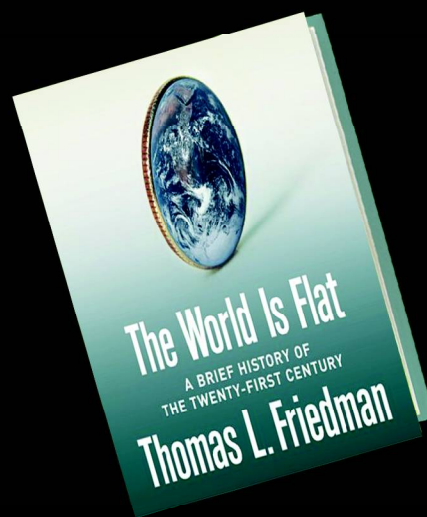


Business, Inequality and Politics

Flattening of Gaps?

The so called 'flatness' of the world shows that in spite of the progress of globalization, several gaps still need to be addressed, particularly in emerging markets. This opens an incredible opportunity for companies to cater to the needs of the global emerging consumers, as they increasingly rise out of poverty. But to focus on this, companies need to rethink not only their business models, but also the impact their actions have in emerging societies which often lack strong regulatory systems.



In 1983, the late Professor Ted Levitt published in the Harvard Business Review another of his renowned articles, “The Globalization of Markets”, asserting that world markets were moving towards greater convergence—and even to a sort of massive global standardization. More recently, after visiting Bangalore and calling from his US home to a utility call center located in India, reporter Thomas Friedman shared his views on how the world is becoming smaller and more unvarying in his book, *The World is Flat*. Distances are shortening, and communications broaden our reach, creating new opportunities for collaboration and exchange. This ubiquity enhances brand power: La Martina, an Argentine brand, sells top-quality, European-made garments in

London, at prices that amaze—to put it mildly—its fellow Argentineans. Many world carriers have added Embraer for their short flights, given the high quality of aircrafts manufactured in Brazil. Ranbaxy is aiding health programs in Africa more effectively than the traditional Western pharmaceutical companies, supplying low-cost drugs, much as Farmacias Similares does in Mexico for its low-income population. And the list does nothing but increase as we read this article, with incumbents from all over the emerging world providing creative solutions to the world's emerging middle-class.

Nonetheless, some signs seem to challenge these anticipatory visions. The world may be flat, but, in Latin America,

Brazil captures a much larger share of foreign investments than its neighbors. In Europe, Ireland grew twice as fast as its fellow EU member states, while it is now struggling to regain its growth rate. A few blocks away from Bangalore's technological district, you can still find widespread poverty, and the experience can be repeated in any emerging country. Oddly enough, some resilient backward gaps remain unresolved, sharply contrasting with clear signs of progress and apparent flatness of the world. While the world moves towards greater convergence, the divide between the most advanced nations and those that lag behind seems to grow bigger and wider. On the one hand, there is a digitalized world with Internet, G3 mobile service, emailing, MP3 and all the benefits afforded by technology in a virtual environment. On the other hand, as Robert Isaak points out in *The Globalization Gap*, a large share of the planet still lives in a tangible reality, where several gaps heighten poverty conditions.

A persistent protection of producing minorities in developed countries fuels ongoing artificial imbalances between food trade and exchanges involving high-tech products, as shown by the continuing deadlocks at the WTO's Doha round. Overbearing loans and debt restructuring schemes bind debtor states to restrictive policies that favor short-term economic goals while driving them away from long-term improvement investments in education, healthcare, and institutional strengthening. In education, the most advanced nations have access to higher educational levels that keep them abreast of new developments, while poorer countries are falling behind with stagnant education means. Similarly, digital technology availability becomes much harder for the poor. Women have fewer

job opportunities and get paid less for doing the same job as men. As Fernando de Soto has noted, informal ownership of land and goods makes it impossible for the poor to leverage their scarce capital, while typically unstable self-employment deprives them of any access to loans on reasonable terms.

The increasing difficulties caused by these gaps encourage political clientelism, disguising corruption with short-term promises and blaming backwardness on foreign foes. Some of these gaps are the sole responsibility of governments—education, healthcare, security, law enforcement and justice. However, businesses can help to narrow other gaps, enabling the poor to access better living conditions with innovative offerings. For quite some time now, flexible credit terms have been the key to success for retailers selling anything from clothes to appliances. Adapting technology-based products, like cellular phones and computers, to suit the actual needs and purchasing power of lower-income segments provides a means to tap into huge volume markets, while improving the lives of millions, doing good and doing well. A similar outcome is achieved when products are packaged in smaller formats—from batteries and shampoo to mobile phone cards and rates.

