

12th EADI General Conference
**Global Governance for
Sustainable Development**

The Need for Policy Coherence
and New Partnerships



**How do Transnational Corporations Influence Poverty as
Capability Deprivation?**

Author:	Professor Dr. Juergen Volkert
Co-Author:	Vanya Petrova
Institution:	Pforzheim University
Address:	Tiefenbronner Straße 65, D-75175 Pforzheim, Germany
E-mail:	juergen.volkert@hs-pforzheim.de
Telephone:	0049-7071-255113

Abstract

In our paper we use the Bottom of the Pyramid (BoP) idea as a point of departure and reference (also for similar approaches focusing mainly on income and commodities) to explain why and how an analysis of TNCs potentials and limits has to go beyond income and commodity issues covered by Prahalad and others. After briefly sketching out the recent BoP-idea, we analyze it in the context of a comprehensive framework containing of main determinants of capabilities. We argue that TNCs' effects have to be assessed using a human development framework to gain a sufficiently comprehensive picture to show main TNCs impacts on poverty and development.

Keywords: Transnational Corporations (TNC), poverty, human development, Bottom of the Pyramid

Preliminary draft! Please do not quote without authors' permission

1. Introduction: Background and intention of this paper

Close to three billion people – nearly half of the world’s population live on less than \$2 a day (Barr, 2005, p. 1; Karnani, 2007a, p. 4; Crabtree, 2007, p.4). While these people suffer from their low incomes, Transnational Corporations have gained a remarkable importance for developing processes. The combined sales of the top 20 TNCs have been estimated to make up nearly 30% of total world GDP (Prahalad & Hart 2002, p.10) and a similarly high income generating potential. Against this background the question arises how TNCs affect the situation of the poor and what their potential contributions and boundaries are to overcoming global poverty.

Referring to this important question, C. K. Prahalad’s recent publications on “The Fortune at the Bottom of the Pyramid (BoP)” have created a highly debated idea and a strong driver of development discussions.¹ In the following we briefly sketch out main ideas of such an anti-poverty strategy focusing on income and commodities and discuss its contributions and shortcomings in a comprehensive human development framework.

2. The Fortune at the Bottom of the Pyramid: the general idea.

In Prahalad’s (2004, p.3) vision, the bottom of the economic pyramid – ‘BoP’, consists of approximately 4 billion people or more, getting by on less than \$2 a day. He argues that this large, untapped, unserved market segment with its peculiar characteristics may considerable opportunities to large private firms for profits, growth and innovation in products, services, technologies, organizational and business models.² TNCs could sell to the poor profitably and at the same time, help fight poverty (Karnani, 2007a, p.3). Prahalad further states that there is no question of CSR or philanthropy there, which both are often not sufficiently integrated with the core business – and therefore lacking sustainability and resources. Moreover, he finds economic investigation related to FDI impacts simply irrelevant (Prahalad, 2004).

The keystones of the model are rational, self-interested commercial enterprises. In this sequence. Prahalad (2004, p. 1) hopes that creating a market for the poor will expand their opportunities and improve their lives. The vision is that setting up the BoP-engine will lead the

¹ See among others Prahalad (2004). His alternative to alleviate poverty spawned enormous interest in it as evidenced by the creation of many projects and centers. His work was voted by *The Economist* to be amongst the top 25 books published in 2004.

² The concept, also known as ‘B24B’ (business-to-4-billion) calls for new ways of thinking and doing business in world’s poor communities, for economic development and social transformation (Boyer, 2003, p.2).

private sector and the society as a whole to prosperity. As Prahalad (2004, p. 7) himself admits, the much-needed and desirable transaction is in its infancy.

Some argue that because of relatively low purchasing power (PP), cultural heterogeneity, embedded assumptions about poor people's needs, desires and consumption patterns, they have been branded as too risky and unreliable customers (Budinich, 2005, pp.2-3). The highly challenging business environment, marked by weak infrastructure, higher transaction costs, currency fluctuations, wide-spread corruption, organizational and other barriers, has also been a serious hindrance for international firms (Prahalad & Hart, 2002, p.1).

Apparently, large multinational players have financial, technological, managerial resources, global knowledge and scale to handle the BoP-challenge. The big question, keeping in mind that we are talking about pragmatic business here, is why should they do this? The assumed motives: growth, profits, innovation. The BoP-niche is described as a fertile land for new growth. Studies indicate a potential stimulus - in any developing country, the total poverty market is proportionally large (Kotler, Robert & Leisner, 2006, p.3).

3. BoP: how poverty shall be overcome

How do the potential impacts of multinational companies, selling to the poor affect low income and income poverty? There are two scenarios for raising the income of poor households: by lowering the prices of goods and services they buy – a way which is central for the BoP-idea – or/and raising their income. The latter is a way that BoP advocates have implicitly mentioned in some examples without explicitly and accurately integrating it into their concept. By reducing the prices of goods and services, the effective income increases and the material standard of living increases by more affordable commodities.

Low-income consumers live in very high-cost sub economies characterized by: inefficient monopolies/oligopolies on the supply side, inadequate access and distribution, strong traditional intermediaries, dubious quality of products. These markets are usually unregulated and often non-institutionalized (Dimri & Sharma, 2006, p.6). Due to these conditions, poor tend to pay higher prices for the same products/services than more affluent people do (Budinich, 2005, p.6). The 'poverty penalty' or 'premium' is universal and ranges from water to credit, only its magnitude differs by country.¹ Besides the cost reduction effect, it is argued that market entrance of TNCs and increased competition, might improve the availability of

¹ In Lima, Peru, a poor family pays 20 times what the middle class pay (Prahalad & Hammond, 2002, p.5), in the shanty town of Dharavi, India – 5 to 25 times what the rich pay. Food often costs at least 20 to 30% more and interest rates of 1000-2000% per annum are not uncommon.

products, provide easier access, better quality. and could raise the standard of living of the poor.

