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Producing and sharing

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Item Type	Conference proceedings
Authors	Singer, Alan E.
Rights	With permission of the license/copyright holder
Download date	2026-07-02 05:26:52
Link to Item	http://hdl.handle.net/20.500.12424/174060

Revised submission to ISBEE 2004, University of Melbourne.

Producing *AND* Sharing:
Some Implications for Corporate Strategy

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Suggested Track: “Producing and sharing global prosperity”

Producing AND sharing: Implications for Corporate Strategy

Abstract

Corporations do not currently view poverty alleviation as a strategic priority. It is argued that this mindset has contributed to increased levels of poverty in many parts of the World. Poverty has several forms, but corporate activities have positive *and* negative effects each form. Corporations acting in partnership with governments can find ways of limiting the negative effects, but this requires the *intentional* design of joint strategies for wealth creation *and* poverty reduction. This point is elaborated with reference to the Global Imaging and Pharmaceutical industries.

1. Introduction

Total wealth has expanded greatly over the last quarter century, accompanied by a well-documented increase in the scope and depth of poverty (e.g. Pritchett 1997; Cohen *et al*, 2000). Various reports have claimed that more than 1 billion people currently live in poverty; that more than 4bn. earn less than USD2000p.a. (e.g. Prahalad & Hammond 2002); that in Brazil and Argentina, between 20% and 60% live below the poverty line, whilst in the EU, 60 million people also live below a poverty line (Barnes *et al*, 2003). Furthermore, The World Bank Chief Economist, Nobel-Laureate Joseph Stiglitz, recently commented (on *BBC World*) that “globalisation has spawned inequities...with the poorest countries... becoming *worse off* at a rate of about 2% per year”.

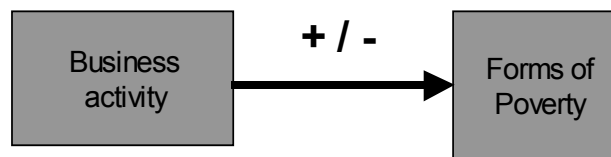
Corporate communications often respond to such observations by insisting that in the absence of the wealth-creating activities of business enterprises, the depth and extent of world poverty would be much greater. Not only is job creation the highest form of charity, but what many LDC’s plainly need is more new businesses and more efficient financial institutions, in order to attract businesses and foster the internationalization of local enterprises. In the present paper, it is argued that this “more of the same” solution to global poverty is incomplete. To reverse the trend, an expanded corporate agenda is needed: there must be a specific intention, or explicit mission, to reduce poverty. At the same time, a revised legislative and institutional framework is also needed that actively promotes and responds to that “agenda”. Accordingly, poverty reduction strategies require a willingness by corporations to engage with and persuade governments to participate in this joint dual-purpose mission.

2. Poverty

Empirical studies (e.g. Barnes *et al*, 2003) as well as normal language use attest to the multifaceted nature of poverty. The most obvious “facet” or form is monetary: lack of income, or assets. Recently, the notion of poverty as a capability-deprivation (lack of competence, confidence, disempowerment, etc.) has also gained currency. Yet it is also very common to speak of an impoverished understanding, or culture. Each facet or form constitutes a distinctive economic and social condition that can be either ignored or deliberately changed by business activities. Furthermore, the “change” can be either positive or negative (Figure 1) at various locations and at different times.

It is obvious that business activity alleviates income poverty, in several ways (Table 1, column 2). Global co-ordination of production arrangements results in greatly increased supplies of basic consumer items, many of which are newly affordable by those with relatively low incomes. On the other hand, the activity can sometimes have the effect of reducing purchasing power and access to resources for the least well off in a society (Table 1, last row). In famines, for example, one can sometimes find local hunger alongside food exporting activities (Sen 1999, p170).

Figure 1. Effects of international business activity on poverty



Capability

The effects of MNC activities on capabilities are mixed and selective. In the last 20 years or so, as poverty has worsened, it has certainly been fashionable to talk about strategic and managerial capabilities. The resource-based view of the firm in economics was quickly absorbed into the

field of strategic management, where “strategy” was re-described in terms of improving capabilities, or competencies. Thus, managerial capitalism saw some realizing their potential, or becoming actualized, through the act of improving business profitability.

