Corporate Social Responsibility as a Tool for Poverty Alleviation

The purpose of this paper is to argue that there is tremendous potential through CSR (corporate social responsibility) to improve the relations between the private and public spheres of society. It is from the actions of the private sector that achievements in poverty alleviation can be reached and this work will argue for that position. In fact, that position is a midpoint between the arguments of purely business-minded individuals such as M. Friedman and purely philosophically minded scholars like T. Pogge. The former argues that business ought to only respond to the interest of stockholders because that's what they exist for and what they have expertise on. The later, contends that we cannot expect corporate behavior to be such that it will contribute to poverty alleviation. He argues that modifying global institutions is the key to poverty alleviation. This paper will furthermore attempt to show that improvements in this area do not have to necessarily arise out of a significant economic burden for corporations, thus leading to win-win situations. In fact, "in the last decade there has been a growing body of evidence that pioneering companies that actively manage their impacts on sustainable development have better financial performance."[1]

To reconcile the positions taken by authors at both ends of the ideological spectrum, case studies will be taken to exemplify how appropriate Corporate Social Responsibility strategies can actually contribute to poverty alleviation at the same time that they push for reforms in the way the global institutions currently work. In fact, taking into account that institutions are no more than a set of rules, a framework for firms and

[1] Commission on the Private Sector and Development. Unleashing Entrepreneurship: Making Business Work for the Poor. New York: United Nations Development Programme, 2004.

individual agents to act, the adoption of conscious and realistic CSR behaviors can be the application of a parallel set of rules to govern firm's and individual's behaviors. Ultimately, and due to proper allocation of economic incentives, CSR can have the potential to work for both, the benefit of firms and the benefit of the poor.

Introduction

During the last twenty-five years, the world has witnessed a change in the way firms do business that it had never seen before. Prior to this time, the flourishing of new technologies, the deregulation of many markets in the developed world, and the abundance of cheap commodities, generated a booming bubble in which multinational corporations sought and captured tremendous opportunities for growth. The main concern for many –if not for all- was to simply improve the bottom line and generate as much revenue as possible. In an article on The New York Times Magazine in 1970, Milton Friedman argued that "In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom."[2]

Currently, the picture has changed. Most reputable firms no longer focus solely on the importance of making profits and only responding to their shareholders. Corporations

[2] "The Social Responsibility of Business is to Increase its Profits, by Milton Friedman." University of Colorado at Boulder. 12 Apr. 2009 <http://www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html>.

are now increasingly concerned about the way their operations around the world are viewed and how these affect others beyond the scope of the firms themselves; in particular those with low resources in developing countries. As a consequence, many corporations have become more inclusive in terms of the stakeholders they respond to. For instance, NGOs, the United Nations and many governments are somewhat involved and have limited but crucial input in many of the decisions that businesses make these days. "Companies are not only pressured by government, which adopts corporate governance regulations forcing codes of conduct on businesses, but also by public opinion galvanized by civil society…"[3]

It can be argued that the increased ease consumers have to know about businesses' activities has been the main factor that has pushed corporations to engage a greater array of stakeholders in their business operations. One of the vectors that facilitate this access to knowledge has been the television, and more recently, the Internet. The flow of information that is transmitted from different corners of the world to the stakeholders of corporations put these under stricter scrutiny when it comes to being responsible for their actions within the scope of a social contract between the private and the public sectors.

As a consequence of this greater level of standards to hold the for-profit sectors of society accountable for their actions, the term Corporate Social Responsibility has been coined into the operations of businesses. "Historically, interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and

[3] Commission on the Private Sector and Development. Unleashing Entrepreneurship: Making Business Work for the Poor. New York: United Nations Development Programme, 2004.

within academia."[4] In the present, most of the world's biggest corporations have, in one way or another, adopted a policy that responds to an agenda related to social responsibility. Frequently, the motives of these agendas can be questioned; however, whether they are implemented to merely improve brand image and increase profits or not, these firms have had and continue to have a huge impact in the countries and communities they operate in.

What is Corporate Social Responsibility? How good is good enough?

The definition of Corporate Social Responsibility we adopt will generally depend on the firms and issues we are trying to apply it to. For instance, CSR in a multinational corporation that has a large portion of its supply chain outsourced to China will most likely involve issues of Human Rights; including appropriate workplace health and safety regulations, adequate wages, and fair labor practices. For an energy firm, CSR might mean focusing on environmental practices that are sustainable. A pharmaceutical corporation might desire to put emphasis on the cost of medicines in developing countries or in research and testing techniques with animals.