To make commodities cheaper for the poor, firms could use different international pricing strategies, price discrimination, reflecting different price elasticities of product demand (Stottinger, 2001, pp.40-63). Lower prices in poor countries could be compensated by higher prices in affluent countries. In general, the more competitors there are - the higher the elasticity of demand, which logically leads to the conclusion that popularizing and promoting the BOP-market may be a good thing by itself.

Price reduction could also be achieved through innovations and significant improvement of technologies. Skeptics emphasize that most of these changes concern high-tech areas such as: IT, telecommunications, electronic products, etc., and therefore, would not be much beneficial for the poor, who spend most of their low income on basic commodities like food, clothing and fuel. However, this is not always the case. First, creative advancement can affect a wide variety of product categories, including: food, agricultural, medical technologies, fuel cells. By purposive innovations, an accurate mix of high- and low-tech solutions and aggregated demand, TNCs may be able to substantially reduce the costs of products/services, until recently seen as inconceivable for poor consumers. BoP advocates hope that this has much more than just a price-reduction effect and that it will influence the quality of lives by creating social networks, providing connectivity and easier access to information and markets.

Unlike members of affluent households, BoP-consumers shop almost every day but not for much (Prahalad & Hart, 2002, p.10). There is a noticeable, rapidly evolving tendency, often referred as “a single-serve revolution”, of selling small packets of various products such as shampoo, tea, coffee, cold medicines, biscuits, skin cream. In India, for example, around 30% of personal care products and other consumables could be found in single-serve packages. The most commented example in the BoP literature is shampoo sold in sachets (Prahalad, 2004, p.16). An indigent consumer cannot indulge in a whole bottle, as this might cost him his basic survival for days, but he could afford sachets for occasional use without having to sacrifice his nutrition. This option helps managing cash flows, increases convenience and consumption in the sense of expanding potential choices. Prahalad (2004 p. 16) argues that small packages are more “affordable” allowing the poor to try new products and different brands. To be accurate, the single-serve model creates value for the poor, because it smoothens consumption and increases the commodity bundle.

Prahalad (2004, p. 20) hopes that when converted into consumers, the poor will acquire the dignity of attention and choices from the private sector, previously reserved for the middle-class and the rich. Thus, poor individuals are supposed to be able to reap the benefits of respect, self-esteem and self-confidence. According to Prahalad, TNCs, entering the neglected BoP-sector, are prerequisites and powerful stimulus for wealth creation and social transformation; they improve economic opportunities and quality of life.

4. BoP: the mainstream of critiques

Critiques proclaim that the BoP- idea is too good to be true, naively optimistic, unrealistic, a mirage, and even a dangerous delusion (Crabtree, 2007; Karnani, 2006, 2007; Landrum, 2007). First, the BoP-market is grossly over-estimated. In various works Prahalad refers to the ‘bottom of the pyramid’ as 4 and even 4 to 5 billion people. At the same time, the World Bank estimates the number at 2.7 billion in 2001 (Karnani, 2006, p.4). Moreover, Prahalad (2004, p. 22) claims a potential market of \$13 trillion at PPP, while critical reviewers point out its size could be no more than \$1.2 trillion, at PPP in 2002 (Karnani, 2007, p.5). Companies following the BoP-proposition often fail because they overestimate the PP and set prices too high.¹ Some draw attention to the circumstance that the basis of Prahalad’s suggestions is like old wine in new bottles (Walsh et. al, 2005). According this view, many of the ideas put forth by Prahalad (stable market economy with accent on collaboration, innovation, better market framework conditions, eco-efficiency, etc.), have been in existence for years but poverty still persists (Landrum, 2007, p.5). Meanwhile, South Korea, China, India, Vietnam have witnessed certain levels of poverty reduction – not due to BoP initiatives. This may pose a question mark on the transferability of the model between different BoP-markets and economies (Crabtree, 2007, p.18). Prahalad – as well as some of his critics – tends to overshoot with extravagant, far-fetched statements without sufficient evidence.²

In the following we take the BoP-idea as an example for income and commodity based anti-poverty and development strategies which may deserve more attention due to the growing importance of TNCs for generating income in development processes. We establish a capability framework for assessing companies’ impact on human development. We will show that the contribution as well as the limits and critique of income and commodity-based

¹ No doubt, selling a Coke for \$0.57 to people striving to survive with \$2/day is not a bargain!

² For instance, he sees a 10 to 200-times advantage when firms innovate from the BoP up (Prahalad, 2004, p.9).

approaches in general as well as of the BOP-idea in particular can be better understood within such a Human Development framework.

