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"IS SAVING THE WORLD'S POOR PROFITABLY" GOOD FOR BUSINESS AND GOOD FOR THE WORLD'S POOR?

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1. INTRODUCTION

The purpose of this paper is to critically discuss the following question: Is "serving the world's poor profitably" good for business and good for the world's poor? The aim will be to examine two main areas. First, the focus will be on presenting an argument that will aim to show that serving the world's poor is a responsibility that corporations ought to follow from the point of view of Virtue Ethics, whether it is profitable or not. Here the focus will be to look at the work of Peter Singer (1993). Secondly, the aim of the paper will be to provide sufficient evidence to justify the claim that when corporations carry out socially responsible activities to assist the world's poor, this benefits both the business and poor people. Here we will look at the views presented by Prahalad and Hammond (2002) and David Vogel (2005).

2. CORPORATE ACTION MOTIVATED BY THE VIRTUE OF COMPASSION

When we experience hunger, pain, and suffering in humanity and see naked and starving children who have been without food for weeks and there is no certainty on where the next dish will come from, do we have a question that arises in our conscience, "Where is the limit of our responsibility in a situation like this?" Consider these facts: by the most cautious estimates, 400 million people lack the calories, protein, vitamins, and minerals needed to sustain their bodies and minds in a healthy state. Millions are constantly hungry, others suffer from deficiency diseases and from infections they would be able to resist on a better diet. Children are the worst affected; according to World Hunger Organization (2011), 14 million children under five years old die every year from the combined effects of malnutrition and infection, and the graph below is evidence of this fact.

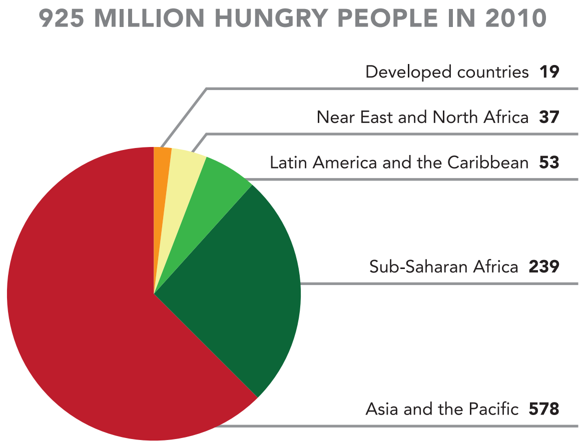

Figure 1: Number of hungry people in the world. Source: FAO. World Hunger Organization 2012

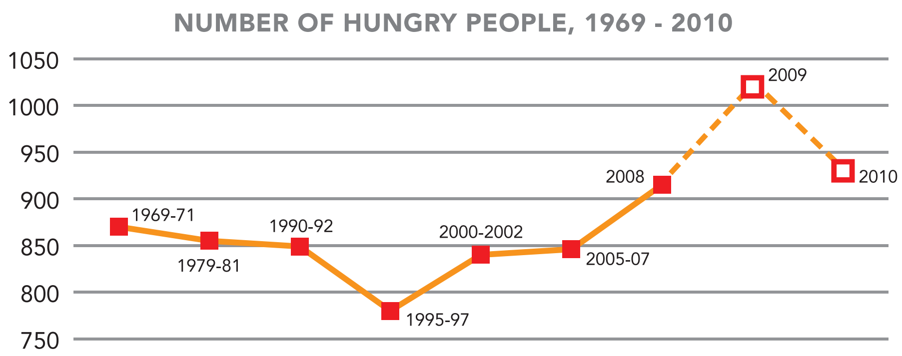

Figure 2: Number of hungry people, 1969-2000. Source: FAO. WorldHunger Organization 2012

In some districts, half the children born can be expected to die before their fifth birthday. The problem is not that the world cannot produce enough to feed and shelter its people. According to the World Hunger Organization (2011), people in the poor countries consume, on average, 180 kilos of grain a year, while North Americans average around 900 kilos. The difference is caused by the fact that in the rich countries we feed most our grain to animals, converting it into meat, milk, and eggs. Because this is a highly inefficient process, people in rich countries are responsible for the consumption of far more food than those in countries that consume grain and soybeans. A large amount of food would be saved if it could be distributed to those who need it; it would be more than enough to end hunger throughout the world.