Table 1. Effects of business activities on forms and locations of poverty

Effect on...	Income	Capability	Understand	Culture	Environment
Own	net worth	actualized	dream	technological	Escaped
Others (+)	wages	upskilled	educated	synthesised	Restored
Others (-)	reduced p.p.	repressed	dumbed-down	disrupted	Damaged

However, the doctrine of capability development has not yet been widely translated into policies that directly help the capability-poor. Managers’ intentions to develop capabilities are rarely extended to include the low-end, in the surrounding society. Indeed, the contrary is often the case, such as when corporations make deals with governments who manifestly deny freedoms to, or engage in repression of the host country populations (table 1).

Understanding

“Poverty of understanding” refers to an absence of the political awareness, practical know-how and scientific knowledge that can enable people to devise and implement solutions to their problems. If anyone is to become more active in this respect, they must first understand that their current deprivations are preventable. Much of the appeal, justification and legitimacy of capitalism arises from the perception that it greatly reduces this particular form of poverty. For example, the successful executive or entrepreneur is upheld as a role model: they not only demonstrate the crucial “understanding” of how to prevent their own relative deprivations, but they also (with corporate-media amplification) help others to understand this, or dream this, for themselves (Table 1, column 4).

Yet, at the same time, ironically, global market forces have tended to “dumb down” or inhibit other aspects of a local culture, producing relatively un-reflective and malleable consumers and voters, whilst also habituating (i.e. de-sensitizing) many to the widening gap between rich and poor. Put simply, market forces overall tend to direct peoples’ attention away from the poor,

despite some recently heightened interest in “serving” so-called Bottom of Pyramid (BOP) market segments (e.g. Prahalad *et al*, 2002).

Culture

Corporate activities generally influence and re-orient the surrounding culture, towards technological efficiency and commodification (i.e. values become price, goodness becomes preference). The impact can be positive when some new technology is comfortably accommodated into peoples’ lives. For example, an affordable and safe washing powder, a drought-resistant crop, a dual flush toilet, a cheaper and better bicycle, an electric bus, and so on. However, a countervailing negative tendency is manifest in many episodes of *disruption* to established social and moral life. According to Sen (1999), for example, the “demise of old ways of living” can cause “anguish and a deep sense of loss”.

In richer developed countries, aesthetics and sociality have come under relentless pressure from a range of media products that emphasis violence and security fears. In income-poor communities, TV images of the lifestyles of rich or famous people are often attended to, but without any accompanying education as to how to improve viewers’ own lives in practice, nor how to formulate a more attainable or more worthwhile personal mission or “dream”.

Environment

Corporations can improve the living environment, especially for their own managers and shareholders, with profitable restoration activity (e.g. Hawken, 1999), or by using environmental technology as a source of competitive advantage (e.g. Shrivastava, 1995). They can also cause impoverishment, through damage of local environments (Table 1, last column). Enterprising income-poor locals have sought empowerment and security by clearing forests to supply cash-crops. At the high end, some MNC’s have overlooked local pollution and local political oppression, even as they have operated within applicable laws (e.g. the Bhopal tragedy, the Shell in Nigeria episode). Significantly (refer section 7) some enterprising corporations have lobbied and influenced host governments to relinquish control of environmental resources, including water. In the absence of political intervention, or the adoption of authentic pro-poor corporate strategies, this seems highly likely to further increase local deprivations (e.g. Barlow & Clarke, 2002).

3. Ideology

As the above discussion illustrates, just about every example, claim, or proposition concerning the positive effects of international business activity on poverty confronts plausible *counter*-claims, or *counter*-propositions, that point to specific negative effects (e.g. Kitching, 2001). These “propositions” and “counters” can be classified, as follows (refer to Table 2). First there are direct effects of the activity on (a) income poverty, and (b) the other forms. Two further classes of effects can be identified, involving business activity that influences governments (rather than *vice-versa*). Such influence, in turn, can be (c) direct, through lobbying and (d) indirect, through promulgating and communicating an ideology. In all cases there are subsequent positive and negative effects on poverty; but all of these can potentially be taken into account in corporate strategic thinking and action.

Effects on income-poverty

MNC’s are often courted by governments, to create employment opportunities for constituents. Under the political conditions of the last 30 years or so, this has been well rewarded at the ballot box. In some of cases, however, “job creation” amounts to the establishment of sweatshops, with oppressive work conditions. Accordingly Oxfam has pointed recently to the danger of equating development with “MNC’s exploiting cheap labour”. Put differently, job creation can sometimes involve tradeoffs amongst forms of poverty (e.g. income *vs.* capability and freedom).