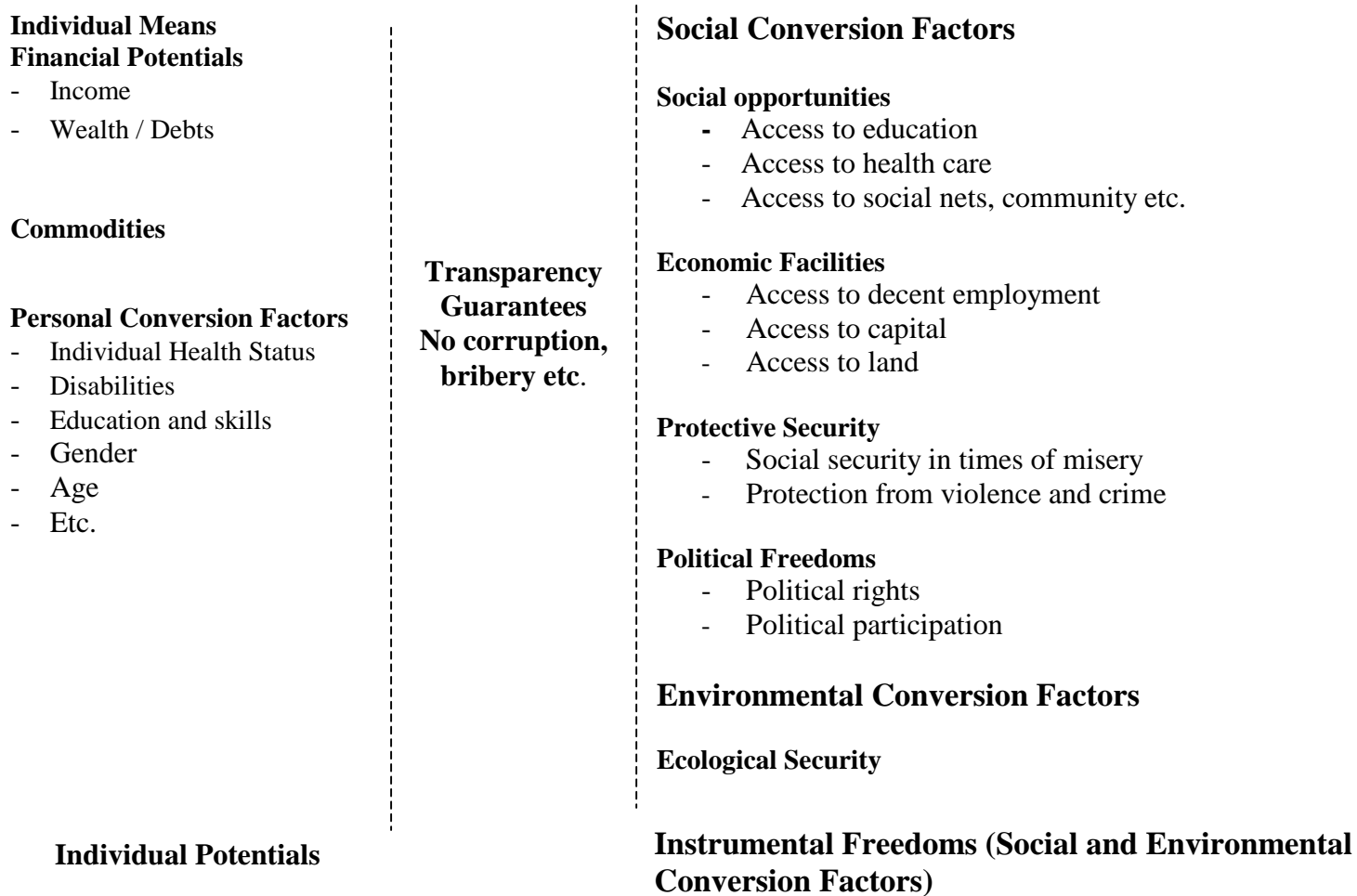
5. The BoP-idea: a Human Development Perspective

According to the human development approach (HDA) the main goal of development is the expansion of the “capabilities” of persons to lead the kind of lives they value – and have reasons to value. This can be consistent with a market-based approach as the main reason for the freedom of market transaction lies in the basic importance of that freedom itself (Sen 1999, p.112).

Following the CA-literature, a general capability framework will see poverty as a *capability deprivation* or the *inability to realize a basic set of capabilities* or as *capability deprivation*. A *functioning* is an achievement, what a person manages to do or be. These *beings and doings* can vary from being adequately nourished, being in good health to complex achievements like having self-respect and appear in public without shame, taking part in the life of the community etc. The various combinations of functionings (beings and doings) that a person *can* achieve are called *capabilities*. The *freedom* that is needed to achieve such a well-being is central for the CA (Sen, 1992, pp. 39-40; Volkert 2006).

To analyze the BOP-idea and other income and commodity based development approaches, it is helpful to discuss its impact on the main determinants of capabilities. These can be depicted as follows.

Figure 1: Main determinants of Capabilities¹



Basically the BOP-idea focuses on affordable commodities and increasing disposable income due to lower commodity prices.

Although modern development approaches in general and the HDA in particular argue in favor of a more comprehensive development concept, there may be good reasons *to begin* with an analysis of income poverty. First, to take account of the importance of this means to a variety of important ends, and second to reflect on deprivation of capabilities for which adequate indicators are not available (Anand and Sen, 2000; Sen, 1992, p. 111; Volkert, 2005b).

Furthermore, while the population in developed countries is seen virtually unchanged by 2050, the inhabitants of the 50 least developed countries are expected to more than double

¹ Arndt/Volkert (2007).

(UN, 2004). According to the World Bank projections, the ‘bottom of the pyramid’ could swell to more than 6 billion in the next 40 years (Prahalad & Hart, 2002, p3). In front of this background, the question how TNCs could increase the incomes of the poor is a very obvious and important one.

It is adequate to stress that TNCs’ contribution must be part of a business case (not philanthropy) and create market opportunities to private firms for profits and growth if it shall become an economically sustainable strategy (Prahalad 2004).

There may also be a certain potential to lower prices by price discrimination, (with higher prices paid in affluent and lower in poorer countries) reflecting different price elasticities of product demand (Stottinger, 2001, pp.40-63). The same holds for potential returns to scale due to innovations spreading across developing and developed markets and creating competitive advantages (Hart & Milstein, 1999).

To adequately assess development impacts, higher disposable income (by lower prices) should be distinguished from an enlarged commodity bundle. This is so because the same income may yield a very different commodity bundle. One reason for this are social pressures. Sen (1999, pp. 89-90) has explained why an individual’s desire and need to be accepted and participate in a society may create demands for more expensive equipment. This is true for rich and poor countries. Competing demands for these items are one reason for hunger in rich countries – even in the United States.

For poor countries Alkire (2002) found out that the poor’s expectations and desires are not restricted to basic capabilities. Instead an analysis of a comprehensive capability set is necessary in order to find out more about poverty in the sense of capability deprivation. Therefore, on the one hand, the whole spectrum of companies’ production may be relevant to overcome capability deprivation of the poor; and to analyze these impacts we will apply the comprehensive framework of main determinants of capabilities (Table 1).¹

On the other hand, it is arguable whether the fact that the typical poor household in Udaipur, India could spend 30% more on food than it actually does (Banerjee & Duflo, 2006, pp.7-8) is really a good news. Companies do certainly have huge potentials to create marketable desires also among the poor. However, at least in some cases this may lead the poor to

¹ A “fundamental capabilities perspective” has recently been provided by Crabtree (2007).

ignore their most important needs and capabilities and accept primary poverty to cope up with social pressures, fostered by companies.

