# Good or Bad?

## Understanding the Development Effects of MNCs

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# Executive Summary

While it is widely accepted that business is the key driver for economic growth, it has long been contested whether multinational corporations (MNCs) are "*the leading edge of positive change*" or *"irreducibly a part of the problem"*, as the world is experiencing increasing wealth disparity and poverty issues despite high economic growth (Zadek, 2001; CCIA, 2001). Being motivated by the highly undifferentiated and one-dimensional debate about the role of MNCs in relation to development and the 'idealisation' of new MNC strategies, we set out to examine *"Which MNC strategy is most conducive to development?"* With this research question in mind, we aim to nuance the current debate by obtaining a broader understanding of the different MNC strategies and their conduciveness of development as this issue is exceedingly more complex than what it is made out to be in the current debate. As the debate has triggered the emergence of new MNC strategies with a more explicit focus on being conducive to development, several alternative MNC strategies were looked at in order to find out how the conventional MNC compare to these. These alternative strategies are the Bottom of the Pyramid, the Corporate Social Responsibility strategy, and the Social Business Enterprise, which all to varying degrees focus on social rather than financial returns.

To answer the research question, we first set out to outline the strategies in order to systematise the descriptions and thereby enable a clearer understanding of the differences. In addition, three dimensions were derived in order to capture the diversity of the development effects of the MNC strategies. Based on these two sections, an analytical framework was developed, allowing for a comparison of the strategies and serving the purpose of structuring and guiding the analysis. The logic behind the framework is that for an MNC strategy to be conducive to development it has to rank high on all three dimensions, i.e. it has to be efficient in order to create economic growth, it has to focus on the poor in order to meet the more human aspects of development, and finally it has to be commercially sustainable in order to have long term development effects. The comparison of the strategies has in part been done through empirical case studies from the dairy industry in order to deepen our understanding of the strategies' development effects and to lay the empirical background for the analysis. Furthermore, these case studies helped identify certain trends and trade-offs between and within the strategies. This empirical study has been supplemented by a theoretical analysis and discussion in order to further deepen the knowledge and nuance the debate.

We found that the MNC rated high on the 'Efficiency' and 'Sustainability' dimensions, while rating low on the 'Poverty' dimension. The CSR rated medium on 'Efficiency' and medium/low on 'Poverty' and 'Sustainability'. The BOP rated medium on all three dimensions, while the SBE rated high on 'Poverty' but low on 'Sustainability' and medium/low on 'Efficiency'. While it can be argued that the MNC is most conducive to development compared to the three other strategies as it rates high on two dimensions, the most important finding from the comparison is that each strategy has

certain inherent trade-offs, thus complicating matters in regards to being conducive to development on all dimensions. Lastly, it became evident that the borders between the strategies have become blurred as businesses choose elements from the different strategies or pursue two or more of the strategies at the same time in order to overcome the trade-offs identified.

The findings of the study have three main implications; firstly, for the debate about the development effects of MNCs as it has become apparent that the debate indeed is too undifferentiated and one-dimensional. As the MNC is found to be somewhat conducive to development, it can be argued that it has been too severely criticised. On the other hand, the alternative strategies seem to have been 'idealised', as they are found to have several shortcomings. Secondly, the findings have implications for the academic literature as an encompassing analytical framework is needed in order to assess and compare the development effects of the different MNC strategies in a more nuanced way. Finally, the findings have strategic implications as managers have to be aware of the consequences the inherent trade-offs bring about. This allows them to prepare for the challenges they will be faced with when pursuing the different strategies or a combination hereof. In addition, it has been found that MNCs *are* being conducive to development, however just not directly towards including the poor in its activities. If managers can successfully communicate this in the debate, the criticism of the conventional MNC might be mitigated, possibly rendering the alternative strategies superfluous.

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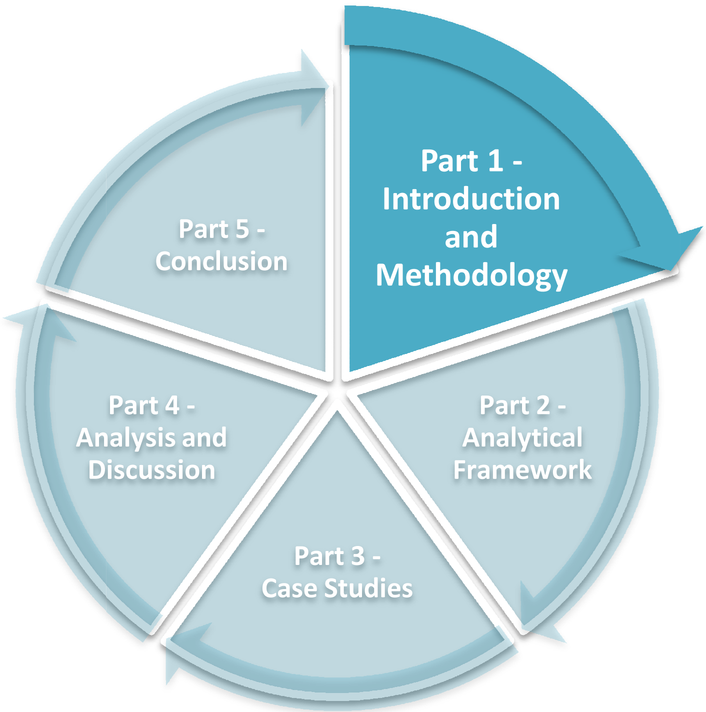
# Part 1 – Introduction and Methodology




**Part 1 – Introduction and Methodology** consists of two chapters. In chapter 1, the research topic, the research objective, and the scope of the thesis will be introduced, followed by a reader's guide. In chapter 2, the methodological choices and implications will be explained.

# Chapter 1- Introduction

## 1.1. Introduction

As the world has become increasingly globalised, international trade and investments have grown much faster than the world economy. Multinational corporations (MNCs) have increased their presence in foreign countries dramatically, especially in developing countries. According to the latest World Investment Report from UNDP, "*World foreign direct investment inflows rose last year to a record level of $1.8 trillion. Developing and transition economies attracted more flows than ever before, reaching nearly $600 billion – a 25% increase over 2006, and a third of the global total*" (UNDP, 2008:iii).

However, while it is widely accepted that business is the key driver for economic growth, it has long been contested whether the conventional MNCs are "*the leading edge of positive change"* or *"irreducibly a part of the problem"*, as the world is still dealing with increasing wealth disparity and poverty issues despite high economic growth (Zadek, 2001; CCIA, 2001). During the past two decades, advocacy NGOs and certain academic circles have managed to mobilise public opinion and make substantial gains in pushing the 'corporate social responsibility' and 'ethical business' issues right to the top of company agendas. Furthermore, MNCs are constantly being criticised for lacking an explicit focus on development and poverty reduction in their strategies (Zadek, 2001; Henderson, 2000), and claims of MNCs being bad for development are many. Due to these strong NGO campaigns and academia claims, how we perceive the role of MNCs today has shifted, and many MNCs themselves have come to realise that they cannot ignore their responsibilities. In fact, a world opinion survey from 2005 showed that the majority of 60,000 leaders in 50 countries believe that MNCs must do more to ensure a positive impact on the societies in which they operate (Lodge and Wilson, 2006). Due to this change in attitude, an increased focus on the development of new MNC strategies with the specific aim of maximising social benefits or in other ways being conducive to development has emerged. As the rhetoric in the literatures about these alternative strategies is strong, a form of 'idealisation' of these strategies has emerged, viewing them as 'the solution to the world's problems' and as necessary alternatives to the 'bad' conventional MNC.

However, while the discussions about whether the conventional MNC is conducive to development are highly normative and one-dimensional, the development effects of all the MNC strategies are exceedingly more complex than what they are made out to be in the current debate. In order to contribute to a more nuanced and multidimensional debate, we therefore set out to examine the role of MNCs in relation to development in more depth.

## 1.2. Problem Field

In addition to the conventional profit maximising Multinational Corporation (MNC) strategy, the past decades have seen a surge in demand for Corporate Social Responsibility (CSR) which has greatly influenced businesses operating in developing countries. Additionally, C. K. Prahalad and Stuart Hart have drawn attention to the market opportunities at the Bottom of the Economic Pyramid (BOP) and most recently, Nobel peace prize winner and Microfinance guru, Dr. Muhammad Yunus, has proposed a new type of business, which he calls the Social Business Enterprise (SBE). The literature about the latter three MNC strategies explicitly focus on being conducive to development, claiming that they can maximise social benefits while still making sound business activities, thus creating a win-win situation for businesses and society. In brief, CSR strategies usually focus on showing social and environmental responsibility in relation to the business activities, e.g. in relation to ensuring proper working conditions or limiting pollution. The purpose of the SBE is to solve social problems and maximise benefits for the poor, while businesses operating in the BOP market are focused on delivering benefits to the poor, either by selling products or services to the poor and/or by including the poor in the firm's value chain. Contrary to the three mentioned strategies, conventional MNCs commonly focus on profit maximisation and the bottom line without any explicit intention of creating development.

Due to these differing foci ranging from maximising social to financial returns, and the highly undifferentiated debate about the MNC and its development effects or lack hereof, we have been inspired to look at which strategy is most conducive to development: the conventional MNC strategy where 'the business of business is doing business', or the alternative strategies with the intended objective of contributing to development and thus improving the lives of the poor.

## 1.3. Research Question

This leads us to the following research question:

**Which MNC strategy is most conducive to development?**

In order to enable a clear understanding of the research question, the key elements will be defined below:

*MNC strategy:* As explained in 1.2. 'Problem Field', we have chosen to focus on four of the most common strategies businesses pursue in developing countries. These are the MNC, CSR, BOP, and SBE. While some of these strategies are not solely confined to multinational corporations, we have chosen to focus on them purely as this and thus left out e.g. small- and medium sized corporations that pursue one of these strategies. In the rest of the thesis the term 'MNC strategies' will refer to all four strategies whereas 'MNC' will be used to refer to the conventional MNC strategy. Since the sole focus of this thesis is on MNC strategies, then the term 'businesses' refers to MNCs on a general level, with no reference to any of the strategies.

*Development:* According to Pradhan, it is helpful to distinct between two visions of development when defining the concept: modernization (economic development) and human development (Pradhan, 2007). The main objective of economic development is to ensure *"technological and social progress"* in order to establish an industrial economy (World Bank Group, 2009). However, while economic development is important when discussing development effects, it is commonly viewed as a *means* for creating development, while human development is seen as the *end goal* of development (ibid; HDF, 2007). According to the UN, human development is *"a process of enlarging people's choices and building human capabilities (what people can be and do), enabling them to live a long and healthy life, have access to knowledge, have a decent standard of living and participate in the life of their community and the decisions that affect their lives"* (UN Human Development Reports, various years).

As both economic development and human development are important aspects, 'being conducive to development' in this thesis thus refers to both.

### 1.3.1. Sub Questions

In order to reach a well-founded and consistent answer to the research question, two sub questions are necessary to answer first. Moreover, these two sub questions will help structure the thesis.

**Sub Question one**

*- What characterises the MNC-, CSR-, BOP-, and SBE strategies?*

**Sub Question two**

*- Which dimensions are relevant in order to assess the development effects of the different MNC strategies?*

## 1.4. Research Objective and Methodology in Brief

The research objective of this thesis is to nuance the current debate about MNCs and their role in development. In brief, the research objective will be achieved through seeking a broader understanding of the four different MNC strategies and their conduciveness of development. This will in part be done through an empirical study and in part through a theoretical analysis and discussion. In the first part of the thesis, two literature reviews will be conducted in order to outline the characteristics of the four MNC strategies as well as to develop dimensions on which to measure the development effects of the strategies. An analytical framework will be developed based on the generic MNC strategies and the development dimensions. Subsequently, four cases within the dairy industry, each representing an MNC strategy, will be set up against the analytical framework in order to assess the development effects of the cases, bringing out the strengths and weaknesses of each strategy. Furthermore, the case studies are used to identify certain trends and trade-offs between and within the strategies. To further deepen our understanding of the development effects of the four strategies, an analysis of the four strategies' development effects will be undertaken by using existing research and insights from the cases. Following this, a discussion of the trends and trade-offs identified in the cases and in the analysis will be conducted. Lastly, the thesis will be concluded by answering the research question and reflecting upon the findings and their implications.

## 1.5. Scope of Thesis

The research question is relatively broad as it does not limit itself geographically or to one or more specific firms. This section will therefore narrow the scope of the thesis and describe the research setting.

Firstly, since the vast majority of poor people live in developing countries (DCs) we have chosen to focus on these countries. There is no commonly accepted definition of what a developing country is, but in practice, this group of countries is defined in opposition to developed countries which broadly speaking are Japan, Canada, US, Australia, New Zealand, and the European countries, less the transition economies of the former USSR countries (UNSTATS, 2009). DCs thus refer to countries that are not included in the above.

Secondly, having defined the geographical scope, we acknowledge that 'developing countries' is a heterogeneous group, encompassing great differences between for example least developed countries and emerging markets (EMs). Moreover, great regional variations exist in addition to differences between rural and urban areas. Finally, cultural, political, and social diversity exists within the group of developing countries. These are nonetheless considered to be less relevant in the context of this thesis, since what matters is the common challenges that business are facing when operating in DCs. Drawing on research about business activity in DCs and EMs, the business environments can be characterised by weak institutional frameworks, flawed intellectual property rights and little enforcement hereof, and as having a propensity to change business regulations frequently and unpredictably. Furthermore, they are often characterised by low productivity, relatively unstable political environment, macroeconomic instability, poorly developed distribution systems, relatively few communication channels, and deficiencies in consumer protectionist regulations or ditto systems (Hoskisson et. al., 2000; Arnold and Quelch, 1998; Meyer, 2004).

Thirdly, although the sole focus of this thesis is on MNCs, we do not see MNCs as a panacea for eradicating poverty. Many actors, institutions, and organisations form part of a complex web of actors which all influence the standards of living of the world's poor in one way or another. Although the role of business has been highlighted as a key driver for development, the importance of e.g. a solid institutional framework and a well working public sector should not be underestimated. We therefore fully acknowledge that there are limits as to how much MNC activity can do to spur development, as not least an enabling environment is crucial for achieving successful private sector development impacts. The discussion of the potential of MNCs versus that of other actors has however been omitted from this thesis as the discussion lies beyond its scope.

Fourthly, we have chosen to primarily focus on the fast moving consumer goods industry. This industry has been chosen because it potentially has widespread contact areas with both developing countries and the poor, both down- and upstream in the value chain. It is therefore an industry where businesses potentially can be extremely conducive to development, making it interesting for us to further investigate. The choice of cases has been narrowed to the dairy industry as this makes it easier to compare the case companies.

Lastly, although referring to 'the poor' as one group we fully recognise that the poor cannot be perceived as one homogenous group. For the purpose of this thesis, what matters is the relative relationship rather than absolute figures or statements classifying different groups of poor. Inspired by the economist, Jeffrey Sachs, we thus distinguish between the 'very poor', 'poor' and 'non-poor'. The 'very poor' is characterised by households that cannot or struggle to meet basic need and living for below $1 a day, while the 'poor' is defined as households where basic needs can be met, although sometimes just barely. The income-level in this group is $1-$2 a day. 'Non-poor' is characterised by the large and non-homogeneous group living for more than $2 a day (Sachs, 2005).

## 1.6. Reader's Guide

Having outlined the research question and the scope of the thesis, we now turn to an overview of the structure of the thesis. In the following, a graphic outline of the complete thesis as well as a written guide to the reader will be given.

**Figure 1.1. Structure of the Thesis**

Part 1, **Introduction and Methodology**, consists of **Chapter 1 – Introduction** and **Chapter 2 – Methodology**

Chapter 1 is the opening chapter providing the reader with an overview of the research topic and addresses the relevance of the research question: *"Which MNC strategy is most conducive to development?"* Two sub questions were outlined with the purpose of simplifying the structure of the thesis and 'Research Objective and Methodology in Brief' outlined the research objective and briefly explained the methodology. 'Scope of the Thesis' outlined the research setting, and chapter 1 concludes with this 'Reader's guide'.

Chapter 2 explains and discusses the route to answering the research question, guiding the reader through all methodological choices made and discusses our choices and the implications for the final conclusions of the thesis.

Part 2, **Deriving Analytical Framework through Literature Reviews,** consists of **Chapter 3 – Literature Review of MNC Strategies**, **Chapter 4 – Literature Review of MNCs and Development**, and **Chapter 5 – Developing the Analytical Framework**

Chapter 3 looks at answering sub question one by describing the conventional MNC, CSR, BOP, and SBE strategies.

Chapter 4 looks at answering sub question two by reviewing different streams of literature in order to derive the analytical dimensions.

Chapter 5 develops the analytical framework based on the literature reviews from chapter 3 and 4. The analytical framework illustrates that in order to be conducive to development an MNC strategy must score high on all dimensions.

Part 3, **Empirical Insights from the Dairy Industry,** consists of **Chapter 6 – Development Effects of the Cases**

Chapter 6 presents four cases within the dairy industry, each representing an MNC strategy. Following these presentations, the development effects of each case will be explored based on the dimensions in the analytical framework.

Part 4, **Analysis and Discussion,** consists of **Chapter 7 – Analysis of Development Effects** and **Chapter 8 – Discussion of Findings, Trends and Trade-Offs**

Chapter 7 analyses the MNC strategies and their development effects based on research and the case studies, thus outlining the strengths and weaknesses of each strategy. The chapter will finish by rating each strategy according to its conduciveness of development. Rounding up the analysis, chapter 8 will firstly discuss the findings and the inherent trade-offs in the four strategies, followed by a discussion of trends that have become apparent during the case studies and the analysis.

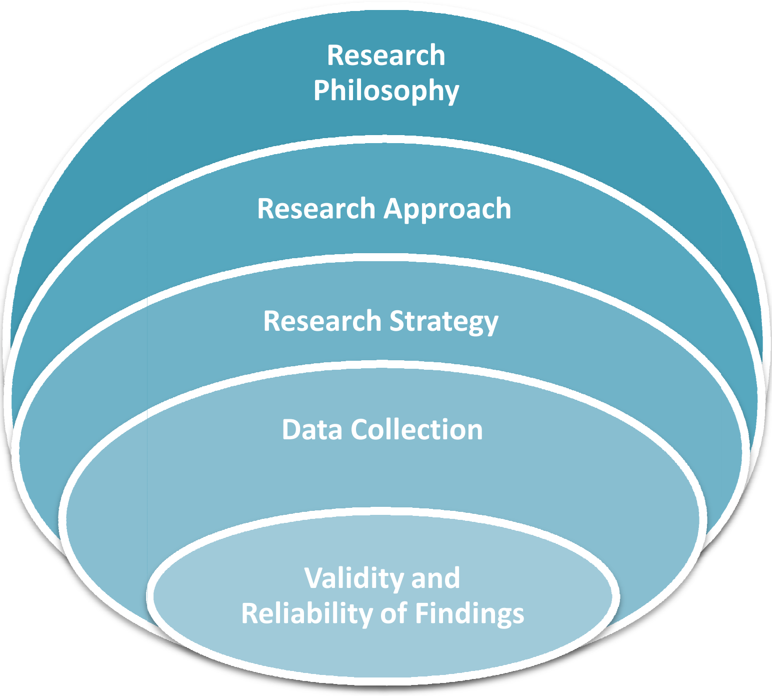
Part 5, **Conclusion,** consists of **Chapter 9 – Conclusion**

Chapter 9 concludes the thesis by answering the research question, followed by a presentation of the findings and their implications.

# Chapter 2 - Methodology

This chapter will describe the methodology applied in the thesis and critically discuss the methodological choices and the implications for the final conclusions of the thesis. The chapter will be structured according to figure 2.1., as shown below, inspired by Saunders et. al.'s 'Research Process Onion' (Saunders et. al., 2007):

**Figure 2.1. Overview of Methodology Sections**




## 2.1. Research Philosophy

In this thesis, we have been inspired by the critical realism perspective as a way to arrive at a better understanding of a social phenomenon. It relates well to the research objective to nuance the current debate about business and its role in development through seeking a broader understanding of the different MNC strategies and their conduciveness of development. In line with the critical realists, we acknowledge that the aim of knowledge is not to seek and establish a single truth but rather to gain a better understanding of a social phenomenon and the underlying structures. Similarly, the conceptualisations we make should be seen as a way of *knowing* reality, not as an attempt to *reflect* reality. This implies that we do not seek to operationalise our analytical framework to the extent needed for a positivist; on the contrary, we acknowledge that our conceptualisations are not directly amenable to observation which was never the intention. Moreover, we are aware that we as researchers are not independent but have an influence on the subject of research. As BADS students we carry with us a scientific baggage within the cross field of international business and development studies which of course has played a role both in the choice of research topic as well as in how the research has been conducted.

## 2.2. Research Approach

We seek to answer the research question by using the abductive method of inference as *"abduction is to move from a conception of something to a different, possibly more developed or deeper conception of it"* (Danermark et.al., 2002:91). This relates well with the research objective which is to nuance the debate about business and development through obtaining a better understanding of the different MNC strategies and their conduciveness of development. We look at a social phenomenon, the development effects of the MNC strategies, which we relate to an interpretative frame, the analytical framework, leading us to a new supposition about the phenomenon. Since *"abduction is neither a purely empirical generalisation as induction nor is it logically rigorous as deduction"* (Danermark et. al., 2002:90) an alternation between theory and empirical data has characterised the research process.

To answer the research question, we take our starting point in existing literature on MNCs and development, deriving three dimensions on which to assess the development effects of MNC strategies. On the basis of this, an analytical framework is developed, providing clear links from the literature to the research question. Subsequently, four cases are set against the analytical framework, presenting us with new insights about the strengths and weaknesses of the strategies in relation to development. In this way, the cases allow us to arrive at a deeper understanding of businesses' conduciveness of development. In the analysis and discussion that follow the case studies, we bring these insights to a theoretical level by looking into research about business and development.

By going through these processes, we arrive at several findings as an outcome of interpreting business and development through the analytical framework. In accordance with the critical realist perspective, the development of the analytical framework *"constitutes one of several possible frames and the interpretation of the phenomenon one of several possible interpretations"* (Danermark et. al., 2002:90). While we fully acknowledge that there are alternatives to the analytical framework, it serves the purpose of this thesis well, as it ensures a nuanced assessment of MNC strategies' development effects. Our contribution is thus to change the mindset by uncovering some of the differences, similarities, trends, and trade-offs characterising the different strategies and their conduciveness of development.

## 2.3. Research Strategy

This section will explain our research strategy in order to provide the reader with a thorough guide to how we have answered the research question and achieved our research objective.

The thesis is exploratory in nature, attempting to seek new insights into the different MNC strategies and their potential for being conducive to development. Essentially, we set out to nuance the debate about business' development effects, as today's debate tends to be narrow-minded and one-dimensional. We therefore examine whether the more recent MNC strategies, which claim to be more conducive to development, outperform the highly criticised conventional MNC, which focuses only on the bottom line.

In order to fulfil the research objective of contributing to a more nuanced debate about the four MNC strategies and their conduciveness of development, a thorough description of each of the four strategies is first of all needed, thus answering sub question one. Through reviewing existing literature on the strategies, a clear understanding of the characteristics of and differences between the strategies will be outlined. The purpose of developing these four strategies is not to establish an objective truth, as the borders between the strategies in reality are blurred and thus do not fit into rigid boxes. Rather, the outline of the strategies reflects the literature, and the differences and features are clearly drawn in order to make the reader aware of what characterises each strategy.

Following the description of the four MNC strategies, another literature review will be conducted in order to obtain an understanding of the development effects businesses potentially can have in developing countries, thus answering sub question two. Literature within the fields of economics, development studies, and business economics respectively has been reviewed in order to get a comprehensive understanding of what effects business can have on development. The literature review made it evident that three dimensions were needed in order to take in the magnitude of potential development effects in relation to both economic and human development.

The purpose of deriving the three dimensions is to propose an encompassing yet simplified basis on which the development effects of the four MNC strategies can be analysed. Both the MNC strategies and the dimensions will serve as the main elements in an analytical framework which follows the two literature reviews. In accordance with Guba and Lincoln: *"The framework is a research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate this"* (Guba and Lincoln, 1989). Hereby, a clear link from the literature to the research question and objective is provided. The logic behind the analytical framework is that an MNC strategy is highly conducive to development if it ranks high on all three dimensions.

Having developed the analytical framework, four cases will be set up against the analytical framework, forming a solid empirical background for the analysis. According to Flyvbjerg, *"the closeness of case study to real-life situations and its multiple wealth of details"* are important in order to develop a nuanced view of reality (Flyvbjerg, 2006:223). The case studies are thus used not to *reflect* reality but to get to *know* the reality better, a logic expressed well by Hans Eysenck (1976): *"sometimes we simply have to keep our eyes open and look carefully at individual cases—not in the hope of proving anything, but rather in the hope of learning something!"* (Quoted in Flyvbjerg, 2006:224). In line with this, the cases are used to study and clarify the strengths and weaknesses of each strategy in order to better understand the development effects and challenges faced by the different strategies in general. As "*predictive theories and universals cannot be found in the study of human affairs"* (Flyvbjerg, 2006:224), the cases therefore produce the context-dependent knowledge necessary to further develop our knowledge and understanding in the analysis that follows. Furthermore, the cases are crucial in relation to identifying inherent trade-offs within each of the strategies in relation to being conducive to development. Finally, they serve to focus the thought process in relation to recognising certain trends among the strategies, which will be further elaborated upon in the final part of the analysis. In order to enable a meaningful comparison, all cases are operating in the dairy industry, allowing us to control for this variable.

Following the case studies, a more theoretical analysis and discussion of the four MNC strategies' development effects will be commenced. The development effects of the four strategies will be analysed based on the dimensions in the analytical framework in order to further deepen our understanding of the development effects of the four strategies. The analysis will be conducted by using research about the strategies combined with the insights gained from the case studies which will be brought into play to highlight the strengths and weaknesses of the strategies. A rating of the strategies on the different dimensions will conclude the analysis, thus allowing us to make a comparison and determine which strategy is most conducive to development.

Following the analysis, a discussion of the findings will be carried out in order to make clearer the trends and trade-offs which emerged from the case studies and the analysis.

## 2.4. Data Collection

The considerations about data collection and the selection of cases will be outlined in this section.

In part two, 'Deriving Analytical Framework through Literature Reviews', the literature used to derive the different MNC strategies has mainly been taken from the international business theory as well as from different academic journals focusing on reviewing, testing, discussing, or criticising the different strategies. While literature on the MNC, and to some extent on the CSR and the BOP strategies, was detailed, extensive, and in many cases highly nuanced, the literature and in particular the academic literature on the SBE was rather limited. This has to some extent been affected the thesis, an issue which will be further elaborated upon in section 2.5, 'Validity and Reliability of Findings'.

To develop the three dimensions on which to analyse the four strategies, literature within the fields of economics, development studies, and business economics has been reviewed. These academic articles have been supplemented with reports from UNDP, DFID, WBSCD, and other development agencies, especially supplying us with information on the 'Poverty' dimension. The data used in part three 'Empirical Insights from the Dairy Industry ', will be explained below as it concerns the case studies.

Data used in part four, 'Analysis and Discussion', consists mainly of academic articles and reports conducting empirical studies in relation to business and development. A limitation in relation to the empirical evidence supporting our analysis is that a very limited number of studies actually distinguish between the four MNC strategies when analysing business activity in relation to development. This issue will be further elaborated upon in section 2.5., 'Validity and Reliability of Findings'. To overcome this issue, we have mainly relied on studies about the conventional MNC and then used the characteristics of the other strategies to make a relative comparison

### 2.4.1. Case Selection

As mentioned above, the purpose of the case studies is threefold: firstly, the cases are used to assess and clarify the strengths and weaknesses of each strategy. Secondly, the development effects and challenges faced by the different strategies are better understood through the case studies which produce the context-dependent knowledge necessary to further deepen our understanding in the subsequent analysis. Thirdly, the cases are crucial in relation to identifying certain inherent trade-offs and trends within and between the strategies.

In order to enable a meaningful comparison, the chosen cases all operate in the dairy sector, allowing us to control for this variable. The dairy sector plays a dominating role in relation to development. Firstly, the dairy sector has both up-and downstream activities in developing countries; *"encompassing both milk production and processing and marketing, creates employment in the processing and marketing sectors and forms the basis for the livelihood of a huge number of smallholders*" (Alive, 2009). The importance of the dairy sector in upstream activities is underlined by the fact that 800 million of the very poor are dependent on agriculture and 600 million keep livestock. Secondly, downstream activities are important both because of job creation but also because of the potential positive impact of dairy products on consumer health. With two billion people suffering from vitamin and mineral deficiencies resulting in premature death, illness, and impaired physical and mental abilities, the private dairy companies can contribute to tackling malnutrition, as they have the potential to deliver affordable and accessible food of high quality. Avoiding malnutrition has a high economic benefit-to-cost ration as it is projected that it reduce health costs, increase tax returns (through increased productivity) and generally spurs economic development (World Bank, 2008). Lastly, the dairy sector in most developing countries is experiencing high levels of growth, making it attractive to businesses (Otte and Mack, 2006).

The case selection criteria, which have been applied, are in accordance with the 'Information-oriented selection': *"To maximize the utility of information from small samples and single cases, cases are selected on the basis of expectations about their information content"* (Flyvbjerg, 2006:230). The four cases have thus been chosen because they are expected to deliver valuable insights useful in the further analysis of the development effects of the MNC strategies. Given our research objective and in line with Stake, a good case is not one which is 'typical' or 'representative' of the MNC strategies: *"Case study research is not sampling research. We do not study a case primarily to understand other cases. [...] The first criterion should be to optimize what we can learn."* (Stake, 1995:4). Although not striving to be 'representative', obviously the cases have been chosen because they are useful for studying the different MNC strategies, hence deepening our knowledge.

To represent the 'MNC Strategy' we have chosen the Scandinavian dairy company, Arla Foods, and its joint venture with the Chinese dairy giant, Mengniu. Data for this case mainly comes from case material on Mengniu, newspaper articles and information from Arla Foods' website. Furthermore, e-mail correspondence with Arla Foods has helped us fill in the gaps and given us a detailed insight into Mengniu Arla's activities in China.

The Swiss company, Nestlé SA, will illustrate the 'CSR strategy' as this company is recognised as a leading MNC within CSR having won several awards. While Nestlé is a highly global company, specific focus has been given to its dairy operations in Colombia. Most of the information about Nestlé's operation in Colombia has come from the company's Website and CSR reports, supplemented with case studies, reports, and articles. Furthermore, e-mail correspondence with Nestlé's operation in Colombia was undertaken, helping us with information.