The examples above show the obvious but necessary relationship that exists between the nature of a business and the practices they engage in to maintain a degree of social responsibility. However, and as noted by the examples abovementioned, these are only pockets of the overall society in which companies should act. How, then, can one describe a corporation as being socially responsible? Kotler and Lee argue that

[4] "Corporate social responsibility -." Wikipedia, the free encyclopedia. 4 Apr. 2009 <http://en.wikipedia.org/wiki/Corporate_social_responsibility>.

"Corporate Social Responsibility is a commitment to improve community well-being though discretionary business practices and contributions of corporate resources." They further establish that "a key element of this definition is the word *discretionary."*[5] In pointing this out, they imply that firstly, corporations adopt CSR practices voluntarily -there is no law that mandates them to do so- and secondly, they also specify that corporations have the freedom to choose which area or issues of society to engage in. Some corporations are more aggressive in only responding to stockholders and others are more aggressive in responding to stakeholders other than shareholders.

Many others offer several diverse definitions of CSR. Among them are the World Business Council for Sustainable Development and the organization Business for Social Responsibility. The former defines it as "Business' commitment to contribute to sustainable development, economic development, working with employees, their families, the local community and society at large to improve their quality of life." The later take a somewhat broader approach and envisions it as "operating a business in a manner that meets or exceeds the ethical, legal, commercial, and public expectations that society has of that business."[6] Often times, societies indeed expect businesses to be accountable for the actions that negatively affect those already disadvantaged, thus applying pressure on certain kinds of behavior.

Regardless of which definition we believe is more appropriate or which one embodies the bigger number of considerations, there is no doubt that companies are socially responsible in certain areas, but not very responsible in others. For instance,

[5] Kotler, Philip. Corporate social responsibility doing the most good for your company and your cause. Hoboken, N.J: Wiley, 2005.
[6] Ibid

Nike might care about the Human Rights and working standards of the employees working for its suppliers; however, does it care about the waste and environmental consequences of their operations? This kind of consideration is also crucial, for if a firm negatively affects society –especially the poor-, there might also exist a moral argument for compensating those who suffer from the firm's activities. "So the question now is, how much a must company do in order to be deemed socially responsible? Joel Makower believes that "social responsibility is less programmatic than philosophic. It stems from a deeply held vision by company leaders that business can and should play a role beyond making money."[7] He bases this argument on the idea that the actions of companies have noticeable effects on their stakeholders as much as on their shareholders. "Therefore, a company's goals, missions, and policies must take into account this entire range –the stakeholders- of constituencies. So, having one or more commendable programs doesn't make a company socially responsible unless those programs are part of a larger vision."[8]

Rober Dunn, vice president of corporate affairs at Levi Strauss at the time Makower's work was published argued that "there is an obvious difference between window dressing and serious commitment." Other proponents of CSR practices have put forward the idea that those practices are a double edge sword. While indeed, these practices can truly contribute to the economic improvement of the communities in which companies do business, they can also merely serve as a brand image enhancer without having an overarching purpose. Dunn further suggests that in order to deem a corporation as socially responsible, making the following consideration is essential: "when you look at the process they use to make major decisions, is there some kind of impact analysis? If

[7] Makower, Joel. Beyond the bottom line putting social responsibility to work for your business and the world. New York: Simon and Schuster, 1994.
[8] Ibid

there isn't then it means nothing. It just looks good on an annual report or for PR purposes."[9] If this is the case, then what we are observing as social stakeholders of the company are cases of social marketing and not Social Corporate Responsibility.

The Case for Corporate Social Responsibility

Often times, many the individuals who have the right principles and ideals to advocate for morally and pragmatically adequate business behaviors, do not necessarily have the know how to implement them. For instance, there exist numerous NGOs and other organizations with mission statements that have the potential to substantially contribute to alleviating poverty; however, the inability to put these mission statements into practice leaves these organizations with nothing more than philosophical and impractical ideas. In general, this is due to an under or overestimated goal-setting approach coupled with a misallocation of economic incentives.

