


# Fostering Economic and Social Change in Developing Markets

By Anh-Dai Lu

**Executive Briefing:** With increasing opportunities shifting to developing markets, the private sector today faces the challenge of achieving both competitiveness and social impact. This paper highlights the need for an integrated approach to economic development and poverty alleviation and provides a focus for future research on policies and best practices that foster inclusive growth.

 As organizations evaluate global opportunities today, the cultural, administrative, geographic, and economic distance (CAGE) framework proposed by Ghemawat in 2001 is still relevant to a great extent. In his article "Distance Still Matters," Ghemawat warns that distance should be measured in more ways than just geographically. Different social norms that create cultural distance, political hostility that contributes to administrative distance, and differences in consumer incomes that create economic distance are examples of other dimensions that a multinational enterprise (MNE) should take into account when entering a new market. In developing economies, MNEs are particularly challenged to develop innovative business models that include the poor at various points in the value chain on the demand side as clients and customers, and on the supply side as employees, producers, and business owners.

## Integrating Economic and Social Development

To achieve inclusive growth, developing economies require an integrated approach to economic development and poverty alleviation. These are markets where economic, social, and environmental considerations are closely intertwined (London & Hart, 2004). There is a risk for a multinational to be perceived as "exploitative foreigner" and judged on the basis of its "foreignness" (Ghemawat, 2010; London & Hart, 2004). While much has been written about the opportunity to serve base of the pyramid (BOP) market, Garrett, and Karnani (2010) argue that there are very few examples of companies that make a profitable business out of providing socially beneficial products and services to the poor that genuinely improve their quality of life. A critical consideration when working with low income communities is to understand not only how successful ventures can create economic opportunities but also how they can cause unanticipated economic shocks. London (2009) suggests that any BOP initiative could potentially impact local communities in 3 dimensions: their economic situation, capabilities, and relationships. Business

decision making should reflect broader societal context regarding value creation and economic growth (see Table 1).

## Engaging Base of the Pyramid Market

To engage BOP market as consumers and producers, companies need to encourage them to act in a new way. Consumers have to understand the benefits of a new product or service to adopt it. Likewise, suppliers and distributors have to see the benefit for changing existing business practices, such as not accepting child labor in the supply chain. In fact, one of the barriers for doing business with the BOP is that poor communities do not always see that value in the product/services being offered and make choices that are not in their own self-interest (Karnani, 2007). Services such as water, electricity or natural gas can be new to low-income communities and some customers may not feel that they should even have to pay for them (Jenkins et al., 2011). According to a survey conducted by the Monitor Group in India, 60% of the respondents would not switch to purified water "even if it was free" (Karamchandani et al., 2009).

Andreasen (2006, p. 6) points out that "social marketing can be applied wherever one has a target audience and a behavior one wants to influence." Using marketing principles and techniques, social marketing aims at promoting behaviors that benefit society as well as the individual (Lee & Kotler, 2011, p. 7). When Unilever introduced its Lifebuoy soap products to such markets as India, Indonesia, and Sri Lanka, the company had to work with its NGO partners on a large scale behavior change program to promote the importance and practice of hand washing with soap at specific times during the day. At the heart of this approach is the exchange theory: the new behavior must be seen as having higher value than the current behavior. In many situations, capacity-building approaches like skills training are necessary to ensure that the behavior change is sustainable.

## Managing Stakeholder Network Relationships

A critical question for MNEs operating in developing markets is how to use relationship marketing to achieve strategic objectives. Moore (1993) describe a business as part of an “ecosystem” in which a company must work with customers and suppliers to define the value proposition, scale up supply, improve the offering, and innovate new ideas. To align stakeholders’ interests and create long-term value, business has to be able to engage stakeholders in positive relationships (Ayuso, Rodriguez, & Ricart, 2006). This could mean some sort of implicit agreement between the organization and its stakeholders to share jointly in the value that gets created. In the context of inclusive growth, the UN Global Compact refers to transformational partnerships as those that tackle complex global development issues to bring about a systematic change through institution of new rules, correction of a market failure, or shift in behavioral norms (Global Compact LEAD, 2011). Consider the example of Project Laser Beam (PLB), its multi-stakeholder model gathers various actors including the World Food Programme, the Global Alliance for Improved Nutrition (GAIN), local governments, and Fortune 500 companies such as Kraft Foods and Unilever. As a cross-sector collaboration, PLB attempts to eradicate child malnutrition by addressing interventions in food, hygiene, and behavioral change. When new solutions are required, PLB calls on new partners to join the platform

with new products and services. The notion of engaging partners is particularly important in today’s context of a shared-power, no-one-in-charge world” (Crosby & Bryson, 2005). “Shared-power arrangements” bring various actors together to share information, activities or resources, power, and authority to tackle common challenges (Crosby & Bryson, 2005). Without question, the private sector has an important role to play in driving this vision forward.