Fan Milk, a partly Danish dairy company in West Africa, has been chosen as the 'BOP Strategy'. Data has mainly been obtained from e-mail correspondence and an interview with Managing Director, Jens Joergen Kollerup. This information has been supplemented with information from the company's websites, newspaper articles, and from the Danish Industrialisation Fund for Developing Countries, IFU, which is one of Fan Milk's shareholders.

The ‘SBE Strategy’ will be exemplified using Groupe Danone; specifically Grameen Danone Foods Ltd, a joint venture established in 2007 between Groupe Danone and four companies from the Grameen Group. Since this joint venture is rather new, not a lot of information has been available apart from the founder, Dr. Yunus’ latest book, which describes the SBE and the Grameen Danone Foods Ltd. in detail. The information from the book has been supplemented with newspaper articles and case studies made about Grameen Danone Foods Ltd.

While no specific country or region has been chosen, it has been emphasized that the country in which the cases operate was a developing country. This is based on the assumption that the business environment is somewhat similar in all developing countries as described in section 1.5., ‘Scope of the Thesis’.

## 2.5. Validity and Reliability of Findings

In line with the critical realism perspective, generalisability in this thesis is not to be understood as *“a question of how large a group of events or other phenomena an empirical observation can be generalized to”* (Danermark et. al., 2002:76). From the outset, it has therefore not been the intention to ensure any level of generalisation in the sense of extrapolation to a larger group. In contrast, the kind of generalisation which is achieved in this thesis is a generalisation from ‘surface’ to ‘depth’, in accordance with Danermark et. al. (Danermark et. al., 2002). We therefore generate knowledge which brings us closer to an understanding of the underlying structures of the conduciveness of development of MNC strategies, which is important in order to nuance the debate within this field.

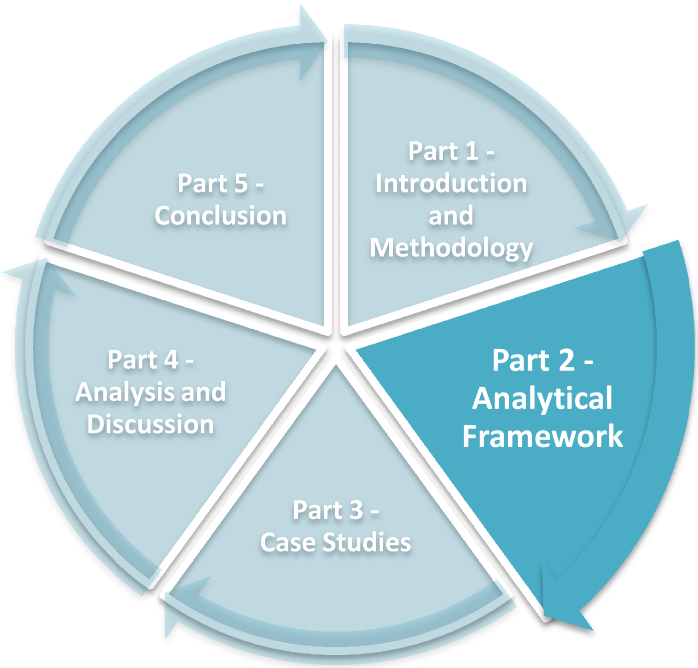
When using abductive inference, *“there are no fixed criteria from which it is possible to assess in a definite way the validity of an abductive conclusion”* (ibid:81). Nonetheless, given the centrality of the analytical framework for guiding the analysis, it is important to reflect upon the design of the framework and how it has been derived. When developing the MNC strategies and the analytical dimensions we strived to make a thorough and critical review of the relevant literatures. Both the strategies and the dimensions are therefore derived from a range of academic articles which must be assumed to deliver high quality research. According to Danermark et. al. *”an interpretation is plausible given that we presuppose that the frame of interpretation is plausible”* (ibid:90). In line with this, the validity of the findings has been ensured as the analytical framework to a great extent rests on a solid background.

Despite great efforts to build the analysis on empirical research and thorough theoretical argumentation, a caveat in relation to the research supporting the analysis and discussion in chapter 7 exists. This is due to the fact that a very limited number of studies actually distinguish between the four MNC strategies when analysing business activity in relation to development. Neither is there much research that investigates the four MNC strategies individually in relation to one or more of the dimensions used in this thesis. To overcome these issues and make valid comparison of the MNC strategies in the analysis, we have relied on studies about the MNC. The analysis has thus been conducted mainly by means of logical reasoning from the characteristics of the other strategies. Interestingly, this caveat actually underlines the need for this thesis and further research as it illustrates a gap in existing research.

As mentioned in section 2.3., 'Research Strategy', the purpose of developing the analytical framework has been to enable a more nuanced understanding of the development effects of MNC strategies. In this regard, we feel we have penetrated the top layers of the surface by achieving a better understanding of the development effects of each MNC strategy, the trade-offs inherent in the strategies, and the trends which are emerging in order to tackle these trade-offs. To further validate our findings, more research should be undertaken in order to investigate the findings in more depth.

Concerning the aspect of reliability, the information for the cases has been obtained mainly from the companies, either via their websites or other corporate communication channels or through e-mail or interviews. This can have biased the case descriptions in a positive direction as managers might not point to negative consequences of their businesses. This however does not seem to have affected the findings in relation to discovering certain trends and trade-offs, thus not having a significant influence on the findings. Furthermore, while we have aimed to use secondary data from recognised sources in order to minimise the risk of bias, this cannot be entirely avoided. The SBE strategy has mainly been derived from literature from the founder himself and from the media covering the establishment of the GDFL. This means that the information has not been very nuanced but rather positively biased, something we have attempted to overcome by being critical of the strong rhetoric. Even so we have deemed it highly relevant to include in the analysis as it forms an interesting contrast to the conventional MNC strategy. Moreover, while for example organisations like DFID and UNDP are reliable sources of information, the discourse in their reports are sometimes without much nuance and the literature on which they are built seem to be rather subjective and sometimes lacking sufficient backing by academic research. This information has mainly been used as inspiration for the 'Poverty' dimension, and triangulation of multiple data sources has been undertaken, limiting the possible negative impact.

# Part 2 – Deriving Analytical Framework through Literature Reviews

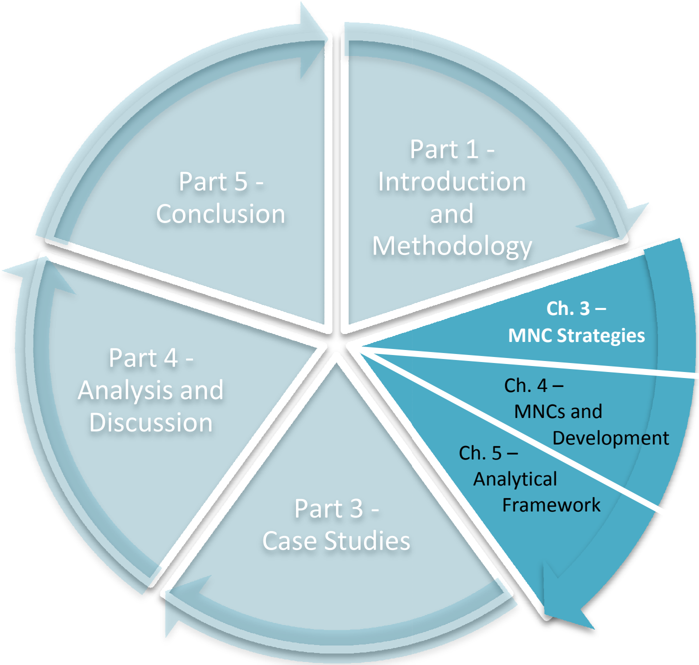



In **Part 1 – Introduction and Methodology** the research topic was introduced and the methodological approach undertaken in this thesis was explained.

**Part 2 – Deriving Analytical Framework through Literature Reviews** consists of three chapters. In chapter 3, the four MNC strategies will be outlined based on the literature within each strategy. In chapter 4, three dimensions for analysing the development effects will be derived based on reviews of literature within international business, development studies, and business economics. Lastly, in chapter 5 the MNC strategies and the dimensions will be combined to develop the analytical framework forming the basis for the analysis.

# Chapter 3 – Literature Review of MNC Strategies

The aim of chapter 3 is to answer sub question one: *"What characterises the MNC-, CSR-, BOP-, and SBE strategies?"* The chapter will thus outline the four MNC strategies in a clear and structured manner based on the existing literature within the four strategies. The characterisation of each of the strategies will be the first component in the analytical framework, which will form the basis for analysing how conducive to development each strategy is.




Although the borders between the strategies are fussy and overlapping in reality, we have attempted to systematise the descriptions to enable a clearer understanding of the differences. At the same time, we fully acknowledge the great variety of strategies that businesses can and do adopt, and that talking about a conventional MNC strategy or a CSR strategy etc. is quite an approximation. Nonetheless, we do find this simplification meaningful in relation to the purpose of the thesis. The chapter will reflect that the MNC strategies have varying foci ranging from maximising financial returns to maximising social returns.

The chapter begins with an outline of the key characteristics of a 'Conventional MNC' strategy, followed by the 'Corporate Social Responsibility', the 'Bottom of the Pyramid', and the 'Social Business Enterprise' strategies.

## 3.1. Conventional MNC Strategy

The multinational corporation (MNC) is not a new phenomenon in the world economy but its size and geographical spread and the scope of its activities have grown quickly during the 20th century (Lasserre, 2007). The size and influence of MNCs in the world economy today is overwhelming: with $4.5 trillion, MNCs account for $^1/_{10}$ of global value added, and 350 of the largest MNCs have sales equalling to $^1/_3$ of the industrialised world's GNP. Furthermore, out of the 100 largest economies in the world, 29 are corporations (IBEC, 2007), and it is estimated that the world's approximate 78,000 MNCs have 794,000 foreign affiliates (UNCTAD, 2008). This huge number of MNCs of course covers a wide variety of firms and the heterogeneity makes it difficult to make generalisations about what an MNC is. The simplest definition is that it is a company that has operations in more than one country (Global Edge, 2001-2009). However, no single definition of MNCs has been commonly adopted, since definitions of MNCs tend to highlight different dimensions as the source of 'multinationality', e.g. ownership, foreign production, etc. (Bennett, 1999). Nevertheless, the literature on the nature of MNCs highlights several key characteristics that are shared across all conventional MNCs as shall be seen in the following section. The goal of profit maximisation is common to all conventional MNCs. This implies that the sole emphasis of the MNC is to contribute towards positively affecting the bottom line, thus not explicitly focusing on affecting the wider society. Three main perspectives within international business, namely transaction cost economics, resource based view and knowledge based view of the MNC, are commonly used to explain the key features of MNCs. The sources of competitive advantages deriving from the organisation of the MNC will be explained through the value chain perspective.

### Profit maximisation

A key feature of MNCs is as mentioned the goal of maximising profits, laying the foundation for the existence and growth of MNCs. This overarching goal guides the decisions of MNCs on the basis of a cost-benefit analysis; if the benefits are perceived to exceed the costs, a given activity will be carried out. MNCs are thus forced to use resources efficiently and make every effort to minimise costs in order to survive in the global marketplace (Begg et. al., 2003).

### Theoretical perspectives on the organisation of the MNC

Within the international business literature, three main perspectives of the activities of MNCs dominate.

Transaction cost economics focus on the choice between market and internalisation that an MNC is faced with when conducting a transaction. TCE rests on two assumptions about the human nature, namely that 1) human agents are subject to bounded rationality and 2) at least some human agents exert opportunistic behaviour (Williamson, 1981). In other words, there is not perfect information and agents might try to take advantage of each other. These assumptions cause natural market imperfections to occur. High transaction costs in the market thus result from high enforcement costs, bargaining costs, and information costs. When market imperfections are high, internalising the transaction might be more efficient than transacting in the market (Hennart, 2009). However, the costs of internalisation should not be overlooked and occur as a result of e.g. codifying the knowledge in order to transfer it, setting up internal structures and practices that allow for an efficient transfer within the organisation. TCE states that the costs of transacting in the market and the costs of internalising must be compared in order to determine how and whether a given transaction should be organised. TCEs thus argue that MNCs exist because they are efficient vehicles for reducing transaction costs in the market by internalising a given transaction. In practice, MNCs can build large internal markets where know-how, information, intermediate goods, raw materials, and even employees are transferred (Bennett, 1999).

The resource based view sees the firm as a collection of resources and under a broad umbrella attempts to explain the rationale behind the organisation of MNCs in order to maximise profits. In the RBV literature, one of the simplest definitions of resources is *"the tangible[1] and intangible[2] assets firms use to choose and implement their strategies"* (Barney, 2001). Nevertheless, this definition omits the important type of resources, categorised as 'capabilities'. 'Capabilities' are popularly referred to as what a firm 'does' as opposed to what it 'has' (assets) (Fahy, 2002). By definition, the purpose of a capability is to enhance the productive value of the other resources that are in the firm's possession, i.e. a firm's capabilities can only generate rents after these other resources have been acquired and only if the firm's capabilities can exert the productivity-enhancing influence on the acquired resources (Makadok, 2001).

In the literature, it is generally acknowledged that in order to contribute to the core competencies of a firm, resources must be non-imitable, rare, and non-substitutable. When resources with these characteristics are deployed in value adding activities, the resources become the main source of competitive advantage for the MNC (Fahy, 2002). A challenging task for managers is therefore to identify, develop, protect, and deploy value-creating resources, potentially promoting sustainable competitive advantages. This task becomes increasingly complex due to the diverse and complex resource pool available to MNCs. In sum, according to the RBV, MNCs' main rent-creating mechanisms are accessing new resources outside the firm globally and being superior in leveraging the firm's internal resources (ibid).

Closely related to the RBV is the knowledge based view which, as the name indicates, puts knowledge at the centre stage as the key driver of competitive advantage. According to Grant et. al.: *"as business globalizes, firm advantages arising from traditional sources such as the unique access to capital, labour or markets can be expected to decline. Correspondingly, a company's ability to develop, access, integrate, and deploy knowledge across a worldwide system is likely to grow ever more critical"* (Grant et. al., 2000:126). A broad definition of knowledge adopted by many scholars is that knowledge is tacit and explicit, formal and informal, and propriety and public in nature (Eden et. al., 1997).

[1] Tangible assets are assets with a fixed long run capacity, e.g. land, plants, equipment etc. (Fahy, 2002)
[2] Intangible assets are assets with relatively unlimited capacity and include a firm's intellectual property, brand value, corporate reputation etc. (Fahy, 2002)

Knowledge embodies a firm's competitive advantage whether it is the knowledge underlying technology, production, marketing or other activities. According to the knowledge based view, MNCs should therefore not only focus on increasing efficiency by reducing transaction costs, but focus more on being efficient in creating value. MNCs are seen as efficient means by which knowledge is created and transferred: *"Through repeated interactions, individuals and groups in a firm develop a common understanding by which to transfer knowledge from ideas into production and markets"* (Kogut and Zander, 2003:519). Firms thus exist to create and transfer knowledge that is difficult to encode, but it is important to note that knowledge is generated both from outside the firms as well as from anywhere internally in the organisation. The knowledge based view thus sees MNCs as superior in transferring and creating new knowledge by experimental learning as well as in their ability to leverage knowledge across borders. The competitive advantage of MNCs thus increases with the tacitness of knowledge and is sustained in accordance with the extent to which their advantages can be replicated more quickly by themselves than through imitation by competitors.

### Value chain perspective

Another important aspect in which MNCs can maximise their efficiency in order to build sustained competitive advantages is how the activities of the MNC are organised in the value chain. Using the clear definition by Sturgeon, a value chain is *"the value-added activities that lead to and support the end use of a set of related products or services"* (Sturgeon, 2001). MNCs first began realising the potential gains from configuring their value chains effectively when they started offshoring their activities (Farrell, 2004). Farrell continues to draw attention to the source of competitive advantage that lies in an efficient configuration of the firm's value chain: *"By streamlining their production processes and supply chains globally, rather than just nationally or regionally, companies can dramatically lower their costs and drop their prices to increase demand for their products, attract new customers, and even enter new markets"* (ibid:82). As MNCs are profit maximising, they tend to disperse their value chains, assets, and capabilities to locations where perceived value is maximised, or where the costs of value creation are minimised in order to maximise profits (Barner-Rasmussen, 2008). Globalisation forces have had a substantive impact on how MNCs organise their operations to be most efficient, not least in developing countries. In the past decades, MNCs have begun actively configuring their value chains in a coordinated and integrated way across different regions. Earlier MNCs mainly operated via concentrated value chains but today, the entire network of value creating activities are coordinated in dispersed value chains across borders (Lasserre, 2007).

**Table 3.1. MNC Strategy**

| MNC |
|---|
| ❖ A predominant focus on maximising financial returns |
| ❖ Efficient through focusing on its core competences and exploiting competitive advantages |
| ❖ No explicit focus on being conducive to development but about doing what is commercially viable |

## 3.2. Corporate Social Responsibility (CSR) Strategy

A very popular and widely adopted variant of MNC activity is the Corporate Social Responsibility strategy. The wave of CSR took off in the 1980s and spread rapidly in the early 1990s with business managers quickly adopting CSR strategies, covering a broad range of activities reflecting the businesses as being socially responsible (Utting, 2005). The great interest for CSR mainly emerged due to the changing global business environment, e.g. the changing global production system, increased trade liberalization, de-regulation, and an increased consumer and political focus on the behaviour of businesses. This led to a shift in society's expectations of businesses' role in relation to especially the poor and marginalised people in developing countries (WBSCD, 1999). The impacts of businesses on social and environmental issues are no longer seen as *"a matter primarily for governments to deal with, they are now regarded as matters of corporate responsibility for which companies themselves (…) should set standards"* (Jenkins et. al., 2002). This development has made CSR the new 'buzzword' (in the North at least) and claims of its positive impacts are enormous e.g. that it can help make the earth more sustainable, restore trust in MNCs, reduce poverty, uphold international human rights, etc. (Blowfield, 2007).

While there are many definitions of CSR, the World Business Council for Sustainable Development (WBCSD) defines CSR as *"the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life"* (Blowfield and Frynas, 2005:501). The definition is based on the fundamental belief that businesses are not divorced from the rest of society and that businesses therefore should assume responsibility for the externalities of their activities (WBCSD, 1999). The CSR strategy is based on the idea that responsible business practices offer clear business benefits while also doing something good for wider society. According to Utting, CSR activities cover a variety of so-called voluntary initiatives *"such as codes of conducts, measures to improve environmental management systems and occupational health and safety, company 'triple bottom line' reporting on financial, social and environmental aspects, participation in certification and labelling schemes, dialogue with stakeholders and partnerships with NGOs and UN agencies, and increased support for community development projects and programmes"* (Utting, 2005:375).

However, while CSR has been made the new buzzword in recent years, CSR is not a new phenomenon, as businesses throughout history have demonstrated responsibility to society in varying degrees (WBCSD, 1999). Initially, the nature of CSR strategies was philanthropic with businesses wishing to address their social concern and raising awareness of their social and environmental impact by financing the construction of schools, supporting the local football team, make contributions to the local charities, etc. (ibid; Sayer, 2005). However, while philanthropic activities are still taking place, corporate philanthropy is in decline as businesses have taken on a more proactive role in relation to their social responsibility (Porter and Kramer, 2006). CSR has in recent years been more about defining and implementing good business practices based on meeting international standards and setting up codes of conducts based on e.g. UN's Global Compact. These standards and codes were set up in order to propose self-regulation of MNCs as an alternative to the often poor or completely lacking local government regulations and enforcements of local laws at the national level, as many governments focused on competing for FDI instead (Pradhan, 2007). The codes most often focus on working conditions, human rights, and environmental impacts and have a tendency to be developed in the North. Research shows that codes of conducts are mainly set up in order to avoid potential damage to the businesses' reputation and thus tend to focus on what businesses should not do rather than on looking at how to create positive developmental effects (ibid).

Recently, businesses have taken on yet a different approach to CSR as some businesses are focusing on incorporating their social responsibility into their core business activities. According to Porter and Kramer, previous CSR activities, such as the codes of conducts, have been fragmented and disconnected from the businesses and their strategy, thus *"obscuring many of the greatest opportunities for companies to benefit society"* (Porter and Kramer, 2006:80). Porter and Kramer argue that to be successful, businesses need a healthy society as this creates an expanded demand for business, and as education, health care, and equal opportunity are all essential parts of obtaining and maintaining a productive workforce, this will increase productivity (ibid). Additionally, healthy societies need successful businesses, as they can create wealth and economic development. Contrary to the codes of conducts, this strategy thus moves away from focusing on mitigating harm to focus on maximising a company's positive impact on society (ibid).

The literature describes the business case for CSR as resting on several aspects. Firstly, the reputational value of engaging in CSR is frequently highlighted (Lodge and Wilson, 2006). The importance of maintaining a socially responsible image is closely related to the public scrutiny businesses experience. CSR thus also becomes a tool to mitigate reputational risk, which is highly relevant for businesses operating in societies with poor labour, environmental, and social conditions (Gugler and Shi, 2009; Sayer, 2005). Secondly, businesses are experiencing increasing competition and thus a need to distinguish themselves from other companies, something that is possible through interesting CSR activities. A good social image can in turn positively affect the company's ability to re-cruit the right people (Sayer, 2005). While difficult to define what CSR is due to the altering foci in the three described activities, our generic CSR strategy looks as follows:

**Table 3.2. CSR Strategy**

| CSR |
| --- |
| ❖ A predominant focus on maximising social return<br>❖ Generally, there is no focus on core competences<br>❖ No explicit focus on creating short term profits but about ensuring long-term commercial benefits through creating healthy societies and reputational benefits |

## 3.3. Bottom of the Pyramid (BOP) Strategy

During the past decade, the BOP approach has gained considerable attention in the business literature as business managers have become aware of *"the potential of serving an unserved market and alleviating the level of global poverty while still earning a profit"* (Pitta et. al., 2008:393). Although the approach has been criticised by many and accused of making more harm than good, the BOP approach has become widely accepted among many businesses (ibid).

The BOP strategy was first put forward by C.K. Prahalad in 2004 as a way to make businesses focus their attention on the poor and thus help eradicate poverty. Prahalad emphasizes that the BOP approach is not just FDI offering incrementally modified versions of current Western-oriented products aimed at the poor, as he does not believe that FDI creates wealth at the BOP (Prahalad, 2004). Rather, it is a market-based approach directly aimed at reducing poverty as it is believed that the business-oriented motivations of growth and profit potentially can be aligned with the local communities' wishes and needs (London, 2007). Market-based approaches require a continuous search for new customers and new suppliers and look to generate scalable growth that benefits the poor (ibid).

Before writing the book, 'The fortune at the bottom of the pyramid – eradicating poverty through profits', Prahalad found that the poor were not able to reap the benefits of globalisation as they did not have access to products and services that represented global quality standards (Prahalad, 2004). Through mobilising the resources, scale, and scope of large firms in order to co-create solutions to the problems of the BOP, Prahalad claims that poverty can be eradicated through business (Pitta et. al., 2008) as the poor *"can reap the benefits of respect, choice, and self-esteem and have an opportunity to climb out of the poverty trap"* (Walsh et. al., 2005). While early BOP literature solely focused on BOPs bringing non-locally produced products to BOP markets (BOP-as-consumers), the newer literature also focuses on taking locally BOP produced products to non-local markets (BOP-as-producers) (London, 2007).

The main idea of the BOP approach is that the potential growth for MNCs should not rest on the small high-income market in the developing world. Rather, they should also focus on the large group of people with low-incomes at the bottom of the economic pyramid as potential profitable customers, as they are expected to have significant purchasing power when looked at as a group (Pitta et. al., 2008). Prahalad claims that the four billion people[3] at the bottom of the pyramid are discerning, brand-conscious consumers who want valuable products and services, and that businesses can serve these needs through their core business activities (Prahalad, 2004).

The approach aims to be grounded in good business practice, as this is deemed necessary in order to get businesses committed but also in order to make it a sustainable business strategy. The BOP market provides businesses with new growth and profit opportunities, and the competitive necessity of keeping costs down pushes businesses to come up with creative ways to configure their products, value chains, and finances in order to seek cost-saving opportunities. In the BOP market the profit margin on individual units is low, making it crucial to keep costs down. As Prahalad states, *"the basic economics of the BOP market are based on small unit packages, low margin per unit, high volume, and high return on capital employed"* (Walsh et. al., 2005:475). Price is crucial as the poor do not have much income to spend on consumer products, meaning that businesses have to develop solutions that match *"the broad attributes of the market as a social system and not focus on products that will suit the contemporary, but rapidly changing, marketplace"* (ibid:475). These solutions furthermore have to be scalable and transportable around the world so that they can be used in other similar BOP markets – or leveraged to more traditional markets. Finally, commercial sustainability is a fundamental requirement so a BOP business must generate sufficient profits to cover more than its cost (Prahalad, 2004).

[3] This number is highly contested among his critics, but for the purpose of the thesis the exact figure is less important and will thus not be discussed.

**Table 3.3. BOP Strategy**

| BOP |
|---|
| ❖ A focus on creating financial *and* social returns |
| ❖ Focus on adapting and exploiting core business activities to suit the local markets and the poor's needs |
| ❖ Explicit focus on eradicating poverty as well as being commercially viable |

## 3.4. Social Business Enterprise (SBE) Strategy

As the SBE is a relatively new business strategy developed by the Nobel Peace prize winner and microfinance guru, Dr. Mohammad Yunus, there is not yet much literature on the subject. This means that the following section is based on Dr. Yunus' book 'Creating a World Without Poverty: Social Business and the future of capitalism' (Yunus, 2007), unless stated otherwise.

In theory, the SBE strategy differs widely from the conventional MNC strategy as its main focus is on maximising social returns rather than financial returns. Like Prahalad, Yunus has with his SBE attempted to come up with a new option to meet some of the social challenges the world is faced with. According to Yunus, the capitalistic world is incomplete as long as there is no business strategy that recognises the multidimensional nature of human beings and which aims to achieve social goals rather than personal gains. He expresses concern about all businesses being about profit maximisation and sees a need to add another type of business that is totally committed to solving social and environmental problems; a SBE is just this, "*a cause-driven rather than profit-driven business with a potential to act as a change agent for the world*" (ibid:22). To maximise social benefits, the SBE strategy focuses explicitly on including the poor in its activities.

A SBE is essentially the same as other MNCs as it has to recover its full costs while achieving its mission, meaning that it cannot incur losses for an indefinite period. Despite its explicit focus on maximising social rather than financial benefits, the SBE is not a non-profit organisation, as it differs from this type of organisation in that non-profits typically do not recover their total costs but rely on donations, grants, and/or governmental support. This, according to Yunus, means that non-profit organisations think and work differently than for-profit businesses (including SBEs). In order to achieve its goal of being commercially sustainable, the SBE charges a price or fee for its products and services just like any other business. The reason for maintaining the for-profit aspect in the SBE strategy is to maintain the MNC as self-sustainable and thus unleashing the potential of being able to grow and expand, potentially resulting in even greater social impact.

Another way in which the SBE is similar to other MNCs is that it has owners who are allowed to get back their investments if and when the SBE makes a profit. Like MNCs, this ownership can take place as a sole proprietorship, as a partnership, or by one or more investors who hire staff to run the business. Where the SBE differs is in the way that it is a non-dividend business, meaning that all profit must be deployed back into the company and not be paid out to investors. Rather, the profit must be used to generate expansion, improve quality, increase efficiency through introducing new technology, innovating marketing to reach the deeper layers of low-income people, etc. According to Yunus, this removes the focus away from generating profit and instead focuses on maximising social benefits, which are ultimately *"passed on to the target group of beneficiaries in such forms as lower prices, better service, and greater accessibility"* (Yunus, 2007:24). From this follows that investors will only be repaid the initial investment once the SBE starts generating profits and it is up to the investors to decide the time horizon for repayment of the invested capital. The investors can choose to opt out at any time provided they sell their shares to existing shareholders or to a new shareholder who accepts the concept of the SBE (Pfitzer and Krishnaswamy, 2007).

Unlike social entrepreneurs that innovate in order to obtain maximum social benefit, an MNC using the SBE strategy will aim to compete with and capture market shares from and possibly outmanoeuvre other MNCs in order to create a competitive market where consumers will benefit. The SBE's competitive advantages might lie in the fact that the SBE creates social benefit or they might be determined by prices, quality, convenience, availability, brand image etc. Like in a conventional market, the advantages of free-market competition are brought about, benefiting society as a whole as it will push the companies to become more efficient.

**Table 3.4. SBE Strategy**

| SBE |
| --- |
| ❖ A predominant focus on maximising social returns<br>❖ Focus on making core business activities fit with the needs of the poor<br>❖ Explicit focus on benefiting the poor. However, as it is a business it has to be commercially viable – without compromising the social objective |

## 3.5. Sum-up of MNC Strategies

Based on the literature above, the four MNC strategies can in brief be characterised as follows:

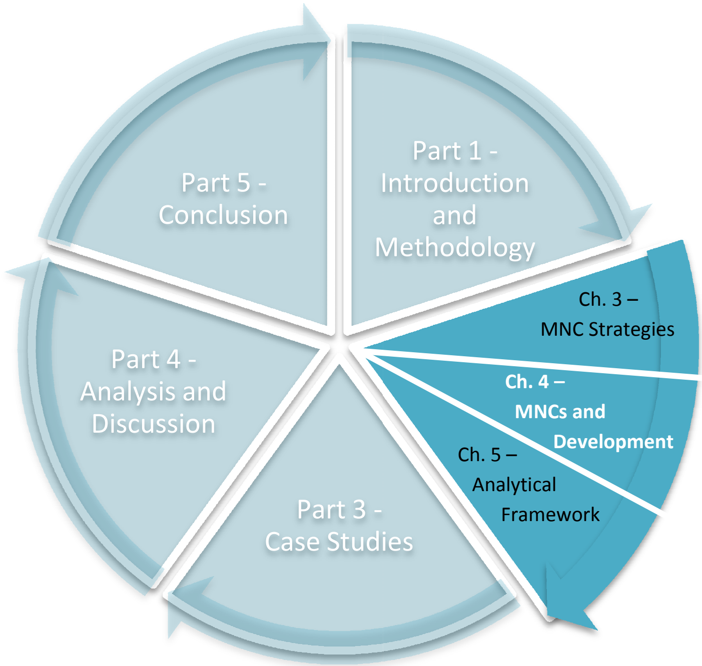
**Table 3.5. Sum-up of MNC Strategies**

| MNC | CSR | BOP | SBE |
|---|---|---|---|
| ❖ A predominant focus on maximising financial returns | ❖ A predominant focus on maximising social return | ❖ A focus on creating financial *and* social returns | ❖ A predominant focus on maximising social returns |
| ❖ Efficient through focusing on its core competences and exploiting competitive advantages | ❖ Generally, there is no focus on core competences | ❖ Focus on adapting and exploiting core business activities to suit the local markets and the poor's needs | ❖ Focus on making core business activities fit with the needs of the poor |
| ❖ No explicit focus on being conducive to development but about doing what is commercially viable | ❖ No explicit focus on creating short term profits but about ensuring long-term commercial benefits through creating healthy societies and reputational benefits | ❖ Explicit focus on eradicating poverty as well as being commercially viable | ❖ Explicit focus on benefiting the poor. However, as it is a business it has to be commercially viable – without compromising the social objective |

The purpose of this chapter has been to answer sub question one, thus making the characteristics of and the differences between the strategies clear. As mentioned in section 2.3., Research Strategy, the purpose of developing these four strategies has not been to establish an objective truth, as the borders between the strategies in reality are blurred and thus difficult to put into rigid boxes. Rather the outline reflects the literature on these four strategies, and the differences and features are clearly drawn in order to make the reader aware of what characterises each strategy. As can be seen from the table, the foci of the four strategies differ, with the MNC being the only one that does not explicitly focus on being conducive to development.