If we explore these facts from the point of view of Virtue Ethics, let us look at the virtue of compassion. Does compassion within us cause any kind of obligation to this situation? What is compassion? Compassion is a form of sympathy; it is sympathy in pain or sadness, in other words, participation in suffering of others. "Can we really suppose that a fellow-feeling such as that of rejecting with A's pleasure at B's misfortune is morally valuable?" asks Max Scheler (2008, p.5). Of course not! But participating in B's is!

By adopting a consequentialist approach, we could follow Singer and present an argument which shows clearly an obligation by companies to assist the poor and needy which is motivated by the virtues of compassion. Singer (1993, p.229) proposes that we ought to follow our moral responsibility and carry out the appropriate actions if it is in our power to prevent something very bad from happening, without thereby sacrificing anything of comparable moral significance. We can formulate this argument out more formally from the point of view of the obligations of a corporation towards the needy and poor, it would look like this:

First premise: If [a corporation can prevent something bad without sacrificing anything of comparable moral significance] then [the corporation ought to do it].

Second premise: Absolute poverty is bad.

Third premise: There is some poverty that a corporation can prevent without sacrificing anything of comparable moral significance.

Conclusion: Corporations ought to prevent some absolute poverty (Singer, p.230).

The second premise is grounded on the virtue of compassion. Absolute poverty is bad and any decent human being or corporation cannot tolerate such situations. The motivations behind such corporate actions are based on the virtue of compassion regardless of profitability. It is simply the right thing to do. However, compassion is not generally part of the strategic mission of organisations, profit is. So, we now ask the question, "how can organisations assist the poor of the world profitably?"
In the next section we will consider some evidence from the work of Prahalad and Hamond (2002) that indicates that corporations can assist the poor of the world profitably.

3. SERVING THE WORLD’S POOR PROFITABLY

Corporations can however benefit the poor and the needy of the world and at the same time obtain lucrative gains from people at the bottom of the economic pyramid. Prahalad and Hammond (2002, p.4) suggest that when corporations carry out such action there is a resulting decrease in poverty that produces a range of social benefits, helping to stabilise many developing regions and reduce civil and cross-border conflicts. Prahaland and Hammond also emphasise that reaching that goal does not require companies to create social development initiatives for charitable purposes. Multinationals only need to act in their own self-interest, because there are many business benefits to be gained by entering developing markets.

The world’s poor are in no short supply, 65% of the world’s population earns less than $200 each per year, and this market is untapped by multinational companies. The reluctance to invest is easy to understand. Companies assume that people with such low incomes have little to spend on goods and services, and what they do spend goes to basic needs like food and shelter. They assume also that various barriers to commerce-corruption, inadequate infrastructure, and currency fluctuations make it impossible to do business profitably in these regions. If we take the assumption that the poor have no money, it sounds obvious on the surface, but it is wrong. While individual incomes may be low, the aggregate buying power of poor communities is actually large. The average per capita income of villagers in rural Bangladesh, for instance, is less than $200 per year, but as a group they are avid consumers of telecommunications services. It is also incorrect to assume that the poor are too concentrated on fulfilling their basic needs to waste money on non-essential goods. In fact, the poor often do buy luxury items. In the Mumbai shantytown of Dharavi, for example, 85% of households own a television set, 75% own a pressure cooker and a mixer. That is because buying a house in Mumbai, for most people at the bottom of the pyramid, is not a realistic option as highlighted by Prahaland and Hammond (2004, p.5).

There are several examples that can be presented to show that serving the world’s poor is not only good for business, but it also benefits in a sustainable manner the poor and the needy of the world. Prahaland and Hammond (2004, p.7) presents examples such as centres run in Uganda by the Women’s Information Resource Electronic Service which provides female entrepreneurs with information on markets and prices, as well as credit and trade support services in local languages. In Bolivia, a start-up has partnered with the Bolivian Association of Ecological Producers Organization to offer business information and communications services to more than 25,000 small producers of eco-agricultural products.

Vogel (2005, p.29) presents several examples to show there is an extensive body of academic research that examines the relationship between corporate responsibility and profitability. While many studies report a positive relationship between ethics and profits, some find negative relationships, and still others find the relationships to be either neutral or mixed.