## Conclusion

Value creation in a new global era implies adaptive business practices that are effective in a unique local context. By aligning with common interests, the private sector can better shape the new business environment and contribute to sustainable development.

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## About the Author

Anh-Dai Lu is a regular management consultant to businesses, federal agencies, and nonprofit organizations. She has served on the faculty of various business programs including the Heller School for Social Policy and Management at Brandeis University, and the University of Liverpool Management School. Her research interests include social innovation and poverty eradication. Anh-Dai Lu can be contacted at [adl02451@hotmail.com](mailto:adl02451@hotmail.com) or 978-208-0407.

**Table 1: Integrating Economic and Social Values in Decision Making**

<b>Complexities &amp; Challenges</b>	<b>Product &amp; Service Decisions</b>	<b>Social Value Creation</b>
<ul style="list-style-type: none"> <li>• Local employees, communities and governments have disparate values</li> <li>• Nonmarket and societal stakeholders play important role</li> <li>• Local and global institutional exert pressures for social engagement</li> <li>• Relationship networks involve multiple stakeholders with varying interests and goals</li> </ul>	<ul style="list-style-type: none"> <li>• Co-inventing custom solution</li> <li>• Adapted to low-income communities based on local market knowledge, skills and resources</li> <li>• Engage stakeholders as partners</li> </ul>	<ul style="list-style-type: none"> <li>• Balance interests of different stakeholders</li> <li>• Uniting stakeholders around a common purpose (e.g., inclusive growth, sustainability issues)</li> <li>• Broad stakeholder orientation gearing towards fulfilling social purposes</li> <li>• Local capacity building</li> <li>• Human Development Paradigm</li> </ul>
	<p style="text-align: center;"><b>Pricing Decisions</b></p> <ul style="list-style-type: none"> <li>• Start with the price consumers can afford to pay and work backward</li> <li>• Share costs and resources with partners (governments, donors, and others)</li> </ul>	
	<p style="text-align: center;"><b>Distribution Decisions</b></p> <ul style="list-style-type: none"> <li>• Locally-designed channels that provide additional value to communities</li> <li>• Bottom-up sustainable strategies with community buy-in</li> <li>• Micro distribution and village-based network</li> </ul>	
	<p style="text-align: center;"><b>Communication Decisions</b></p> <ul style="list-style-type: none"> <li>• Educate consumers on benefits of products and services</li> <li>• Raise awareness leading to behavior change</li> <li>• Participate in public policy dialogue</li> <li>• Disseminate lessons learned, share knowledge and practices in networks</li> </ul>	

**Table 2: Project Laser Beam - Example of a Collaborative Network**

<b>Partnership Model</b>	Multi-stakeholder platform addressing systemic issue relevant to local contexts (Bangladesh and Indonesia)
<b>Stakeholders/ Collaborative Partners/Members</b>	UN agencies, Fortune 500 companies, public-private partnerships and others
<b>Value Proposition</b>	Eradicate child malnutrition by taking a holistic approach that includes food, health and hygiene issues in solution
<b>Development Context</b>	Indonesia: BOP markets lack of access to adequate hygiene, sanitation, food and healthcare; average household exposed to more than 130 natural disasters a year.  Bangladesh: severe acute malnutrition in children under 5; not all have access to safe water; prevalence of Anaemia in young children and pregnant women.
<b>Member Capabilities</b>	Complementary: UN has convening power, experience and access into difficult territories. Private sector companies can support local agriculture, empower local food entrepreneurs, train community leaders to provide nutritional education, provide fortified products in ways affordable to the poor, etc.
<b>Incentives for Joining Platform</b>	Common good: “investing in nutrition is an investment in the next generation”  UN: achievement of MDGs; opportunity to tap resources and tools unavailable to UN agencies.  Private sector: remove barriers to future expansion in difficult markets; opportunity for research and knowledge sharing; new product innovation.
<b>Proposed Benefits – “The Solution”</b>	<ul style="list-style-type: none"> <li>• Increase household food security</li> <li>• Increase micronutrient intake</li> <li>• Increase hygiene and parasite control</li> <li>• Increase treatment of severe acute malnutrition</li> <li>• Improve breastfeeding and complementary feeding</li> </ul>
<b>Scaling and Impact</b>	Pilot projects in 2 countries with potential to be replicated in other countries where malnutrition is prevalent

**Source:** Background information taken from the World Food Programme Website, and Global Compact LEAD.

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