# Chapter 4 – Literature Review of MNCs and Development

The aim of chapter 4 is to answer sub question two: *"Which dimensions are relevant in order to assess the development effects of the different MNC strategies?"*




As we view development as both economic and human development, it is necessary to include several dimensions on which to assess the development effects of the MNC strategies. The need for looking at several dimensions is also underlined by the fact that the four MNC strategies we examine have differing foci ranging from maximising financial returns to maximising social returns. In order to ensure a nuanced assessment of the strengths and weaknesses of each MNC strategy in relation to development, we have included an 'Efficiency'-, a 'Poverty'-, and a 'Sustainability' dimension. The rationale for choosing these three dimensions is that together they reflect well both the economic and human aspects of development supplemented with the need of being commercially sustainable in order to have any longer term impact. By reviewing the literature within the fields of economics, development studies and business economics, the three dimensions have been derived. Within the economics literature, emphasis is on how businesses contribute to development through economic growth, concentrating on the efficiency aspect of businesses. Development literature is on the other hand more concerned with how businesses can include the poor in their activities and how this expands the capabilities of the poor. Lastly, business economics focus on how a business is commercially sustainable through creating competitive advantages which is necessary to have a longer term impact. This last dimension has been deemed necessary to include as the commercial sustainability of the new MNC strategies is not fully understood and thus cannot be taken for granted.

Due to the above, the chapter is divided into three sections, each one explaining a dimension that is found relevant for assessing the development effects of the four MNC strategies derived in chapter 3. The three dimensions are '**Efficiency** – *Stimulating Economic Growth*', '**Poverty** – *Focusing on the Poor*', and '**Sustainability** – *Ensuring Commercial Profitability*'.

## 4.1. Efficiency – *Stimulating Economic Growth*

FDI is by many seen as a key driver for economic growth and thus for development (DFID, unknown). In recent years, several trends have contributed to the increasing importance of FDI in developing countries. Firstly, there has been a trend towards increasingly liberalising the regulatory framework to attract FDI (Enderwick, 2005; Sumner, 2005). Secondly, the world has seen a huge growth in inflows of FDI to developing countries; reaching the highest level ever in 2007 (500 billion USD), an increase of 21% compared to 2006 (UNCTAD, 2008). It is often highlighted that the FDI inflows are concentrated in a few developing countries which is true when measured in dollar terms: China, Brazil, and Argentina have attracted almost half of FDI flows to developing countries. However, when looking at the FDI inflows as a proportion of annual investment, the flows are of significance in many, if not the majority of, developing countries (Sumner, 2005).

Businesses' ability to rapidly and efficiently transfer 'best practices' across borders makes FDI important for economic growth in developing countries (Klein et. al., 2001). Contrary to portfolio investments, FDI includes more than merely a transfer of capital, and access to markets and the inflow of advanced technology, management, and organisational practices etc. is of utmost importance when determining the development effects of MNC strategies.

Several authors have proposed frameworks for analysing the impacts of FDI on a macroeconomic level, e.g. Meyer, Sumner, Mold, Enderwick, which all clearly illustrate the many areas in which FDI can impact society. Inspired by these frameworks, this section will outline the key areas in which business activity can have a possible positive impact.

### Employment Creation

Business activity creates employment in the host country, both directly and indirectly. Directly by employing people in affiliates and indirectly through increasing demand for certain local goods or intermediaries which is expected to lead to increased job creation in local partner firms or unassociated firms. With the public sector only generating a fraction of the jobs needed, developing country governments rely heavily on the private sector to create jobs. In fact, nine out of ten jobs in developing countries are in the private sector (DFID, unknown). Ideally, to get an accurate picture of the employment creation capacity of businesses, both the jobs created by the business as well as any displaced jobs must be considered. In other words, there must be a positive net effect when considering the crowding in and crowding out effects of a business' employment capacity. However, given difficulties in establishing counterfactuals along with other methodological challenges, e.g. establishing causal links, it is extremely difficult to assess the number of displaced jobs. Combined with indirect employment creation, assessing the net employment creation by businesses thus becomes very difficult (Sumner, 2005). Nonetheless, without considering any possible job displacement, the employment capacity by businesses still provides a good indication of the level of total employment created.

### Linkages, Spillovers, and Upgrading

Business activity can impact a host country through linkage creation between businesses and local partners and from the spillovers created in the local market by these linkages (Enderwick, 2005)[4]. The importance of creating linkages with domestic firms is widely recognised and many scholars thus agree that linkages play a vital role in spurring economic development in developing countries (Hansen et. al., 2008; Scott-Kennel and Enderwick, 2005; UNCTAD, 2001).

In the literature various types of linkages are identified, both horizontal and vertical, and backward and forward, all with a varying degree of intensity. These linkages can result in the transfer or diffusion of technology, business practices, training, finance etc. and they can impact quality, prices, performance, technology and knowledge (Giroud and Scott-Kennel, 2006; Altenburg, 2000). The importance of linkages is closely related to the potential of upgrading local firms and the workforce.

Upgrading of domestic firms can occur as a result of the direct transfer of best practices from the foreign firm in areas such as technology, management practices, and organisational knowledge. This is most likely to happen when the degree of absorptive capacity of the domestic firms is sufficient to exploit the benefits (Scott-Kennel and Enderwick, 2005). Moreover, the intensity of the linkages is also positively related with knowledge transfers and thus upgrading. Linkage intensity is here defined as *"the extent to which firms engage or interact with each other through transactional, contractual or collaborative linkages"* (Scott-Kennel and Enderwick, 2005). Higher linkage intensity will thus result in more upgrading, assuming that the absorptive capacity of the local firms is high enough to capture the benefits from the knowledge and technology transfers (ibid; Giroud and Scott-Kennel, 2006). Linkages also often lead to upgrading of the local workforce as employees accumulate knowledge from the work environment (Altenburg, 2000). Employees are likely to acquire new knowledge and upgrade their skills just by working in an environment that conforms to international standards (ibid). The host country enjoys the benefits from this more skilled labour pool as workers take the knowledge acquired on the job with them (Scott-Kennel and Enderwick, 2005).

[4] For the purpose of this thesis, linkages are defined as inter-firm transactions between MNCs and local firms that go beyond arm's length, one-off transactions and involve longer-term collaborations between the parties (Hansen et. al., 2008; UNCTAD, 2001). Linkages are thus the relationships established between foreign and local firms involving direct transfer of resources, whereas spillovers are the effects of the linkages that may result after the linkages have been established (Scott-Kennel and Enderwick, 2005; Giroud and Scott-Kennel, 2006).

In contrast to linkages, spillovers do not involve direct inter-firm transactions but are externalities in the form of technology, knowledge and productivity spillovers that may occur through demonstration effects, competition effects or worker mobility (ibid; Enderwick, 2005). Spillovers thus occur when companies (mostly local but also foreign) absorb, adapt, or replicate technology or knowledge (Giroud and Scott-Kennel, 2006). Demonstration effects occur when foreign firms introduce more efficient ways of doing business which domestic firms will try to imitate by observing and emulating the foreign firms in order to become more efficient (Scott-Kennel and Enderwick, 2005; Altenburg, 2000). Competition effects are believed to occur when MNCs enter a local market and thus impact the level of competition in the market. Increased competition among domestic firms is likely to lead to upgrading of these firms and stimulate investments in innovation. With time, some local firms might become closer linked to foreign firms as first, second or maybe third tier suppliers or customers (Santangelo, 2009; Scott-Kennel and Enderwick, 2005). Labour mobility occurs when MNC employees change jobs or maybe create own companies (spin-offs). The host country enjoys the benefits from this more skilled labour pool as workers take the knowledge acquired on the job with them, leading to raised productivity in local firms (Scott-Kennel and Enderwick, 2005).

#### Sum-up of the Efficiency Dimension

Businesses have a great potential to positively impact developing countries because they constitute a large part of the local economy. The 'Efficiency' dimension is therefore important as it looks at the influence of business on economic growth. As seen, direct and indirect employment creation is important as it generates income and possibly enhances the skills of employees. In addition to this, linkage creation can induce transfer of technology and best practices to local firms which constitutes an important source of knowledge for the host economy.  Local firms and employees are thus likely to benefit from upgrading, assuming adequate levels of absorptive capacity and high linkage intensity. Moreover, productivity in local industries can be raised through spillovers in the form of competition effects, demonstration effects, and labour mobility.

## 4.2. Poverty - *Focusing on the Poor*

As a large proportion of the poor live in, work in, and help sustain the private sector in developing countries, business activity can be an excellent way to reach the poor (DFID, Unknown). While the 'Efficiency' dimension focused on how businesses can contribute to economic growth depending on how they organise their activities, a different stream of literature looks at how businesses can contribute to human development by focusing on the poor. Human development is about creating opportunities for the poor in order for them to develop their full potential and about expanding the choices people have to lead the lives they themselves value. Recently, the development literature has looked at how businesses can improve the lives of the poor by focusing on making their activities more inclusive of and better for the poor (UNDP, 2008; Kakwani and Permia, 2000). Based on a review of this literature, it will be outlined how businesses can include the poor actively in their business activities in ways that potentially improve the lives of the poor. Furthermore, this dimension looks at what constitutes a decent job as this type of jobs can improve productivity and one's quality of life, thus having an impact on human development.

### Including the Poor on the Supply Side

Inclusion of the poor can take place both on the demand side as clients and consumers, and on the supply side as employees, distributors, producers, and suppliers[5]. Through inclusion, the poor can benefit from immediate profits and higher income, but also through obtaining sustainable earnings, greater empowerment, increased choices and skills. All of this can potentially help increase the productivity of the poor and thus create a virtuous cycle that spurs further development (UNDP, 2008). Moreover, the poor themselves highlight the job creation capacity of businesses, as they rate employment (self employed or waged) as the quickest and surest way to escape poverty (DFID, 2005).

Incorporating the poor into the businesses' value chains as employees, distributors, and suppliers/producers is a good way to achieve inclusive growth. It can increase incomes as the poor get the opportunities to become employed, and/or the scope for small firms or smallholders can be widened, as they can get a buyer for their products. Furthermore, businesses can design their distribution and supply channels in ways that specifically include the poor. An increase in poor people's income can set off economic multipliers within a local community as it can indirectly increase the incomes of others (UNDP, 2008) – an increase in one's earnings can increase his/her purchasing power and thus potentially benefit others.

According to the human development definition, development through inclusion of the poor is however not just about increasing the poor's incomes, as being able to provide a living for one self is much more than that. According to Amartya Sen, being unemployed or not capable of taking care of one's family due to lack of earnings means a decrease in one's motivation, in skills, one's confidence, and it can furthermore lead to a disruptive social life characterised by social exclusion (Sen, 1999). Including the poor as producers/suppliers, distributors, and employees can encourage the poor to be the main agents of change in their own lives, raising their self-esteem, and it can be empowering as they can gain more control over their lives (ibid; UNDP, 2008).

[5] As we are focusing on the dairy sector, we focus on the small-scale farmers who are viewed as producers as well as suppliers, thus not explicitly mentioning including the poor as suppliers.

### Including the Poor on the Demand Side

As seen above, businesses can create opportunities for the poor by including them in their activities. However, the role of businesses goes further than this as it also involves looking at the poor as consumers. Creating development is about matching business activities with the needs, capabilities, and realities of low-income communities, and participating in the market economy on the demand side can be a way to achieve this (Raworth et. al., 2008; WBSCD, 2005). First of all, business entry can help increase productivity for small-scale producers and micro and small enterprises by making their products and services accessible (UNDP, 2008).

Secondly, in poor societies and rural areas, large parts of the population are significantly affected by unmet basic needs as many lack access to financial services, to water and sanitation services, to the Internet, and to many basic products and services. Additionally, they often have to pay anywhere between four and 100 times as much for basic products and services than richer people, and the available products and services tend to be of poor quality (Hammond et. al., 2008). By introducing their products and services (new as well as old) to local markets in the developing countries, businesses can expand the poor's choices and thus increase the poor's quality of life by overcoming some of the constraints they are faced with every day (ibid).

Due to this, a great deal of attention from scholars, development practitioners, and the business world has therefore been directed towards ways that businesses can include the poor as consumers and thus increase their choices. Increasing income is of course crucial in relation to being able to consume products and buy services, as it requires a certain level of income to afford this, meaning that creating employment and increasing incomes becomes complementary to including the poor as consumers. However, UNDP emphasizes the importance of consumption in relation to enlarging people's ability to live a good life (a life that the poor themselves deem valuable), e.g. in relation to participating in the life of a community and in relation to being empowered (UNDP, 1998). Concerning the former, consumption is important for one's group identity as without the right dress, housing, food, etc., a person can be excluded from fully participating in the society he/she lives in. People's consumption choices are highly influenced by the society in which they live and consumption is thus a means for social communication (ibid). With reference to the latter, an increase in choices, which the affordability and availability of products and services provide, can mean an increase in empowerment of the poor (Stern et. al., unknown).

### Decent Jobs

A central aspect to look at when talking about focusing on the poor is not only that the poor are included but also that they have decent jobs and thus are treated fairly. Without proper conditions, direct or indirect employment creation will not fully benefit the poor. UNECA (UN Economic Commission for Africa) defines decent employment as *"an integrative concept that refers to both quality and quantity of labour. Decent employment should be productive and secure work, ensure respect of labour rights, provide an adequate income, offer social protection and include social dialogue, union freedom, collective bargaining and participation"* (UNECA, 2005:62). As most employment in the developing countries is informal, it tends to be characterised by low wages (as the enforcement of minimum wages is weak if at all present), job insecurity, rare union activity, flexible wages, etc. (ibid). All of this point to employment opportunities for the poor which are not very decent cf. the above definition. The lack of decent jobs has a negative effect on development, as it is associated with low productivity and a low quality of life. Many people with a job in the informal sector (being as an employee or self-employed) are not earning enough to provide for their families' basic needs, meaning they have to have several jobs if possible. In Sub-Saharan Africa, 56% of all employed people in the informal sector do not earn enough to provide for their families (ibid). Having to work long hours, often under poor working conditions, negatively influence one's quality of life, meaning that it is crucial to either create more jobs in the formal sector or make sure that the work conditions of informal jobs are improved. Businesses thus play an important role in this aspect as they can do both.

#### Sum up of the Poverty Dimension

Business activity can benefit the poor through including them in the value chain, either as producers/suppliers, distributors, employees, and/or as consumers. As outlined, businesses can actively improve the income, capabilities, and quality of life for the poor, thus contributing to human development. Furthermore, by making services and goods available and affordable to the poor, businesses can meet the needs of the poor and provide them with increased consumption choices. Inclusion of the poor in the activities of the businesses can hence contribute to improve the lives of the poor. However, as seen in the final part, it is not sufficient to provide the poor with jobs or other income generating activities, as it is also necessary to create decent jobs in order to improve the lives of the poor.

## 4.3. Sustainability – *Ensuring Commercial Profitability*

When discussing which MNC strategy is most conducive to development it is crucial and highly relevant to look at whether the business is sustainable, as there will be no development impact if the business cannot survive. Surviving in often harsh competitive environments requires being profitable in the long run. Based on a literature review of traditional business economics, this section will outline how businesses most commonly strive to ensure sustainability through being commercially profitable.

Profitability is achieved through creating profit, which in its simplest form is the difference between revenue and cost. Creating profit carries with it the premise of cost minimisation, causing most businesses to aim at making their output at the least possible cost (Anderson et. al., 1993). Producing the same output at a lower cost is likely to increase profits. Being profitable normally requires that a business is efficient (doing things well) and effective (doing the right things well) and it means that it has to continuously secure profitability through growth (Watson, 2006). Furthermore, it is not enough to create high absolute value; the value also has to be high relative to competitors at a sufficiently low cost (Kotler, 2003). In the short run, it is not always crucial for a business to be profitable as most businesses experience ups and downs. However, to survive in the long run and being able to expand and grow, which is often, however not always, necessary in order to stay competitive, profitability becomes a main objective for most businesses.

There are many ways in which businesses can create profits, however one of the leading theories comes from Michael Porter, who states that businesses have to follow one of the following three strategies to build up competitive advantages which are required in order to survive: 'cost leadership', 'product differentiation', or 'supplying to a particular market segment'. The former, 'cost leadership', involves businesses lowering their prices through economies of scale or efficient production methods, thus aiming to manufacture and distribute products at the lowest possible unit cost (Douma and Schreuder, 2002). This strategy normally requires large-scale production or experience in order to keep prices low enough. 'Product differentiation' means that businesses aim to make their output appear somewhat different and superior to that of the competitors. If consumers recognise the additional value, the businesses can charge higher prices (ibid). The latter, 'supplying a particular market segment', means that businesses find or build a profitable niche in a market not yet serviced by competing firms (ibid).

Although businesses manage to build a competitive advantage, very few of these remain sustainable as competitors and markets are dynamic rather than static, and to survive, businesses must continuously invest in developing or building new advantages. Resources and capabilities are considered essential building blocks for corporate and competitive strategy (Barney, 1995; Teece et. al., 1997). Furthermore, it is important for businesses to be able to leverage existing resources and capabilities – not least when wishing to enter less-developed or emerging markets (Seelos and Mair, 2006). Fortunately, many competitive advantages are leverageable, meaning that businesses can use a previous strong competitive advantage as a springboard to create a new one (Kotler, 2003).

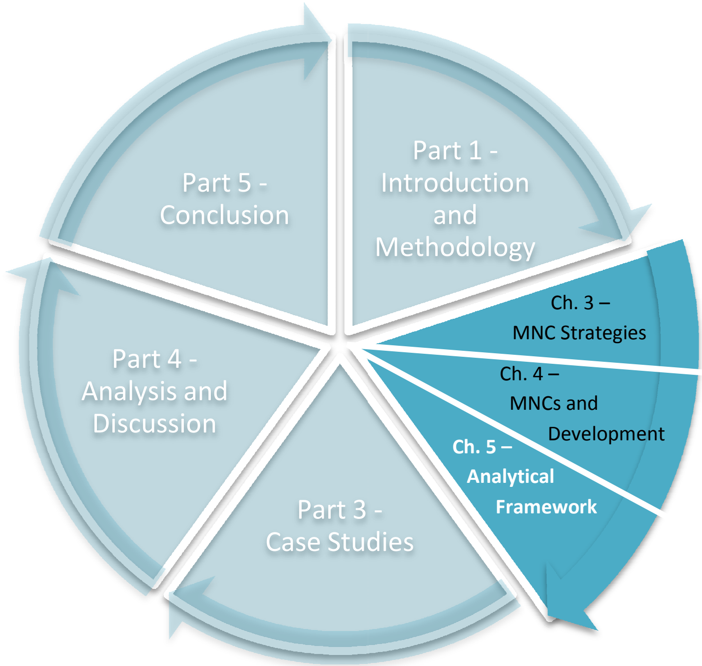
**Sum-up of the Sustainability Dimension**

In sum, profitability is all about surviving in the long run by creating profits, thus being able to grow and develop one's business. In relation to development and how businesses can be conducive to development, the aspect of a business being profitable is important as it comes down to the survival of the business. Logically, if a business seizes to exist, it follows that it cannot be conducive to development.

## 4.4. Sum-up of MNCs and Development

The aim of chapter 4 has been to answer sub question two: *"Which dimensions are relevant in order to assess the development effects of the different MNC strategies?"* By looking at different streams of literature in order to accommodate the complexities of the development aspect, we have found three dimensions on which to assess the four MNC strategies in order to get an overview of their conduciveness of development. The reason for choosing these three dimensions is that together they reflect well both the economic and human aspects of development supplemented with the need of being commercially sustainable in order to have any longer term impact. A more thorough description of how the dimensions interact with each other and their importance for analysing the four MNC strategies will be outlined in the next chapter. Here the MNC strategies and the three dimensions will be included in an analytical framework serving as the point of departure and structure of the analysis.

# Chapter 5 – Developing the Analytical Framework

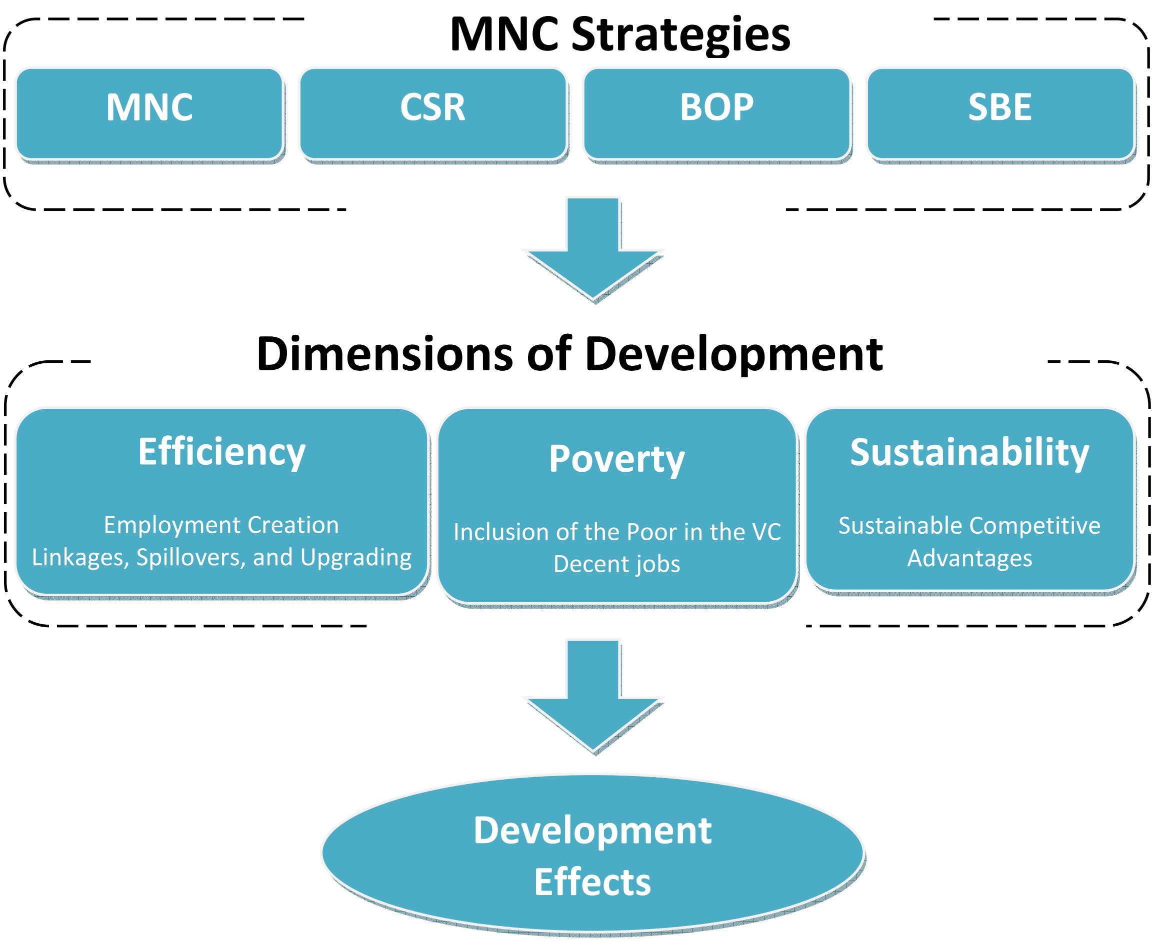



In the previous chapter, the three dimensions on which to compare the different MNC strategies were derived. Combined with the four MNC strategies described in chapter 3, it is now possible to develop an analytical framework. The analytical framework is developed on a set of broad ideas and principles taken from relevant literatures in order to provide a clear link from the literature to the research question and objective. Moreover, the analytical framework is intended to be used as a starting point for reflection about the research and its context and will hence serve the purpose of structuring the analysis and assist us in making meaning of the subsequent findings.

## 5.1. Analytical Framework

The analytical framework has been developed on the basis of the MNC strategies and the three dimensions, and the logic behind it is that an MNC strategy is conducive to development if it ranks high on all three dimensions, i.e. it must be efficient, focus on the poor, and still be commercially sustainable.

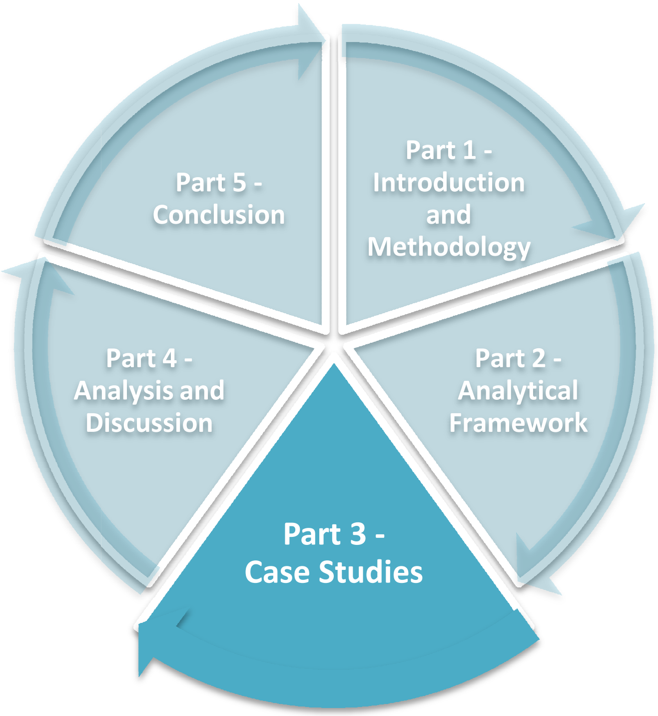
**Figure 5.1. Analytical Framework**



When developing the analytical framework, we have taken our starting point in the definitions of the MNC strategies outlined in chapter 3. As the summarising table in this chapter illustrates, the MNC strategies focus on different dimensions of value creation, ranging from a sole focus on maximising financial returns to maximising social returns.

The diversity of the four MNC strategies and the often very one-dimensional discussion about the MNC strategies' conduciveness of development led us to look into what other dimensions were required in order to nuance the debate. Reviewing the literature within the fields of economics, development, and business economics made it possible for us to derive three dimensions. The above analytical framework should thus reflect an encompassing framework, enabling a thorough analysis and discussion of the MNC strategies' conduciveness of development. By looking at both the economic and human aspects of development, the differing foci of the four strategies can be more meaningfully analysed. Rating high on the 'Efficiency' dimension means that businesses can contribute to creating economic growth, thus having a positive impact on overall economic development. Furthermore, as the poor are far from automatically affected by the generation of overall economic growth, businesses also need to focus specifically on the poor in order for the human development aspect to be met. Too often the claim of FDI positively impacting the poor is through trickle-down effects that are hard to measure and determine, thus making the 'Poverty' dimension necessary. Finally, the 'Sustainability' dimension was deemed necessary as it rests on the logic that without sustainability there is no basis for creating development. As the sustainability aspect of the more recent MNC strategies is not fully understood and thus cannot be taken for granted, this dimension is essential.

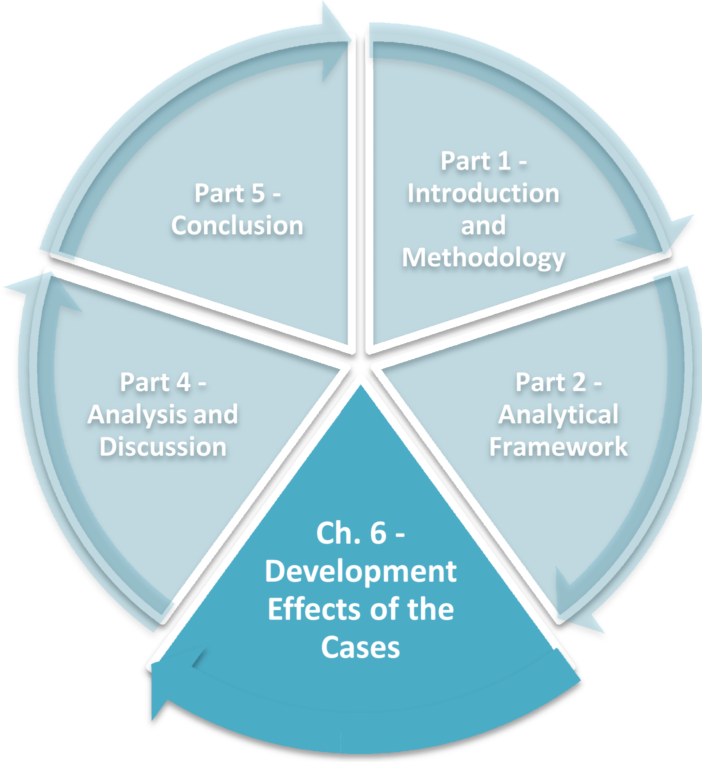
# Part 3 – Empirical Insights from the Dairy Industry




In **Part 2 – Deriving Analytical Framework through Literature Reviews** four MNC strategies relevant for doing business in developing countries were characterised based on a literature review. Thereafter, the three analytical dimensions 'Efficiency', 'Poverty', and 'Sustainability' were derived. Lastly, the strategies and dimensions were combined to develop the analytical framework forming the basis and structure of the case studies and the analysis.

In **Part 3 – Empirical Insights from the Dairy Industry** four cases within the dairy industry, each representing an MNC strategy will be presented. Following these presentations, the development effects of each case will be explored based on the three dimensions in the analytical framework.

# Chapter 6 – Development Effects of the Cases




In this chapter, four case studies each representing an MNC strategy will be described. Each of these cases will be set up against the analytical framework in order to assess their development effects and the challenges they are faced with. By doing this, the strengths and weaknesses of the cases in relation to being conducive to development will be outlined.