The way in which for-profit organizations work, and especially big ones, is through strategy, pursuing one basic goal: the constant improvement of the bottom line, which is to persistently achieve bigger revenues. The ways in which this goal can be achieved varies depending on the strategy of every particular company. This is possible because firstly, the human capital necessary to do that work is available and secondly, because those individuals are highly rewarded to do so. Elliot Hoffman, CEO of Just Desserts stated: "I really believe that business has to play a larger role in changing our

[9] Makower, Joel. Beyond the bottom line putting social responsibility to work for your business and the world. New York: Simon and Schuster, 1994.

society. Business people know how to get things done. We tend to think outside the box. We need to bring that creativity to our community."[10]

In an article featured in *The Economist* of May 26, 2005, Ian Davis, stated that "The problem with 'the business of business is business' mindset is [sic]… that it can blind management to important realities. Social issues are not so much tangential to the business of business as fundamental to it. Social pressures can operate as early indicators of factors core to corporate profitability: for example, the regulation and public-policy environment in which companies must operate; the appetite of consumers for certain goods above others; and the motivation of employees."[11]

Davis's statement above, directly tackles the reasons for using Corporate Social Responsibility as a tool for poverty alleviation. He believes it to be not only a tool companies can take advantage of to improve their image, but also as a catalyst to pursue

new opportunities and be ahead of the game with regard to public demands. Such demands can proceed from governments or other entities with comparable authority; however, the main concern lies on the tastes and preferences of consumers who are the ones responsible for the existence of the company in the first place. Indeed, consumers are one of the stakeholders with the most power to influence companies' decision-making processes. "Survey data suggests that up to 90% of consumers consider corporate responsibility in their purchase and consumption behaviors."[12] This does not necessarily mean that all consumers are poor, but rather, that the application of CSR policies by firms is positively viewed by those who will be purchasing their products; thus putting pressure

[10] Makower, Joel. Beyond the bottom line putting social responsibility to work for your business and the world. New York: Simon and Schuster, 1994.
[11] Lodge, George C. Corporate solution to global poverty how multinationals can help the poor and invigorate their own legitimacy. Princeton, NJ: Princeton UP, 2006.
[12] Oxford handbook of corporate social responsibility. Oxford: Oxford UP Inc., 2008.

from the bottom. Here, as argued before, it shall be pointed out that it is the action of individual agents and firms acting as agents that will ultimately change the global institutions.

In sum, the relation between the nature of businesses (profit making) and the poor is not as dysfunctional as it looks on the surface. On one hand, "businesses can gain three important advantages by serving the poor –a new source of revenue growth, greater efficiency, and access to innovation."[13] On the other hand, the poor can have access to tangible and intangible benefits –capital to develop entrepreneurial projects, goods and services they need for improving their lives, and the know-how that often times ill states cannot provide.

Empirical Evidence of CSR applications

The following section of this paper will take case studies of Corporate Social Responsibility in order to serve as an illustration of the topic. These will be selected based on the social issue they are related to, which, as a consequence, will lead to a selection of specific companies. This is so because CSR practices tend to be closely related to the nature of the particular companies implementing them. "Typically, the more closely tied a social issue is to a company's business, the greater the opportunity to leverage the firm's resources –and benefit society [being poverty alleviation on of the ways in which CSR can benefit society]."[14]

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[13] Crane, Andrew, Dirk Matten, and Laura Spence, eds. Corporate Social Responsibility Readings and Cases in a Global Context. New York: Routledge, 2007.

[14] Porter, Michael E., and Mark R. Kramer. "Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility." Harvard Business Review (2006).

The three categories chosen to group CSR cases are a) income as a function of worker's rights, b) access to medicines or access to health, and c) the power of entrepreneurship. These issues were selected over others firstly because they are narrow in scope and concrete enough that one can easily identify them as such when depicted on an annual report or evaluation performance reports; secondly, because under the considerations of this author, these issues are at the root of many other social issues, thus increasing their importance. Critics may argue that this arbitrary selection is not fair and would like to see issues such as education included; however, this one was purposely left out because it actually is included, indirectly, in all three of the selected ones.

Income as a function of Worker's Rights

The improvement of income levels across borders is primarily what drives reduction in poverty. This is so because we almost always measure poverty as a function of income. For instance, the World Bank has the $1 ($1.25 to be precise) a day and $2 a day poverty levels. The former captures all the individuals in extreme poverty; the later, those in moderate poverty. This is a standardized and pragmatic way of measuring poverty, which provides a uniform and rather universal tool.

"It should be recalled that most poor people believe their poverty is reduced much more by increases in income derived from employment and self-employment than through reduced costs of consumer goods." "To be sure, big companies are exhorted to make available more goods and services at lower costs to the poor masses in developing countries." "Although vaccinations for children, improved maternal health care, and better roads help, jobs and direct income are the surest, most direct way to alleviate poverty."[15]

One of the ways in which the creation of jobs is usually achieved in the developing world is by foreign direct investment and the flow of capitals [machinery, tools and know how] from aboard; however, this merely accounts for the jobs created to satisfy the needs of that specific investment. What is to be done with regard to other stakeholders that are also affected by the operations of the company but in a not-so-direct way?