Table 2. Conflicting effects of corporate activity on poverty

EFFECTS on...	<i>Proposition (+)</i>	<i>Counter (-)</i>
INCOME-POVERTY	Provide jobs	Create sweatshops
	Increase global consumption	Decrease local affordability
OTHER FORMS	Create and share knowledge	Protect and conceal knowledge
	Create new culture	Destroy old culture
	Restore environment	Damage environment
	Design ecologies	Destroy ecologies
GOVTS. (direct)	Pay tax	Avoid tax
	Lobby to update laws	Create advantage, reduce tax
	Stabilize govt.	Support corruption or oppression
IDEOLOGY	Keep dream alive	Frustrate with unrealistic goals
	Demonstrate mastery	Create slaves, colonise the mind
	Encourage value-expression	Create alienation
	Philanthropy as altruism	Philanthropy as strategy

With regard to the purchasing power of the poor, it seems obvious that corporate activity must have a positive effect, since it adds to the global supply of consumer market offerings. However, this is not always the case, as in Sen's (1999) above-mentioned observation of famine and food exports, or where knowledge of the (income) poor has been learned by corporations, then patented, thus creating obstacles to subsequent wealth accumulation by local entrepreneurs (e.g. Shiva & Holla-Bhar, 1996).

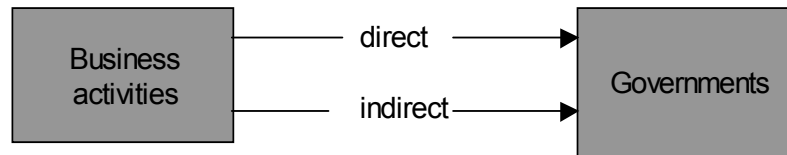
Effects on other forms

The effects of corporate activities on *non-income* forms of poverty (capability, understanding, etc.) can be similarly re-stated. For example, entrepreneurial activities in LDC's have increased some poor peoples' capability and understanding, through skill development and sharing of knowledge (know-how); but MNC's also routinely protect or conceal their knowledge, in some cases privatizing what used to be communal or public goods. Environmental restoration and protection activities, with the design of new ecologies using bio-technologies, confront massive environmental destruction inflicted by other profit-driven businesses, not to mention risks of disaster. In common with some governments, especially totalitarian freedom-destroying ones, the latter businesses never had any *intention* to restore nature and hence reduce poverty (Table 2).

Direct support for governments

Entrepreneurs influence governments directly by various means, towards adopting specific policies, some of which (unintentionally) effect levels of poverty (Figure 3). For example, corporate officers often speak out in favor of tax reductions. This is entirely within traditional commercial-legal doctrine that permits active minimization and avoidance of tax; but there is rarely, if ever, any public acknowledgement of the idea that increased tax rates might enable governments to more effectively reduce the various forms of poverty. In contrast, it is sometimes suggested that the lowering of tax rates (as favored by the great majority of business lobbyists) increases the total tax collected (the Laffer curve); but there is no evidence whatsoever that such stimulation fosters the overall combination of funding *and* political will that is needed to alleviate poverty.

Figure 3 Effects of business activities on governments



Direct lobbying of governments is almost always for some specific business or industry-wide advantage; it is hardly ever with the direct alleviation of poverty in mind. For example, the global broadcasting, entertainment and pharmaceutical industries have been extremely active in lobbying for the strengthening of global intellectual property regimes, which have not helped to alleviate poverty. Also, global corporations often support corrupt or oppressive governments. This might be for the sake of stability, or out of commitment to some form of capitalism but they have often had negative consequences for the various forms of poverty.

Ideological support

In addition to providing direct support for governments, corporations can also influence entire electorates indirectly by promulgating an ideology (refer to Table 2 and Figure 3). This can result in a shift in the attitudes of citizens towards poverty, in its various forms and locations, which in time also alters the make-up of governments with *their* policies towards poverty. The main ideological themes include keeping the dream alive, demonstrating mastery, encouraging self-expression and a fascination with extremism.