In order to enable a meaningful comparison, the chosen cases all operate in the dairy sector, allowing us to control for this variable. The reasons for choosing this exact industry are many as outlined in section 2.4.1. 'Case Selection'. In brief, dairy companies can have both up- and downstream activities in developing countries, thus potentially having a widespread developmental impact. The case studies firstly serve the purpose of forming a solid empirical background for the analysis in chapter 7, as they help produce the context-dependent knowledge necessary to further deepen our knowledge and understanding in the analysis and discussion that follow. Thirdly, the knowledge generated through the cases is crucial in relation to identifying inherent trade-offs within each of the strategies in relation to being conducive to development. Finally, the cases serve to focus the thought process in relation to recognising certain trends among the strategies, which will be further elaborated upon in chapter 8. The cases are used in order to get to *know* the reality better and should therefore not be seen as an attempt to *prove* anything about this reality.

The chapter will begin with a presentation of Arla Foods, followed by an assessment of its development effects. Hereafter, the cases of Nestlé SA, Fan Milk, and finally Groupe Danone will be presented and the development effects assessed.

## 6.1. MNC Case – Arla Foods

### Profile

In 2000, the Swedish company Arla and the Danish company MD Foods merged to form 'Arla Foods', making the company Europe's leading dairy producer with around 10,600 members producing more than 8 billion kg of milk every year. Among Arla Foods' products are fluid milk, powdered milk, butter, cheese, yoghurt, and cream. In addition to this, the company makes dairy ingredients and bacterial cultures for food manufactures and agricultural use. While half of Arla Foods' sales go to the Danish and the Swedish markets where Arla Foods controls 95% and 65% of the dairy production, respectively, the other half goes to Europe, the US, Asia, and the Middle East. The main products sold internationally are cheese products (28%), powdered milk (15%), and butter (11%) (Arla Foods Amba, unknown-a). With increased competition and continued pressure to keep costs down in its traditional markets, Arla Foods continuously works to maintain and develop its position as an innovative global supplier of dairy products. This is partly done by maintaining close links with customers in all key export markets through a network of sales companies and through constantly looking to uncover new, untapped markets to penetrate with its products, thus seeking to take advantage of new growth opportunities (Arla Foods Amba, unknown-b).

### Operations

In recent years, Arla Foods has intensified its focus on developing and creating new markets in Asia. In 2006, Arla Foods set up a *"sino-foreign equity joint venture for the production, sale and distribution of milk powder and other solid milk products"* with the Chinese company Mengniu, who is among the top three dairy companies in China (China Mengniu Dairy Company Limited, 2006a). Mengniu was only established in 1999 but is already the Chinese market leader in the durable milk, ice cream, and yoghurt markets. However, despite its huge and rapid success, Mengniu has not managed to get a high enough quality in its milk powder products, thus not being able to capture market shares in this attractive segment (Bang, 2006). The joint venture is called 'Mengniu Arla', and Mengniu, who is to be the principal operating subsidiary of the joint venture, owns 50% of the shares, while Arla Foods, who is to have limited liability, holds 48%. The rest is held by Arla Foods Ingredients owned by Arla Foods and Huijin, a Chinese investment company (China Mengniu Dairy Company Limited, 2006).
Arla Foods entered into the joint venture as it saw the partnership as a highly valuable way to enter the Chine market, not least due to the big cultural, political, and social differences there. As Arla Foods' Sales Director, Jais Valeur, expresses, *"Partnership is the key to our*

*business strategy in the Chinese market. We have the necessary know-how with regard to added value milk powder products and our partner has an excellent distribution and sales network which makes for a good match"* (Arla Foods, 2005). In addition to its valuable network, Mengniu also has a strong brand and access to large volumes of high quality milk while Arla Foods possesses knowledge about branding and R&D (Arla Foods Ingredients, 2006).

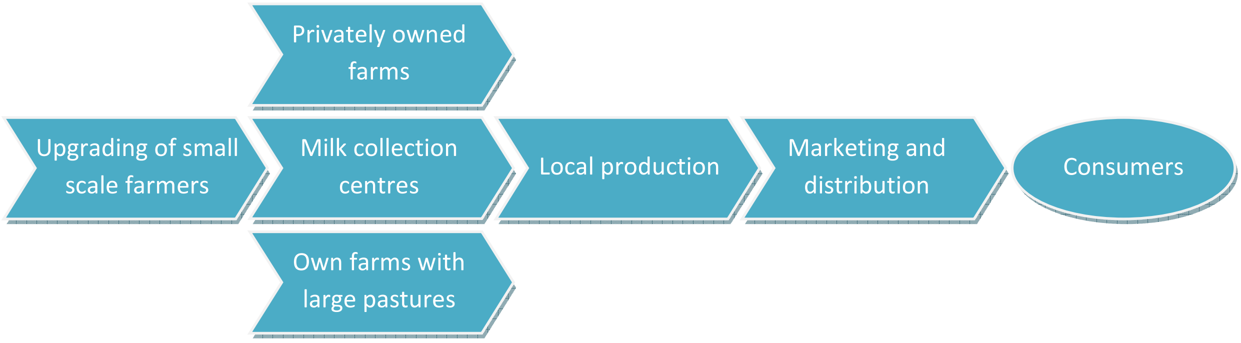
The joint venture is set outside the million-city, Hohhot, in Inner Mongolia, and to begin with production took place from Mengniu's existing plant. However, in 2008 a new plant of approximately 11,000 square meters was set up between Mengniu Arla's new administration building and Mengniu's existing plant. This was due to a massive increase in demand which could not be satisfied with the existing capacity. The new plant has resulted in an increase of milk output from 8,000 to 30,000 tons. Currently, the plant employs 800 workers with 250 people working in production (Arla Foods, 2007). The turnover is around USD 50 million[6] (Arla Foods, 2006a). It is expected that the plant will be further expanded due to the high expectations. As Arla Foods' Managing Director, Peder Tuborgh, explains, *"I would be deeply disappointed and worried if we not already within a year is talking about an expansion of the plant to twice the size"* (Politiken, 2008).

The milk powder plant is a smaller replica of Arla Foods' two large plants in Videbaek and Svenstrup close to Aalborg, and it was built and put in to use in record time. Arla Foods invested USD16 million in the plant when it started in China and since then more than USD 74 million has been invested in it (ibid). As the plant is situated in Inner Mongolia, more than 2,000 kilometres from the shops in southern China where Mengniu Arla's main markets are, the company is dependent on a good distribution system. From having independent distributors pick up products from the plant, Mengniu Arla has now rented three big warehouses in southern China in order to increase delivery safety (Arla Foods, 2006b). The transport of products to the warehouses is normally handled by independent carriers and at times by train (Arla Foods Ingredients, 2009).

The Chinese market is characterised by a very fragmented milk supply as most milk comes from small family-driven farms. This is due to the fact that up until the mid eighties, the dairy sector consisted mainly of state-owned companies, which in the early nineties were split up as the industry responded to the market reforms. This meant that, rather than having large farms, the bulk of raw milk used by the producers was supplied by many small farmers, thus fragmenting the supply lines (Strange, 2008).

[6] Converted from DKK 260 million

**Figure 6.1. Value Chain – Mengniu Arla**




Mengniu Arla has three types of suppliers, with 70% of the milk coming from milk stations situated in a radius of 70 km around the plant. The small-scale dairy farmers bring their cows to the milk collection centres for milking. Each farmer has a contract to supply milk to Mengniu through the third-party collection centres, also contracted to Mengniu (Arla Foods Ingredients, 2009). The farmers and their families live in residential units which they have purchased together with a small cow barn. The typical collection centre hosts 40 farmers and their families, and the average farmer has from two to ten cows (IFC, 2006). After each milking, farmers are paid in cash for the quantity of milk delivered, and Mengniu Arla then settles the account with the station (Arla Foods Ingredients, 2009). Sterilised tank trucks immediately transport the fresh milk to Mengniu's plant. The milk truck operators own their own trucks but are also contracted to Mengniu. On the plant, milk is processed 24 hours a day after which the dairy products are packaged and warehoused. From the warehouses the products are distributed to the market consisting of larger cities (IFC, 2006). Due to the problems of monitoring the fragmented supply chain, and thus compromising the quality of the milk as the Chinese tainted milk scandal showed[7], Mengniu has started developing large pastures on which up to 10,000 cows can be brought up. While still in the process of developing these, Mengniu Arla already gets 10% of its milk from these pastures. The remaining milk is supplied from privately owned farms with between 50-1,000 cows (20%) (Arla Foods Ingredients, 2009).

[7] In 2008, China was hit by a milk scandal as powdered milk from various companies was found to contain melamine, a chemical used in producing plastics. While there are differing opinions about the source of the problem, the fragmented supply system has been blamed for not having an efficient regulatory system. It seems that either local farmers have added the melamine to the milk in order to boost the tested protein level of watered-down milk, or that the melamine was added to the milk at the local gathering stations. No matter what, the system is likely to be consolidated in order to increase safety and Mengniu Arla has installed a new testing system, ensuring that the milk is tested no less than four times before being sold (Strange, 2008; Arla Foods, 2008)

One of the key competitive advantages of Mengniu is the steady supply of high quality raw milk. In China, Mengniu has in total approximately 3,000 collection centres contracted with 1,800 collection centres in Inner Mongolia. The milk supplies come from around 500,000 cows, owned by approximately 300,000 small-scale farmers (IFC, 2006). Due to Mengniu's impressive growth the past decade, some of the milk supply still comes from independent brokers as it takes time to set up the milk stations (Gereffi and Lee, 2009). Mengniu assures high quality of the milk by providing training and technological know-how to the farmers, and by having quality control supervisors from Mengniu monitor the milk quality at the milk collection centres (Strange, 2008; IFC, 2006).

Mengniu Arla's product range consists of a locally produced milk powder called Mengniu Arla that is to be sold in 25 grams bags. By adding hot water to the powder, the consumer quickly gets a glass of hot water, which is how Chinese people prefer drinking milk. About a fourth of the total powder packages are to be produced with partly processed products from Arla Foods' three Danish and Swedish milk powder plants (Bang, 2006). Furthermore, Mengniu Arla is to continue selling and producing the brands Arla Foods took over from Mengniu in relation with the joint venture set up. The quality of these will be improved to meet international standards. The locally produced products will be supplemented with a product called Milex, which is part of Arla Foods' high-quality assortment imported from Scandinavia. Milex is Arla Foods' global brand for detail-packaged milk powder (Arla Foods, 2006b).

### Market opportunities

China is the world's largest market for consumer packed milk powder. In 2005, the Chinese milk powder market grew with more than 15% and during the past five years, the milk sector has grown with around 188% (Fletcher, 2005). This means a huge potential for growth as China has one of the lowest per capita consumption of milk in the world, and with the support of Mengniu's strong brand, Arla Foods expects to be highly successful on the Chinese market (Bang, 2006). In addition, the Chinese citizens are getting richer and more and more interested in buying milk, which is more popular than ever due to its nutritional character. Strangely enough, this is taking place despite there being no tradition in China to consume milk products and despite the fact that three quarters of the Chinese population are lactose intolerant (Egeberg, 2006).
In China, Milex is first and foremost to be launched in the three largest cities in Southern China. Each of these cities has more than 9 million habitants, thus constituting a big potential market. Milex will furthermore be imported and marketed as Mengniu Arla's premium international brand (Arla Foods Ingredients, 2006). Despite the Chinese milk scandal and

the following decline in consumer confidence, Arla Foods expects Milex to sell well since it is not marketed as a local product. Mengniu Arla's ambition is to cover 10% of the highly attractive milk powder market in China after just a few years (Bang, 2006).

### Competition

The Chinese dairy industry is characterised by fierce competition with large companies raising the competition barriers and segmenting the market, making it difficult for small-to-medium sized enterprises to survive. Three big players, Yilli, Mengniu, and Bright Dairy, who together control more than 50% of market shares in China, dominate the market for fluid milk. The dairy market is still characterised by consolidation, meaning that the differences between first and second tier brands most likely will be even larger in the future. According to Market Avenue, *"the first tier brands like Yilli, Mengniu and Bright Dairy have aggressively pushed their national strategies in recent years, most notably into key regional markets. They have launched a diversified range of products to further suppress market space for local second tier brands"* (ChinaBizIntel, 2008). However, despite the growing market, gross margins have been declining since 2002 due to price wars and rising raw ingredient costs (ibid). Due to this, Mengniu has focused massively on capturing market shares in the powdered milk market (by partnering with Arla Foods), where the company is still rather small (only 5% of its sales). Its biggest competitor on this market is Sanlu who has been the market leader in powdered milk for the past 15 years (Shanghai Daily, 2009). However, in the wake of the tainted milk scandal, where Sanlu was heavily involved, Sanlu has faced a long period with declining growth rates and huge compensation claims (Strange, 2008). This led to the company being declared bankrupt in the beginning of 2009 (Jing, 2009). If Mengniu Arla manages to catch this opportunity and be portrayed as a safe and healthy brand, it has the opportunity to capture a good portion of the market shares.

## 6.2. The Development Effects of the MNC Case – Arla Foods

### **Efficiency** – *Stimulating Economic Growth*

In relation to the creation of employment, Mengniu Arla initially started with 422 employees of which 250 were employed in production, a number that has doubled with the new plant. However, despite the construction of the bigger plant, no more than the original 250 people have been employed in the factory due to the high technology level. As Mengniu Arla supplies its milk from Mengniu's network of 300,000 small-scale farmers and its pastures, it is difficult to assess the level of indirect employment opportunities Mengniu Arla has created upstream in the value chain. However, in relation with Mengniu's consolidation process of its previous fragmented supply chain and thus an optimisation of this through the use of larger farms and own pastures, it is unlikely that Mengniu Arla has created many additional jobs in Mengniu's supply network. It is however, difficult to say, as the increased production capacity has required more supply of milk, thus either including more farmers or increasing productivity of existing suppliers. The latter is very likely to have happened as Mengniu continuously work to enhance the effectiveness of breeding and rearing milk cattle e.g. by providing farmers with efficient technological system services. Furthermore, through experience sharing and having experts visiting farmers, the suppliers receive extensive training on up-to-date technologies, nurturing, breeds improvements, etc. (China Mengniu Dairy Company Limited, 2007).

When entering the Chinese market, Arla Foods chose to enter into a horizontal linkage with equity. The Mengniu Arla joint venture is quite conventional when looking at the objectives and the competences each partner brings. The forces of the Danish partner are production specific technology and know-how whereas the Chinese partner contributes with access to supply, distribution, and sales network as well as with contact to the local authorities (Hvithamar, 2006; China Dairy Net, 2005). As mentioned in the case, Mengniu strongly hopes to be able to learn from Arla Foods, as the company has had problems reaching a sufficient level of quality in its products. Despite its strong position in other markets, Mengniu has not been very strong in the branding of its powdered milk products, another area in which Arla Foods can contribute with its knowledge.

The fact that Arla Foods has chosen to enter into a joint venture with Mengniu and together have built a new big production plant, suggests that Arla Foods in fact hopes to increase the capabilities of the local partner on top of leveraging the competences of Mengniu. Thus there seems to be good opportunities for upgrading. To enforce the transfer of knowledge, experts from Arla Foods went to China to support the development of the new plant. The knowledge obtained through the joint venture can indeed be useful in relation to Mengniu's own product portfolio. For Mengniu, it is essential to develop its product portfolio from low margin liquid milk to more value-added products, a process in which technology and know-how from Arla Foods become crucial. For instance, Mengniu has now launched premium baby formulas to the market (China Economic Review, 2006). In this way, Arla Foods contributes to upgrade a local company via transfer of technology and know-how, and Mengniu can be inspired by different managerial and organisational practices from Arla Foods. The intensity of the linkage makes knowledge transfers more likely to happen, just as the absorptive capacity of Mengniu is high enough to actually absorb the new knowledge and be able to utilise it.

To optimise activities, Mengniu Arla needs an extensive and efficient network of distributors and suppliers. In relation to backward linkages, Mengniu Arla thus buys milk from Mengniu's existing network of small-scale suppliers, larger farms and pastures. While a further development of the pastures is going on, Mengniu Arla nonetheless aims at optimising the production upstream in the value chain. Small-scale farmers are for instance offered access to finance, technological support, and training in livestock management in addition to the benefits mentioned above. The training the farmers receive increases their know-how and ability to become more efficient producers of high quality milk. In the case of the Zhang family, a family of traditional cow dairy herds in Inner Mongolia, it has profited from moving to a collection centre where it has a guaranteed buyer. After just two years at a collection centre, the Zhang family has managed to increase its number of cows from 10 to 50, as well as increase the per animal production thanks to the technical support received from Mengniu (IFC, 2006). This has furthermore increased the family's earnings (which is also 2.8 times higher than provincial farmers) (Tetra Pak, 2005) and improved their quality of life: *"They miss their children who remained in their home town, but they are now participants in China's economic growth and own a truck, have a television with a satellite feed, and have achieved a higher quality of life than would have been possible in their former village"* (IFC, 2006:18). Whether or not there is a trade-off between owning a satellite-TV and seeing ones children we shall not comment on.

Concerning the distribution channel, Mengniu Arla has resulted in the set up of three big warehouses in the Southern part of China in order to ensure a more safe delivery of its products. This has eased access for the large wholesalers that buy the products from here and distribute it to supermarkets in the large cities. This development has increased the amount of linkages in Mengniu's existing distribution network of more than 1,000 independent wholesalers while also making Mengniu Arla's operations more efficient (Asian Business, 2005).

**Poverty** – *Focusing on the Poor*

Moving on to the 'Poverty' dimension and looking at the supply side, Mengniu Arla is not very focused on the poor at least not in relation to including them as distributors or employees. Mengniu Arla mainly markets its products through supermarkets and traditional retail outlets, thus not specifically thinking the poor into its distribution channel. Furthermore, as Mengniu Arla has just built a new high-technological and efficient dairy plant, its operations are highly technology dependent, meaning that it requires a high level of skills working there; e.g. the production line is monitored by two-meter-wide computer screens monitored by engineers, and inventory in Mengniu's warehouses is moved around by robotic forklifts practically requiring no human intervention (Asian Business, 2005). This excludes the poor as they lack sufficient education and thus sufficient skills. However, Mengniu Arla is not totally restricting the poor from its value chain. As seen above, Mengniu Arla links up to thousands of small-scale suppliers in order to get their milk supply. Nonetheless, due to the wish to modernise its dairy production, and to minimise the likelihood of another tainted milk scandal in China, Mengniu has developed the previous mentioned modern pastures, each raising 10,000 cows, already covering 10% of Mengniu Arla's raw milk supply. In addition to this, larger and more consolidated farmers are being used in order to avoid the heavy monitoring load the fragmented small-scale farmers require. While the majority of the milk is still supplied from small-scale farmers, it will most likely change in time thus negatively impacting the inclusion of small-scale producers. Can Mengniu get all its milk supply (also milk used for Mengniu Arla) from its own pastures or larger farms it is very likely that the small-scale milk suppliers will become dispensable (Duoyou, 2008).

On the demand side, it is clear that Mengniu Arla markets its products to high-income groups by introducing its internationally produced high-end product, Milex, to the Chinese market. Furthermore, Mengniu Arla has taking over some of Mengniu's milk powder products which it intends to upgrade and thus sell them locally and internationally as high end products, thus aiming to take a bigger share in China's high-end milk powder market. Despite selling its products in small packages, the prices are still high compared to discount products, making Mengniu Arla's strategy highly exclusive of the poor, as the products are not affordable for them. Focusing on the high-income groups means that Mengniu Arla has the potential of earning high margins, which is also reflected in its product margins that range from 40-60% on new products to 20-30% on older products (Company Report, 2008; Patton, 2006). Moreover, Mengniu Arla is mainly going to sell these products in urban areas, thus neither making products available or affordable for the poor in rural areas. The associated positive effects on the lives of the poor as described in section 4.2., 'Poverty', do thus not materialise.

The final issue related to focusing on the poor is the aspect of decent jobs. Firstly, as Mengniu was voted among the 20 best employers in China in 2005, it is very likely that employees work under decent condition. Secondly, Mengniu's employees regularly experience increases in their wages, something Mengniu sees as an *"important factor to guarantee the improvement of enterprise competitiveness"* (China Center for Labor and Environment, 2008). These positive conditions are further backed up the fact that Arla Foods strongly emphasizes having happy employees in all of its operations and has included the issue of working conditions in its code of conducts (Arla Foods, unknown). Finally, Mengniu Arla's suppliers have experienced an increase in their earnings and according to the Zhang family, working and living conditions on the milk collection centre are good (IFC, 2006).

**Sustainability** – *Ensuring Commercial Profitability*

Turning to the commercial sustainability of Mengniu Arla, the biggest risk inherent in the business model is most likely the risk of joint venture failure, which is quite common. Despite the expectations of a mutually beneficial relationship, joint ventures often fail due to the sometimes opposing goals of the partners which do not tend to become visible until sometime along the way (Lasserre, 2007). Other risks of failure involve e.g. technological leakage, exploitation of intellectual property rights, opportunistic behaviour, and mistrust (ibid; Eden et. al., 1997). In the case of Mengniu Arla it seems that the commitment is quite strong given the quick investment in a new, large dairy plant. The ambitions and expectations on part of Arla Foods are high, expecting talks about an expansion of the plant to twice the size to start within a year of inauguration of the new plant (Politiken, 2008). While joint ventures can be risky, entering into such an equity partnership with a local partner might also very well turn out to be the biggest asset in relation to sustainability. The Chinese dairy market is very different from other markets MNCs are familiar with as it is a huge market covering many regional nuances and challenging logistical conditions. In the 1990s, several of the large players such as Kraft, Danone, Nestlé, and Parmalat entered China with limited success. They all came with big expectations but with a strategy to do everything on their own. Especially setting up a supply chain was challenging since the supply chain is so fragmented with a heavy reliance on small-scale farmers (China Economic Review, 2006).

Another reason for expecting Mengniu Arla to be commercially sustainable is because of the huge potential the Chinese market constitutes. As mentioned in the case description, the market is far from exhausted and with the strong brand and position of Mengniu backing up the joint venture, it seems very unlikely that it will not be successful. This is backed up by the fact that milk powder is a highly profitable business in comparison to other dairy products in China, and that Mengniu Arla can sell their products at *"surprisingly high prices compared to Western Europe"* as Arla Foods' Sales Director, Jais Valeur explains (Soerensen, 2006).

**Sum-up of Developments Effects – Arla Foods**

As can be seen from the table below, Arla Foods is particularly strong on the 'Efficiency' and 'Sustainability' dimensions. While it to some extend include the poor in its supply chain and has decent work conditions, it is clear that Arla Foods does not have any specific focus on 'Poverty'. Rather it seems that the poor are only included due to the fragmented supply chains, i.e. it currently is a necessity but Mengniu Arla is in the process of consolidating its supply chain.

**Table 6.1. Development Effects – Arla Foods**

| **Efficiency** – *Stimulating Economic Growth* | **Poverty** – *Focusing on the Poor* | **Sustainability** – *Ensuring Commercial Prof-itability* |
|---|---|---|
| · Capital intensive operations<br>· Labour intensive upstream activities<br>· Backward linkages (large scale)<br>· Joint venture<br>· Intensive transfer of technol-ogy, best practices, and knowledge to local partner<br>· Upgrading of farmers and employees | · Some inclusion of poor small-scale farmers<br>· Skilled employees<br>· Distribution through super-markets and retail outlets<br>· High income consumers<br>· Urban outreach<br>· Decent jobs, high wages and earnings | · Profitable and good eco-nomic outlook<br>· Already earning high mar-gins<br>· Possesses sustainable CAs |

## 6.3. CSR Case – Nestlé SA

### Profile

Nestlé SA (Nestlé) was founded in Switzerland in 1866 and has since then grown into being the world's largest dairy company, and with representation in every region of the world it is one of only four genuinely global players within the dairy sector[8] (Rangan et. al., 2007). According to Nestlé's website, the company is *"the world's leading nutrition, health and wellness company based on sound human values and principles"* (Nestlé SA, 2009a). Furthermore, the company holds a leadership role in the global dairy system and is known for building responsible supply chains with producers or farmer cooperatives across the world (Rangan et. al., 2007). However, Nestlé is much more than a dairy company which constitutes only 10% of its activities as its products include everything from frozen and chilled products (32%), coffee and beverages (33%) to culinary (17%) and various other products (8%). Nestlé's traditional key markets are the US, Europe, Japan, and Australia constituting 75% of all sales while its 'next ten', includes markets in South East Asia, Brazil, and Central America (Hemmer, 2005).

According to public rating, there is no global company that matches Nestlé in terms of being socially responsible, as the company continuous to launch initiatives that aim to ameliorate poverty and nutrition in developing countries (World Bank, 2008). CSR is *"inherent to Nestlé's business strategy"* as the company believes it helps it to *"better understand how it contributes to society along its entire value chain: from agricultural sourcing – helping farmers to provide better quality raw materials and setting higher labour and environmental standards – to marketing and educating customers about nutritious foods and lifestyles"* (Ethical Corporation, 2009). Nestlé's CSR approach includes various aspects, ranging from philanthropic projects such as the Nestlé's Food Education programmes in Latin America (Nestlé SA, 2009b), to the support of UN's Global Compact Principles and setting up code of conducts (Nestlé SA, 2009c). However, it goes beyond that. Nestlé has recently taken a new approach through its 'Creating Shared Value' (CSV), attempting to go much further than the two other and more traditional CSR approaches. Through its CSV strategy, Nestlé aims to create value for society and for shareholders and it is a key element for Nestlé in strengthening its brand and customer loyalty (ibid).

### Operations

The best example of Nestlé's CSV strategy is its 'Milk District Model' – an engine of rural development with 500 factories in 83 countries, employing 247,000 people around the world

[8] The other three being Danone, Fonterra and Parmalat

(Rangan et. al., 2007). In Latin America alone, Nestlé operates 72 factories with more than 38,000 employees and by purchasing for more than USD 3.61 billion from local suppliers, Nestlé furthermore creates an estimated 650,000 jobs indirectly (Nestlé SA, 2006). Colombia is one of the countries in which Nestlé has established a milk district. Being the third largest buyer of milk in Colombia, Nestlé collects 51% of the milk produced in the poor Caquetá region and the company has helped consolidate an otherwise highly fragmented milk district. The remaining milk from the Caquetá region is sold to households and local companies, as there are no other MNC operating in the area due to the area being unstable and insecure due to FARC activity. Although the region only represents a little more than 2% of the total milk production in Colombia, it still serves as an important source of income in the region (ibid).

**Figure 6.2. Value Chain – Nestlé Colombia**


Nestlé's dairy operations in Colombia consist of a network of around 7,500 farmers supplying around 226,000 tonnes of milk a year (Nestlé SA, 2006; Nestlé SA, 2008). Approximately 4,000 of these are small-scale farmers collectively earning around USD 5 million a month, according to Nestlé. For farmers with more than 25 animals, a legal contract is made between Nestlé and the farmer, while smaller farmers are procured through agents holding contracts with Nestlé. All farmers receive a number of services from Nestlé, e.g. veterinary services, medicines, and feed supplies on a no profit, no loss basis (Gulati et. al., unknown). Through its supply chain, Nestlé is believed to create income for around 10,000 milkers, traders, transporters, and rural workers in the region (Nestlé SA, 2008:70).

In order to get the milk from the fragmented supply of medium and small-scale farmers to the production plants, 170 cooling tanks have been set up across the region, greatly enhancing the capacity of the cooling chain. These cooling tanks are owned by the farmers, which have been able to pay for these through micro loans given by Nestlé. Before going to Nestlé's production plants, the milk is partly processed at a pre-processing plant nearby (Nestlé Colombia, 2009). While Nestlé produces milk locally, it also supplements local production with imports from its other factories – both from other Latin American countries and from Europe.

Production takes place at Nestlé's two highly technological dairy plants established in 1978 and in 1986. During 2009, Nestlé plans to expand one of them in order to double the production capacity (Nestlé SA, 2006). In addition to creating earnings for the 7,500 farmers, Nestlé employs approximately 1,300 people in Colombia (of which around 400 are working on the plants). On average, Nestlé's employees earn salaries three times above the minimum wage in Colombia and according to Nestlé it pays 40% higher wages than its competitors. In addition, Nestlé prides itself of having 60% of its workers unionised compared to a national average of only 5% (ibid).

From the production plant, Nestlé's products are either exported to surrounding countries or sold locally. Since the 1990s, modernisation of the Colombian dairy sector has taken place with the entry of large foreign retailers, resulting in most dairy products being sold to large supermarkets and outlets in urban centres (EIU, 2008). However, Nestlé's products are sold to all parts of the country, rural as urban, through its extensive distribution network. In some parts of Asia and Latin America, Nestlé has established a 'Direct Store Delivery' system where local agents using vans and motorcycles distribute low-cost products directly to small retailers in rural areas (Nestlé SA, 2008). In Colombia, however, Nestlé uses local distributors who resell the products to small, local 'mom and pop' stores and directly to consumers in markets and centres in addition to its more traditional distribution channels.

Nestlé has a huge variety of international brands, being sold to people of all ages; however, it also has a wide variety of locally adapted products that fits the local eating and social habits in Colombia. Brands produced locally in Colombia are 'Crema de leche NESTLE', condensed milk 'LA LECHERA' and powdered milk 'KLIM' (Nestlé Colombia, 2009).

### Market opportunities

Compared to Brazil and Mexico, which have the highest dairy consumption in Latin America generating nearly 60% of US dollar dairy sales in the region in 2002, Colombians still consume relatively little dairy with only around 3kg per person per year, leaving obvious room for growth (Mercer, 2007). The dairy food market in Colombia is increasing, with an average annual growth rate of 7.3% between 2002-2007 (Research and Markets, 2009). With incomes increasing the demand for dairy products is also expected to rise.

### Competition

In the 1980s, the entire Colombian dairy sector was stagnating under governmental fixed consumer price policies (Dairy Foods, 2007). However, during the past couple of years, several food producers have been investing in Colombia in order to tap into the growing demand for food and drinks products, generated by increased economic growth and increased disposable incomes. Some of the key players on the Colombian market are the local companies Grupo Nacional de Chocolates, La Alqueria, and Alpina (Just Food, 2007), as well as the two global giants, Nestlé and Danone. Grupo Nacional de Chocolates has experienced a rise in demand of 150% in the last 5 years, and another 13% rise was expected in the first half of 2007. The company is to invest in a new plant of USD 250 million in 2009 in order to raise production capacity and is generally doing well. La Alqueria, who is a partner with Danone, currently holds a 32% share of Colombia's total long-life milk market, with a dominant 60.3% share in the key Bogota and Cundinamarca markets. With quite a few big players, the competition in Colombia is rather high (Dairy Foods, 2007).

## 6.4. The Development Effects of the CSR Case – Nestlé SA

**Efficiency** – *Stimulating Economic Growth*

In relation to employment generation, Nestlé in Colombia directly employs 1,300 people on its production plants and through its sales activities. In addition to this, Nestlé creates income for around 7,500 suppliers and 10,000 milkers, traders, transporters, and rural workers (Nestlé SA, 2006).