This problem will be more severe when we look at further determinants of capabilities that income and commodity oriented development approaches tend to neglect or at least underestimate.

6. Personal Conversion Factors

More than two decades after Amartya Sen (1987) well-known “Commodities and Capabilities” has been published for the first time, it is at least astonishing that a “new” discussion has emerged in the last few years that focuses mainly on income and commodities. Sen (1987) has argued – as is shown in figure 1 – that means like income and commodities do not automatically lead to a certain well-being. They have to be converted into well-being within a conversion process. The conversion function underlying this conversion process is driven by personal, social, and environmental conversion factors. Therefore, the well-being of people cannot be improved and poverty in the sense of capability deprivation cannot be overcome only by increasing income and providing more affordable commodities.

With a certain set of commodities, individual capabilities are not mainly determined by the quantity of available commodities but rather by the characteristics that are valuable for a certain person. ‘Personal conversion factors’ determine the ability to convert means, such as income and commodities into capabilities, according to personal characteristics (Robeyns, 2005, pp. 98-100).

Among the **personal conversion factors**, individual skills are of particular importance to convert additional commodities into real freedoms.¹ The idea that BoP may improve the situation of the poor as “value conscious consumers” (Prahalad, 2004, p.1) depends on the implicit assumption that people have enough skills for critical value-formation and informed decisions. For example, written information explaining the use and risks of a certain (e.g. pharmaceutical) product will certainly not expand an illiterate’s capabilities. As long as the poor population has insufficient skills, selling complex products to them may mean a romanticizing of the poor as “value conscious consumers” that Karnani (2007b, p. 5; 2007c) considers as a potentially dangerous aspect of the BoP. This danger

¹ Further personal conversion factors, like age, sex and nationality may also affect the conversion of income and commodities into capabilities (Volkert 2006).

will be of special importance for BoP when information asymmetries are exploited by lowering prices and the quality of the products for the poor. (Karnani, 2007, p. 25). Poor people may act economically irrationally and make choices not in their own self-interest (alcohol, drug, tobacco) due to a lack of education, skills and accessible information. Consumer protection, both legal and social, is still inadequate in developing countries (Jaiswal, 2007, p.12).

Hence, the importance of personal conversion factors like skills and education, but also health and other personal conversion factors calls for product standards and a variety of other standards. These standards may be voluntarily set by TNCs as a part of strategic Corporate Social Responsibility; as the CSR-option is challenged by free-rider behavior (Volkert & Bhardwaj, 2006) the state may be indispensable to benefit from companies' potentials. This is because without effective product and health standards, selling to the poor may perhaps expand companies' markets but not the poor's capabilities. Instead a lack of standards may increase the risks and challenges of the most vulnerable in a society.

The whole bundle of individual financial potentials, commodities *and* personal conversion factors certainly has a significant impact on the people's capabilities. In our general capabilities approach this bundle is called "individual potentials". All individual potentials (like income, commodities, skills, health, disabilities etc.) can or must be transferred to any other society and country. Hence they are quite strongly linked to an individual.

Despite the importance of personal potentials as determinants of capabilities, they are not sufficient to assess poverty or wealth from a capability point of view. To give an example: how much a chronic disease like diabetes affects the life expectancy and capabilities depends – inter alia – on the access to efficient health care, knowledge to be aware of the corresponding risks, which is influenced by the (prior) access to an efficient education system, and social security, which guarantees these necessary opportunities also to people with low incomes (Sen, 1992, pp. 111-116; Robeyns, 2005, pp. 98-99).

7. Instrumental Freedoms

Hence, public policy, social groups – and companies play a key role in determining whether low incomes, lack of commodities and poor personal conversion factors really lead to capability deprivation in the long run; or whether companies, public policy and

social groups are able to efficiently overcome these individual problems by the provision of sufficient **‘instrumental freedoms’**. ‘Instrumental freedoms’ summarize the main possibilities of state, public policies, companies and social groups to expand or restrict individual capabilities. Instrumental freedoms are of particular importance to analyze potential impacts of companies on poverty because they include those determinants of capabilities – other than income and commodities – that companies can directly influence. Instrumental freedoms consist of social opportunities, economic facilities, protective security, political freedoms, ecological security and transparency guarantees (Sen, 1999, pp. 38-41; UNEP/iisd, 2004).

Social opportunities reflect the arrangements that society makes to guarantee the access to education, health care, (other) public services, decent housing, social nets and communities and other social institutions. Income and commodity oriented development strategies like BoP tend to implicitly assume existing and effective social opportunities; however, such an implicit assumption ignores that social opportunities are often missing. In the end, a lack of social opportunities may result in an obstacle for income and commodity oriented strategies. There are two reasons for this:

- First, exclusion from social opportunities may limit the access to income and commodities. For instance, it has been stated that the individual consumer very often cannot afford the wares, but a group or even the whole village can. This ‘shared access model’, proposed by the BoP-idea distinguishes access from ownership and makes the system highly cost-effective.¹ However, people who are excluded from a community will also be excluded from such a “shared access” to commodities. In the end, the socially excluded will be those who cannot benefit from a larger commodity bundle and lower prices provided by BoP. Therefore social exclusion will remain a major challenge for BoP and similar approaches working with shared access models.
- Second, a human being can have sufficient incomes and commodities and be socially excluded at the same time. This is because being part of a community has an own value and is not only an instrument to get access to income and commodities. The consequence is that more income and commodities will not overcome poverty as long as social exclusion (and not lack of means) is the main cause of capability deprivation.