A great example of a successful CSR policy that not only brought about good to stakeholders of the firm, but also to its suppliers, the environment and their customers, is Starbucks. "Starbucks is another (Wal-Mart was the one) iconic company, successful beyond the wildest dreams of its founders… They both symbolize the growth of the service sector."[16] Both of these companies employ thousands of individuals around the globe, and they further generate jobs though their suppliers. Nonetheless their reputations for CSR practices are not even remotely comparable. While Wal-Mart has traditionally been accused of all kinds of abuses, Starbucks has been praised for its approaches towards trade and labor policies.

Due to the nature of their industry, "it is easy in labor-intensive service business to skimp and save on wages and benefits, producing a cadre of poorly paid and discontented employees whose plight attracts public sympathy. By aggressively pro-environment and pro-labor policies, Starbucks avoided all of these risks almost from the

[15] Lodge, George C. Corporate solution to global poverty how multinationals can help the poor and invigorate their own legitimacy. Princeton, NJ: Princeton UP, 2006.
[16] Heal, G. M. When principles pay corporate social responsibility and the bottom line. New York: Columbia UP, 2008.

outset."[17] Indeed, the brand image of Starbucks is a reputable one almost anywhere in the world and its value is estimated to be $28 billion.

When considering stakeholders, Starbucks has many. Its coffee suppliers represent some of the most important ones. "Beginning in 2000, Starbucks worked with Conservation International (CI) and a group of coffee growers near the El Triunfo Biosphere Reserve in Chiapas, Mexico, teaching growers how to grow coffee in ways that were relatively environmentally benign and also met Starbucks' quality standards."[18] As mentioned before on this paper, education was also an integral part of the program to improve income, hence not making it a separate social issue.

"The payoff to farmers from adopting the new standards was that they would win the right to sell beans to Starbucks at prices representing a considerable premium over what they would otherwise be paid."[19] This is a crucial point in the way firms make business, for it completely shifts the scheme of economic incentives. In the original situation, the costs of growing coffee and the revenues perceived by farmers led to externalities such as low wages and environment damage. The new program makes it more attractive to cultivate shaded-grown coffee, which in fact, costs less to grow and sells for more, thus yielding a higher margin to farmers. As a consequence, these are more likely to consume goods and services they were not able to consume before; being some of them education and health services.

The key of how this strategy turned to be successful is that Starbucks managed to eliminate intermediaries in the distribution chain. In most cases, the middleman is the one who makes the most money, for his only task is to connect supply and demand. "From

[17] Heal, G. M. When principles pay corporate social responsibility and the bottom line. New York: Columbia UP, 2008.
[18] Ibid
[19] Ibid

2000 onward Starbucks shifted more and more of its coffee purchases to channels that ensured that a relatively large fraction of the final purchase price reached the growers, by purchasing directly from growers or their cooperatives. Within three years, by 2003, growers were getting an average of 87 percent more than the local price for their beans and production of green coffee had increased 300 percent. Both the environment and the local growers were better off as a result"[20]

While the picture above illustrates a success story for CRS practices affecting multiple stakeholders of a corporation; not everything is as pretty as it looks. Recently, Starbucks has been criticized for utilizing the power of globalization as a tool to destroy small businesses. These businesses are mainly Starbucks' competitors which, due to economies of scale, cannot compete directly with the American corporation. Many agree that buying up small and traditional coffee shops to replace them with Starbucks franchises does not represent an ethical attitude toward doing business, for these actions are likely to contribute to the detriment of communities. It may as well be the case that the critics are mainly hanged up on the concern that globalization will eventually eradicate a significant fraction of the different cultures of the globe. Whereas this is a legitimate concern, it also appears to be a rather weak argument against current CSR practices by stating that "Starbucks creates the illusion of ethics."[21]

In any case, it is already known by our previously accepted definition of CSR, that companies can exercise a significant discretionary power to choose which CSR practices they engage and which ones will make more sense for both its own stake and the stake of society. In this particular situation, I would regard the CSR approach as a

[20] Heal, G. M. When principles pay corporate social responsibility and the bottom line. New York: Columbia UP, 2008.
[21] LeFort, Clinton R. "Social Responsibility of Starbucks." Bizcovering: Covering The World of Business. 2 Apr. 2009 <http://bizcovering.com/major-companies/social-responsibility-of-starbucks>.

positive and relatively large success from the point of view of both the firm and its stakeholders.