From the above overview of employment creation follows that Nestlé in Colombia generates more backward than forward linkages vertically in the value chain. Due to the fragmented supply chain, Nestlé links up to a large number of small- and larger scale suppliers which supply Nestlé's dairy plants with milk. In its CSR Report for Latin America, Nestlé writes that the productivity of these suppliers has increased a great deal due to Nestlé's investments in training and farm infrastructure such as in the constructing of fences and small dams (ibid). According to the report, Nestlé has helped farmers increase their living standards, as they are now able to produce higher food outcomes (it has five-folded since Nestlé's involvement) while using fewer natural resources. This is not least due to the fact that Nestlé has helped promote the cultivation of 1.4 million hectares of grass where cows can be fed on proper grass, thus producing more and better milk (ibid). Furthermore, the cows have been given nutritional supplements, further increasing their output. In addition to the better conditions for the cows, assistance with technology transfer, cow genetics, farm development, and road reconstruction is given to the farmers, thus increasing their capabilities (ibid). Both things positively affect the quality of the milk, hence helping the farmers earn prices above market level. Earlier, most of the milk produced in Caquetá was used in the production of cheap local cheese due to low quality, whereas the milk can now be used in all kinds of products due to the increased quality (ibid).

Whereas the upgrading of farmers is explicitly highlighted in Nestlé's own communication materials, upgrading of employees is less mentioned. Nonetheless, it must be assumed that some level of upgrading is taking place at its plants due to the capital-intensive nature of the plants and since working in an organisational culture characterised by best practices requires a continuous development of skills.

Whereas Nestlé creates extensive backward linkages, forward linkage creation is very limited since the products are distributed through Nestlé's distribution system to independent wholesalers, large retailers and supermarkets in urban areas.

**Poverty** – *Focusing on the poor*

While some of Nestlé's value chain activities include the poor, the inclusion of the poor is not as extensive as could have been expected due to Nestlé's claims of actively trying to include the poor in all of its value chain activities. Nonetheless, Nestlé does indeed include quite a large part of small-scale producers in its upstream value chain activities with 50% of its producers being small-scale farmers – globally, on average, 30% of Nestlé's milk supply comes from small-scale farmers. While it is positive that so many small-scale farmers are included as suppliers, it is not quite clear as to whether their earnings have increased as presented by Nestlé. With Nestlé being the absolute dominant milk buyer in the region, claims of Nestlé pushing down prices have come forward, undermining the company's positive impact. Furthermore, as the small-scale farmers are not directly contracted by Nestlé but rather through a third-party, their earnings are not as high as the directly contracted farmers' whose earnings are more than double those of non-contract farmers (Gulati et. al., unknown).

In regards to including the poor as distributors and employees, Nestlé does not seem to be very inclusive as its two plants are highly technological, requiring skilled or at least semi-skilled employees. Concerning the distribution channel, Nestlé in Colombia neither uses the door-to-door method nor the 'Direct Story Delivery' system as mentioned in the case, despite these distribution channels being more labour-intensive and possibly inclusive of the poor. Rather it seems that Nestlé uses independent distributors that mainly sell to supermarkets in urban areas or sells its products through wholesale, hence not directly including the poor in the distribution channel.

Nestlé's CSR strategy emphasizes a high focus on consumer preferences and improved nutritional value, availability, convenience and, in some markets, affordability, as it aims to produce social benefits in each step of its value chain (Nestlé SA, 2006; O'Carroll, 2007). According to Nestlé, the poor as consumers have benefited from Nestlé's local milk districts due to their rigid criteria when it comes to consumer health and nutrition. Furthermore, by providing the consumers with energy, protein, calcium, and other essential vitamins, the poor's state of health is assumed to have been approved. In regards to the poor, however, Nestlé does not specifically aim its products to this segment in Colombia – thus possible meaning that the poor still have to pay fairly high prices for the products, which indeed are available in most part of the country.

Although Nestlé says it wishes to improve health and empower the poor through its fortified products made available and affordable for the poor and through different food education programmes, this is however not always the case. According to a report by the International Baby Food Action Network in 2004, Nestlé plays a leading role in the aggressive marketing of baby food and is the leader in detrimental marketing practices for infant formula – causing many mothers to choose infant formulas over breastfeeding (The Public Eye, 2005). This takes place despite Nestlé's signing of the International Code of Marketing of Breast milk substitutes, a voluntary code providing companies with best practices within this field (Save the Children, 2007). IBFAN states that *"Where national measures are inadequate or have expired, Nestlé and other companies are quick to return to aggressive and competitive marketing tactics, including free formula supplies to hospitals, samples for mothers, media advertising and seducing health workers with gifts[9]. They only abide by the Code grudgingly when forced"* (IBFAN, 2005). In developing countries where hygiene is often poor and drinking water impure, the use of infant formula negatively affects the babies' health and can cause death (Save the Children, 2007).

As mentioned in the case, 60% of Nestlé's workers in Colombia are unionised and the average salary paid by Nestlé is 40% higher than what its competitors are paying. However, despite the positive information in Nestlé's CSR report, extensive criticism of the company is continuously raised. Claims of employees being forced to leave their unions or only being allowed to be a member of certain unions are many. Furthermore, accusations towards Nestlé abusing workers' and human rights, as well as taking advantage of the poor farmers have been put forward (Baby Milk Action, 2005). While these claims tend to be word against word, a Swish tribunal heavily reprimanded Nestlé in 2005[10], where the company was condemned by its actions in Colombia which were called *"unacceptable from a multinational which claims to be worthy of the good reputation and trust it receives from its clients"* (ibid).

[9] Giving gifts with Nestlé's name and logo to health workers in Colombia is normal (IBFAN, 2005)
[10] The tribunal, consisting of a coalition of leading Swiss campaigning and development organisations, trade unions and political parties was formed to promote global justice. However, while the tribunal put forward its ruling, Nestlé cannot be held accountable for its actions (Baby Milk Action, 2005).

**Sustainability** – *Ensuring Commercial Profitability*

Nestlé has experienced rapid growth on its nutrition, health and wellness strategy, meaning that it is now larger than its next two competitors combined (Hammond et. al., 2008). This, Nestlé claims, is partly due to the fact that the company has managed to make CSR a source of opportunity, innovation and competitive advantage, as it has managed to incorporate many of its CSR projects into its more traditional businesses strategies. While many CSR strategies are more cosmetic than operational and strategic, it seems that Nestlé uses its CSV strategy as a very active way to build up its brand and create trust among consumers; the various negative claims, however also point to the fact that Nestlé's statements can be more cosmetic than real.

Nonetheless, Nestlé manages to be highly sustainable as it continuous to operate in Colombia. Nestlé has managed to develop a milk district in one of Colombia's poorest regions characterised by violence and conflict. Despite this, Nestlé has overcome the challenges and is still going strong. While difficult to prove how much are due to the importance of the brand value that the CSR strategy creates, some of Nestlé's success is can be due to its massive investments in being (or being perceived as being) socially responsible. However, as many of Nestlé's milk districts have been in place for many years and since the CSV strategy is fairly new, it seems that Nestlé is merely calling something old by a new name. Due to this, it seems that the success of Nestlé might not be owed to its CSV strategy, but rather common business practice.

### Sum-up of Development Effects – Nestlé SA

From the assessment above, it has become clear that Nestlé to some extent is strong on the 'Efficiency' and 'Sustainability' dimensions. Although not engaging in equity linkages, it does create extensive backward linkages. Farmers benefit from training and it must be assumed that at least some level of upgrading is taking place at the plant due to the capital intensive operations and best practices. Furthermore, while Nestlé is highly sustainable, it is difficult to say whether it is due to its CSR strategy or because of efficient business activities. Contrary to the statement of Nestlé aiming to include as many of the poor as possible in its value chain, Nestlé is not as strong on the 'Poverty' dimensions as expected. While including poor farmers in its supply network, the factories require skilled or semi-skilled employees due to the rather capital-intensive operations and due to requirements of meeting international standards. Furthermore, Nestlé in Colombia lack a specific product aimed at the poor and have a tainted reputation in relation to its working conditions.

### Table 6.2. Development Effects – Nestlé SA

| **Efficiency** – *Stimulating Economic Growth* | **Poverty** – *Focusing on the Poor* | **Sustainability** – *Ensuring Commercial Profitability* |
|---|---|---|
| · Capital intensive operations<br>· Labour intensive upstream activities<br>· Backward linkages Upgrading of farmers<br>· Some upgrading of employees | · Some inclusion of poor small-scale farmers<br>· Semi-skilled and skilled employees<br>· Distribution mainly through wholesale and retail outlets<br>· All income consumers<br>· Rural and urban outreach<br>· Mixed regarding decent jobs, tainted reputation | · Profitable and good economic outlook despite a tarnished reputation and unlikely to be due to its CSR strategy<br>· Good at leveraging CA internally |

## 6.5. BOP Case – Fan Milk

### Profile

In 1960, an ambitious merchant from Denmark, Erik Emborg, founded Fan Milk International. Today, the Fan Milk Group consists of the two sister companies, Fan Milk International A/S and Emidan. Fan Milk International A/S sells locally produced ice cream, yoghurt, and juices in West Africa while Emidan is a trading company focused on West Africa. In addition to this, Emidan also delivers the logistical set-up to the Fan Milk dairy plants in West Africa (Aalborg.dk, 2007), *"creating profit and development as a competitive procurement center by providing raw materials, packaging materials, spare parts, equipment for the Fan Milk Companies and selected European Food Companies"* (Fan Milk International, 2009). Fan Milk began its operations in Ghana in 1960 and has later expanded by setting up production sites in Ivory Coast, Togo, and Nigeria (Kollerup, 2009b). Today, Nigeria is the flagship of Fan Milk with two large modern dairy plants in Kano and Ibadan (IFU, 2005).

The mission of Fan Milk international is to "*own a controlling influence to ensure professional management and use of world class dairy technology. We set high standards regarding products, employees and environment".* Furthermore, Fan Milk aims to "*produce and market healthy and nutritious products under the Fan Milk brand and distribute their products primarily by street vending in West Africa"* (Fan Milk International, 2009).

The turnover for Fan Milk International is around USD 110 million. While Fan Milk in the past has had major problems conducting its business in West Africa, the financial results for 2008 was highly satisfactory with improvements in both the top and bottom-line indicators of Fan Milk Ltd in Ghana. In Ghana, revenue increased from USD 28.2 million[11] to USD 37.8 million[12] with a net profit of USD 5.2 million[13] – a 72% increase from 2007 (Nonor, 2009). The growth is explained by Fan Milk as being *"attributable to the several marketing efforts including intensive advertising campaigns and the unique and excellent channels of distribution put in place by the firm"* (ibid).

### Operations

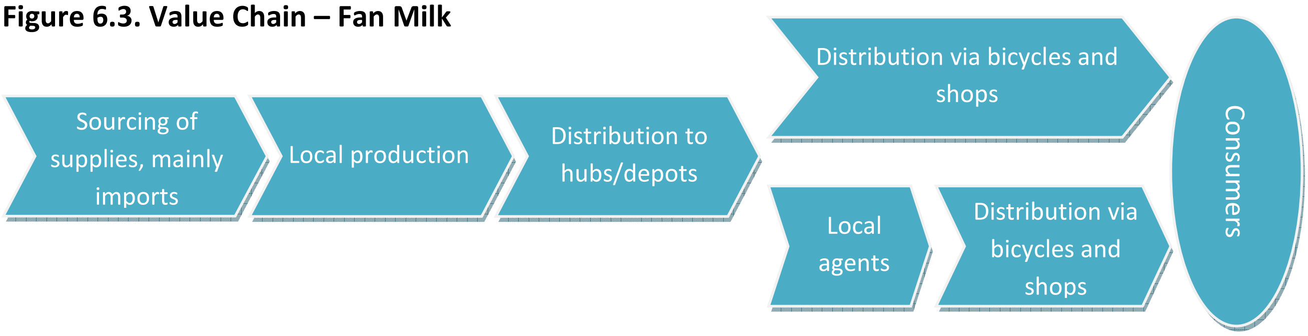
Fan Milk has as mentioned two top modern dairy plants in Nigeria in addition to one in Ghana, Togo, and Ivory Coast. In addition to these dairy plants, Fan Milk has distribution and sales activities in six countries, the ones mentioned above and in Benin and Burkina Faso

[11] 41.07 million GHS converted to USD May 6, 2009
[12] 55.04 million GHS converted to USD May 6, 2009
[13] 7.51 million GHS converted to USD May 6, 2009

(Aalborg.dk, 2007; Joensson, 2008). Products sold in Benin and Burkina Faso are imported from Togo on a daily or weekly basis respectively by cooling trucks (Kollerup, 2009b). According to Fan Milk's Managing Director, Jens Joergen Kollerup, the company has approximately 1,300 full time employees and 400 seasonal workers in West Africa as well as 25 employees in the head quarters in Denmark. Counting the independent vendors selling Fan Milk's products, total employment reaches approximately 12,000 jobs, peaking at 20,000 in high season (Kollerup, 2009a; Fagbladet 3F, 2005; Holt, 2008; Aalborg.dk, 2007).

The value chain of Fan Milk is quite similar in all the West African countries although the first steps of course are omitted in countries where there is only sales and distribution (Benin and Burkina Faso).

**Figure 6.3. Value Chain – Fan Milk**




Fan Milk has based its products on imported milk powder due to difficulties of sourcing raw milk locally due to the very limited local milk production. Fan Milk mainly imports its milk from Europe and South America where milk is available and cheapest (Kollerup, 2009b). When Fan Milk started operating in Ghana in 1960, the idea was to exploit the lack of milk in Ghana by sourcing cheap excess milk powder from the world market. This model is still prevailing despite the fact that Fan Milk would be open for sourcing fresh milk from local farmers. However, since there is little tradition for keeping livestock in West Africa, the production of locally produced milk is very scarce and not sufficient to supply Fan Milk's operations. Fan Milk is thus willing to start sourcing milk locally if the supply should become sufficient but the company is not actively working on establishing milk production in West Africa (Kollerup, 2009a; Otchere and Okantach, unknown; Holst, 2008). In addition to importing milk powder, Fan Milk also imports sugar, flavour, and preservatives because there is no substitute for them locally. This leaves only water, vegetable fat and polythene bags to be sourced locally[14] (Vincent, 2000; Accra Mail, 2001). Having sourced the inputs mainly from world markets, the ice cream, yoghurt, and juices are produced on the local dairy plants.

[14] Fan Milk uses 3,000 tons of vegetable oils p.a. while using 5,000 tons of milk powder (Fan Milk International, 2009)

From the factories, Fan Milk's products are distributed by *"Fan Milk's fleet of refrigerated trucks"* to the company's local distribution centres and depots (Fan Milk PLC, 2007a). The distribution channels have been particularly challenging to set up due to the lack of infrastructure, instable political environments, frequent power cuts, and the fact that many West Africans do not own a refrigerator or freezer. To overcome these challenges, the company has created a nationwide presence through a complex network of strategically located distribution outlets from where bicycle vendors and pushcarts distribute the products in the streets. In Ghana, the distribution network consists of 11 depots and three regional offices. Similar networks are set up in the remaining countries with for example 50 depots spread across Nigeria (Fan Milk Ltd, 2007b; Fan Milk PLC, 2007b). The bicycle vendors are the unique strength of Fan Milk's distribution channel which the founder, Mr. Emborg, implemented to overcome the before mentioned challenges (Crone, 2005).

The depots supply more than 1,500 bicycle vendors and more than 300 agents[15] in Nigeria alone. Bicycles fitted with insulated boxes for keeping the products cold are made available for local vendors that purchase Fan Milk's products for onward selling. Most of the vendors are independent entrepreneurs who buy an assortment of products from Fan Milk every morning and then bike around their local area to sell the products directly to the consumers. Some vendors are students with a holiday job but the majority come from rural areas usually with poor educational and social backgrounds (CAS, 2005). Despite the fierce competition with other street vendors, a bicycle vendor typically sells 15-20 kg of Fan Milk's products per day. The high earnings stem from the fact that Fan Milk pays rather high margins in order to attract vendors. With a margin of approximately 15-20 pct. (depending on the country), a bicycle vendor in general earns comfortably more than a factory worker (Kollerup, 2009a; Danish Dairy Board, 2008). In addition to the vendors, Fan Milk also delivers its products directly to restaurants and supermarkets, however this only accounts for approximately 5% of sales (ibid). Around 5,000 of the vendors are directly affiliated with the depots, while the majority of Fan Milk's products are sold via vendors connected to the agents' depots.

Since its beginning, Fan Milk has specifically aimed to adapt its business to match the local market conditions and needs – from the choice of products, packaging, and the distribution methods. This has meant that Fan Milk today is capable of supplying the citizens of West Africa with dairy products at affordable prices. Fan Milk's product are mainly targeted a

[15] Fan Milk's agents are independent buyers and resellers of Fan Milk's products. They might sell the products to vendors, retail shops, restaurants or supermarkets. This part of Fan Milk's operation is large and increasing (Fan Milk PLC, 2007c)

broad segment of the population (Kollerup, 2009a). While there are small variations in the product portfolio between the countries, the portfolio can basically be divided into two main categories: milk-based and fruit-based products. Yoghurt and ice cream belong to the first category, marketed under the brand names FanYogo and Fan Ice cream (both come in different flavours). Fruit-based products are iced lollies with orange or pineapple & blackcurrant flavour and a citrus fruit drink named Tampico (Fan Milk Ltd, 2007a).

To make the products available to as many people as possible, the products are packed and sold in both smaller (from 150 ml cups) and larger packages (2- or 5 litre packs). All products contain various nutritional ingredients, such as vitamins, calcium, magnesium, etc. and Fan Milk aims to sell not only high quality products but also products that are healthy (ibid).

### Market opportunities

The market for Fan Milk's products in West Africa is growing, constituting a market of 200 million consumers in 2008 (Holt, 2008). In Nigeria alone, the market potential is more than 100 million people and the market for ice creams increased by an average annual rate of 3.7% between 2001 and 2006 (Datamonitor, 2007). In addition, the Nigerian dairy market is estimated to be worth around USD 360 million, while the ice cream market is estimated at 8 million litres and valued at approximately USD 20 million. The practice of processing yoghurt from milk powder is growing, and in 2004, dairy and milk powder products only constituted 5% of Nigeria's Food Processing Sector (GAIN, 2005).

In West Africa in general, and especially in Coastal West Africa, the tradition for dairy consumption is rather weak or completely absent, meaning that market demand is mostly for processed products such as yoghurt, fermented milk, or milk powder (Knips, 2006). These consumption habits have only recently been acquired; however, if they develop like the trend shows in many other developing countries, the West African market can constitute a huge market opportunity.

### Competition

According to its Managing Director, Fan Milk is a market leader in most countries of operation, both within the yoghurt and the ice cream markets. The competition varies in the different markets; some countries are characterised by few large competitors while Fan Milk faces competition from many smaller companies in other markets. The level of competition is not very fierce though since Fan Milk operates in a niche industry (Kollerup, 2009a). In Nigeria, Fan Milk and UAC Foods are the two major ice cream and yoghurt processors for low- and middle-end consumers, currently controlling 51% and 23% of the domestic ice cream market in Nigeria respectively. Another player on the market is Golden Scoope with

18%. 45% of ice creams in Nigeria are imported, originating from the EU and US. The locally produced ice creams are produced for mass markets with the input of imported milk powder, mostly from Denmark and the UK (GAIN, 2005).
In Ghana, Fan Milk is the 'Ice cream Giant' as it has the most traded equity both by volume and turnover – accounting for 71% of market volume and 88% of market turnover (Databank, 2007). In 2001, Fan Milk controlled 98% of the ice cream market (Accra Mail, 2001), but the industry has experienced increased competition as more players have entered the market.

## 6.6. The Development Effects of the BOP Case - Fan Milk

**Efficiency –** *Stimulating Economic Development*

The direct employment creation of Fan Milk's activities in West Africa is estimated to amount to 1,300 full time employees and 400 seasonal workers. Counting the bicycle vendors, total employment peaks at 20,000 in the high season, with an average of 12,000 (Kollerup, 2009a; Fagbladet 3F, 2005; Aalborg.dk, 2007).

As mentioned, Fan Milk sources most of the inputs on the world markets through spot market transactions so there is no creation of backward linkages which of course significantly reduces the developmental impact of Fan Milk. In the 1960s, Fan Milk did attempt to set up a dairy farm in Ghana near Accra with the objective of producing the raw milk needed for its dairy production locally. Unfortunately, the dairy farm quickly closed due to technical problems and political and economic instability at the time (Accra Mail, 2001). The difficulties in establishing local milk production are confirmed by studies investigating commercial livestock ventures in Ghana. The studies showed that most of them closed down after only few years of operation because they were unprofitable (Otchere and Okantah; unknown). Since then, Fan Milk has focused on sourcing inputs on the world markets despite the exposure to currency fluctuations. Various factors have influenced this decision. Fan Milk has recognised the need to concentrate on its core competences rather than venturing into a completely new business area. Combined with the lack of tradition in keeping livestock in West Africa, the challenges and costs of setting up a local supply chain are currently deemed too high to make it feasible (Kollerup, 2009a; Danish Dairy Board, 2008).

When it comes to forward linkages on the other hand, Fan Milk has created a wide network of linkages in the countries of operation. The lack of adequate infrastructure makes it a necessity for the company to have its own distribution system, as managing director, Jens Joergen Kollerup explains: *"Driving on a paved road in any of the bigger cities, side streets will* *most often be dirt roads. This makes delivering our goods difficult. In addition to this, power cuts are not unusual and when selling frozen products it is a big problem when the power to the freezers is cut"* (Danish Dairy Board, 2008). By distributing the products via shops and particularly the bicycle vendors, Fan Milk has created a very outreaching and flexible distribution channel. Distribution through small shops has not proven unproblematic though. For instance, Fan Milk Ltd. has been faced with accusations of exploiting its monopoly power to dominate the distribution of ice cream to rule out local competition. This is due to the fact that Fan Milk provides deep freezers to small shops that retail its products. The retailers are, according to the article in Accra Mail, supposed to sell only Fan Milk's products and since many of the small shop owners cannot afford a freezer or refrigerator by themselves, Fan Milk Ltd. has effectively monopolised the retailing of ice cream (Vincent, 2000).

Regarding upgrading, Fan Milk's resource center in Denmark provides management services, scientific and technical support, prepares and proposes product development, process and recipe optimization, and new technological solutions. Furthermore, they provide quality control, assurance systems and training and education. More specifically, through an 18 month long program, Fan Milk has focused on training the depot leaders in order for them to help train the vendors. Due to a large turnover of vendors, direct training of these has been terminated. In addition to this, Fan Milk has set up a Total Quality Management project, training all employees, and the company regularly sends staff on training or courses abroad in order to make sure they are up to date on the latest knowledge and technology (Kollerup, 2009b). Fan Milk's factories are rather high technological and uses in most parts advanced infrastructure (ibid)

### **Poverty** – *Focusing on the Poor*

Regarding the supply side, Fan Milk does not include the poor as producers, as it does not source milk locally. Neither does Fan Milk employ many of the poor in its processing plants, as a certain level of skills is required. Most of Fan Milk's factory workers are skilled or semi-skilled having finished secondary or university level education (ibid). In relation to this however they employ a number of lower-skilled casuals in the high seasons, helping with the more basic tasks. Where Fan Milk has its largest impact on the poor is through its unique distribution channel. According to Jens Joergen Kollerup, the vendors come from all layers of the population; however, the vast majority are poor with low educational background (Kollerup, 2009a). Furthermore, a part of Fan Milk's distribution goes straight to restaurants or small shop keepers who resell the products, thus also supporting their business activities. It is estimated that each of the persons earning an income through Fan Milk's activities support six family members, making Fan Milk's direct and indirect impact on the population considerable (ibid).

Moving on to the issue of consumption, Fan Milk's products are made available to the broad population close to and in the major cities through the bicycle vendors and the network of retail shops. However, the bicycle vendors are generally concentrated in areas with a high population density because of the better sales prospects. Fan Milk's products are therefore primarily sold close to larger cities thus having limited rural outreach (ibid).

Since most poor people do not have a freezer or a refrigerator at home, they prefer to consume the products instantly after the purchase (Danish Dairy Board, 2008). With Fan Milk's distribution channel, the products are easily available for the consumers, e.g. while being stuck in traffic in Accra, the bicycle vendors are ready to offer you a cool refreshment. The company furthermore emphasizes that its products are affordable to as many people as possible, although neither reaching the very poor nor the very rich (Kollerup, 2009a). Although the economic growth rate in many West African countries is higher than that of many developed countries, the average purchasing power is still quite low; a fact that Fan Milk needs to consider when the price level is determined. The low prices do not imply that the quality is equally poor since the West African consumers are very value conscious as highlighted by Kollerup: *"Seen from the point of a Westerner, the African population is poor, however, that does not necessarily mean that you can sell a lot of cheap products in Africa. People are quality-conscious and want to get as much value for money as possible"* (Danish Dairy Board, 2008). Although Fan Milk does not reach the very poor, it does reach a broad segment of the population, and although the main purpose of Fan Milk is not to raise its customers' standard of living, it is one of the results, says Kollerup (Holt, 2008).

Regarding decent jobs, Fan Milk creates not only a lot of jobs but also decent jobs. Fan Milk's vendors earn a provision of 15-20% on sold products, and most earn more as a vendor than working on a factory. Despite this, it is a very demanding job physically due to the fierce competition with other street vendors. Furthermore, the vendors receive training in English, mathematics, simple bookkeeping, hygiene, and organisation and planning during free evening classes provided by Fan Milk in relation with the Ghanaian NGO, Catholic Action for Street Children (CAS, 2005).

While different conditions in the different countries in which Fan Milk operates, the factory workers receive wages well above the minimum wages. In Nigeria, collective bargaining run by local unions is common for the food sector, thus refraining Fan Milk from determining the wage level. According to Kollerup, it is in general very attractive to be an employee in an international company as employees get paid on time, get treated well in case of illness, etc. Furthermore, he states that *"we have been here for more than 40 years, something only possible because we treat people well and follow the law"* (Kollerup, 2009b).

**Sustainability** – *Ensuring Commercial Profitability*

A final important consideration in relation to the developmental effects of Fan Milk is how sustainable the business is, since the effects outlined above will only have a significant impact if the company survives in the long term. Having operated in West Africa since the 1960s and presenting a good financial result last year illustrates that Fan Milk indeed has the ability to survive in an often challenging and volatile environment. However, despite its success the challenges remain, as managing director Jens Joergen Kollerup states: *"It is a big challenge that the countries are so politically and economically unstable. Among other things this brings about corruption, volatile currency fluctuations and arbitrary legislation"* (Danish Dairy board, 2008). The inadequate infrastructure is also a big challenge both due to the higher transportation costs as well as high cost of maintaining water and electrical installations, all resulting in higher production costs. By operating in a market where the purchasing power of the consumers is limited, Fan Milk has quite a small room to manoeuvre within regarding price setting, making it difficult to raise prices if production costs suddenly increases – which they sometimes do. The big challenge is therefore to make a sustainable business despite these challenges.

Fan Milk is very focused on keeping costs low in order to remain competitive and retain or extend its dominant market position; a practical example is that the vendors' bicycles are no longer produced in Sweden but in Asia (Holt, 2008). Furthermore, by relying so heavily on imports, Fan Milk does become more vulnerable and more exposed to the risk of currency fluctuations. The risk of being so dependent on imports must, however, be weighed against the high production costs in West Africa, availability of the needed inputs, and the need to keep prices low, which is why Fan Milk continues to import the majority of raw materials (ibid; Kollerup, 2009a).

Finally, although much has changed over the years, the company has a detailed knowledge of its markets as well as a valuable brand name and reputation of being a market leader in all countries of operation. It can thus be assumed that the company's long-term presence in West Africa can be leveraged as a source of competitive advantage compared to new entrants in the market. In relation to the issue of leveraging one's competitive advantages, Fan Milk does not seem to have problems adapting its products to fit the needs of the local population. This is possibly due to the fact that it has not adopted an 'imperialistic mindset' towards the Africans but rather has involved itself in the community and adapted its business approach to fit the local markets. Additionally, Fan Milk is what some call a 'born BOP', meaning that it has not started its operations in Western markets. The knowledge transfer internally within Fan Milk therefore takes place for instance from Ghana to facilities in Nigeria where the market conditions are somewhat similar, meaning that it can benefit in Nigeria from knowledge and experiences gained in e.g. Ghana. The high level of embeddedness and the long experience of Fan Milk in its local markets constitute sources of competitive advantages the company can leverage to remain sustainable.

### Sum-up of Development Effects – Fan Milk

Based on the assessment above, it has become clear that Fan Milk has some strength on all three dimensions; however none of them stand out. While creating a strong and efficient network of forward linkages, there are no significant backward linkages. Also, while there is a high level of upgrading of employees on the factories and little of the vendors, there are no strong linkages with equity. While not reaching the very poor with its products or including them on the supply side, Fan Milk is somewhat inclusive of the poor as it serves a broad customer segment, thus making products affordable to the poor. Its biggest asset on this dimension is its ability to include so many vendors, thus creating a lot of decent jobs. While Fan Milk is profitable, it has been dealing with problems of being sustainable, mainly due to the aspect of keeping prices low enough.

### Table 6.3. Development Effects – Fan Milk

| **Efficiency** – *Stimulating Economic Growth* | **Poverty** – *Focusing on the Poor* | **Sustainability** – *Ensuring Commercial Profitability* |
|---|---|---|
| · Semi-capital intensive operations<br>· Labour intensive downstream activities<br>· Forward linkages<br>· Upgrading of factory workers<br>· Basic training of distributors and employees | · Inclusion of poor and very poor in distribution channel<br>· Skilled and semi-skilled employees<br>· Broad customer segment excl. very poor<br>· Urban outreach<br>· Decent jobs, high wages and earnings | · Profitable but challenging markets<br>· Possesses CAs, mainly due to long term presence |

## 6.7. SBE Case – Groupe Danone

### Profile

The French company, Groupe Danone (Danone) is the world leader in fresh dairy products. The company occupies 20% of the world dairy market and is currently present in 40 countries. Owning five of the world's top ten yoghurt brands, Danone is a true global leader in the fresh dairy industry. Traditionally, Danone's sales have mainly come from key markets in Europe and USA, but today the company has become less dependent on the traditional markets and a larger share of its total sales now comes from developing country markets (Groupe Danone, 2008). In 2008, more than 40% of Danone's sales came from these markets and most of the company's 160 production sites and 80,000 employees are located in Asia, making Asia an important location since it currently also experiences the highest growth rate (ibid). Danone differentiates itself from its competitors by focusing on health and nutrition – a strategy that is beneficial in industrialised countries due to increased focus on obesity and health, as well as in the developing country markets where there is a focus on improving the poor's health through nutritious foods (ibid).

