

Figure 1

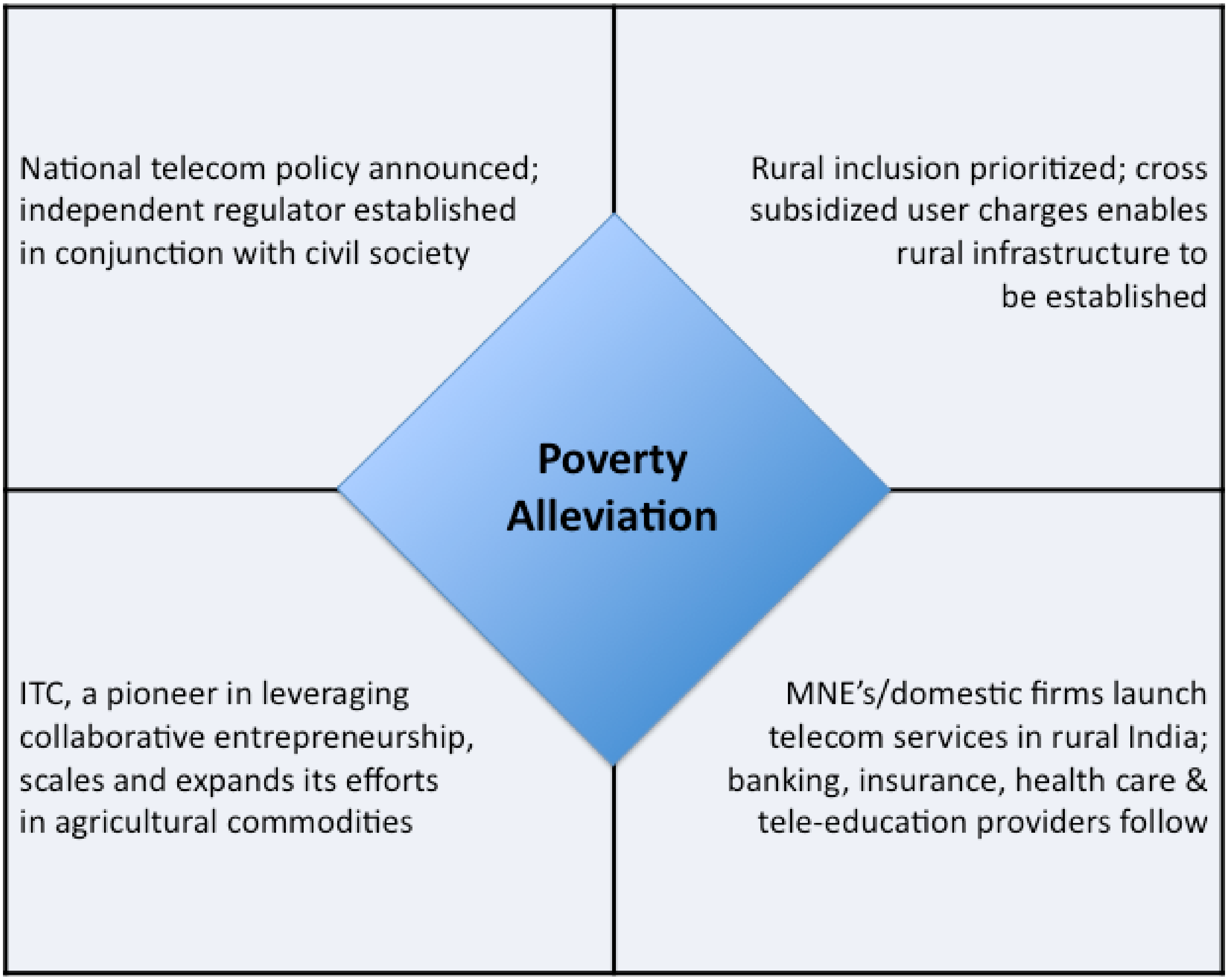

Figure 2

[i] We recognize that persons in poverty are not a monolithic group with identical characteristics and needs. However, lacking a shorthand that adequately captures the multi-faceted nature of these individuals, we will commit the sin of referring to them as "the poor."

[ii] As the largest and most widely dispersed form of business organization, we acknowledge the special place that MNEs have in the fight against poverty. However, we wish to expand the pool to the entire social institution of

"business" because it is arguably the primary driver of economic growth in all its forms. For example, much of the growth in employment comes from small firms. (Social institutions are those arrangements all societies have that channel behavior in prescribed ways; examples are government, religion, education, the family, and the economy).

[iii] The reader will soon realize that, for an academic essay, our paper has relatively few citations from other scholars. We have done this intentionally. The topic we engage with is not merely an academic discourse—a vast number of people's lives are spent in wretched poverty because government officials, politicians, and private citizens have not created solutions to end poverty, or, frankly, to make it a priority to do so. We hope to provide a fresh perspective on and spur actual solutions to the problem.

[iv] We recognize that there are instances in which the government is too corrupt or dysfunctional to be an effective source of moral and practical leadership. In such instances, it will be necessary for ends to be determined by other institutions such as religious groups or the military. This unfortunate reality only strengthens our call for inclusion of other social institutions in addressing the alleviation of poverty.