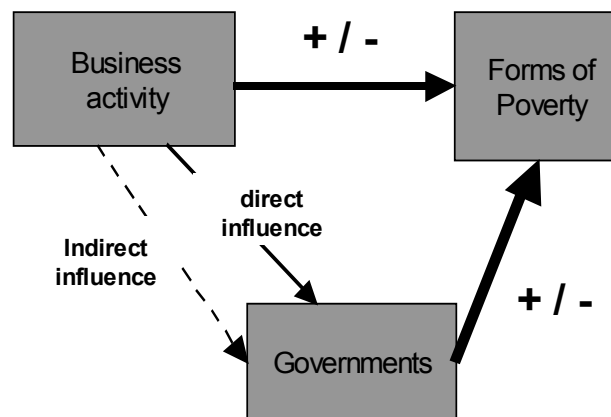
National and global corporate media have amplified public awareness of the image of the successful, wealthy and self-actualised entrepreneur; but without much reference to its actual rarity, particularly in winner-take-most markets. For the billion or more currently below the poverty line, the dream of such personal success is practically unattainable. No amount of willpower can enable an individual to be energetic if health services are inaccessible, pollution is commonplace, locally grown food is exported, or when suitable credit financing is simply unavailable.

A similar ideological influence is also exerted through corporate philanthropy programs. Increasingly, corporate philanthropy has become strategic rather than altruistic (Saiia, Carroll & Buchholtz, 2003). Whatever the motivation, corporate philanthropic activities tend to create a false impression that governments are relatively incapable of alleviating poverty, or they cannot be trusted to do so. This, in turn, generally advances ideological causes such as tax reduction, with its likely negative implications for the poor, as government programs shrink.

4. Partnership

If international business activities are to become more effective in reducing global poverty (not just creating wealth) it is first necessary to be mindful of the contradictions and oppositions, as listed in Table 2; but it is also necessary to influence and to co-opt other entities, especially governments. This approach has been advocated by Sen (1999, p126), who prescribed a “multifaceted” approach, balancing government and other institutions with the market. Sen called for simultaneous progress on several fronts, including different institutions that reinforce rather than confront each other. In the present context, this implies the joint and direct pursuit, by governments *and* corporations, of poverty reduction goals.

Figure 3. The conceptual framework of partnership against poverty



International corporations can demonstrate leadership in this endeavour by adopting the twin goals of producing *and* sharing, but also by influencing governments, directly and indirectly, to do likewise. Put differently, corporations can persuade governments and electorates (with words and money) to promote public infrastructure health and education, which are in the longer-term interests of all the partners (e.g. Pfefferman & Fields, 2003). A rather similar proposal for a so-called “new agenda” has been made recently by Garten (2003).

The “twin goal” framework depicted in Figure 5 contrasts with the traditional view of business-government relationships. The latter sees profit-maximizing entities delegating poverty reduction to the invisible hand of the market or to the visible hand of government, whilst at the same time confronting the latter in an adversarial mode. To depict this traditional view (not to mention the 1990’s variant of public-private partnership, “P3”, which involved the privatisation of social infrastructures), the “influence” arrows in Figure 3 would have to run in the *opposite* direction.

5. Strategy

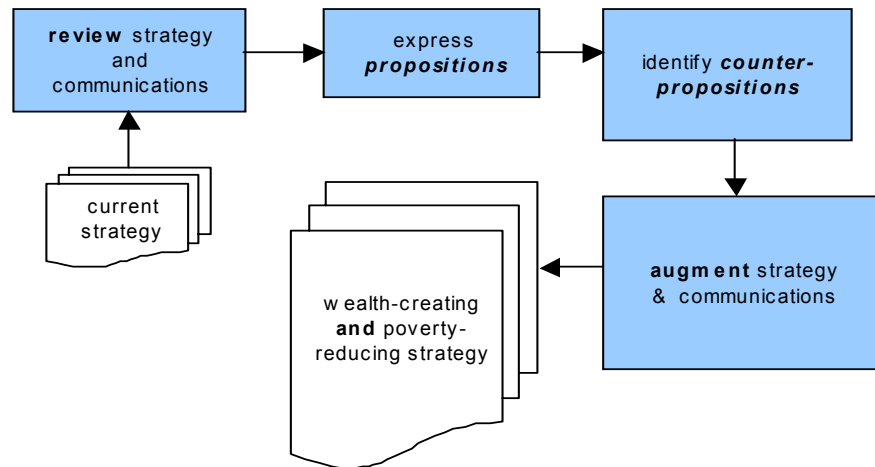
The conceptual framework of partnership against poverty (Figure 3) can form the basis of augmented corporate strategies that express economic *and* ethical imperatives (e.g. Singer 1994). Managers can start with a review of current strategy and communications (Figure 4), making explicit any previously implicit value-priorities (core values) and political (systemic) understandings. This exercise, which is simply a variant of long established techniques such as strategic assumptions surfacing and testing (SAST) and dialectical inquiry (DI), can be done with direct reference to the above Tables, or similar. Each identified proposition about a current corporate strategy thus yields its “counter”, or complement, which can then become the focus of reflection and discussion. Two examples are set out below, by way of illustration. They involve (i) a multinational imaging company, (ii) a global pharmaceutical company.