### Operations

As a part of its growth strategy in the developing countries, Danone entered into a 50-50 equity SBE joint venture with Grameen Group (Grameen) from Bangladesh, mainly known for its Grameen Bank – the largest microcredit institution in the world (Groupe Danone, 2006a). Grameen Danone Foods Limited (GDFL) was established with an authorised capital of USD 3.67 million and a paid-up capital of USD 1.1 million, and is currently registered under the Bangladeshi Companies Act, 1994. Danone's share of invested capital is USD 500,000[16], which is aimed to be taken out after three years – if the joint venture is profitable (Pfitzer and Krishnaswamy, 2007). GDFL is the first and so far only consciously designed multinational social business and it is to be seen as *"a unique proximity business model"* intending to help the poor *"by providing healthful food to improve their nutrition; by creating jobs in and around our factory; and by stimulating the local economy through the use of community people as suppliers and distributors of the product"* (Yunus, 2007:145).

While many think the SBE is a CSR stunt for Danone, the MOU between Danone and Grameen states that *"Grameen Danone is not a "corporate social responsibility" project of Da-*

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[16] On top of what Danone had already invested in bringing many of their experts in during the planning and researching phase (Groupe Danone, 2006)

*none – that is, a project of a profit-maximizing business with a charitable veneer – but rather an example of social business, something quite new in the corporate world"* (ibid:145). Besides, it is a fundamental requirement that the business is to be self-sustainable and fulfil the other requirements of a Social Business Enterprise, mentioned in section 3.4. 'Social Business Enterprise (SBE) Strategy'. That being said, GDFL is not completely similar to the SBE proposed by Yunus as the joint venture does pay its investors a 1% annual dividend on their original investment. The reason for this is to *"publicly recognizing the ownership of this company and to make it possible for Danone to show a figure in the appropriate line of its balance sheet"* (the idea is to remove this in the future in order to make it a pure SBE) (ibid:138).

GDFL has resulted in the construction of a small 7,500 ft$^2$ Greenfield production site in Bogra, 200 km from Bangladesh's capital city of Dhaka, processing between 1,000-6,000 litres of milk daily. Currently, 35 people are employed at the plant (Govind, 2007). The plant is 50-100 times smaller than Danone's typical plants and it is placed in a rural area surrounded by the people it wishes to serve. This makes it possible for GDFL to get the milk from the local suppliers, who will hopefully also become consumers (giving them a sense of ownership) (Groupe Danone, 2006b). Keeping the plant small and only serving a relatively small part of a region was mainly due to the challenges of constructing a 'cold-chain' that could keep the products refrigerated from the factory to the consumers. Many shops and households in Bangladesh simply do not have electrical power, meaning that the distribution system had to emphasize a quick turnaround from factory to consumer (max 48 hours). The plant is highly innovative as operation costs had to be kept to a minimum in order to make prices affordable but it has also been made rather labour intensive in order to create as many jobs as possible (ibid).

GDFL's value chain can be illustrated as shown in the below figure:

**Figure 6.4. Value Chain – Grameen Danone Foods Ltd.**


Although preferring local supplies, all ingredients apart from milk and date molasses are imported and supplied by Danone to ensure adherence to certain quality standards. These include cornstarch, vitamins, iron, protein, iodine, zinc, and calcium (Ghalib and Hossain, 2008). The upstream activities start with the small-scale (often landless) farmers who are organised in five person groups (village group members, VGMs) who together are given access to commercial loans. These loans are used for buying livestock (80%) and other income generating activities. The VGMs supply household surplus milk to community-owned milk collection centres situated in the surrounding areas (Haque, 2007). At the collection centres, the quality of the milk is tested and if the minimum standards are met, the farmers get paid according to a pre-agreed rate (Tk[17] 20/litre in 2007) (Ghalib and Hossain, 2008). From here the milk is delivered to community-owned dairy enterprises where the primary processing takes place. The dairy enterprises are partly owned by the VGMs (70%) and partly by Grameen (30%) so the majority of profits goes back to the VGMs (Haque, 2007). The pre-processed milk is marketed to GDFL, which further processes the milk at its manufacturing plant (ibid). Next, the products are distributed via distributors and 'Grameen Ladies', women who are living in the villages and who are also borrowers from Grameen Bank. The products are either delivered directly at their doorstep in chilled and insulated bags or they come to the factory to collect the products. The Grameen Ladies then go around door-to-door selling the product – both to friends and neighbours as well as over the counter to small grocery and sundry shops.

GDFL's very first product, Shokti Doi, which has been specifically designed at Danone's research and design centre and fortified to meet the needs of the poor in Bangladesh, covers 30% of a child's daily vitamin requirements (Ghalib and Hossain, 2008; Groupe Danone, 2006b). The product is sold in small 80 ml cups at Tk 5.00/cup with the Grameen Ladies earning Tk 0.5/cup with average sales of 60-70 cups per day (ibid). Originally, Shokti Doi was only distributed through the 'Grameen Ladies' but due to a huge increase in milk prices, causing problems in selling the products to rural consumers at a low enough price, GDFL now also sells its products to distributors. They resell the products to urban consumers in Dhaka and to town centre stores in Bogra at a higher price than in the villages (Tk 10), allowing the Grameen Ladies to sell the products to the rural consumers at subsidised prices (Black, 2009). As Yunus explains: *"we will sell our products in Dhaka with a margin aiming to sell those at lower prices to poor people in remote areas to help them get nutrient-rich food"* (ibid). By not doing this, GDFL would have to increase the price of its product and thus make it unaffordable for many of its target consumers. Just recently, a yoghurty drink sold at Tk 12 in Dhaka and Tk 7 in the rural areas, has been added to GDFL's portfolio, and more flavours are planned once the market share increases (ibid; The Daily Star, 2009).

[17] 100 Bangladeshi Taka equals 1.45 USD as of May 24, 2009 (www.oanda.com)

## Market opportunities

With a population of 140 million people, Bangladesh constitutes a favourable market size and a huge growth potential, despite the fact that the country still struggles with rural poverty at 53% (FAO, 2008). However, as the income level in Bangladesh is slowly rising and a rise in income is expected to lead to increased demand for dairy products (Bennet et. al., unknown), the potential is there. Bangladesh has already experienced a rise in per capita dairy consumption, moving from just 12 kg in 1980 to 14 kg in 2002, and having reached 19 kg in 2006 (Knips, 2006). The increase has mainly taken place in urban areas that are characterised by heavy urbanisation, leaving the rural areas untapped. Despite the increase, consumption in Bangladesh is still very low with the average daily consumption being just 42ml/day/person while the recommended amount is 250ml/day/person. Reaching the recommended allowance would mean producing or importing five times its current production (Pran-RLF Group, 2007). Finally, the demand for fresh dairy products is rising due to the milk powder scandal in China and due to people learning about the nutritional value of dairy.

## Competition

Until the 1970s, there was no organised dairy industry in Bangladesh and fresh milk was a scarcity. Since then, the government with support from e.g. Danida and UNDP has set up different initiatives in order to establish different dairy projects, with the Bangladesh Milk Producers' Cooperative Union Limited (Milk Vita) being the most important (ibid). Through a network of 1,200 village cooperatives, Milk Vita today collects milk from over 150,000 smallholder producers, making Milk Vita the dominating actor in the industry with an average collection of 200,000 litres/day (ibid; Haque, 2007). The second largest player is BRAC Dairy with 80,000 litres/day and 70,000 smallholders, and in 3rd place is Pran with 40,000 litres/day and 30,000 smallholders (Haque, 2007). In comparison, GDFL only uses 6,000 litres/day (Yunus, 2007).

Since the mid-1990s, more than 20 investors have set up dairy companies in Bangladesh, with 75% using local milk. In addition, there are three large companies producing sweetened condensed milk from imported milk powder on the market (Haque, 2007). While powdered milk has long been popular in Bangladesh, the Chinese milk scandal also affected Bangladesh. Eight brands of powdered milk, e.g. Arla Foods and Nestlé, were accused of having been tested melamine-positive, causing many consumers to substitute powdered milk with liquid milk. This event provides a good opportunity for GDFL and others selling fresh milk products (The Daily Star, 2008). While GDFL is still very small on the Bangladeshi market, there is a belief among the rural population and buyers at supermarkets in Bogra that

Shokti Doi can become a national product, visible all over Bangladesh in line with products from e.g. Nestlé and Unilever (Black, 2009).

## 6.8. The Development Effects of the SBE Case – Groupe Danone

**Efficiency –** *Stimulating Economic Development*

The main employment creation of GDFL has taken place upstream and downstream in the value chain with more than 1,000 farmer and distribution jobs, compared to only 35 jobs at the pilot plant in Bogra (Ghalib and Hossain, 2008). GDFL initially anticipated constructing 50 new plants within the next 10 years in Bangladesh, multiplying the employment impacts accordingly (Groupe Danone, 2006b; Pfitzer and Krishnaswamy, 2007). However, as this goal has been reduced, the creation of employment in the first decade will not be as high as originally hoped.

When entering Bangladesh, Danone created the joint venture, Grameen Danone Foods Ltd., which is an unconventional partnership between a large MNC and a group of companies of the Grameen Group. According to Ghalib and Hossain: *"The main strength of GDFL lies in the respective strengths of its founding partners. Apart from providing nutrition at affordable prices to the rural population, the joint venture has helped to create independent businesses and several hundred jobs in the farming, food processing, sales, marketing and distribution sectors"* (Ghalib and Hossain, 2008:12). Grameen has a lot of experience in operating in the most remote and rural areas of Bangladesh, characterised by a highly fragmented business environment. The high level of engagement of local communities and the ability to reach rural and marginalised consumers are thus greatly attributed to the network and good brand of Grameen (ibid). This suggests that, had Danone entered on its own, it would have been difficult to build a value chain with such extensive forward and backward linkages within the local community, thus reaching less poor people who serve as producers and distributors. Danone on the other hand, contributed greatly in the initial phases both with designing the plant in Bogra and with developing the recipe for Shokti Doi, e.g. in order to keep costs of inputs low, the use of preservatives was minimised by the team of researchers from Danone (Govind, 2007). Another of the innovations made by Danone's researchers and pushed for by Grameen, was to produce the yoghurt cup from polyactic acid (PLA), a bio plastic derived from cornstarch. Contrary to normal plastics which take centuries to de-grade, plastics made from corn degrade in just 45 days (Yunus, 2007; Govind, 2007), hence reducing the negative impact on the environment.

To achieve its vision about maximising social benefits, GDFL has intentionally thought the poor into the entire value chain. GDFL has therefore created extensive backward and forward linkages. Concerning backward linkages, three reasons for sourcing inputs locally are highlighted by Yunus et. al.: *"cost reduction in terms of raw materials (no import fees, simplified logistics), minimization of fossil energy consumption (reduced transportation), and to promote local community development and fight against rural exodus"* (Yunus et. al., 2007:10). Building a local supply chain, nevertheless, has proved to be quite challenging. To adhere to the vision of maximising social benefits, GDFL has had to structure its backward linkages to avoid crowding out existing milk purchasers and at the same time try to limit any increases in the milk prices (ibid). In order to overcome this, the micro-farms consisting of village group members have been developed; in essence, increasing milk production in accordance with how much GDFL buys. The livestock farmers are offered credits to purchase additional cows and are receiving veterinary advice and training in general dairy management from GDFL (Govind, 2007). All of this helps to improve quality and productivity while at the same time developing the knowledge base of the farmers.

The downstream distribution channel proved no less challenging due to a range of different issues. Initially, it seemed like good practice to distribute Shokti Doi through the Grameen Ladies, since most small village shops lack refrigeration facilities and thus were considered impractical as retail outlets (Ghalib and Hossain, 2008). More importantly, it was also found to be a good way to create job opportunities for the many uneducated women living in the countryside. Nonetheless, several unforeseen aspects of this model have severely damaged the success of GDFL. Firstly, the number of Grameen Ladies has significantly decreased from the initial number of 100 women. The low profit margin of only Tk 0.5/cup proved too low to motivate the Grameen Ladies considering the low sales volume. Secondly, although GDFL was aware of the perishable nature of its product, it still proved difficult to market because the thick consistency it has when cooled, quickly becomes runny when the temperature rises. Since few of the Grameen Ladies have refrigerators they have to either make regular trips to the plant for new supplies during a working day or wait for a new delivery at their doorsteps (ibid). In both situations, the productivity was lowered significantly, in turn damaging sales.

In addition to this, although the quality was not affected instantly, consumers had an aversion to the yoghurt in a runny state, further harming sales (ibid) and undernourished children, the main target group, did not appreciate the taste of the yoghurt. The recipe was thus changed to better accommodate the preferences of the consumers (Black, 2009). Thirdly, Ghalib and Hossain point to the lack of professionalism amongst the Grameen Ladies, who were not committed to the job on a daily basis but rather saw it as a part-time job (ibid). Despite the good intentions of GDFL to maximise social benefits for the Grameen Ladies and the consumers, the reality is that selling to the very poor has proved more difficult than assumed. As a reaction to these difficulties, GDFL has started distributing its products in urban areas as well, hence including more traditional actors in its value chain.

In addition to a source of income, the Grameen Ladies and the distributors receive training from GAIN[18] in order to educate the consumers about the nutritional benefits of consuming Shokti Doi (Yunus, 2007). Furthermore, the ladies are trained in how to sell fast-moving consumer products. Although GDFL trains everyone in its value chain, it should however be noted that it is still very basic training and probably not enough to be able to upgrade them sufficiently in order to serve other than the local markets. Similarly, the on-the-job-training for the 35 employees of GDFL's Bogra plant seems rather limited since the plant is far less sophisticated than Danone's normal facilities. For instance, when building the Bogra plant, GDFL had to discard a number of technologies, which are usually used by Danone in its conventional activities, and replace it with more labour-intensive processes (Pfitzer and Krishnaswamy, 2007).

**Poverty** – *Focusing on the Poor*

As mentioned above, GDFL creates a lot of backward and forward linkages in the region in which it operates. While these linkages have a somewhat small scale due to GDFL's size, they are still highly inclusive of the poor in most of the value chain activities. As GDFL is closely embedded in the local community it strongly emphasizes the need to include the poor and the very poor. Through Grameen Bank, marginalised farmers have been given loans to buy a cow or more, as they are guaranteed a fixed price from GDFL thus having a secure income, which they can use to repay their loans with. While the Bogra plant is build to be labour intensive, new and somewhat advanced technology has still been transferred from Danone in order to keep the quality of the products high. This might mean that the very poor are excluded from working in the plant due to lack of skills and education. However, as the plant is still far from Danone's usual capital-intensive plants, it does not require highly skilled workers and thus not completely excluding the poor.

Regarding the distribution channel, which has been specifically designed to be labour intensive, the poor are also included here, as no specific skills are required to sell GDFL's prod-

[18] GAIN - The Global Alliance for Improved Nutrition is also a part of the joint venture through a voluntary partnership. GAIN's role is to validate the benefits of the nutrient-enhanced yoghurts, providing substance to GDFL's social marketing that is highly reliant on word-of-mouth (Pfitzer and Krishnaswamy, 2007; Yunus, 2007)

ucts. While it has been necessary to move away from the original distribution channel *only* focusing on including the very poor, other actors are now included to sell to stores and the urban markets. GDFL has furthermore focused on mainly including women in their distribution network, as this group is often even more marginalised and excluded from society than men are, thus having a relatively good impact on marginalised women.

Regarding including the poor as consumers, GDFL has specifically aimed its products at this group by focusing on keeping prices as low as possible in order to make them affordable to everyone – even the very poor.  However recently, GDFL has been forced to also sell its products to a broader segment of the population due to slow sales and low earnings in the rural areas. This however has expanded GDFL's outreach as it is now selling its products in both urban and rural areas, making fresh yoghurt available in areas where such products were previously unavailable. Apart from making the products available and affordable, the products are also expected to be highly beneficial for the poor as they are fortified with vitamins and minerals often lacked by the local population – thus aiming to increase productivity due to improved health.

Finally, in relation to decent jobs, very little information has been possible to get on this issue. However, it can be assumed (or hoped) that a business with the mission of maximising social benefits treats its employees, suppliers, and distributors well. Nonetheless, due to the high pressure on keeping costs low enough, it has been a problem for GDFL to pay its workers sufficient wages. Especially the Grameen Ladies have struggled to earn a sufficient income, causing them to take on other jobs – something that is far from the anticipated effects by GDFL. However, while the distributors have suffered from low wages, the farmers are receiving market prices for their milk.

#### **Sustainability** – Ensuring Commercial Profitability

As mentioned in section 3.4., 'Social Business Enterprise (SBE) Strategy', the aim of the SBE is to maximise social benefits rather than financial returns. The SBE must furthermore be a no-loss business and thus create profits to become commercially sustainable and avoid being dependent on grants. When achieving sustainability the SBE will *"enjoy the potential for almost unlimited growth and expansion. And as the social business grows, so do the benefits it provides to society"* in the words of Yunus (Yunus, 2007:23). As discussed above, GDFL has faced several difficulties in its first year of operation. Although trying to build a sustainable model from the beginning, the economics of GDFL have proven more challenging than anticipated. The rapid increase in milk prices shook the sustainability of the business since the cost of milk is an extremely critical element in the model (Yunus et. al., 2007). Essentially, GDFL has been faced with the fundamental dilemma of selling high quality products at very low prices. As mentioned in section 4.3., 'Sustainability', Porter argues that to compete on price, prices need to be lowered through economies of scale or through efficient production methods – neither of which GDFL has.

According to the business literature, to really get prices down, GDFL thus needs to either set up large-scale production in order to get the unit price down, or it would have to reduce the quality of its products or raise its prices. Yunus argues that GDFL's products can be cheaper as they do not need costly packaging or advertising and because the SBE is not compelled to maximise profit (Yunus, 2007). However, this has proven different in reality where for instance many resources were spent on developing the biodegradable cups, and where advertising efforts had to be intensified in the wake of dropping sales. Ghalib and Hossain point to the weakness of not marketing Shokti Doi to the urban market: *"Sales figures have the potential to increase manifold if it is marketed at the urban level, so that it can cover a wider segment of the population"* (Ghalib and Hossain, 2008:11). Subsequently it was therefore decided to introduce Shokti Doi in urban markets, starting with Dhaka. *"Because yoghurt is seen in Bangladesh as more like an ice-lolly snack than a dessert, Shokti Doi is now also on sale at a few of the bigger town centre stores in Bogra and at corner retail outlets, alongside cigarettes, crisps and Coke"* (Black, 2009). GDFL has thus been forced to change strategy and start selling in urban markets to be able to reach some level of scale which can help subsidise the prices in rural areas (Pfitzer and Krishnaswamy, 2007). The new strategy of selling to both rural and urban markets as well as differentiating prices have shown a positive change in sales, and Mr. Nabi, the new Managing Director at GDFL, is confident that it will break even this year and start earning profits in the beginning of next year (ibid). However, the initial plan of opening 50 plants over the coming 10 years in order to reach a significant scale has been altered to *"maybe a dozen, if we get this one right"*, says Mr. Nabi (Black, 2009). It therefore seems like GDFL has had to compromise its initial idea of keeping production very small and labour intensive in order to become more sustainable.

### Sum-up of Development Effects – Groupe Danone

It has become very clear from the above assessment that GDFL faces some serious challenges in regards to being sustainable, thus this aspect being one of its major weaknesses. Related to this is the challenge of scaling, significantly affecting its ability to have a major impact on the 'Efficiency' dimension. Nonetheless, the strength of the GDFL is in its intensive focus on the poor – both in regards to including them in all value chain activities and in building up a local industry in rural areas.

**Table 6.4. Development Effects – Groupe Danone**

| **Efficiency –** *Stimulating Economic Growth* | **Poverty –** *Focusing on the Poor* | **Sustainability –** *Ensuring Commercial Profitability* |
|---|---|---|
| · Labour-intensive activities both up- and downstream but small scale<br>· Forward and backward linkages (small scale)<br>· Transfer of basic knowledge to local partner<br>· Upgrading of farmers and basic training of distributors and employees | · Inclusion of poor small-scale farmers<br>· Basic skilled and semi-skilled employees<br>· Mainly inclusion of poor and very poor in distribution channel<br>· Low and very low income consumers<br>· Rural and urban outreach<br>· Assumed decent jobs but min. wages and earnings | · Not profitable and highly challenging to maximise social returns while being a no-loss<br>· No clear focus on creating sustainable CAs |

## 6.9. Sum-up of Empirical Insights from the Dairy Industry

This chapter has assessed four cases in depth in order to form a solid empirical background for the analysis that is to follow and in order to obtain a deeper understanding of the different strategies. By assessing these cases, the strengths and weaknesses of each strategy in relation to being conducive to development have come forward, some very strong, others more difficult to determine. The cases have also made apparent certain inherent trade-offs within each of the strategies in relation to being conducive to development since none of the cases are strong on all three dimensions.

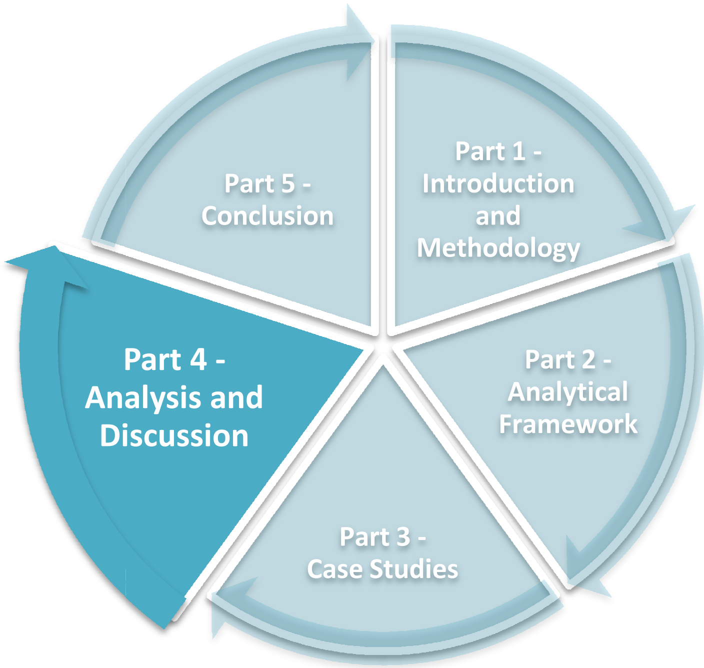
As can be seen from the table below, Arla Foods is particularly strong on the 'Efficiency' and 'Sustainability' dimensions, while it is clear that it does not have any specific focus on 'Poverty' – despite using small-scale farmers and having decent jobs. The inclusion of the poor in its backward linkages seems more a necessity than a specific aim. Nestlé is also rather strong on the 'Efficiency' dimension, while it is very difficult to assess whether it is commercially profitable due to its CSR strategy or its business activities in general. Like Arla Foods however, Nestlé in Colombia lacks a specific focus on 'Poverty' as it seems to include the poor in its backward linkages out of necessity, and since its working conditions are not specifically decent. Fan Milk has some level of strengths on all three dimensions, but it seems like it has had to comprise being really good on any of them in order to obtain this. The most significant weakness of GDFL is its ability to be sustainable while it is very strong on the 'Poverty' dimension. Both issues seem to affects GDFL's impact on the 'Efficiency' as it cannot scale or generate significant upgrading.

**Table 6.5. Development Effects of the Cases**

| Arla Foods | Nestlé SA | Fan Milk | Groupe Danone |
|---|---|---|---|
| **Efficiency** – *Stimulating Economic Growth* | | | |
| · Capital intensive operations<br>· Labour intensive upstream activities | · Capital intensive operations<br>· Labour intensive upstream activities | · Semi-capital intensive operations<br>· Labour intensive downstream activities | · Labour-intensive activities both up- and downstream but small scale |
| · Backward linkages (large scale)<br>· Joint venture<br>· Intensive transfer of technology, best practices, and knowledge to local partner<br>· Upgrading of farmers and employees | · Backward linkages<br>· Upgrading of farmers<br>· Some upgrading of employees | · Forward linkages<br>· Upgrading of factory workers<br>· Basic training of distributors and employees | · Forward and backward linkages (small scale)<br>· Transfer of basic knowledge to local partner<br>· Upgrading of farmers and basic training of distributors and employees |
| **Poverty** – *Focusing on the Poor* | | | |
| · Some inclusion of poor small-scale farmers<br>· Skilled employees<br>· Distribution through supermarkets and retail outlets<br>· High income consumers<br>· Urban outreach | · Some inclusion of poor small-scale farmers<br>· Semi-skilled and skilled employees<br>· Distribution mainly through wholesale and retail outlets<br>· All income consumers<br>· Rural and urban outreach | · Inclusion of poor and very poor in distribution channel<br>· Skilled and semi-skilled employees<br>· Broad customer segment excl. very poor<br>· Urban outreach | · Inclusion of poor small-scale farmers<br>· Basic skilled and semi-skilled employees<br>· Mainly inclusion of poor and very poor in distribution channel<br>· Low and very low income consumers<br>· Rural and urban outreach |
| · Decent jobs, high wages and earnings | · Mixed regarding decent jobs, tainted reputation | · Decent jobs, high wages and earnings | · Assumed decent jobs but min. wages and earnings |
| **Sustainability** – *Ensuring Commercial Profitability* | | | |
| · Profitable and good economic outlook<br>· Already earning high margins<br>· Possesses sustainable CAs | · Profitable and good economic outlook despite a tarnished reputation and unlikely to be due to its CSR strategy<br>· Good at leveraging CA internally | · Profitable but challenging markets<br>· Possesses CAs, mainly due to long term presence | · Not profitable and highly challenging to maximise social returns while being a no-loss<br>· No clear focus on creating sustainable CAs |

The case studies have provided the context-dependent knowledge necessary to further deepen our knowledge and understanding in the analysis and discussion that follow. The case studies have not been undertaken in order to *prove* anything about the reality, but in order to get to *know* this reality better. While this chapter has been based on empirical case studies, the analysis in chapter 7 will be conducted by using research about the strategies in order to expand and further deepen our understanding of the development effects of the four strategies.

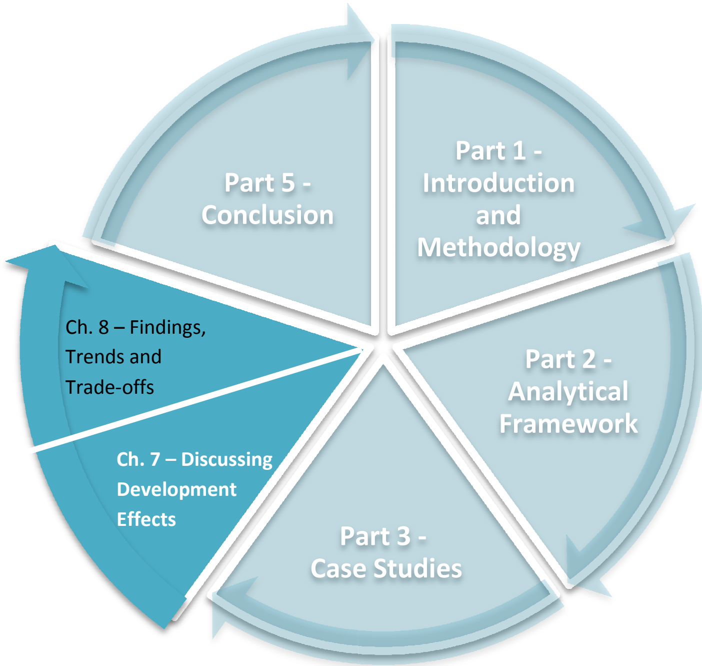
# Part 4 – Analysis and Discussion




In **Part 3 – Empirical Insights from the Dairy Industry** four cases within the dairy industry, each representing an MNC strategy were presented. These presentations were followed by an assessment of the development effects of each case based on the three dimensions in the analytical framework.

**Part 4 – Analysis and Discussion** is the analytical part, and is divided into two chapters. Chapter 7 will analyse the MNC strategies and the development effects based on theoretical argumentations and empirical evidence. The analytical part is concluded by a discussion of the findings, trends, and trade-offs in chapter 8.

# Chapter 7 – Analysing Development Effects




By assessing the development effects of the four cases, a solid empirical background has been obtained. In the light of these insights, the attention will now be turned to research about the four strategies in order to further deepen our understanding within this field.

The analysis will be conducted by using academic research about the strategies combined with the insights gained from the case studies. The chapter will thus shed light on how the different MNC strategies rate on each dimension by assessing the strengths and weaknesses of each strategy in relation to the three analytical dimensions.

Following this analysis, the findings will be summed up and discussed in chapter 8, which will make clear the trade-offs and trends which emerged during the analysis.

## 7.1. Analysis of Development Effects – Efficiency

In short, the 'Efficiency' dimension looks at how businesses can contribute to economic growth through employment creation and linkages, spillovers, and upgrading. The reasoning behind the dimension is that businesses, whether intended or not, of course impact society in areas that over time can result in the prosperity and development of a country. The contrasts and differences between the MNC and the other strategies will be highlighted to the extent possible in order to analyse the strengths and weaknesses of each dimension in relation to the 'Efficiency' dimension.

### Employment Creation

Regarding employment creation, some researchers state that the job creation capacity of MNCs is often exaggerated because it is ignored that MNC activity tends to be more capital- than labour intensive in order to become and remain efficient and competitive (Mold, 2004). Both Mengniu Arla and Nestlé have very capital intensive operations, whereas Fan Milk and especially GDFL have less advanced and more labour intensive plants. While still highly contested, it seems that MNCs do not account for a very large proportion of jobs globally; e.g. in 2001, MNCs employed only 3.5 per cent of the total world economically active population and 6 per cent of total people employed around the world (Narula, 2004). Looking at developing countries, employment by MNC affiliates was estimated to 19 million in 1998. This is a very small proportion of poor people living in these countries, which is estimated at about 1,200 million poor people (only 1,6%), using the less than 1$ a day poverty definition (Pradhan, 2007). According to Narula, and in accordance with Pradhan's statement, MNCs are estimated to represent less than 2 per cent of total employment in developing countries (Narula, 2004). On an aggregated level, the contribution to employment from MNCs thus seems relatively limited. Nonetheless, despite the above statements, MNCs still creates jobs, especially if their value chains are locally oriented rather than globally integrated (Hansen et. al., 2008), which applies to most businesses within the fast moving consumer goods industry. This fits well with the fact that more and more businesses seek new market opportunities rather than cost reductions, meaning that the job creation potential might be larger than previously thought (Anima, 2007).

While difficult to unanimously answer which strategy creates the most jobs, the relative job creation of each strategy can be assessed. While the direct job creation of MNCs is contested, the potential for CSRs to contribute to employment might at first seem larger than the conventional MNC, given the high priority to labour issues by CSRs and their focus on being socially responsible. However, there is nothing within the CSR agenda that encourages CSRs to create more employment than what can be expected from a conventional MNC, i.e. what is economically justifiable. On the contrary, the requirements imposed by CSRs regarding labour standards tend to make labour intensive production less competitive and thus less attractive (Pradhan, 2007).

