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Abstract:

The "justice of markets" is intricately connected to the treatment of the poor and the disadvantaged in market economies. The increased interest of multinational corporations in low-income market segments affords, on one hand, the opportunity for a more inclusive capitalism, and on the other, the threat of greater exploitation of poor and disadvantaged consumers. This article traces the contributions of Catholic Social Teaching and its basic principles toward providing insight into what constitutes "justice" in such "marketing to the impoverished" situations.

Keywords: Catholic Social Teaching, economic development, impoverished market segments, inclusive capitalism, justice in the marketplace, marketing and society.

Introduction

In recent years, there has been an increased interest on the part of multinational corporations (MNCs) in low-income markets (also characterized as the "bottom-of-the-pyramid" or "base-of-the-pyramid" market), particularly those in developing countries. Examples of major global corporations that have ventured into the low-income market include *Unilever* (Prahalad, 2005; Rangan et al., 2007), *Cemex*

(Prahalad, 2005; Segel et al., 2007), *Kodak* (Dikkers and Motta, 2007), *Nestlé* (Simonian, 2006), and *Proctor and Gamble* (Silverman, 2006). The minimal economic involvement displayed by big businesses historically in the low-income segment was largely due to this segment being perceived as unprofitable because of their limited purchasing power (Prahalad, 2005). Thought of in classic "definition of a market" terms, the poor may have the *desire* to purchase but they simply lacked sufficient *ability* to buy.

The impetus for multinational corporations to market to the poor was largely provided by analysis demonstrating that there was now an emerging profit potential in low-income markets. The first such comprehensive argument was provided by Prahalad and Hart (2002). With the help of case examples, they argued that low-income markets provided big companies the opportunities of amassing their fortunes as well as bringing prosperity to the world's poor. In a later work, Prahalad (2005) claimed that the collective fortune to be made at the bottom of the pyramid (BOP) was in the vicinity of $13 trillion. A recent study conducted by the World Resources Institute and the International Finance Corporation supports the view that there is a considerable economic potential at the bottom of the pyramid (Hammond et al., 2007). With saturation experienced in servicing many high-income and middle-income markets, as well as excess production capacity, the proposition of a profit possibility in the low-income market is likely to be increasingly attractive to multinational corporations.

While the interest of multinational corporations in the low-income market segment is a recent phenomenon, there has been periodic business involvement with low-income consumers for many years. Along with this, there has been concern raised about a plethora of unethical practices accompanying marketplace transactions with low-income consumers. In what could perhaps be deemed as the first comprehensive presentation of some of these unethical practices, sociologist David Caplovitz (1967) shows how "the marketing system that has evolved in low-income areas is in many respects a deviant one in which exploitation and fraud are the norm rather than the exception" (p. xvii). Examples of exploitive practices in the low-income segment include predatory lending, tainted insurance, unconscionable labor practices, and exorbitant rent-to-own transactions (Grow and

Epstein, 2007; Hill et al., 1998; Karpatkin, 1999; Murphy et al., 2005; Young, 2006). While such exploitive practices take advantage of the vulnerabilities of the impoverished segment due to lack of financial resources, education level (Karnani, 2006), and even access to land (De Soto, 2000), they are also driven by the powerful desire of these consumers for better quality products and an improved quality of life (Caplovitz, 1967).

Simply stated, this involvement of multinational corporations in the low-income market affords, on one hand, the opportunity for a more inclusive capitalism, and on the other, the threat of greater exploitation of poor and disadvantaged consumers. We can be confident that as business organizations embrace the idea that the low-income market constitutes an economically viable market segment, it becomes critical that exchange situations that are directed toward such segments be shaped in a manner that is "fair" and "just" to both parties (i.e., the business unit and the consumer). This is particularly important in an impersonal economic marketplace that too often exploits the poor due to an "imbalance" of resources, information, or financial leverage on the part of the less advantaged member, typically the buyer.

The principles of Catholic Social Teaching (CST) offer a framework for a more equitable approach to marketing, particularly when directed to impoverished segments. In this article, we draw on these principles of CST to delineate some key characteristics of a "just" market. These principles are not presented in a sectarian spirit but rather with the idea that, as many business executives report drawing their moral inspiration from religious beliefs (Longenecker et al., 2004; McMahon, 1989; Singhapakdi et al., 2000), these precepts might provide insight into what constitutes economic justice in the marketplace.

Catholic Social Teaching

Catholic social teaching comprises the tradition of Papal, Church Council, and Episcopal documents that deal with the Church's response and commitment to the social demands of the gospel in the context of the world. While CST is rooted in scripture and founded on the life and teachings of Jesus, a generally accepted starting point of this tradition dates back to Pope Leo XIII's encyclical *Rerum Novarum* in 1891, a moral commentary inspired by several of the social abuses rooted in the Industrial Revolution. At the heart of the CST corpus are four principles that are referred to as the permanent principles of the Church's social doctrine (Catholic Church, 2004). These are: the dignity of the human person, the common good, subsidiarity, and solidarity.