Two core features characterize all these offerings: a raised awareness about opportunities to mitigate poverty, and the use of intelligent resources to adjust products and services to serve the poor. First and foremost, there is a new, smart and innovative approach to an issue that has traditionally been viewed as restrictive and bleak. Poor populations are now regarded as active markets waiting to be served. Second, with this changed outlook, more resources are devoted to devising adequate offerings, even to the point of

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revising entire business models to solve 'impossible' problems. Thus, the weight of this issue has shifted: it is no longer the poor who cannot afford better products or services, but the companies that cannot access to these vast market segments and cater to their needs. This new perspective opens new markets and triggers opportunities for top management intelligence, bringing new possibilities to effectively change reality with choices supported by genuine

disengagement between politics and business that deepens stagnation: companies limit their scope to their business, taking no part in the remaining life of society.

Companies offer more and better options to choose from; they provide information to consumers, luring them to capture their interest and earn their loyalty. Many try to be inclusive, bringing quality and innovation to all. Business success hinges on value

crises, growing competition and the need to survive, business leaders undermine the social significance of their task, and some occasionally disregard the moral principles supporting their daily decisions. They often feel more at ease within the boundaries of business practices, figuring out what tool, technique or process will be better suited to advance their business goals. Yet, they cannot afford to overlook the impact of those

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knowledge capabilities. These responses, rooted in companies' true business focuses and addressing the needs of sustainable development, are a natural and smart way to embrace corporate social responsibility, advancing the true purpose of business—improving society while closing the gap between the have-alls and have-nots.

The Politics of Business

However, companies are often criticized for some questionable practices or their neglect for the effects of their practices on society, from pollution and overly profitable business deals to the promotion of selfish materialism. Nevertheless, considering their impact on industrialized societies, they clearly contribute to modern life improvement. Comparing business to politics, it is equally clear that both sectors are intended to provide society with analogous benefits. Yet, we witness

exchanges with customers as well as the consumption of goods and services that meet their needs and improve their lives.

As John Quelch and Katherine Jocz point out in their book *Greater Good*, companies are relevant to democracy as a result of the mission adopted by many good business leaders: enabling underprivileged consumers to enjoy greater welfare at lowering prices. This commitment translates into efforts to produce \$20 mobile phones, consolidating orders by service providers around the world; \$110 personal computers or \$2,200 cars. Just as refrigerators saved shopping errands, broadened food choices, and improved health conditions at middle-income homes early in the last century, the goal today is to narrow the digital divide, driving new opportunities and life options to emerging consumers.

However, this contribution appears to go unnoticed. Besieged by frequent

choices on individual consumers, markets and society at large.

Profitability is an inherent feature of business, and it certainly provides a measurement for business success, but not the only one. Of course, as Jack Welch wisely pointed out, "Only healthy companies can give back to society. Losing companies cannot give anything back." However, just a person's goal in life is not to breathe—though we cannot live without breathing—the purpose of business is to create value to its customers while ensuring its profitability and not the other way around.

The benefits provided—exchange, consumption, choices, information, appeal and inclusion—are very similar to those afforded by democracy. In fact, these benefits are also relevant to democracy, which depends on educated citizens engaging in the political process and choosing from among the available alternatives. Democracy seeks to

promote the well-being of all citizens, enabling them to participate in political decisions. It may even be argued that the daily practices we engage in as consumers make us better, more informed citizens.

Winston Churchill's remark on democracy being "the worst form of government, except for all those others that have been tried" may largely apply to businesses, as well. Central planning, nationalization and excessive regulation have been repeatedly attempted with consistently poor results. Letting consumers spend their money as they see fit might very well be the worst system, except for all the others.

Historical evidence suggests that good companies and true democracy are both beneficial for society—and, above all, they need each other.

Democratic societies favor the blossoming of business. And democracy is the bedrock for sound institutions that guarantee transparency and balance among the different parties. To eradicate bad business practices and build a fair market, effective regulatory frameworks—unthreatened by special and despicable interests—are needed. Without sovereign citizens acting in social institutions, including markets, both citizens and companies will fare much worse. In turn, democracy relies on businesses to enhance living standards and to fuel economic growth.

Nonetheless, an analysis on how democracy performs in terms of choices, information, appeal and inclusion reveals that it falls short in more than

one category. Even more in the case of emerging democracies that require care for improvement and institutional strengthening, as its shortcomings could be minimized with the use of the best business practices. It is time for business leaders to realize the commonalities shared by both business and democracy in order to guarantee the people's ability to create a greater good, not only safeguarding their operations from an economic viewpoint, but also sharing their experiences with politicians to improve democratic societies. The challenge that emerging markets seem to be facing in this still new century calls for business leaders to reckon that the business doesn't stop in the business. ☺

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