Turning to the BOP strategy, the literature does not emphasize the importance of creating jobs. The number of direct jobs created thus greatly depends on how the production is set up, making it difficult to say anything conclusive. However, the BOP has been severely criticised for not focusing on job creation at all but only focusing on selling to the poor (Karnani, 2007).

Contrary to the other strategies, the SBE strategy is extremely labour intensive and has an explicit focus on creating as many jobs as possible. However, it seems that the focus on having small local plants limits the number of direct jobs, at least until scale is reached.

Apart from the direct employment creation, businesses can also have considerable impact on the host country through indirect job creation among partners in the value chain. Usually, MNCs tend to prefer consolidated supply chains in order to achieve economies of scale, also among linkage partners. However, as seen in the case of Mengniu Arla, sometimes extensive and fragmented value chains cannot be completely avoided. Even if MNCs link up to larger suppliers they still indirectly create jobs, as these suppliers need workers and inputs to their production. Furthermore, in order to sell its products, forward linkages are often created, thus also creating jobs downstream in the value chain.

CSRs also tend to be reluctant to engage in extensive value chains because of the difficulty and cost of monitoring (Pradhan, 2007). Both Mengniu Arla and Nestlé illustrate this well, since both companies are actively seeking to consolidate their supply chains. Since the BOP strategy aims at reaching rural and poor customer segments, a labour intensive distribution channel is often the only way to reach customers due to lack of traditional means of distribution. Many indirect jobs are therefore often created through forward linkages. The same is true for the SBE strategy, although the scale is not as massive as the BOP because of the focus of the SBE strategy to sell close to the production plant. Moreover, given the focus on labour intensiveness, the SBE strategy is also expected to create many indirect jobs through backward linkages. GDFL for instance, links up to many very small-scale farmers through the VGMs.

### Linkages, Spillovers, and Upgrading

While it is contested whether MNCs create many jobs or not, it is well established that they create linkages which can bring about spillovers and upgrading. In the literature, it is widely agreed that FDI with linkage effects create more positive and lasting effects on the host economy than FDI with no or few linkage effects (Hansen et. al., 2008; Scott-Kennel and Enderwick, 2005; UNCTAD, 2001). As the case of Mengniu Arla illustrates, MNCs often engage in linkages with partners to gain access to competences the MNC itself does not possess. Often, the MNC will seek local partners which offer a good local network and which have a very good understanding of the local marketplace. Typically, the MNC will bring with it sophisticated technology, knowledge, and best practices which the local partner can benefit from. In a joint venture, i.e. a linkage with equity, both partners are often very committed to the partnership, ensuring, at least theoretically, a more efficient transfer of knowledge, etc. In the case of Mengniu Arla, Mengniu has for instance received advanced know-how to improve the quality of its own products.

MNCs adopting a CSR strategy tend to focus on collaborations with partners within a particular area of interest as for example Nestlé's Food Education programme in Colombia partnering with e.g. universities and local governments (Nestlé SA, 2009b). The intensity of the linkage is in this case much less than in if it involves equity, and thus less likely to have any long term effect. Apart from this, the CSR is quite similar to the conventional MNC in relation to creating linkages, which is done to increase efficiency. According to the BOP literature, the strength of the BOP strategy is the combination of both non-native partners as well as a local partner that can capture the value at the BOP; as London explains: *"Without viable local partnerships, the venture will have difficulty generating a sustainable competitive advantage and is unlikely to achieve financial viability*" (London, 2007:34). For Fan Milk, given the fact that the company started in and only has operations in West Africa, the need for a local partner has proved superfluous. To target the BOP market, a local partner is thus not always necessary, especially not if the company has a solid knowledge about the local business environment. However, empirical evidence on BOPs does emphasize the importance of having a strong local partner in order to be successful.

Similarly to the BOP strategy, the SBE literature also emphasizes the importance of engaging in partnerships in order to benefit from complementary competences. In the case of GDFL, Grameen contributed with knowledge of the local marketplace and a good network, while Danone contributed with technology, research, and international business practices.

In addition to engaging in linkages with equity, MNCs often create backward and forward linkages to its business partners in the value chain. One of the advantages of the MNC is that longer term collaboration with its suppliers for instance can help ensure a more stable supply of higher quality inputs. For the local partners, be it small-scale farmers or intermediaries, a linkage relationship is expected to bring with it transfer of technology, know-how, best practices, and training, i.e. improving productivity which is greatly needed in developing countries. Furthermore, it can help guarantee the producers/suppliers a fixed price or at least the possibility of a consistent buyer (Altenburg, 2000). This picture is confirmed by all of the four cases which create substantial linkages through extended value chains. Mengniu Arla and Nestlé both create backward linkages to a large number of small-scale farmers due to the fragmented dairy supply chains in the countries of operation. Fan Milk creates linkages to a large fleet of local agents and bicycle vendors, distributing its products directly in the streets. Lastly, GDFL creates substantial linkages both upstream and downstream in the value chain by closely involving the local community in its activities.

Having now outlined the linkage creation of the different MNC strategies, attention is turned to the potential for upgrading local firms and the local workforce. The above assessment shows that all of the strategies make use of linkages and thus all have the potential to induce spillovers and upgrading of local firms. Whether any upgrading takes place depends on the extent of linkage creation and the intensity of these linkages as discussed above combined with the absorptive capacity of the local firms and employees.

As was also evident in the case of Mengniu Arla, MNCs can induce extensive upgrading of local firms through intensive linkage creation and the transfer of technology, knowledge, and best practices following from here. This is not least due to the fact that the *"products, production processes and management techniques of TNCs are usually close to international best practices and improving constantly"* (Altenburg, 2000:I). The sophisticated technology and knowledge possessed by MNCs constitute good opportunities for upgrading, although the barriers to entry for local firms are high, requiring some level of absorptive capacity (ibid). The fact that MNCs possess sophisticated knowledge and best practice managerial and organisational knowledge also positively influences the employees. In order to remain competitive, MNCs thus invest considerably in the training of employees (ibid). Moreover, MNCs have the capacity to link local firms to other markets, regional as well as international. Research shows that providing local firms with market access can expose these firms to global competitiveness and to highly efficient markets, thus having a positive trickledown effect (ibid). The high level of advanced technology and sophisticated knowledge and business practices possessed by MNCs can also become beneficial to the host economy through spillovers. By adapting, imitating or replicating the knowledge and technology possessed by MNCs, local firms can increase productivity through demonstration effects. Through labour mobility the host country will benefit from a skilled and well-trained workforce of former MNC employees. Concerning competitive effects, then empirical evidence has shown that MNCs' entry in the local marketplace spurs competition, forcing local firms to increase efficiency (Santangelo, 2009).

Although the CSR possesses sophisticated knowledge and technology similar to the MNC, extensive upgrading of local firms and employees might be less likely to occur. Given the high propensity of CSRs to create low intensity linkages with universities, NGOs etc. (Utting, 2005), the upgrading potential is considerably less than the MNCs which often engage in linkages with equity. Nestlé did not engage in any linkage partnership with local firms but established a fully owned production in Colombia which leaves out upgrading of a local partner. However, given the fragmented supply chains in the dairy sector, Nestlé engaged in extensive upstream linkages in the value chain. As explained in the case this resulted in significant upgrading and intensive training of farmers. Concerning spillovers, the CSR strategy seems to be similar to the MNC strategy given the above mentioned similarities.

Moving to the BOP strategy, the reason for partnering up locally is mainly about the foreign partner benefiting from the local partner's local knowledge (London, 2007). BOPs primarily enter into partnerships with local organisations, community institutions and entrepreneurs currently operating at the BOP in order to obtain information about the needs of the poor, the local culture and the social structures. By doing this, the BOP can be able to create localised products and sell to the poor. While this might help make the products more attractive for the poor and thus create a demand, partnerships with non-profits can hamper the upgrading process as it most likely leads to less transfer of knowledge and technology (ibid; Simanis 2008). Nonetheless, as BOPs must re-engineer products to reflect the different economics of the low-income consumers as well as rethink its distribution networks, the BOP can possibly have a demonstration effect in the local community as local businesses can imitate what the BOP is doing (The Economist, 2004).

The SBE stands in contrast to the other MNC strategies, as it possesses much less sophisticated production technology due to the focus on labour intensive production. Similar to the BOP strategy, the SBE stresses the importance of creating unconventional partnerships which limits the upgrading of local firms. Although Danone possesses advanced technology and knowledge, the transfer hereof is restricted due to the relatively low absorptive capacity of GDFL. The research and development departments at Danone have greatly contributed to the innovations needed to build the Bogra plant and develop a high quality, nutritious, low cost yoghurt, all helping to upgrade the local partner. However, the limited absorptive capacity expected to characterise the GDFL plant due to focus on labour intensive processes, strongly restricts the upgrading process as less sophisticated technology and knowledge will be transferred. This also has implications for the upgrading of employees and the related positive effects of labour mobility. Less and more basic training is given to the workers in an SBE, as the unskilled workers lack the absorptive capacity necessary for benefiting from the technological know-how the foreign partner brings. Moreover, the limited absorptive capacity and hence limited transfers of sophisticated knowledge and technology also negatively affects the potential positive spillovers to the host country through demonstration, competition, and productivity effects.

While difficult to say anything unambiguously, the four strategies are assessed to compare as below:

**Table 7.1. Efficiency** – *Stimulating Economic Growth*

| MNC | CSR | BOP | SBE |
|---|---|---|---|
| High | Medium | Medium | Medium/Low |

The MNCs rates the highest on this dimension as it is expected that it can have the most extensive impact on economic growth and economic development in a DC. This is due to the fact that it engages in extensive linkages, thus creating many indirect jobs, also through increasing demand of goods and intermediaries. Moreover, as the MNC possesses very sophisticated knowledge and technology the upgrading effects are high, both to local employees and to partners in linkages with equity. Lastly, this also widens the scope for spillovers through demonstration, competition, and productivity effects. The CSR has been rated medium on this dimension, below the MNC as its demands on meeting certain standards might result in less job creation due to monitoring costs. Furthermore, linking up to non- business partners might mean less upgrading of the local businesses. The BOP rates medium because of its limited focus on setting up local production, and because it often creates linkages to non-business partners, thus restricting the upgrading to domestic firms. The high level of innovation can lead to the demonstration effects, positively affecting the host country. The SBE has been rated medium/low despite its emphasis on creating jobs and its extensive linkages in the local community. Although linkages are created up- and downstream, the potential for upgrading is curtailed due to less sophisticated technology and limited absorptive capacity. Lastly, the lack of focus of the SBE strategy on economies of scale has also affected the rating as it compared to the MNC for example, does not contribute as much to economic development, neither through the absolute amount of jobs created nor via its ability to significantly upgrade local businesses and employees.

## 7.2. Analysis of Development Effects – Poverty

As mentioned in section 4.2., 'Poverty', businesses have the possibility of benefiting the poor through including them in the value chain as producers/suppliers, employees, and distributors, and/or as consumers. Through including the poor in the value chain, businesses have the potential to increase the poor's incomes and earnings, choices, empowerment, etc, hence be conducive to especially human development. Furthermore, businesses have the possibility of creating decent jobs for the poor, thus helping to improve their quality of life.

### Including the Poor on the Supply Side

According to Karnani, it is important to raise the poor's real incomes, whether being through wages or earnings (Karnani, 2007). As seen in the previous section, one of the MNCs strengths is to create various linkages in the local society through its extensive value chains, thus being able to include the poor. According to the literature and empirical findings however, MNCs rarely link up to poor small-scale producers and suppliers, as they prefer large suppliers rather than a myriad of small ones. This is mainly due to the difficulties of monitoring and ensuring proper standards in a fragmented supply chain; something that eventually increases costs, thus reducing the competitiveness of the MNC (Pradhan, 2007). In the agricultural sector, the picture is similar as commercial growers, who tend to be less poor than the small-scale producers, are preferred over small individual farmers (ibid). While Mengniu Arla is mainly using small-scale suppliers (70%), the use of larger privately owned farms (20%) and the development of the more large pastures (10%) clearly shows that if there had been an alternative, Mengniu Arla would use it. The Chinese scandal shows the difficulties in monitoring the fragmented supply chain and the costs involved, as Mengniu Arla has had to implement four control checks along the supply chain in order to avoid compromising quality and safety; a costly affair. In general, the MNC is much more likely to benefit the poor indirectly by creating linkages with local firms who use small-scale producers, suppliers, and employees (Pradhan, 2007).

In relation to the distribution channel, studies show that MNCs tend to sell their products through wholesalers and/or to supermarkets and retail shops through middlemen, thus not explicitly including the poor. This was also the case with Mengniu Arla, only selling to larger cities where a distribution network is already in place (more or less). Due to the limited infrastructure, it is difficult to achieve economies of scale in rural areas, thus refraining many MNCs to enter these areas.

In line with the MNC, the CSR strategy also has a weakness in including the poor on the supply side, despite its focus on maximising social benefits. While this is somewhat in contrast to the Nestlé case, which supplies 50% of its milk from small-scale producers in order to have most possible social effect in the communities in which it operates (stated by Nestlé), it is not particularly common for the CSR strategy to include the poor. Strangely enough, the CSR literature and very few CSRs explicitly focus on key development concerns such as poverty reduction and inclusion of the poor (Bhushan, 2005). Although philanthropy and volunteerism have an important role to play for development according to UN's Global Compact Report, "*their capability to make a fundamental impact on poverty alleviation is limited*". To have an impact, CSR involvement must go beyond an arm's length model and be based on solid business rationale as the Nestlé case is an example of (United Nations Global Compact, 2008); this however is yet to be common practice within the CSRs. The main reason for why CSRs are not as inclusive of the poor as could have been expected, is due to the fact that CSRs often have very strict codes or standards to uphold to, thus having to monitor its suppliers closely and use more skilled workers and suppliers/producers in order to get the needed quality. Bad publicity about e.g. exploitative conditions or insufficient quality in one's supply chain can seriously damage one's reputation. Due to this, it can be less costly to do everything in-house by using qualified people (Pradhan, 2007).

Like it is the case with MNCs, there is no inherent element in the CSR strategy about including the poor in its distribution channel, and this also seems very unlikely due to the fact that many CSRs sell high-valued brands to high-income groups (ibid).

Contrary to the MNC and the CSR strategies, the SBE strategy has an explicit focus on including the poor on the supply side and aims to include the poor whenever possible and in all parts of the value chain. While there is only little empirical evidence of the SBE, the literature and the GDFL clearly illustrates that the SBE has its strengths here – despite its (so far) small scale. In the case of GDFL, the company is both highly inclusive of small-scale farmers as this is the only type of supply channels used, while it also focuses on including as many distributors and sales people in its distribution activities as possible.

In accordance with empirical evidence on BOPs and the early BOP literature, which does not focus on including the poor as producers, Fan Milk does not have any farmers included in its value chain. However, as much criticism has been raised about just this, the newer literature on BOP does emphasize using the poor as producers in addition to including them as consumers, as raising incomes is an important way to move people out of poverty. However, while this has been suggested, little empirical research shows that this is actually the case, as most BOPs focus on selling their products to the poor rather than buying from them. While lacking an explicit focus on the poor in its upstream activities, the BOP strategy is on the other hand highly innovative and inclusive of the poor in its distribution channel – like it was the case with Fan Milk. Both the literature and the empirical evidence on BOP stress the importance of being innovative and creative in its activities in order to benefit as many of the poor as possible (Prahalad, 2004; Pitta et. al., 2008).

Another issue to look at is whether or to what extent the four strategies include the poor as employees. Since MNCs usually have advanced technology, higher quality standards, best practice processes, and sell their products to more sophisticated consumers and market, they normally rely on well-trained employees (Pradhan, 2007); hence excluding the poor.

Furthermore, MNCs' location decisions are driven by economic considerations and not considerations about how best to have an influence on the poor (ibid). Mengniu Arla is a good example of this as it uses advanced technology in its capital and technology intensive factory, meaning Mengniu Arla rely on semi-skilled and skilled workers. On the contrary, GDFL and the SBE literature in general specifically aim to include the poor in its factories. Despite the necessity of at least some semi-skilled personnel, the SBE specifically sets up its factories to be labour and 'poor' intensive. While the BOP literature does not specifically mention anything about this issue, it can be expected that it uses highly capital intensive technology in order to keep prices low, thus not specifically including the poor in its factories.

Like the MNC, the CSR strategy has no specific strength in including the poor as employees and nothing in the CSR agenda encourages companies to create more or inclusive employment than what can be economically justified (Pradhan, 2007); on the contrary. As mentioned previously, imposing requirements can make labour-intensive production less competitive, refraining the CSR companies from employing the poor.

### Including the Poor on the Demand Side

Moving on to the development effects on the consumption side, it is clear that the four strategies differ despite the fact that they all make products available to the local population. While it is commonly assumed that businesses mainly enter developing countries in order to produce cheap goods for export and exploit resources, Farrell et. al. argue that 80% of FDI today is by market-seeking businesses. They furthermore argue that local consumers are the biggest beneficiaries of market-seeking investments, as they enjoy not only a better selection of goods and services, but also lower prices (Farrell et. al., 2004). While Farrell et. al. might be right in their observations about businesses contributing to a wider selection of products, these products are not necessarily affordable for the poor, especially not when sold by the conventional MNCs. As Arnold and Quelch state: "*The product policy that most MNCs adopt in EMs involves offering a narrow range of existing products. In many cases, companies position established products as premium imported goods and target them at the relatively small percentage of affluent customers, usually concentrated in the country's major cities*" (Arnold and Quelch, 1998).

In accordance with this statement and other research, Mengniu Arla sells its products as international premium products in urban areas and to the richer part of the population. This correlates well with the theory of the MNC doing this in order to avoid re-inventing new strategies for its foreign markets. By entering markets this way, MNCs can obtain large margins on their products, however it does not make products affordable for the poor and thus do not increase their choices. The CSR strategy is very similar to the MNC on this issue, as it does not specifically aim its products at the poor; hence its development effects on this issue are likely to be rather limited.

On the contrary, both the BOP and the SBE produce their products at equally good quality and sell them at prices affordable for the poor. While the BOP literature emphasizes selling to the very poor, empirical evidence and the Fan Milk case illustrate that this is seldom the case. Contrary to the Fan Milk case however, the BOP does aim to sell its products in rural areas as well as urban areas, stressing the need for innovative solutions in order to reach rural areas without compromising the low prices. Differing slightly from the BOP, the SBE also aims its products to the very poor. While this issue is strongly emphasized in the literature, the empirical evidence from the GDFL case shows that this is more challenging than the literature anticipates. Only time will tell if the SBE can continue to reach the very poor or if it has to comprise this, as seen with the BOP, which originally aimed to sell to the very poor. As the SBE and the BOP both sell directly to the poor, these strategies also rank the highest on the aspect of meeting the needs of the poor. While it can be discussed how much 'need' there is for Fan Milk's ice creams, it does meet the need for the poor and include them by making products previously out of reach for them affordable. It might be expected though that the SBE is better at meeting the true needs of the poor, as the literature states that the SBE must be 'deeply embedded in the local community', thus most likely having an insight into what is needed. However, whether it is better at this than the BOP, which empirically has had huge problems in meeting the needs of the poor despite the strong rhetoric in the literature on this exact point, is difficult to conclude (Simanis, 2008; Simanis et. al., 2008).

### Decent Jobs

Moving over to the issue of decent jobs, empirical evidence suggests that MNCs pay higher wages than local businesses (Sumner, 2005), just like it was the case with Mengniu Arla. However, while this is generally the case, other empirical studies show that wages also can be pushed down, especially by exporting MNCs who need to remain competitive in the global marketplace (Pradhan, 2007).

While nothing of this matter is stressed in the BOP literature, it can be expected that BOPs, like Fan Milk, pay higher wages to its employees due to a more specific focus on reducing poverty. The only, yet very important, aspect that goes against this assumption is that BOPs need to keep prices low in order to reach the poor, thus possibly having to lower wages in order to keep prices low. In regards to the CSR strategy, it could very well be expected that a socially responsible company offers higher wages to its employees or at least obey to paying the legal minimum wage. Furthermore, it would seem reasonable to assume that CSRs pay women and men equal pay. However, just like the MNC, CSRs experience pressure for keeping wages low in order to stay competitive, and thus might refrain from paying higher than necessary wages. The issue of decent wages is neither included in the UN's Global Compact, illustrating that it might not be at the top of CSR agendas (United Nations Global Compact, 2008). Like the Nestlé case illustrates, it is difficult to say anything conclusive on CSRs and decent jobs, as there are huge discrepancies between what Nestlé claims (that it pays higher wages and earnings) to what the workers and suppliers are saying (that they push down prices and wages).

In accordance with the SBE literature, the GDFL seems to be paying its farmers market price for the milk, however contrary to its initial position, GDFL struggles to pay sufficient wages to the Grameen Ladies in order to keep product prices low enough. While there is no specific input about the issue of decent wages in the SBE literature, payments and wages can be expected to be decent and according to the legal requirement, however not higher than that due to extremely low profit margins.

Regarding working conditions, it is difficult to say anything conclusive due to lack of literature and empirical evidence on the matter. While many MNCs have been heavily criticised due to bad working conditions, the CSR companies are also highly exposed within this matter. Just like the Nestlé case illustrates, there might be a gap between the rhetoric of a company's CSR strategy and public statements about its actual operations. However, while both the MNC and the CSR are at times being criticised for not behaving accordingly to their claims, it is difficult to say whether they are worse than the SBE and the BOP, and whether MNCs and CSRs in *general* have bad working conditions. On the one hand, MNCs and CSRs are pressured on keeping costs down and thus are being accused of pushing costs down through the value chain, often hitting the poorest the hardest. On the contrary, as the MNC and the CSR often export their products to Northern consumers they, and especially the CSR claiming to behave responsibly, are more exposed to public scrutiny; hence they have an incentive for ensuring decent working conditions all the way through the value chain.

Regarding the SBE, it must be assumed that it will not take advantage of its workers due to its strong social focus. Furthermore, given the high level of interest that the SBE strategy has spurred both in the media and among researchers, it must be assumed that any bad news will reach the outside world rather quickly. Again, the protection of brand gives all the strategies a high incentive for obeying to local laws.

Based on the above discussion, the four strategies seem to compare as below:

**Table 7.2. Poverty** – *Focusing on the Poor*

| MNC | CSR | BOP | SBE |
|---|---|---|---|
| Low | Medium/Low | Medium | High |

There is no doubt that the strength of the SBE lies in its ability to include the poor and the very poor, both upstream and downstream, thus creating earnings and incomes for these groups of people. Moreover, the SBE sells products to the poor and very poor, also in rural areas, hence increasing their choices and human capabilities. Regarding decent jobs, it can be expected that the SBE performs well due to its focus on social benefits. The BOP is inclusive in its downstream activities and makes its products available to the poor, yet not the very poor, and has been rated medium. Surprisingly, the CSR is not as inclusive of the poor as expected, as it mainly sells its products to high-income consumers and tries to limits its use of small-scale producers and suppliers. While this is similar to the MNC strategy, the CSR rates slightly better than the MNC due to its higher vulnerability in relation to being exposed to public scrutiny, thus it is expected to have more focus on creating decent jobs than the MNC.

## 7.3. Analysis of Development Effects – Sustainability

A fundamental prerequisite for the existence of businesses is that they are commercially sustainable. Although a business can overcome loses and still survive in the short term, generating profits is necessary in order to sustain and develop the business and thus survive in the marketplace in the long term. It can seem obvious that a business is sustainable, but given the varying foci of the four MNC strategies on profit maximisation versus maximisation of social benefits, a comparison is appropriate as this aspect is often taken for granted.

### Sustainable Competitive Advantages

As the financial bottom line is ultimately the most important aspect for conventional MNCs, they constantly look to improve and adapt their strategies in order to generate profits. Empirical evidence of the sustainability of conventional MNCs speaks for itself with so many MNCs operating in DCs – and usually moving operations to these countries in order to further maximise profits e.g. through lowering labour prices, creating new markets, improving efficiency, etc. (Dunning, 1992) . In addition, MNCs are highly efficient in leveraging their core competences and competitive advantages to other countries, thus exploiting their enormous know-how and advanced technology. Finally, as MNCs in DCs tend to pursue a product differentiation strategy, meaning that output is superior or at least appears to be superior to that of its competitors, MNCs can charge higher prices and hence increase profit margins. While some MNCs of course face problems in DCs due to their unique and challenging business environments, there is no doubt that MNCs in general are commercially sustainable.

However, while the MNC is believed to be highly sustainable, the situation is quite different for the SBE. Despite the fact that the literature constantly emphasizes that the SBE must be sustainable, there are some inherent problems in its methods of generating profit. Just like the MNC, the SBE tries to differentiate itself on quality and on a unique product (and business model), however where it differs is in the fact that it *also* tries to keep costs down and be a cost leader – a strategy bound to fail according to Porter as the business will become 'stuck in the middle' and not obtain any competitive advantages (Porter, 2002). While this approach is similar to the BOP strategy, the BOP at least recognises the need for economies of scale in order to keep prices down, something not highlighted as an option in the SBE literature. However, as illustrated in the GDFL and Fan Milk cases, it is extremely difficult to keep prices low enough for the very poor to afford while keeping quality equal to that of a conventional MNC. While Fan Milk has had to move away from making products affordable to the very poor, GDFL insists on meeting the needs of this segment. Despite the rhetoric in the BOP literature, empirical evidence shows that BOPs have had to compromise meeting the needs of the very poor and mainly focus on the poor – a turn that the SBE might also has to take if it wants to survive. A shortcoming in the SBE strategy is that by focusing on maximising social benefits, hence restricting the scope for price increases; it strongly compromises its ability to become sustainable. In general, the BOP and the SBE's profit margins will always be lower than that of the MNC as their prices have to be kept low in order to be able to sell products to low income groups which are their prime targets.

The BOP strategy specifically became interesting for the business world as the literature continuously emphasized the huge potential for businesses to earn profits by serving the enormous 'unserved markets' in the developing countries. However, in line with more and more businesses failing in becoming successful with their BOP strategies, the BOP literature has been highly criticised. It has especially been criticised for being too normative, e.g. stating that the opportunities of serving the poor are *"too great to be ignored"* or that companies *"have a moral obligation to serve these markets as it can help reduce poverty"* (Karnani, 2007). However, while Fan Milk has proven to be commercially sustainable having operated in West Africa since the 1960s, empirical evidence shows that generating a profit in the BOP markets is in fact extremely difficult (KPMG, 2008) – causing many BOPs to fail (Simanis, 2008) [19]. The BOP literature argues that the BOP market constitutes a huge profit potential despite the limited purchasing power of the poor; however, this claim has been strongly criticised by Karnani who states that this is grossly overstated (Karnani, 2007). Fan Milk is a good example of this, as it for long has had problems with keeping quality high while keeping prices down, at times forcing the company to increase prices in order to obtain profits. While this has made it possible for Fan Milk to generate profits and survive, it has also meant that the products no longer are affordable for the very poor, as stated by the managing director of Fan Milk. This trade-off is exactly what GDFL is currently experiencing and although the above critique is specifically aimed at the BOP strategy, it is also highly relevant for the SBE strategy.

There are other challenges for the SBE and the BOP strategies to become commercially sustainable. Compared to the MNC's consumers, low-income consumers are often geographically dispersed in underdeveloped areas and they are highly heterogeneous, strongly reducing the opportunity for creating economies of scale. According to Sayer, markets will normally emerge *"where customers are concentrated, accessible, and prosperous"* and *"where costs are cheapest in terms of appropriately skilled labour, raw materials, regulations, taxes, and the necessary technical, managerial, and financial structures, or where production leads to better access to consumers"* (Sayer, 2005:261). Also, as the poor are highly price sensitive it can be difficult to achieve profitability through covering the higher costs by increasing prices as mentioned above. Something which has meant that many BOP strategies and not least Fan Milk cannot serve the rural areas as it is simply too expensive and which push cost up for the SBE specifically operating in rural areas.

A final but highly relevant challenge that especially the BOP experiences, is the need to radically changing their approaches and rethink every link in their value chain in order to reach and serve the needs of the poor (Seelos, 2008). Empirical evidence shows that the BOPs have a hard time leveraging their existing capabilities to the BOP markets, meaning they have to build new ones – something that is very costly and timely. The very idea of the BOP strategy is that businesses in general are ideal for selling to the poor as it is assumed that the businesses can draw from their many global resources, their technology, and their experience in entering new markets on a massive scale. However, as empirical studies show, BOPs can only be successful when completely adapting their business models to the specific local environments, thus limiting their ability to leverage their knowledge and experience (ibid). As Denrell et. al. further explain: *"Resource scarcity at the BOP makes it difficult if not*

[19] See Simanis, (2008) and Simanis et. al. (2008) for failed cases

*impossible to acquire relevant and valuable resources. Many important strategic resources may not be available or tradable in markets. Even if they are accessible, the value of such resources for use in new ways and unusual contexts is not known ex-ante, and can only be accurately assessed where they are currently being utilized"* (Denrell et. al., 2003:3).

Moving on to the CSR strategy, research shows that more and more businesses are turning to focus on 'stakeholder value' or 'corporate sustainability', which has resulted in an increased emphasis on the ´double´ or ´triple bottom line´ where social and environmental objectives are valued alongside the financial objectives. This approach emphasizes that *"driving corporate sustainability strategies can generate innovation across all parts of the organisation"* (Grayson et. al., 2007:2) and that it can help reduce risk, increase sales and shareholder value, and be translated into commercial benefits (profits) (ibid). By serving all interests of the stakeholders, being employees, the community, the owners, etc., the CSR strategy is believed to generate wealth in the long term.

As most CSR activities take the form of philanthropy or standards and codes, they are not part of the companies' financial bottom line and thus commercially unsustainable 'by definition'. Still being a minority, Nestlé and other frontrunner CSRs have begun to incorporate CSR as in the core business activities. However, the expectation that CSR will lead to stronger long-term growth is by no means proven, as it is difficult to assess whether the success is due to the focus on CSR as a source of competitive advantage or because the business activities resemble a conventional MNC under the surface. This is backed up by Lodge and Wilson who firstly argue that CSR is a distraction from the role of business, undermining the market economy and reduces welfare (Lodge and Wilson, 2006). Secondly, some CSRs use crucial time on CSR-related activities and 'looking good' in the eye of the public rather than focusing on and getting better at their core functions, thus making them less efficient and creating a net loss for society (ibid). Thirdly, and as seen in the two previous sections, businesses might refrain from investing in or creating links with local producers and suppliers as they might regard it too risky in regards to their global reputation – despite this being the most economically sound solution. Finally, some believe that CSR represents yet another cost of production, which can become a burden in an already tightly competitive global market (ibid).