Lastly, it is also relevant to mention that Starbucks' CSR strategy is almost perfectly in line with Thomas Pogge's ideals for fighting world poverty and stopping Human Rights abuses. He argues that these issues are to be fought by changing the way the global institutions work, and that this should be achieved by the implementation of negative duties. That is to say that we have an obligation to not do harm. "As ordinary citizens of the rich countries we are deeply implicated with these harms." "We purchase what our firms produce out of such resources [the ones they obtain through immoral business practices] and thereby encourage them to act as authorized."[22] It follows from this, that consumer pressure on firms is one of the key way to implement our negative duties to change global institutions in a positive way. This author's argument will only differ from Pogge's on its implementation. While I believe changing the global institutions will come from the bottom, from individual and corporate change in behavior, Pogge assumes a change in the global institutions will actually need to happen as a prerequisite for a change in individual and corporate behaviors.

Access to Medicines, Access to Health

The issues that revolve around the pharmaceutical industry are very tricky ones. For instance, one of the main debates is concerned with whether pharmaceutical companies should provide access to medicines or access to health as their CSR strategy. The premise behind this questioning is that often times simply providing medicines that

[22] Pogge, Thomas W. World Poverty and Human Rights. 2nd ed. Malde, MA: Polity P, 2008.

cure is not the most effective way to tackle health problems in developing countries. As an analogy, access to medicines is to access to health, like treating a fever is to treating the infection that might be causing the fever. It is imperative to make a distinction between problems and symptoms.

"What is the (true) socially responsible policy the pharmaceutical industry should adopt? Unquestionably, the industry has to put patient welfare clearly above profits… Without this, it will lose the support of the public and governments, which will cost it and its shareholders very dearly in the long run."[23] While from an ethical perspective this is the right way to prioritize the issues at stake, it must also be considered that doing so will, most certainly, lead to a "corporate suicide." Indeed, profits sustain the present and future operations of businesses; however, the problem does not lie on the profits themselves, but rather on the justification for their size.

"The pharmaceutical industry has done well and done good –but it has also behaved badly and stupidly. It has not understood that you cannot price life-saving medicines like you price autos or air travel: too much is at stake and it is politically unacceptable that people would die or suffer only because of their income levels."[24] In fact, it is not only politically unacceptable to economically perceive benefits at the expense of human lives; it simply is morally deplorable.

Many might find explanations that can justify the absurd profitability of pharmaceutical companies by pointing out that "we [society at large] have progressed to the point where most people today expect that if they are sick, there is a pill that will

[23] Heal, G. M. When principles pay corporate social responsibility and the bottom line. New York: Columbia UP, 2008.
[24] Heal, G. M. When principles pay corporate social responsibility and the bottom line. New York: Columbia UP, 2008.

make them better and are surprised and disappointed to hear otherwise."[25] However, by this criterion, we could even argue that a lot of pharmaceutical firms are perfectly socially responsible because they have provided a large contribution on their side of the social contract. We are nonetheless certain that not everybody has equal access to those benefits.

A firm that has and continues to serve as the role model for a sound and effective CSR policies is the Danish pharmaceutical Novo Nordisk. This is a company that focuses on the development of diabetes pharmaceuticals and the techniques to apply them in ways that improve the lives of those suffering diabetes. The way in which the company does business is very different from the way many of its competitors do. As a matter of fact, the firm's Annual Report for 2007 states: "Novo Nordisk is committed to sustainable development and balanced growth"[26] and unlike most of its competitors,

Novo Nordisk adopts the Triple Bottom Line (TBL) for its annual reporting. "The concept of TBL demands that a company's responsibility be to stakeholders rather than shareholders. In this case, 'stakeholders' refers to anyone who is influenced, either directly or indirectly, by the actions of the firm. According to the stakeholder theory, the business entity should be used as a vehicle for coordinating stakeholder interests, instead of maximizing shareholder (owner) profit."[27]

In Novo Nordisk's bottom line, not only traditional financial reporting is included. The triple bottom line also reports on the impacts of the firm's activities in the society as a whole and on the environment. "Any decision should always seek to balance

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[25] Ibid

[26] Novo Nordisk Annual Report: Financial, Social, and Environmental Performance 2007. Rep. Copenhagen: Novo Nordisk, 2008.

[27] "Triple bottom line." Wikipedia, the free encyclopedia. 1 Apr. 2009 <http://en.wikipedia.org/wiki/Triple_bottom_line>.

three considerations: is it economically viable? Is it socially responsible? And is it environmentally sound?"[28] This is, with no doubt, compliant with some of the most strict definitions of CSR which, as pointed out before by Joel Makower, require the existence of a impact analysis for every major decision companies make. "To accelerate growth and minimise environmental impacts. To earn competitive returns and contribute to economic prosperity for society. These are the cornerstones of the Triple Bottom Line principle upon which we build our business."[29]

Now, the goals and approaches described above have been quoted directly from documents the firm has produced for reporting purposes and while this denotes the character of the company, it also can just be a branding and marketing strategy.