According to Reed (1998, p.47), research that relates measures of corporate environmental performance to measures of financial performance suffers from several shortcomings. Vogel (2005, p.30) also explains that it is difficult to make conclusions about the relationship between CSR and profits as the studies often measure different things. He explains that in the ninety-five studies summarised by Margolis and Walsh, financial performance is measured in seventy different ways and measurements of corporate social performance also vary widely. In ninety-five studies, twenty-seven different data sources were used and not only does the diversity of these measures make drawing conclusions from this literature difficult, but there is also a debate about the validity of some of them.

The most exhausting and widely used measure of CSR is KLD's extensive database of 400, mainly US companies. KLD evaluates five different measures of corporate performance: community relations, diversity, employee relations, natural environment, and product safety and quality.

Mahon and Griffen (1997, p.15-31) analysed many literature reviews published between 1979 and 1999 and identified nearly fifty shortcomings of the broader body of research. They agree that the connection between CSR and financial performance has not been established. Therefore, Margolis and Walsh (2001, p.13) summarised both their own analysis on these studies: the clear signal that emerges from thirty years of academic research – indicating that a positive relationship existing between social performance and financial performance –must be treated with caution.

Roman, Hayibor and Agle (1999, p.121) conclude that it is difficult to know what to make of the claim that "those hoping for a positive or neutral impact of social performance on financial performance can feel some satisfaction, because the vast majority of studies lead to poor financial performance."

Generally it is seen that CSR activities may not affect short-term earnings, and in the long run more responsible firms will perform better.

If we consider, for example, the US-based firms included in the 1994 bestseller Built to Last on the basis of their having attained extraordinary long-term performance. According to its authors, Collins and Porras (1994, pp.2-3), these firms are more than successful. They are more than enduring. In most cases, they are the best of the best in their industries, and have been that way for decades. The firms that meet their criteria are American Express, Boeing, Citicorp, Ford, General Electric, Hewlett-Packard, Philip Morris, Sony, Wal-Mart, and Walt Disney. To this list of distinguished financial performers we can add the retailer Mark & Spencer (M&S) which has long enjoyed a reputation as one of Britain's most virtuous companies. It has been a highly benevolent employer, and for many years had a policy of selling only British-made goods. In July 2004, Business in the Community, a prominent British NGO, named M&S Company of the Year for putting responsible business practices at the heart of its strategy and for producing measurable outstanding positive impacts on society. The Dow Jones Sustainability World Index rated M&S the most sustainable retailer in the world.

Vogel (2005, p.73) argues that for a subset of firms, CSR does appear to make business sense. These firms fall into two broad categories. The so-called companies with conscience, such as Ben and Jerry's, Seventh Generation, and Patagonia, fall into this category, as do some larger firms, such as Levi Strauss and Starbucks. Their embrace of corporate virtue frequently reflects the values of their owners or major shareholders or the legacies of their founders. A second category of firms for whom CSR makes business sense are those that have been targeted by activists, who are concerned that they could be targeted, largely because of the visibility of their brands. For firms such as Shell, Nike, Home Depot, Dell, and a few others, these firms are highly risk averse, they consider it in their interest to act more responsibly.

Both categories of companies regard their reputations for corporate virtue as important. Accordingly, they have decided that it is in their interest to devote additional resources to improve their social or environmental performance and in many cases to cooperate with NGO and help the needy and poor of the world.

4. CONCLUSION

The aim of this discussion has been to argue the case that "Is saving the world's poor profitably good for business and good for the world's poor?"

Singer's argument presented in the beginning showed that on the basis of compassion, the right thing to do for any business is to help the poor and needy of the world. However, as can be seen from the mission statements of numerous companies, compassion does not play a role in the strategic plan. Profitability, market share, competitiveness, and marketing to profitable customer groups are the key components that motivate company activities. How can companies therefore assist the poor and needy of the world profitably? The paper then presented several examples from Prahalad and Hammond that demonstrate that companies indeed can be profitable and sustainable business activities can be established. However, Vogel presents several studies that showed there is no direct relationship between CSR activities and profitability. Generally it is seen that CSR activities may not affect short-term earnings; however, in the long run more responsible firms will perform better. ■

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