Some advocates of the BoP-idea have claimed that a simple replication of the affirmed Western system will not be effective. They call for an accurately weighted combination of

¹ For example, *Grameen Telecom’s Village Phone (VP) programme* in Bangladesh is a unique undertaking that provides modern digital wireless telecommunication services to some of the poorest people in the world through ‘shared purchasing arrangements’ (Budnich, 2005, p.6).

international knowledge and local insights as a crucial prerequisite for success (Simanis et al. 2004, p.4). They recommend and try to operationalize local solutions and innovations within co operations of TNCs and local communities in the developing world. However, there is a certain trade-off between these local solutions and the potential returns to scale due to a market expansion spreading across developing and developed markets (Hart & Milstein, 1999). Therefore, local solutions may be culturally adequate but also limit the possibilities to lower prices as well as BoP's quantitative potentials to reach the poor with affordable products.

Summing up, workable social opportunities and overcoming social exclusion are pre-conditions for successful income and commodity oriented strategies to fight poverty. However, these pre-conditions cannot just be implicitly assumed as given. Instead TNCs alone may have substantial problems to rely or even foster social opportunities. This may be the reason why some of the BoP-cases are not even businesses but NGOs, which undermines the fundament of the BoP-logic (Crabtree, 2007, p.4). Prahalad and Hart (2002, p.6) are at least implicitly aware that social opportunities are most important. They classify it as a misconception to assume that private sector actions solely could solve the problem. Instead they see TNCs as necessary catalysts, but in order to avert the social decay, they call – among others – for local governments, NGOs, development agencies and the poor themselves to work collaboratively.

This does not mean that companies cannot foster social opportunities. Quite a number of TNCs contribute to a better access to education, provide health care and housing etc. However, TNCs' contribution to social opportunities is very diverse. Some are very ambitious and provide health care and education for their workers and their families, others simply ignore or even worsen social opportunities. Those TNCs as well as SMEs, who are strongly engaged in fostering social opportunities, often follow a CSR strategy. For them, enhancing social opportunities is a promising business case and has nothing to do with philanthropy. Therefore, improving social opportunities by strategic CSR may fit very well into Prahalad's motivational concept, although he himself has neglected this issue. However, while some attention has been devoted to the main motivation and drivers of strategic CSR¹ more research has to be done exploring the limits of strategic CSR as the companies' part of a comprehensive development strategy.

Opportunities that individuals enjoy to use economic resources for consumption, production or exchange are called '**economic facilities**'. Economic facilities play a major role in overcoming poverty in developing countries.

¹ For further details concerning these drivers and more literature refer to Volkert & Bhardwaj (2006).

Roughly 1/3 of the world's work force cannot support themselves or their families because of underemployment or low-paid jobs (ILO, 2001). Therefore, Karnani (2007, p.28) has claimed that creating decent employment opportunities with stable and reasonable wages is the most relevant way to overcome poverty. Moreover, critics of the BoP-idea hold up that poor people should be taken primarily as producers (not customers) and companies should rather buy from than sell to them.

However, critics have to admit that Prahalad as well as other income oriented strategies to fight poverty are aware of this. Prahalad cites several examples of powerful enterprises stimulating employment on the BoP-level.¹

Karnani (2007) further specifies that just creating jobs is definitely not enough and the ultimate phase should be increasing productivity such that wages are sufficient and enable employees to jump out of poverty's trap (Karnani, 2007, pp33-34). Indeed, not all jobs do enhance economic facilities and capabilities in the same way. Therefore, given the challenge of low wages in a considerable number of countries, the wage level created directly or indirectly by TNCs in developing countries will have to be identified to assess the impacts on income poverty.

Nevertheless, from a capabilities perspective the impacts of an access into or an exclusion from the labor market cannot be reduced to their income effects. As Sen (1999, pp. 94-95) puts it: "unemployment has many far-reaching effects other than loss of income, including psychological harm, loss of work motivation, skill and self-confidence, increase in ailments and morbidity (and even mortality rates), disruption of family relations and social life, hardening of social exclusion and accentuation of racial tensions and gender asymmetries..."

Hence, the role of an access to the labor market and other economic facilities is not only to generate means like income but serves as a pre-condition of important ends and capabilities like "having self respect", "living a long and healthy life", "taking part in the life of a community" etc.

Therefore, employment effects as well as employment conditions of TNCs have to be identified for a comprehensive assessment of TNCs poverty impacts – going far beyond income effects. Employment effects and conditions will differ between TNCs that export their products and those that engage in FDI in developing countries. Therefore, contrary to

¹ A remarkably successful story is the evolution of *Amul* – the dairy cooperative, buying milk from millions of small village farmers every day (Prahalad & Hart, 2002, p.11; Budinich, 2005, p.10). Previously marginalized, now they are active market participants with regular, dependable income. The 'priceless' (*Amul* translated from Sanskrit) business-social partnership contributed to millions of fates and spurred the Indian 'White revolution': 20 years ago, milk was in short supply, today, India is the largest producer in the world.

Prahalad's (2004) statement, the analysis of FDI effects is certainly not irrelevant for a comprehensive assessment of TNCs impacts on poverty. We have to take account of the abundant economic literature on employment effects and employment conditions, notably the FDI literature, to be able to assess the economic and human development impacts of TNC on the poor. For example, crowding-out effects will have to be considered as the business examples used by BoP-advocates also include fairly small or local organizations, but not TNCs (Karnani, 2007a, p15) and want to convert the poor into "resilient and creative entrepreneurs" (Prahalad, 2004, p. 1).

However, a human development assessment has to go beyond an identification of employment effects and conditions and investigate the far-reaching effects of TNCs' activities on the capability set of the poor. This requires an involvement of the poor population, in order to find out more what kind of TNCs' impacts are most relevant according to their values and life plans.¹

However, access to the labor market is not the only relevant economic opportunity in the context of the BoP-discussion. The BoP-idea proclaims the single-serve model as a way to improve the situation of the poor. Given the existing imperfections in developing countries' financial markets, this may help managing cash flows by smoothing consumption and increase consumption in the sense of expanding potential choices. However, this may be a second-best solution as it could be more efficient to reduce imperfections in the markets by improved access to capital. In this case the poor will not be restricted to spend their income on TNCs single-packages consumption; instead they may prefer more efficient and productive ways to spend their income, for instance by investing in human or real capital.