Novo Nordisk's CSR program embodies a lot of the activities in which the firm engages. At the same time, these have a tremendous impact on its stakeholders and communities in which it operates. The firm's "Changing Diabetes" program is the key and central element of its approach to strengthening its relations with society. The way in which this program is implemented is through increased awareness about the existence of diabetes, education on the factors that increase the risk of developing it, training of professionals in impoverished communities, and the implementation of a price system that takes into account the differences in earnings of patients.

Currently, the trends in global socioeconomic status indicate that approximately 1.2 billion individuals will belong to middle class by the year 2025, which means that (holding everything else constant) roughly 380 millions of those will suffer from

[28] Novo Nordisk Annual Report: Financial, Social, and Environmental Performance 2007. Rep. Copenhagen: Novo Nordisk, 2008.
[29] Novo Nordisk Annual Report: Financial, Social, and Environmental Performance 2007. Rep. Copenhagen: Novo Nordisk, 2008.

diabetes.[30] Furthermore, it is also known that roughly one half of those will have the means to effectively be tested and treated for diabetes, and here is where the Novo Nordisk commitment to being socially responsible comes into play.

The education aspect of Novo Nordisk's "Changing Diabetes" initiative is a key element of their CSR program. Partnering with governments, NGOs, universities, healthcare providers and diabetes associations, the firm provides most of the know-how as well as the financial resources these need in order to better inform individuals about diabetes. Roughly 50% of the people who have diabetes do not even know they have it, and early diagnose is key because it can significantly improve their health (and therefore life prospects) in the future.

The lack of knowledge about diabetes costs an estimated $2.4 billion (US dollars) to the government of India. That is roughly 1.9% of their GDP, which "amounts to a productivity loss of 497 dollars per individual with diabetes, equivalent to around half of India's per capita GDP."[31] It is evident that taking into account the basic economic concept opportunity cost, India could be utilizing those dollars to build schools or roads, fund social programs, or improve access to drinking water (all of which contribute poverty alleviation almost directly). In 2008 alone, the World Diabetes Foundation, sponsored by Novo Nordisk, reported that "2,876,565 people have been tested for diabetes;" and that it had "supported the 14,433 doctors, 12,835 nurses, and 27, 852 paramedics"[32] In addition to this, the company set up a bus in 2006 which has been on a

[30] Eli Lilly and Company: Investment Community Update. Rep. Eli Lilly and Company, 2008
[31] Novo Nordisk Annual Report: Financial, Social, and Environmental Performance 2007. Rep. Copenhagen: Novo Nordisk, 2008.
[32] Ibid

world tour with the mission of stopping at universities, parliaments, city halls, and town squares to disseminate education on and get people tested for diabetes.

The Scandinavian firm is also aware that most of the times diagnosing a condition is only the first step to improve an individual's life. As Amartya Sen puts it in his book "Development as Freedom" there exist barriers that make it impossible for individuals to translate their capabilities into functionings. This is to say that merely having the opportunity to pursue something does not necessarily mean that something can be pursued. In this particular case, being diagnosed with diabetes does not necessarily mean that one will be able to treat it and control it.

Taking into account that around 80% off all diabetes cases affect individuals in the least developed nations of the world, one of the main barriers that prevents people from being treated once they are diagnosed is, essentially, the cost of the medicines

themselves. In order to contribute to eliminating the barrier, the Scandinavian firm has adopted a differentiated price program that attempts to make insulin more affordable. "In 2007, Novo Nordisk offered its best possible pricing scheme, as part of the global health initiatives, to all 50 Least Developed Countries (LDCs) as defined by the United Nations. During 2007 Novo Nordisk sold insulin to either governments or to the private market in a total of 36 of the LDCs at or below a price of 20% of the average prices for insulin in the western world, compared to 34 in 2006"[33] This is still above the cost of production. Note that the firm still needs to provide for R&D and also for shareholders, as it is publically listed in American and European markets.

[33] "Access to Health - Best Possible Pricing - Novo Nordisk A/S." Novo Nordisk A/S. 6 Apr. 2009 <http://www.novonordisk.com/sustainability/values_in_action/Access_to_health_subsites/Best_possible_pricing.asp>.