Imaging

Canon Corporation provides a salient example of how an IT (imaging) company might become a genuine partner against poverty (Singer, 2003). According to the website (www.canon.com), “it is the presence of imbalance in our World...(that) hinders the achievement of *Kyosei*” (i.e. living and working together for the *common good*). Thus, from a naive perspective, the company already appears to be socially responsible and responsive entity. It is profit-focused, has

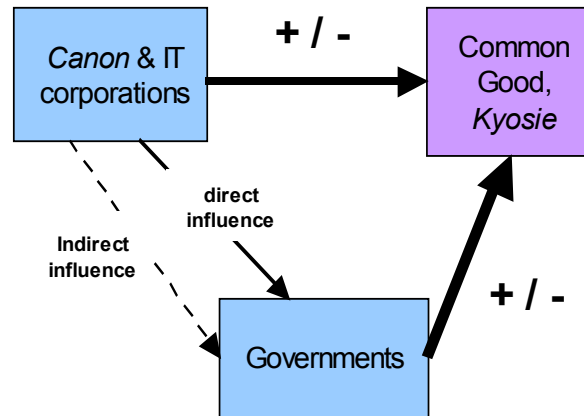
innovative production methods involving advanced environmental engineering, but it also has an active philanthropy program and HR policies that encourage diversity (e.g. Kaku, 1996; Sandoz, 1997; *Business Week*, 2002).

Figure 4. A process for augmenting corporate strategies



Despite these achievements, the fact remains that in some of the geographic segments where Canon (and many others) has maintained a presence in the last 20 years or so, levels of poverty have increased. There are several ways in which the corporate strategy could now be augmented in order to transform the entity into an authentic “partner against poverty”. For example, with respect to public goods, there is a need to engage and encourage governments (in many states) to become more active partners. This would magnify and sustain Canon’s environmental engineering accomplishments, because it can be expected to reduce the poverty that is the root cause of much environmental destruction. Next (Table 3, row 2) the company can augment its HR policies by compressing its pay scales and by actively encouraging trades unions to fulfill their proper role of helping to provide (and express) the types of security and empowerment generally needed for poverty reduction.

Figure 5. Augmenting strategy at Canon



Marketing strategy at Canon can also be augmented, with poverty-reduction in mind as an explicit goal. The company could promote ideas for using its products in ways that empower less well off communities, whilst critiquing any applications that arguably worsen poverty, such as those that foster winner–take-most-markets (e.g. global broadcasts by a few extremely high paid performers); or surveillance applications that undermine freedoms in the name of security. Finally, companies like Canon could lobby for weaker global IPR regimes^[1], whilst at the same time making its strategies less dependent upon IPR. To date the company has been extremely active in patenting, despite the highly questionable effects of strong global IPR regimes on the level and extent of world poverty (e.g. Vaver, 2000).

Table 3. Augmenting strategy.

<i>Current elements</i>	<i>Additional elements</i>
corporate philanthropy	political engagement
HR policies	unions, distraction, compression.
WTM markets	consider applications
IPR & patent-wars	lobby for weak IPR
environmental engineering	alleviate root causes

Pharmaceuticals

Merck corporation is rather similar to Canon, insofar as its current strategy already has some distinctive social responsibility elements. Merck has benefited from good publicity and other spin-offs from its drug-donation programs to impoverished regions (e.g. The Business Enterprise Trust, 1991). It has also responded constructively to the “bio-piracy” critique, by working in partnership with a government agency (*In Bio*, in Costa-Rica) to arrange orderly payments in exchange for access to local biota. Yet, Merck has at the same time been a major player in the industry wide lobbying for strong global IPR regimes, which have in turn been implicated in millions of premature deaths and great suffering, for example in the AIDS pandemic.