It should also be mentioned in this context that the access to land as a further component of economic facilities is decisive for the poor. In some cases the population may even be impaired by TNCs which worsens the poverty situation.

Ecological security has been proposed as an instrumental factor which should be incorporated into the capability framework (Scholtes 2005; UNEP/iisd, 2004). Ecological security is defined as "the provision of ecological safety nets to individuals who depend on ecosystem services for achieving many of the constituents of well-being" (UNEP/iisd, 2004, p. 29).²

¹ Alkire (2002) has elaborated a concept for these kinds of evaluations. She has also found out that the results may differ considerably from those of an economic standard analysis of the development and poverty impacts.

² Ecosystems and ecosystem services provide services relevant for human well-being like provisioning (food, fiber fuels), regulating (purification, detoxification, mitigation of droughts and floods) and enriching (spiritual, aesthetic, social) (UNEP/iisd, 2004, p. 5).

As companies do affect ecological security and as the poor tend to suffer most from a lack of ecological security, companies' impacts on ecological security have to be taken into account.

In this respect, the BoP-idea has also not been very clear. For instance, it is an open question why and how TNCs might use "undeveloped regions", devoid of functioning infrastructure and basic goods, as an "ideal testing ground" for creating environmentally sustainable technologies.¹ Instead the single-serve packaging's environmental impacts on environmental sustainability at least deserve more research (Bendell, 2005).

'Protective security' includes social security systems and protection from violence and criminality. A social safety net is needed for preventing a reduction of the capability sets of (parts of) the population to abject misery or even starvation and death. In this respect, companies can contribute to reduce poverty as capability deprivation by providing social security for their employees and their families, an effect that is not very prominent in the BoP-debate as this also is part of strategic CSR, rejected by Prahalad and others. Regarding the role of wealth as an extensive capability set for protective security, it can be assumed that an efficient and fair social security, transfer and tax system should imply higher net financial contributions (net transfers to the social security, transfer and tax system) by citizens and companies with high profits. Therefore, in the context of protective security the question arises how much companies contribute to this issue by paying taxes and other contributions that may finance a social security system. Privileges may occur due to successful political lobbying in favor of tax privileges and exemptions, or simply because of illegal tax evasion. This is an important but also neglected issue as an OECD survey has shown: of 246 codes of conducts, highlighted by the OECD, 148 codes covered labour standards and 145 recognized environmental issues, while only one mentioned taxation (Jenkins 2005).²

Political freedoms refer to the opportunities to participate in determining governments and public policies. The capability approach necessitates a considerable level of citizen participation in politics. This is because policy is to be determined by what people value and have reason to value: the state can, on the one hand, enhance the citizen's political

¹ More information can be found in: Hart & Christensen, 2002

² Moreover, a concept to assess protective security should explicitly incorporate protection from violence, disaggregated for different groups of the whole population.

freedoms. On the other, people's use of these enhanced participatory capabilities will in turn influence the behavior of state and civil society. To analyze this two-way relationship, formal as well as informal opportunities and barriers to participate in political life have to be included. This is necessary as such participation identifies needs and areas where action is required. Needs that are not articulated in the democratic process tend to be neglected and highly influential interest groups can further distort the political process (Sen 1999; Schneider and Volkert, 2005). So CA requires popular access to the political process - both because it is itself an important capability, and because it provides the information needed to formulate effective policies.

There are two main reasons why political freedoms and participation are important for an anti-poverty strategy relying on companies:

- First, because BoP-markets are usually unregulated and often non-institutionalized (Dimri & Sharma, 2006, p.6). The political participation of the poor is indispensable to fulfill the need for efficient institutions in a way that benefits them and enhances their real freedoms.
- Second, because TNCs may themselves be a major obstacle for the implementation of pro-poor institutions. Therefore, the issue of corporate lobbying including its impact on host country's institutions and regulations has to be part of an assessment of TNCs impacts on poverty in a certain country.

In the CA, the opportunities to realize social actions under guarantees of disclosure and lucidity are called **transparency guarantees** (Sen 1999: 39). Obstacles to transparency guarantees may be the result of corruption, bribery, fraud and / or bureaucratization. Conceptually, transparency guarantees are most important because *formal* public policy guarantees of other – already mentioned – instrumental freedoms, like access to health care or social security do not enhance individual capabilities for those people that are not able to benefit from them because of corruption or bureaucratic complexity. Transparency guarantees are indispensable for identifying a lack of *real* freedoms and for privileges resulting of corruption and other obscure social activities. This is of particular importance as the poor suffer more from extra costs of corruption than wealthier households.

Prahalad and Hart (2002, p.1) have identified wide-spread corruption as a serious hindrance for international firms. Prahalad and Hammond (2002, p. 6) hope that transparent, large-scale private sector business can achieve the needed change and foster competition to dramatically reduce poor people's costs. However, the awareness of the need for more transparency and less

corruption does not seem to be well established among TNCs. In this respect the already mentioned OECD study on the codes of conducts of 246 TNCs has shown that less than one quarter of these codes dealt with bribery and corruption despite the increasing significance of these issues in the debate associated with these codes of conduct. (Jenkins 2005: 530 & 539).

7. Conclusion: the need for a more comprehensive framework of analysis

Obviously, instrumental freedoms are important determinants of individual well-being, poverty and wealth in a CA-framework. In the context of our topic the significance of instrumental freedoms is derived from the fact that instrumental freedoms include the factors that can be directly influenced by companies (and the state and social groups). Companies can design and control instrumental freedoms while individual potentials may only be modified indirectly via instrumental freedoms. To give an example: to improve the health of the workers' families companies can provide instrumental freedoms like the access to health care; however, this will not guarantee the improvement of the families' health, as long as the family members are not (able or) willing to make use of this instrumental freedom. Therefore, the conceptual identification of 'instrumental freedoms' and their boundaries illustrate the field that companies (and public policy) can directly influence and which will therefore be in the focus of an analysis and evaluation of the potentials and limitations of companies to improve the situation of the poor by helping to overcome capability failure.