Overall, most of the major corporate decisions made by Novo Nordisk have been proven to abide by UN resolutions and attempt to improve the access to not only medicines but also to health services as a whole, these approaches are in line with the most rigorous CSR definitions. However, most of the facts presented for this case are directly provided by Novo Nordisk itself and therefore require external auditing to gain credibility. In fact, the annual report also includes a section in which an external firm audited the non-financial results and expressed that "based on our review, nothing has come to our attention that causes us not to believe that the non-financial information in the Annual Report of Novo Nordisk for the financial year 2008 is free of material misstatements and has been presented in accordance with the non-financial accounting policies"[34]

Again, this is an illustration of how Pogge's argument could realistically be put into practice. The behavior of the Danish firm needed not of any major institutional change as a prerequisite. In fact, the behavior created a parallel way of conducting business with the poor, while still responding to the interest of the firm's stockholders.

The Power of Entrepreneurship

Often times the reason individuals cannot break out of the vicious cycle of poverty is because they do not posses the applicable skills that are needed in the places they reside. For instance, it is rather impractical to train a farmer in rural Bolivia on something like English Common Law, for he or she will not be able to immediately

[34] Novo Nordisk Annual Report: Financial, Social, and Environmental Performance 2008. Rep. Copenhagen: Novo Nordisk, 2009.

benefit from it given his or her resources. Instead, that individual could acquire knowledge that would serve him as a tool to better take advantage of the resources currently available to him, thus rapidly increasing his income and ultimately improving his life standards. The transfer of knowledge and development of entrepreneurial opportunities in poor communities is usually a very good way to trigger development and reduce poverty.

In March 2004, the Commission on the Private Sector and Development of the UNDP released a report that denotes the importance of entrepreneurial activities of the private sector as a tool to alleviate poverty. "Entrepreneurship encompasses the actions of small, informal village-based individuals as much as it does that of the managers and innovators in multinational corporations and large local companies."[35] By establishing this connection between large and small scale businesses, the report reaffirms that the

same basic entrepreneurial skills can and are applied in multiple scenarios. Unquestionably, the know-how of how to run a big business can be applied to running small business. One of the most notorious cases of entrepreneurship development actually originated from a barrier a multinational corporation found to do business in a developing country.

The Coca Cola Company is a global brand that operates in more than 200 countries around the world and has a strong business model to which they stick because of its long lasting success throughout the history of the company. This model consists of having the headquarters of the company produce the syrups that later on are transformed in products at independent bottling companies. These bottlers are located in different

[35] Commission on the Private Sector and Development. Unleashing Entrepreneurship: Making Business Work for the Poor. New York: United Nations Development Programme, 2004.

regions of the world and they represent the backbone of Coca Cola's business. At the same time, the products reach the final consumers through the distribution channels established by the bottlers in each of their markets.

While doing business in Sub-Saharan Africa has already been profitable for the company, Coca Cola wanted to know how it could expand its business. This came to a reality through the implementation of what it is now one of its main CSR programs: "Coca Cola Global Community Connections." Through this program, Coca Cola saw an opportunity to do business while being socially responsible. The firm created what they call Manual Distribution Centers and applied it to markets that were hard to access. "The MDC model identifies and engages independent entrepreneurs that distribute and sell our beverages in small specific geographical areas. MDCs are typically located in areas where a lack of stable roads and infrastructure makes it difficult for delivery trucks to travel, which helps our Company secure hard-to-reach markets while creating wealth and job growth in those communities."[36]

The reason why the Coca Cola entrepreneurship program works is because it provides the "freedoms" –as Sen would put it- that enable individuals to participate in the economy of their countries. It makes it possible for poor people to transform their capabilities into functionings, thus improving their life prospects. "Even with strong macroeconomic and institutional foundations, three additional factors are indispensable for entrepreneurship and the private sector to flourish in an economy: a level playing field, access to finance, and knowledge and skills."[37] In the context of Coca Cola, the

[36] Act. Inspire. Make a Difference. A dialogue of Progress and Possibility. 2008/2008 Sustainability Report. Rep. Atlanta: The Coca-Cola Company, 2009.
[37] Commission on the Private Sector and Development. Unleashing Entrepreneurship: Making Business Work for the Poor. New York: United Nations Development Programme, 2004.

CSR policy is targeting these unfreedoms by mainly removing the lack of skills of how to run a business and the lack of capital to start up an MDC.

