

research snapshot

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Four Ways Firms Are Making a Difference in Developing Countries

What is this research about?

Private companies in developing countries have taken on more public responsibility. Firms assist in the building of schools and hospitals, and provide utilities or funding for basic infrastructure. These public activities have put private companies in government-type roles, where they make important decisions about social welfare. The boundaries between the two sectors are becoming unclear, creating new challenges for firms. This research looks at four strategies that can be used by private companies to deal with challenges related to public projects.

What did the researchers do?

The researchers studied 30 profit-based companies in developing countries, in the agricultural, manufacturing and service sectors. They collected data from November 2004 to February 2008, in the form of interviews, observation notes and archival data. They found patterns among the tactics that managers used to face challenges. They also categorized the companies into two types: those that deal with social welfare issues as their main operations, and those that deal with it on the side of their main business.

What did the researchers find?

The researchers found four main strategies used

What you need to know:

If private enterprises provide public services in developing countries, managers need to be aware of the different strategies that can be used and the challenges that come with them.

to cope with different situations.

Supplement strategy: This is used when a firm operates in a country that lacks social services from the government, and provides those services such as building schools to fill the gap. An example is Magadi Soda Ash, a mining company based in Kenya, in an area that lacked basic facilities needed to even start the business. They built roads, water treatment plants, a health clinic and schools. It was helpful for the Masai community and it also gave their business a competitive advantage. A challenge is that the community becomes dependent and the firm cannot reverse their commitment to sustaining the services they started. A good solution is to partner with existing local organizations that have better knowledge of the needs and culture in the community.

Support strategy: This is when a firm uses its power and influence to support public goals. For example, a company can intervene on government policies or influence global labour

regulations. The benefit of this approach is that the company can support organizations, but does not have to bear the full cost of the initiatives. However, it is difficult to gain the trust of community members. The CEO of a mining company in Africa addressed this challenge by meeting with 35 community members to build positive relationships.

Substitute strategy: This is when a company's main business is to provide a service that is supposed to be delivered by the government. Consider &Beyond, an ecotourism company based in Johannesburg built schools, hospitals and taught people about taking care of the environment. These public services added value to the vacations they sold because consumers wanted to know what was being done to help the community in their vacation spots. The problem with privatizing a public service is that firms are suspected of sacrificing public interest for the sake of making a profit. However, outsourcing the execution of public services to a non-profit organization will help the firm avoid a conflict of interests.

Stimulate strategy: This is when a firm finds a new method to achieve public goals. An example is Muhammad Yunus' Grameen Bank, which gave out loans to poor women without asking for collateral, unlike regular banks. Innovative business models like this need a consistent supply of resources and support from stakeholders.

The researchers found that managers need to assess their situation and choose an appropriate strategy. However, when circumstances change they can also adopt a different strategy to suit their needs.

How can you use this research?

This research may be used by company officials who run their businesses in developing countries. They may use these methods to provide public services where needed and foster a supportive relationship with the community.

About the Researchers

Andrew Crane is the George R. Gardiner Professor of Business Ethics and Co-Director of the Centre of Excellence in Responsible Business at York University's Schulich School of Business. Mike Valente is an Assistant Professor at the University of Western Ontario.

acrane@schulich.yorku.ca

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kmbunit@yorku.ca www.researchimpact.ca