The potential of companies to – positively or negatively – affect instrumental freedoms is often underestimated or even ignored by anti-poverty conceptions focusing mainly on income and commodities. Instrumental freedoms play an important independent role. Above all, a lack or denial of instrumental freedoms to certain individuals or groups will result in social exclusion. This is not necessarily linked to low incomes or an insufficient commodity bundle. In some cases, minorities with high incomes and wealth are particularly suffering from social exclusion as the role as a TNCs' customer does also not prevent from social exclusion. Moreover, example, deficits of individual potentials like income poverty or a severe disease do not constitute exclusion as such.¹

As companies tend to influence all of these instrumental freedoms, it is argued that a comprehensive analysis of poverty as capability deprivation must take account of the full range of instrumental freedoms. TNC's impact on instrumental freedoms may reduce poverty as

¹ Instead it is the lack of corresponding instrumental freedoms like the denial of social security payments or of an access to health care in these situations that lead to social exclusion.

capability deprivation but also increase it. Moreover, in quite a few cases there will be a mixed result because of different impacts on the various instrumental freedoms, that may be hidden in a more restricted perspective. Unfortunately, most of the current contributions to this topic only refer to no or only a limited number of instrumental freedoms in addition to income poverty assessments. Therefore, these studies are not able to identify the comprehensive impact of TNCs on poverty as capability deprivation.

Prahalad's hope that poor individuals can reap the benefits of respect, self-esteem and self-confidence will certainly not become true if the poor have become customers without being socially included. TNCs, entering the neglected BoP-sector, may not be able to sufficiently improve the poor's quality of life as long their situation is mainly determined by social exclusion, which might also be reduced by TNCs.

Moreover it has been shown that companies are able to either ignore or protect personal conversion factors like health (by voluntary product and health standards). Therefore, they have at least an indirect possibility to work against poverty as capability deprivation resulting from a lack of personal conversion factors.

To sum up, we argue that it takes much more than to focus mainly on means like income and commodities to completely assess TNCs potentials, risks and limitations to improve the situation of the poor and foster development. This becomes very obvious when we compare the BOP-idea with the Millennium Development Goals that are related to the HDA.¹

While income is just mentioned once in the first goal, commodities as such are only part of targets 17 and 18. Instead most of the goals and targets are concerned with important personal, social and environmental conversion factors. Therefore, the increasing number of TNCs who have started to report on their impacts on poverty and development with reference to the MDGs (SustainAbility 2006) might also suffer from a reduction of anti-poverty and development measures to provide commodities and income – because they have much more to offer than just these. This does not mean that the MDGs should be treated like a “holy grail”. From a human development and capability perspective they are an incomplete list as a result of a political compromise. Quite a number of potential TNCs' impacts and goals are missing. Most obvious is the lack of a goal associated to transparency guarantees, corruption and bribery, which, as has been discussed, are of high importance to fully identify companies'

¹ <http://www.un.org/millennium/declaration/ares552e.htm>

impacts on poverty and development. Therefore, we argue that the underlying human development and capability approach itself may be most promising to assess TNCs' potential and impacts to improve the situation at the bottom of the pyramid.

References:

- Alkire, S. (2002): *Valuing Freedoms: Sen's Capability Approach and Poverty Reduction*, Oxford University Press, Oxford.
- Anand, S. and A. Sen (2000): The Income Component of the Human Development Index, in: *Journal of Human Development*, 1 (1): 83-106.
- Banerjee, Abhijit V. / Duflo, Esther (2006): The Economic lives of the poor, Massachusetts Institute of Technology, Department of Economics Working Paper 06-29, Cambridge MA, pp. 1-43
- Barr, Michael S (2005): Microfinance and Development, in: *Michigan Journal of International Law*, Volume 26:271, pp. 271-296
- Boyer, Nicole (2003): The Base of the Pyramid (BOP) Reperceiving Business from the Bottom Up, Global Business Network Working Paper, pp.1-21
- Budinich, Valeria (2005): Market-Based Strategies Serving Low-Income Populations, A Framework for Action, Ashoka Innovators for the Poor Working Paper, pp.1-15
- Crabtree, Andrew (2007): Evaluating "The Bottom of the Pyramid" from a Fundamental Capabilities Perspective, Copenhagen Business School Centre for Business and Development Studies Working Paper No.1, pp.1-22
- Dimri, Aditi / Sharma, Amiya (2006): Living on the Edge and paying for it, Centre for Civil Society Working Paper, pp. 1-44
- Hart, Stuart L. (2007): *Capitalism at the Crossroads*, Wharton Scholl Publishing, Second Edition, pp. 1-260
- Hart, Stuart L. / Christensen, Clayton (2002): The Great Leap: Driving Innovation from the Base of the Pyramid, MIT, in: *Sloan Management Review*, Volume 44, No. 1, pp. 51-56
- Hart, Stuart L. / Milstein, Mark B. (1999): Global Sustainability and the Creative Destruction of Industries, MIT, in: *Sloan Management Review* 41, pp. 23-32
- ILO (2001) World employment Report 2001, in: *International Labor Review*,
- Jaiswal, A. (2007): Fortune at the Bottom of the Pyramid, an Alternative Perspective, Indian Institute of Management Ahmedabad Working Paper No. 2007-07-13, pp.1-22
- Jenkins, R. 2005. Globalization, Corporate Social Responsibility and Poverty, *International Affairs*, 81, 3: 527-539.
- Karnani, Aneel (2006): Mirage at the Bottom of the Pyramid, How the Private Sector can help alleviate poverty, William Davidson Institute Working Paper 835, pp.1-29
- Karnani, Aneel (2007a): Fortune at the Bottom of the Pyramid: A Mirage, How the Private Sector Can Help Alleviate Poverty, Stephen M. Ross School of Business at the University of Michigan Working Paper, in: *the California Management Review*, pp. 1-42
- Karnani, Aneel (2007b): Doing well by Doing Good, Case Study: 'Fair and Lovely' Whitening Cream, Stephen M. Ross School of Business at the University of Michigan Working Paper No. 1063, pp.1-19
- Karnani, Aneel (2007c): Romanticizing the Poor Harms the Poor, Stephen M. Ross School of Business at the University of Michigan Working Paper No. 1096, pp. 1-24
- Khawari, Aliya (2004): Microfinance: Does it hold its promise? A Survey of recent literature, Discussion Paper No. 276, Hamburg Institute of International Economics, pp. 1-43
- Kotler, Philip, Roberto, Ned & Leisner, Tony (2006): Alleviating Poverty: A Macro/Micro Marketing Perspective, in: *Journal of Macromarketing* 26, pp. 233-239
- Landrum, Nancy. E (2007): Advancing the "Base of the Pyramid Debate, University of Arkansas at Little Rock Working Paper, in: *Strategic Management Review* 1(1), pp. 1-12
- Littlefield, Elizabeth, Morduch / Jonathan & Hashemi, Syed (2003): Is Microfinance an effective strategy to reach the Millennium Development Goals?, Consultative Group to Assist the Poop Focus Note 24, pp. 1-9
pp. 1-371
- Prahalad, C. K. & Hammond, Allen (2002): What works: serving the poor, profitably; A Private Sector Strategy for Global Digital Opportunity, *Harvard Business Review* pp. 1-40