The results of empowering individuals with knowledge and financial resources translate in great benefits, not only for the individuals themselves but also to those people they will employ in their distribution centers. The spillovers of this system actually go beyond the situation of an individual at a particular time. Higher and more secure earnings will likely translate in the improvement of the lifestyles of entire families. It will most likely give the younger generations an insight into how improving their human capital yields great benefits, thus putting a higher value on education as well. Leave aside the positive psychological effects that people perceive by earning their own income as opposed to receiving it from somebody else. "I have been a Coca-Cola distributor for the last 15 years and can attest to the fact that this business has improved my standards of living. I drive, travel, own a home and make investments courtesy of my soda business…Distributing soda has given me profit!"[38] To measure the performance of the program in numbers, Coca-Cola states that "approximately 1800 small distribution businesses have been formed creating direct employment for more than 7500 people and generating more than $500 million in revenues, primarily in high-density urban areas throughout East Africa, including Ethiopia, Kenya, Mozambique, Tanzania and Uganda."[39]

As with other examples of CSR and poverty alleviation, this story is not all successes. There also exist a series of drawbacks to implementing programs similar to this one. Firstly, the size of the Manual Distribution Centers is usually not very

[38] "Coca-Cola: Creating jobs, spreading wealth, making a difference." Business Daily 13 Nov. 2008.
[39] Act. Inspire. Make a Difference. A dialogue of Progress and Possibility. 2008/2008 Sustainability Report. Rep. Atlanta: The Coca-Cola Company, 2009.

significant and entrepreneurs cannot internalize the benefits that economies of scale would yield, leaving them with margins that are not as substantial. And secondly, due to largely irregular and inefficient legal frameworks, setting up and properly managing a business in Sub-Saharan countries –or in most of the developing world for that matter- is rather costly, both in terms of time and money.

While in this case Pogge's main argument is not directly observable, there is also another case for reconciling approaches like his, and those of businesses' advocates like M. Friedman. In fact, by developing Manual Distribution Centers, The Coca Cola Company has been able to further grow in the African market, while also improving the living standards of those involved in its distribution channels. The firm perceives higher revenues from a larger consumer base and the entrepreneurs receive the know-how necessary to manage inventory and ultimately perceive an increase in their incomes which can be translated into health and education services.

The relation between CSR policies and Profitability

The main concern with using CSR strategies that could have a noticeable impact on poverty reduction is that it will only do so by sacrificing the responsibility firms have toward their stockholders. Implementing CSR programs can be significantly costly if these don't actually form part of the overall firm's strategy. Often times, the CSR programs of firms are, in general, carried out through foundations they set up to exclusively do so. However, the best CSR practices strategically form part of the overall business of the firm, as established before in this paper.

The results of a study conducted by Orlitzjy, Schmidt, and Rynes in 2003 concluded that "in general, reputation measures of CC [corporate citizenship, a broader term than CSR] were better predictors of CFP [corporate financial performance] than social-audit disclosures, and the economic impact of CC was stronger on accounting measures than market measures of a firm's economic performance."[40] Essentially, this means that the way in which stakeholders view corporations greatly affects their financial performance; even more than annual reports on CSR. This reiterates the case for actually implementing CSR strategies. It is obvious now, that CSR strategies can be used to reduce costs, expand markets, and appeal to a larger consumer base.

<u>Conclusions</u>

It has been pointed out that there is huge potential for firms to have a positive impact in the lives of the world's poorest citizens. The case studies show that the CSR strategies needed to fight poverty (and improve living standards) are not necessarily an economic detriment to the firms implementing them:

1) Starbucks managed to first, reduce coffee production costs, even when paying a premium price to farmers, and second, it has also managed to improve the brand image as perceived by its customers.

2) Novo Nordisk's CSR practices work toward poverty alleviation in multiple levels. They promote education about the condition, they provide poor individuals with free testing and diagnoses, and they provide a discriminated price scheme for those who cannot afford "western prices" of the drugs. These strategies provide a likely loyal and informed to-be-customer base, which will ultimately be acquiring drugs from the firm.

[40] <u>Oxford handbook of corporate social responsibility</u>. Oxford: Oxford UP Inc., 2008.

3) Coca-Cola's entrepreneurship program though the creating of Manual Distribution Centers provided the firm with access to new and broader markets while it also provided the poor of those markets to improve their income and overall standard of living.

Clearly, neither M. Friedman nor Thomas Pogge consider the potential that CSR has to contribute toward poverty alleviation (if not for eradication). By placing their positions in opposite ends of the ideological spectrum, they underestimate the power the other side has on theirs. That is, how businesses can help the poor and how the poor can mean opportunities for those businesses.

Clearly, there is a long way to go before these positions are reconciled, and also the way in which CSR practices are measured has yet to be standardized. However, there is clear evidence (some of it presented in this work) that both groups could greatly benefit from each other, thus not making poverty alleviation and "issue that costs."

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