If pharmaceutical companies (of which Merck is among the largest) were to genuinely consider universal *health-status* improvements to be part of their mission, as they say it is, they would automatically be taking on the near-equivalent mission of poverty alleviation (e.g. Singer, 2004). Here, the strategic problem is that health services alone, including drugs, typically account for just 20% of any improvements in the health status of a society. The other major determinants are income, water, sanitation and environmental factors, as well as food, lifestyle and social climate. It is surely no coincidence that these correspond almost exactly with the distinctive “forms of poverty” identified earlier (Table 4).

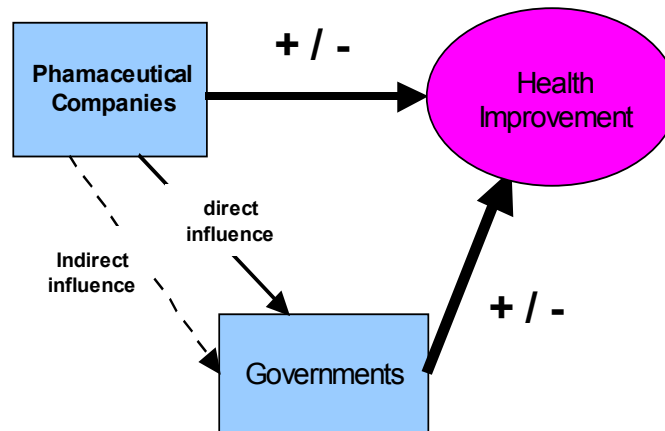
Table 4. The correspondence between forms of poverty and determinants of health.

<i>Forms of Poverty</i>	<i>Determinants of Health</i>
Capability	Health services
Income	Income
Environment	Water & sanitation
Cultural	Food lifestyle & social
Understanding	Psychological condition

Accordingly, there are several steps that companies like Merck could take to augment their strategy, in order to become a partner against poverty (or equivalently, a partner-for-health). First, they can lobby and influence governments (Figure 6) towards changes in tax policies and subsidies (corporate welfare) that are expected and intended to improve health status. For

example, a general increase in tax rates could be traded off against increased tax shields for R&D (tax breaks) or public subsidies for R&D¹³.

Figure 6. Pharmaceutical strategy and health outcomes



At the level of marketing strategy, Merck could re-describe and revise its pricing strategies in various geographic segments. High prices in wealthy markets subsidize more affordable prices in LDC's achieved by philanthropy, negotiation and overriding of patents. In the context of a genuine partnership-against-poverty, these can be re-described, quite frankly, as vitally necessary Foreign Aid. Here it must be realized that *affordable medicines foster security* whilst eliminating the most extreme form of capability deprivation. Similarly, the industry as a whole could work in partnership with governments, to re-design or re-locate expensive drug testing regimes, in order to save costs. In such ways, any stated corporate mission of “medicines for the people” (that is, producing *and* sharing) becomes much more credible and achievable.

6. Conclusion

In the early 1980's, the political (governmental) agenda of deregulation and globalization, coupled to the re-thinking of welfare policies, was described by its detractors as a temporary aberration in a broader historic movement towards an enlightened technologically-supported humanism and environmentalism. As it turned out, it has not been so temporary. For 20 years,

the visible hand of government almost everywhere has been pre-occupied with promoting profitable business, privatization of the commons and increasing the level of security through surveillance and military strength. If the absolute level of poverty in the World had demonstrably decreased in this period, or was about to decrease without a change of mindset, then the overall approach and ideology might have been vindicated; but most studies and reports attest to the contrary. This is not surprising. A combination of ideologies and practices by governments and businesses that have manifestly ignored poverty and downplayed any ethic of care, has indeed accomplished what one might expect: an increase in poverty. To correct this, capable and influential corporations and managers should now attempt to work in partnership with governments, guided by an explicit joint mission to reduce poverty *and* to create wealth, to share *and* to produce, or, put very simply: to practice international business ethics *and* economics.

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