- Prahalad, C. K. & Hart, Stuart L. (2002): The Fortune at the Bottom of the Pyramid, in: *Strategy + Business* 26, pp.1-16
- Prahalad, C. K. (2004): *Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*, Wharton School Publishing, pp. 1-401
- Richardson, D., Ramirez, R. & Haq, M. (2000): *Grameen Telecom's Village Phone Programme in Rural Bangladesh: a Multi-Media Case Study*, TeleCommons Development Group Final Report, pp.1-104
- Robeyns, I. (2005): The Capability Approach. A Theoretical Survey, in: *Journal of Human Development*, 6 (1): 93-114.
- Schneider, F. and J. Volkert (2005): Politische Chancen, Armut und Reichtum, in J. Volkert (Ed.) (2005): *Armut und Reichtum an Verwirklichungschancen. Amartya Sens Capability-Konzept als Grundlage der Armuts- und Reichtumsberichterstattung*: 259-281. VS Verlag, Wiesbaden.
- Scholtes, F. (2005): Ensure Environmental Sustainability: MDG7 and the Capability Approach, *Maytreyye, Newsletter of the Human Development and Capability Association*, No. 2: 8-9.
- Sen, A. (1987): *Commodities and Capabilities*. New Delhi, Oxford University Press.
- Sen, A. (1992): *Inequality Reexamined*, New York, Oxford.
- Sen, A. (1999a): *Development as Freedom*, Oxford University Press, Oxford.
- Simanis, E., Hart, S. / Enk, G. / Duke, D. / Gordon, M. & Lippert, A. (2004): The BOP Protocol. Strategic Initiatives at the Base of the Pyramid, A Protocol for Mutual Value Creation, drafted by the Base of the Pyramid Protocol™ Workshop Group, Wingspread Conference Center Working Paper, pp.1-37
- Stottinger, B. (2001): Strategic Export Pricing: A Long and Winding Road, in: *Journal of International Marketing*, pp.40-63
- SustainAbility (ed.) 2006. *Tomorrow's Value. The Global Reporters 2006 Survey of Corporate Sustainability Reporting*, report by UNEP, Standard & Poors and SustainAbility, London and Paris.
- UN World Population Prospects: The 2004 Revision Highlights, Department of Economic and Social Affairs, Population Division, NY February, 2005, pp. 1-105
- UNDP (2006): *Taking gender equality seriously: Making progress, meeting new challenges*, UNDP Bureau for Development Policy, Gender Unit, pp.1-16;
- UNEP/iisd (Eds.) (2004): *The United Nations Environment Programme / International Institute for Sustainable Development Exploring the Links: Human Well-Being Poverty and Ecosystem Services*, Nairobi, Kenya and Winnipeg, Manitoba, Canada.
- Volkert, J. (2005b): Das Capability-Konzept als Basis der deutschen Armuts- und Reichtumsberichterstattung, in: J. Volkert (2005; Ed.): *Armut und Reichtum an Verwirklichungschancen*: 119-147. Wiesbaden: VS Verlag für Sozialwissenschaften/ Springer Media.
- Volkert, J. (2005c): Armut als Mangel an Verwirklichungschancen („capability deprivation“). Ein Adäquater Methoden-Ansatz, in: J. Volkert (2005; Ed.): *Armut und Reichtum an Verwirklichungschancen*: 73-94. Wiesbaden: VS Verlag für Sozialwissenschaften/ Springer Media.
- Volkert, J. (2006): E.U. Poverty Assessment – a Capability Perspective, in: *Journal of Human Development*, Vol. 7, No. 3, Special Issue: Selected Papers from the 5th International Conference on the Capability Approach: Knowledge and Public Action, UNESCO, Paris, September 2005: 359-383.
- Volkert, J. (Ed.) (2005a): *Armut und Reichtum an Verwirklichungschancen. Amartya Sens Capability-Ansatz als Grundlage der deutschen Armuts- und Reichtumsberichterstattung*. Wiesbaden: VS Verlag für Sozialwissenschaften / Springer Media.
- Volkert, J.; Bhardwaj, G. (2006): A Human Development Approach to improve CSR Impacts on Development? Paper to be presented at the Annual Conference of the Norwegian Association for Development Research (NFU) at the University of Oslo, September 13-15, 2006
- Walsh, J., Kress, J. & Beyerchen, K. (2005): Book Review Essay: Promises and perils at the Bottom of the Pyramid/ The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits, in: *Administrative Science Quarterly*, 50(3): pp.473-482.