Based on the above discussion, the four strategies seem to compare as below:

**Table 7.3. Sustainability** – *Ensuring Commercial Profitability*

| MNC | CSR | BOP | SBE |
|---|---|---|---|
| High | Medium/Low | Medium | Low |

There is no doubt that the MNC has the best potential of being sustainable as it focuses on its core competences, has a clear strategy, and is highly successful in creating sustainable competitive advantages. The CSR has been rated medium/low due to most CSR activities being unsustainable 'by definition'; although a minority of frontrunner CSRs have begun to incorporate CSR into the core business activities. Nonetheless, the expectation that CSR will lead to stronger long-term growth is by no means proven. The BOP has been rated medium as it despite many challenges has the potential of being sustainable if it manages to build competitive advantages suitable for the low-income market without compromising cost efficiency. This is not least due to the fact that it has moved its focus away from the very poor and thus does not need to lower prices quite as much as the SBE and because it aims to create economies of scale, thus potentially being capable of earning profits on selling high volumes at low prices. The SBE is rated low as it seems extremely difficult to keep prices very low and quality high without any kind of economies of scale. These challenges basically occur due to the inherent trade-off in the SBE strategy between maximising social benefits while still being profitable.

## 7.4. Sum-up of Analysing Development Effects

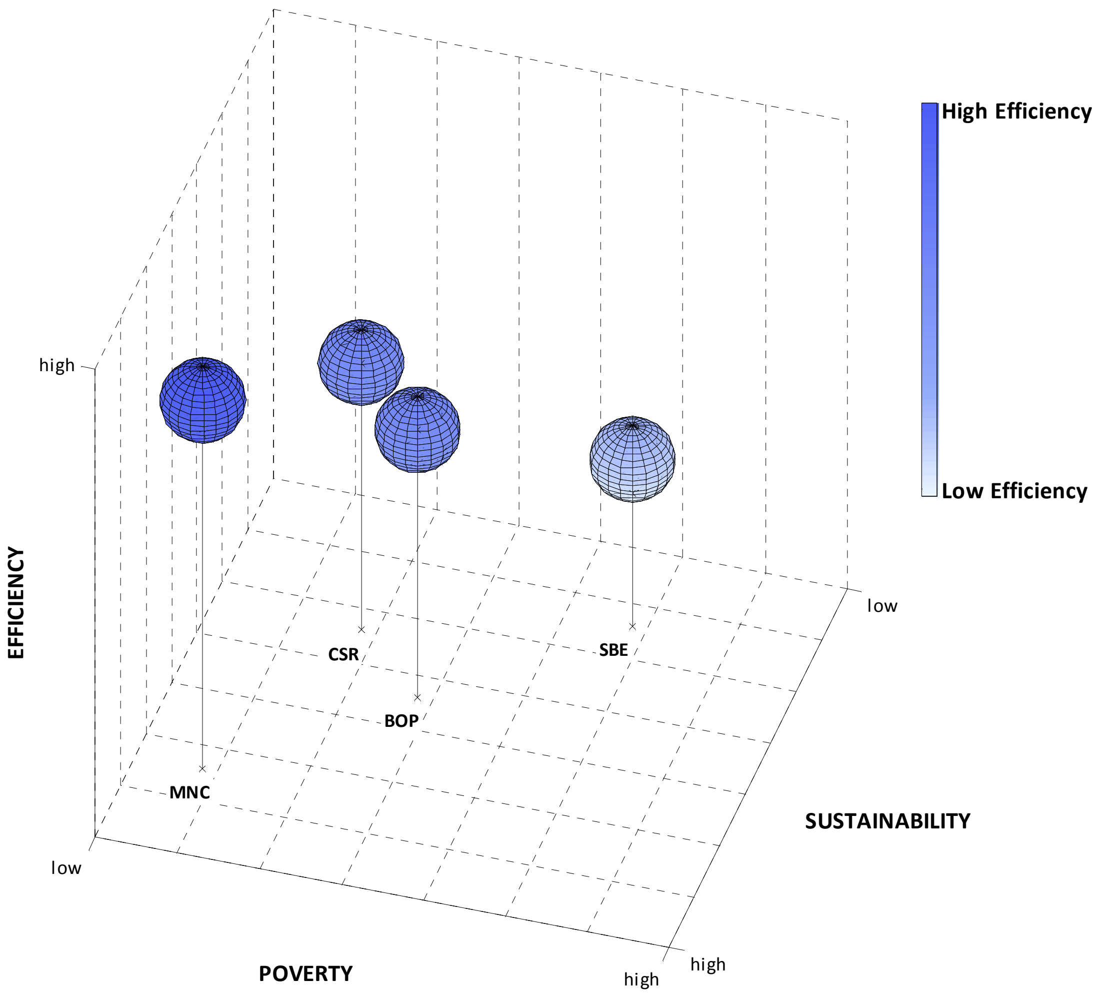
Based on the discussion of the development effects of each of the four MNC strategies they seem to compare as indicated in the table below:

**Table 7.4. Development Effects of MNC Strategies**

| | MNC | CSR | BOP | SBE |
|---|---|---|---|---|
| **Efficiency** | High | Medium | Medium | Medium/Low |
| **Poverty** | Low | Medium/Low | Medium | High |
| **Sustainability** | High | Medium/Low | Medium | Low |

Despite the difficulties of rating the strategies on the different dimensions, a good indication has been obtained. As became evident during the analysis, the strategies all have different strengths and weaknesses and none of them rate high on all dimensions. The complex interplay between the MNC strategies is illustrated in the 3D figure on the following page.

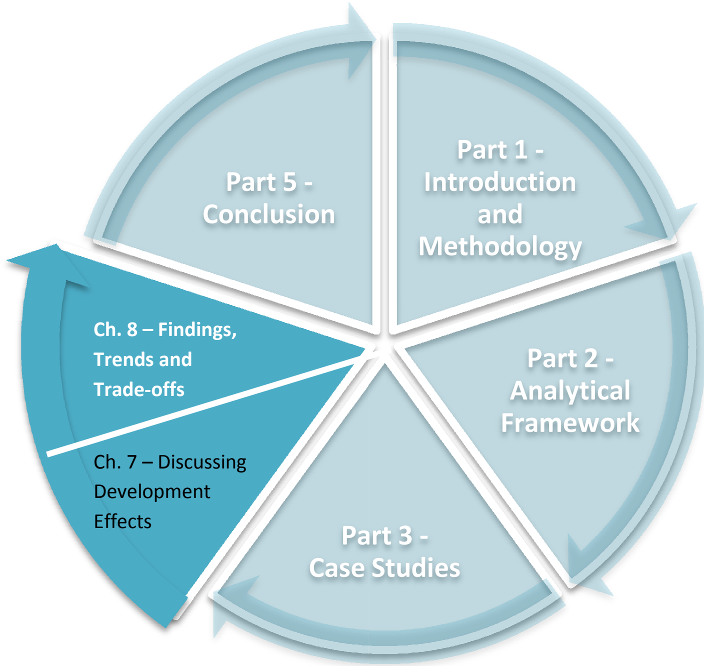
**Figure 7.1. Development Effects of MNC Strategies in 3D**




Although rating low on 'Poverty', the MNC rates high on the two other dimensions and is thus most conducive to development compared to the alternative strategies. Interestingly, certain trade-offs within each strategy became apparent during both the cases and the analysis. The 3D-model clearly illustrates these trade-offs. As none of the MNC strategies meet all three requirements of being conducive to development, a more nuanced answer to the research question is necessary. The findings from this chapter will thus be summed up and discussed in depth in the following chapter.

# Chapter 8 – Discussing Findings, Trends, and Trade-offs

In order to answer the research question *"Which MNC strategy is most conducive to development?"*, we firstly built a solid empirical background through the case studies, while further elaborating upon these in the analysis in chapter 7. Having identified and compared the development effects of the four strategies, it is now possible to discuss the findings and the trends and trade-offs which became apparent during the above mentioned process.




## 8.1. Discussion of Findings and Trade-offs

As the table in chapter 7 shows, none of the MNC strategies rates high on all three dimensions as each strategy has certain strengths and weaknesses. This makes it difficult to conclude which of the strategies is most conducive to development, not least due to the fact that there seems to be certain trade-offs within each of the strategies. The trade-offs are especially clear within the MNC, the BOP and the SBE strategies, while they are less apparent in the CSR strategy. Due to this, the findings on the latter will merely be outlined.

According to the findings, and in accordance with the Mengniu Arla case, the strength of the MNC is without a doubt its ability to be efficient in creating economic growth, as it possesses sophisticated knowledge and best practices, enabling upgrading of local businesses through linkages. Furthermore, it has the possibility to induce demonstration and competition effects, and it can raise productivity in environments characterised by the lack of just this. Finally, while not creating a lot of jobs relative to its size, it indirectly contributes to the creation of employment in DCs through its linkages. In addition to the positive impact on 'Efficiency', the MNC attains to being sustainable as it constantly aims to set up its activities in the most cost effective way. Moreover, by primarily selling its products to high-income groups or international markets, the MNC can leverage its existing competitive advantages and also charge higher prices for its products, hence raising earnings and ensuring sustainability.

However, while rating high on the 'Sustainability' and the 'Efficiency' dimensions, the MNC, and to some extent Mengniu Arla, has a shortcoming in relation to focusing on the poor. Focusing on the poor might jeopardise the sustainability of the MNC due to the increased costs of including the poor in the value chain. For Mengniu Arla it became apparent that it was costly to monitor and coordinate the highly fragmented supply chain, thus it is working on consolidating the supply chain, possibly reducing costs. In addition to this, focusing on the poor can also compromise the MNC's impact on the 'Efficiency' dimension, as the productivity and the absorptive capacity of the poor are commonly low, limiting the possibility of upgrading which negatively affects the generation of economic growth. The Mengniu Arla case very well illustrates the trade-off by rating high on 'Efficiency' by including the use of sophisticated technology, which highly excludes the poor due to lack of skills. Despite the trade-off between 'Poverty' and 'Efficiency', it is however assumed, although still highly contested, that the increased growth indirectly affects and benefits all people in society through trickle-down effects – thus eventually benefiting the poor.

Moving on to the CSR, its strength relates to the 'Efficiency' dimension, as it rates medium on this. The reason for rating below the MNC is due to its lesser focus on deep linkages, limiting the intensity of knowledge and technology transfer. While the MNC often links up with local businesses and hence lays the foundation for upgrading, the CSR commonly links up with NGOs, universities, or other non-business partners in order to achieve its social responsibility objectives. As these have no immediate use of the competences of the CSR, the upgrading potential is limited. The Nestlé case was also a good example of this, as it did not create any deep linkage with local businesses, thus not transferring any knowledge and technology except for internally.

The CSR rates medium/low on 'Sustainability' due to most CSR activities being unsustainable 'by definition'; although a minority of frontrunner CSRs, including Nestlé, have begun to incorporate CSR into the core business activities. Nonetheless, the expectation that CSR will lead to stronger long term growth is by no means proven. For example, while Nestlé is highly sustainable it seems just as likely that this is due to its 'normal' operations and not due to its CSR strategy as such, despite this being a significant part of its brand. Moreover, the CSR aspect can increase production costs, hence make the business less competitive. Thirdly, as most CSR is still related to codes of conducts and philanthropic activities rather than having the CSR strategy as an integrated part of one's business, focus is commonly taken away from the core activities.

Similarly to the MNC, but contrary to the CSR rhetoric, the CSR is not very focused on the poor, yet it rates higher than the MNC due to its increased focus on creating decent jobs for its employees; which however is not always true as the Nestlé case illustrates. However, due to its commitments on meeting international standards, the requirement for being included as a supplier etc. is very high, thus commonly excluding the use of the poor and small-scale producers/suppliers. While Nestlé makes use of small-scale farmers it seems more due to the fact that no other supply base is available, thus having set up its milk district in order to overcome the challenges the environment poses. Finally, as the CSR mainly sells its products to high-income consumers it tends to use traditional means of distribution, thus neither directly aiming at including the poor in downstream activities nor increasing the poor's choices in relation to making products affordable.

Proceeding with the SBE and GDFL, the strength of this strategy is without a doubt its ability to focus on the poor and enable a bottom-up approach to development as it focuses on building up a local industry where no such industry is already established. While this is positive in relation to generating human development among the poor and very poor population, it certainly has its trade-offs. The most obvious of these relates to the difficulty of the strategy to be sustainable, a huge shortcoming as it prevents the SBE from having a long term positive impact on the local community. Like the GDFL case so clearly shows, it is almost impossible to keep prices low enough for the very poor to buy and still be sustainable. Overcoming this shortcoming creates a dilemma for the SBE as it might compromise its positive effect on the poor. Ensuring sustainability would mean raising prices and thus restrain the poor from being able to buy the products, or making its activities more efficient, possibly compromising the labour-intensive focus and local embeddedness the SBE so highly embraces. It seems that GDFL is aware of this but tries to overcome the challenge by subsidising the costs between urban and rural areas. The high inclusiveness of the poor also keeps the SBE from having a large impact on the 'Efficiency' dimension, as its small size and thus limited reach does not create extensive linkages nor a lot of employment possibilities (in absolute terms). Again, the GDFL illustrates this, as it seems very unlikely that it manages to scale unless it starts generating profits thus having a very insignificant impact on the local community. Moreover, the upgrading potential of the SBE is rather limited as it does not avail access to global markets nor does it use very advanced technology due to its focus on labour intensiveness.

Finally, moving on to the BOP and the Fan Milk case, it has become apparent that it has situated itself somewhere 'in the middle' of being sustainable and focusing on the poor, thus not being highly successful in either one of the dimensions. While the BOP rhetoric is clear in claiming that the BOP is able to eradicate poverty at the same time as creating profits, it seems that the BOP fails to materialise both objectives simultaneously, at least to the extent proposed in the literature. Fan Milk is a good example of this, as it has realised that there is little profit to be made at the very bottom of the income pyramid. Dealing with similar problems as the SBE, the BOP has to some extent been successful in overcoming the problem of being sustainable; however this has highly compromised reaching the very target it aimed to reach – the very poor. Constraints in reaching economies of scale in rural and underdeveloped areas have resulted in problems of keeping prices low enough to make products affordable for the very poor, thus making very few, if any, BOP successful in reaching the very poor. Repeatedly businesses have failed in being successful with their BOP strategies, at least if measuring success on reaching the very poor. Related to the 'Efficiency' dimension, the problem is the same. By trying to generate as much human development as possible, the BOP compromises its ability to be efficient in its operations, hence limiting the potential for generating high economic growth. Again, Fan Milk has not chosen to focus on including the poor in all of its operations, as this has proved difficult when having to keep costs down.

As has become clear from the above discussion, especially two trade-offs have become apparent: (i) that by rating high on the 'Poverty' dimension, it is difficult to rate high on the 'Efficiency' Dimension, and (ii) by rating high on the 'Poverty' dimension, it seems very difficult to rate high on the 'Sustainability' dimension. Trying to overcome the problems of rating low on 'Efficiency' or 'Sustainability' would mean compromising one's focus on 'Poverty' and vice versa. Due to these trade-offs within each strategy, it becomes difficult to determine which strategy is most conducive to development. However, the trade-offs have important implications for the debate on MNCs and development, as it seems irrelevant to look at which strategy is *most* conducive to development. Rather it is important to look at the strengths and weaknesses of each of the strategies and discuss how to overcome the trade-offs.

## 8.2. Discussion of Trends

Having now outlined and discussed the trade-offs within the strategies, this section will examine recent trends among the four MNC strategies which emerged while working with the analysis and the case studies. As seen above, none of the four strategies rates high on all three dimensions due to certain trade-offs. The four strategies are all dynamic and constantly adapting and changing in order to overcome the trade-offs and strengthen their competitiveness, uncovering certain trends when we dug deeper into the analytical process.

While the trends make it even more difficult to determine which MNC strategy is most conducive to development, they do add more nuances to the debate.

Starting with the conventional MNC strategy, then it is not up for discussion that the increasing pressure for showing responsibility has influenced this strategy. Today, most MNCs are aware of the increasing demands for having a high CSR profile for instance. However, as Kolk and Van Tulder point out, there seems to be a 'sector-coordinated morality' at play, determining the CSR commitment of the companies: *"MNCs appear only willing to state active commitment if others in their sector do as well"* (Kolk and Van Tulder, 2006:798). This could explain the high awareness of CSR in the fast moving consumer goods (FMCG) industry since all MNCs here are very sensitive to public scrutiny given their direct relation with the end-consumers. Arla Foods is no exception to this, although it has been used to illustrate the conventional MNC strategy through the joint venture Mengniu Arla. Furthermore, the companies in the FMCG industry often source their raw materials from developing countries, making CSR in the value chain activities crucial. Likewise, the industry also greatly influences which aspects of doing business that are in favour in relation to CSR, e.g. automobile companies tend to focus on environmental issues rather than on development issues (ibid).

As mentioned in the presentation of the CSR strategy, this strategy has seen several developments in recent years. Likewise, it naturally differs which approach to CSR businesses have adopted but the majority of businesses no doubt associate CSR with either philanthropy or complying with labour and environmental standards. A study from 2003, surveying 506 major companies in India for instance showed that the top three activities undertaken in the name of CSR were meeting the existing environmental standards, meeting the existing labour standards, and thirdly, philanthropy (Bhushan, 2005). Furthermore, the link between having a code of conduct and behaving responsible is questioned by scholars who call for more monitoring in the name of CSR (Pradhan, 2007; Jenkins, 2005). Whereas adherence to e.g. UN Global Compact or having a corporate code of conduct illustrates corporate responsibility in the eyes of many investors for instance, it is by no means a guarantee of any monitoring haven taken place, i.e. the implementation of the codes of conducts is often deficient underlined by its voluntary nature (Utting, 2003). With Porter and Kramer as frontrunners, efforts to integrate CSR into the core business activities have been undertaken as mentioned earlier. These efforts can be seen as an attempt to move the CSR strategy closer to the MNC in order to ensure sustainability. Nestlé's CSV Strategy reflects this very well and is also greatly inspired by Porter and Kramer. With the recent focus of CSR to turn more towards what businesses can actively do to have a positive impact rather than focusing on mitigating their negative impacts, the CSR however also moves closer to the BOP and SBE strategies which both actively seek to include the poor in the value chain.

Recently, an update of the BOP strategy was published by Simanis et. al. where the authors address some of the issues faced by the initial BOP approach. Simanis et. al. propose the next generation of BOP strategy which they term 'BOP 2.0', taking the BOP strategy a step further. The main difference from BOP 1.0 is an increasing focus on embeddedness of the business in the local context. BOP 2.0 thus talks about BOP as business partner rather than BOP as consumer/producer and about 'deep dialogue' instead of 'deep listening' (Simanis et. al., 2008). As of yet, BOP 2.0 is mainly discussed among scholars so there are not yet any representative examples from the business world, however it is quite clear that the update of the BOP strategy places it more in line with the SBE strategy where local embeddedness is crucial. On the one hand, the second generation BOP seems to be greatly inspired by the SBE strategy to achieve greater inclusion of the poor but on the other hand, this might greatly challenge the profitability of the strategy; an aspect which is not touched upon in the latest BOP literature.

The greatest challenge the SBE strategy is facing is achieving sustainability as outlined above. With point of departure in the SBE case, GDFL, it seems that the strong initial focus on including the poor must be compromised in order to reduce costs, thus introducing economies of scale as a way to become profitable. By doing so, the SBE greatly moves in the direction of the conventional MNC strategy which traditionally relies on economies of scale and e.g. an efficient distribution channel in urban areas to generate profits. The original focus on maximising social benefits as opposed to profit maximisation thus seems to be difficult to sustain as rigorously as proposed by Dr. Yunus. Although Yunus continuously emphasizes the importance of creating profits, it must not happen at the expense of maximising social benefits which is the goal of the SBE. Based on the experience of the first few years of GDFL, creating profits seem to have taken a more predominant role and thus compromising social benefits.

It has become evident that the four strategies are increasingly inspired by each other and it is very likely that the borders between each strategy will become even more blurred in the coming years as a result of this convergence. Moreover, one company often pursues more than one of the strategies. The four cases illustrate this increased blurriness quite well. All four companies have some focus on CSR, either as a strategy or formulated in a policy. Both Danone and Nestlé have BOP initiatives trying to reach low-income consumers. Nestlé has launched a base of the pyramid initiative, with its 'Popularly Positioned Products' (PPPs).

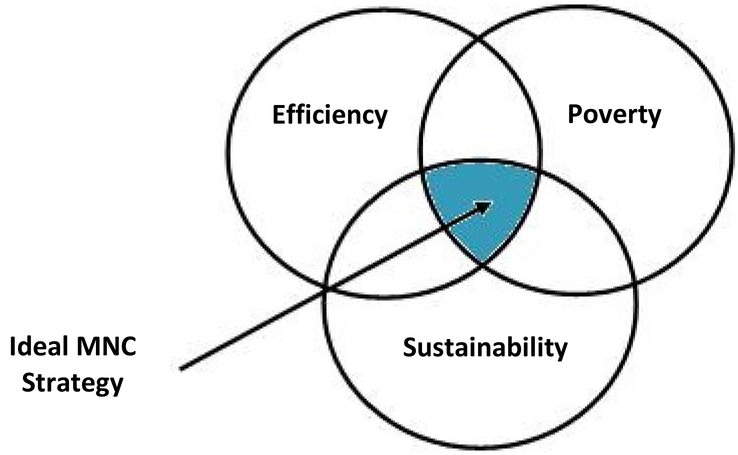
These products are fortified products in small packages which are affordable to the poor. The distribution channel is very inclusive of the poor, using local agents with vans and motorbikes to reach the small retail shops in rural areas (Nestlé SA, 2009d). Danone in Poland intentionally targets the BOP in order to reduce malnutrition among poor children. Also in this case, the product 'Milk Start' is specially developed to be nutritious, affordable and served in small packages (UNDP, unknown). Many businesses do not distinguish as such between CSR and BOP strategies, e.g. a 'BOP project' can be part of the company's 'CSR activities'. To add to the confusion, companies often refer to the 'BOP' simply as the low-income end of the market, not as a specific strategy as described in the BOP literature.

## 8.3. Sum-up of Discussion of Findings, Trends, and Trade-offs

In chapter 8, the complex interplays within and between the strategies in relation to conduciveness of development were discussed. The case studies and the analysis made apparent certain trade-offs within the strategies; in particular focusing on 'Poverty' seems to compromise the ability to rate high on either 'Efficiency' or 'Sustainability'. These trade-offs make it very difficult for one MNC strategy to rate high on all three dimensions. In this regard, it should be noted that rating high on all of the dimensions is important in relation to being conducive to development but is not necessarily the goals of the strategies; e.g. the MNC does not strive to rate high on all three dimensions.

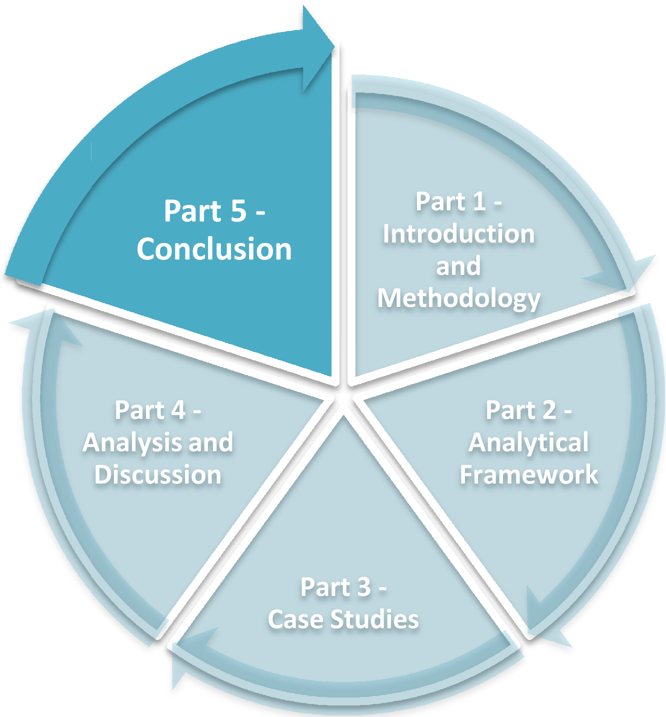
In order to overcome the challenges occurring from the trade-offs, it seems that the strategies are becoming increasingly inspired by each other. Combined with the fact that companies have begun to undertake several of the strategies simultaneously, these trends of convergence make the borders between the strategies increasingly blurred. Interestingly, the trends are reflected both in the various literatures on the strategies but also empirically in the business world where the strategies are constantly being adapted and refined while being tested in practice. The below figure illustrates the direction in which MNC strategies should move in order to be highly conducive to development:

**Figure 8.1. Ideal MNC Strategy**




However, neither in the literature, nor in practice has such an ideal MNC strategy been described and the question remains whether this is at all possible due to the trade-offs highlighted above.

# Part 5 – Conclusion




In **Part 4 – Analysis and Discussion** the development effects of each of the four strategies were analysed. The analysis concluded with a discussion of the findings, trends, and trade-offs.

**Part 5 – Conclusion** will bring the thesis to a close and discuss the findings and reflect upon their implications.

# Chapter 9 – Conclusion

Being motivated by the highly undifferentiated and one-dimensional debate about the role of MNCs in relation to development and the 'idealisation' of new MNC strategies, we set out to examine *"Which MNC strategy is most conducive to development"*. With this research question in mind, we have successfully achieved our research objective, i.e. to nuance the current debate and thus obtained a broader understanding and knowledge of the different MNC strategies and their conduciveness of development. In order to answer the research question, it was first and foremost necessary to characterise the different MNC strategies as well as to derive relevant dimensions on which to measure the development effects of these strategies; i.e. answer the two sub questions. An outline of the strategies was needed to systematise the descriptions and thereby enabling a clearer understanding of the differences. The three dimensions were necessary in order to capture the diversity of the development effects of the MNC strategies.

Based on the two literature reviews, the analytical framework was developed, allowing for a comparison of the strategies and serving the purpose of structuring and guiding the analysis. The logic behind the framework is that for an MNC strategy to be conducive to development it has to rank high on all three dimensions, i.e. it has to be efficient, focus on the poor, and be sustainable. Prior to the analysis, four cases were assessed in order to bring out the strengths and weaknesses of each case. These findings were critical for commencing the analysis as they deepened our understanding and knowledge of the development effects of the four strategies and laid the empirical background for the analysis. Furthermore, they helped identify certain trends and trade-offs between and within the strategies. The analysis and the following discussion uncovered several interesting findings, which will be presented below.

### Findings

Firstly, it was brought out how each of the strategies rated in relation to being conducive to development. Here, the MNC rated high on both the 'Efficiency' and the 'Sustainability' dimensions, while rating low on the 'Poverty' dimension. The CSR rated somewhat similar to the MNC on the 'Poverty' dimension with a rating of medium/low, while rating medium on 'Efficiency'. Contrary to the MNC, however, the CSR rated medium/low on the 'Sustainability' dimension. The BOP on the other hand rated medium on all three dimensions, while the SBE stood out by rating high on the 'Poverty' dimension but low on 'Sustainability' and medium/low on the 'Efficiency' dimension. While it can be argued that the MNC is most conducive to development as it rates high on two dimensions, one of the most important findings from the comparison is that each strategy has certain inherent trade-offs, thus complicating matters in regards to being conducive to development on all dimensions. A trade-off between 'Sustainability' and 'Poverty' was the most distinct, followed by a challenge of rating high on both the 'Efficiency' and the 'Poverty' dimensions. Especially the case studies helped us identify and illustrate these trade-offs, while also providing a means of recognising certain trends among the strategies. As became evident from this discussion, the borders between the strategies have become blurred as businesses choose elements from the different strategies or pursue two or more of the strategies at the same time in order to overcome the trade-offs identified. This merging of strategies has been reflected both empirically through the case studies but also theoretically, as some of the newest literature on the four strategies has begun incorporating elements from one another.

### Implications

The findings of the study indicate three main implications: (i) for the debate about the development effects of MNCs, (ii) for the academic literature, and (iii) for the MNC strategy.

Considering the research findings in relation to the debate about MNCs and their development effects, it has become apparent that the debate indeed is too undifferentiated and one-dimensional. While the conventional MNC does not have any explicit focus on being conducive to development and rates low on the 'Poverty' dimension, it does seem to contribute to economic development, although unintended. More importantly though, it differs from the other strategies in the way that it constantly aims to ensure commercial sustainability; a highly important and often overlooked aspect in the debate as no development will take place if the business cannot survive. In their quest to make MNCs more inclusive of and focused on the poor, the NGOs and the MNC-critical academic circles tend to ignore that commercial sustainability is a prerequisite for long term social returns. While we are not blind to the downside that MNCs can have on society, it is important that it becomes incorporated into the debate that by directly focusing on including the poor and being conducive to human development, certain trade-offs will occur, compromising 'Sustainability' and 'Efficiency'. Furthermore, the strong rhetoric in the CSR, SBE, and BOP literatures about maximising social benefits and 'revolutionising the world' might have to be moderated, as it has become clear that they suffer from certain shortcomings; not least the challenges of being sustainable and thus not having any long term development effects.

Considering the implications for the academic literature, we have found that an encompassing analytical framework was needed in order to assess and compare the development effects of the different MNC strategies. By reviewing literature about MNCs and development it became evident that existing frameworks are insufficient in incorporating the strengths of the more recent MNC strategies (the BOP, CSR, and SBE), as they solely focus on economic development. In addition to this, the literatures on the three alternative strategies should take the trade-offs into account and investigate ways to tackle these challenges. Lastly, as mentioned above, the literatures about the strategies are merging, suggesting that academics are searching for a new ideal MNC strategy which is truly conducive to development.

Finally, considering the research findings from a managerial point of view, the discussions of the trends and trade-offs have made it evident that what matters is not so much the choice of strategy; rather managers have to be aware of the implications the inherent trade-offs bring about, thus preparing them for some of the challenges they will be faced with when pursuing the different strategies or a combination hereof. Focusing on contributing to human development strongly compromises a business' ability to be sustainable, hence resulting in managers having to consider this issue before commencing on such activities. On the other hand, as seen above, it seems that MNCs *are* being conducive to development, however just not directly towards including the poor in its activities. Can managers successfully communicate this in the debate; the criticism of the conventional MNC might be mitigated, possibly rendering the alternative strategies superfluous.

Based on these findings and implications, the contribution of this thesis has been to uncover some of the differences, similarities, trends and trade-offs characterising the different strategies and their conduciveness of development. This has been possible through the development of an encompassing analytical framework built on three dimensions which consider the different foci of the strategies. In the wake of this, there is no unambiguous answer to the research question; however the objective of this thesis has been fully achieved by gaining a better understanding of the MNC strategies and their conduciveness of development, thus helping to nuance the current debate.

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