While the four principles are interrelated and are intended to be appreciated in their unity, a foundational principle is that of the dignity of the human person (John XXIII, 1961). In fact, the whole of CST unfolds from this first principle (Catholic Church, 2004). Basically, what the Church affirms is that human life is sacred and human beings by virtue of being created in God's image (cf. *Gen* 1:27) have a certain "inviolable dignity" (Catholic Church, 2004, p. 50). This dignity is not something that is acquired by one's efforts, but rather, is a given. In other words, all human persons, regardless of race, color, and creed, possess an inherent dignity of being in the likeness of God, and therefore, righteously, should be accorded full respect.

The second principle, namely, the principle of the common good, in its broad sense, is understood as the social conditions that enable individuals or groups to attain their fulfillment more easily (Catholic Church, 2004; John XXIII, 1961, 1963; Paul VI, 1971; Second Vatican Ecumenical Council, 1965). A significant implication of the principle of the common good is the universal destination of goods. This implies that the goods of the earth have been given by God for all to use. Thus, all have a right to benefit from these goods. As CST points out, this does not mean "that everything is at the disposal of each person or of all people, or that the same object may be useful or belong to each person or all people" (Catholic Church, 2004, p. 76). However, it does mean that "each person must have access to the level of well-being necessary for his [or her] full development" (p. 75). While CST clearly upholds the right to private property, it also requires that all people have equal access to the ownership of goods (Catholic Church, 2004; John Paul II, 1991).

The third principle is that of subsidiarity. This principle "is among the most constant and characteristic directives of the Church's social doctrine" since *Rerum Novarum* (Catholic Church, 2004, p. 81). Basically, the principle of subsidiarity holds that "it is an injustice and at the same time a grave evil and disturbance of right order to assign to a greater and higher association what lesser and subordinate organizations can do" (Pius XI, 1931, p. 428). The word *subsidiarity* comes from the Latin *subsidium*, which means *help*. Thus, the principle of subsidiarity refers to helping or supporting others while respecting their initiatives and capabilities (Melé, 2005). In the organizational context, Alford and Naughton (2001) point out that "the operation of the principle of subsidiarity requires that power rest at the most basic level of production" (p. 103). A major implication of subsidiarity is that of *participation*, expressed as a series of activities through which individuals, either in their own capacity or in association with others, contribute to the various dimensions of life in the community to which they belong (Second Vatican Ecumenical Council, 1965). For example, the idea that workers are merely cogs in the production system or that expanded consumer markets are solely a mechanism for the achievement of profit marginalizes the role of other persons and their rightful participation in the economic system, and therefore, violates the principle of subsidiarity.

The fourth principle, namely, solidarity, affirms the intrinsic social nature of the human person and the awareness of the interdependence between individuals and peoples (Catholic Church, 2004). Solidarity is not just a "feeling of vague compassion or shallow distress at the misfortunes of so many people, both near and far. On the contrary, it is a *firm and persevering determination* to commit oneself to the *common good*" (John Paul II, 1988, p. 420). The term "solidarity," as used by the teaching authority of the Church, "expresses in summary fashion the need to recognize in the composite ties that unite men and social groups among themselves, the space given to human freedom for common growth in which all share and in which they participate" (Catholic Church, 2004, p. 86). An important requirement of the principle of solidarity is that of a greater awareness that all men and women are debtors of the society to which they belong. "They are debtors because of those conditions that make human existence livable, and because of the indivisible and indispensable legacy constituted by culture, scientific and technical knowledge, material and immaterial goods and by all that the human condition has produced" (pp. 86–87). In terms of marketing, solidarity suggests a spirit of partnership among buyers and sellers, consistent with the best executions of the marketing concept. Short term or one time exploitations of buyers are surely in violation of the solidarity principle.

CST and the U.S. market economy

While a number of main implications of *Rerum Novarum* (e.g., living wage and the right to unionize) were enshrined in U.S. public policy during the New Deal Reforms in the 1930s, it was not until the publication process for the *U. S. Catholic Bishop's Pastoral Letter on Catholic Social Teaching and the U.S. Economy* (1986) that the precepts of CST caught the attention of a critical mass of U.S. executives. The general notion, expressed in the U.S. Bishop's Letter, that business has an important role to play in job creation and the maintenance of a healthy economy was widely praised in business circles (Armacost, 1988). However, those business managers who took the time to read all or part of this CST-driven document, took strong exception to many parts of it. Besides questioning the economic competence of Bishops to opine on these matters, business leaders expressed marked reservations about the "preferential option for the poor" doctrine, which urged that businesses give special consideration to the impoverished when implementing actions or policies. Furthermore, the idea that an affluent economy is judged by how well it provides for its poorest citizens was widely scoffed at, based on a survey of former CEOs (Martin and Laczniak, 1989). The reaction of business academics to the Letter, included in outlets such as the *Journal of Business Ethics*, was decidedly mixed, with some praising the Bishop's observations (Bickham, 1988; Curran, 1988) and others strongly criticizing them (Palmer, 1988; Pines, 1988). Some analyses, such as Klein (1987), were thoughtfully evenhanded but probably undiscovered by all but a few business executives.

The CST discussion was once more briefly resurrected in the early 1990s with the promulgation of Pope John Paul's encyclical *Centesimus Annus* (CA), partly in honor of the 100-year anniversary of *Rerum Novarum*. Again, the principles of CST were revisited, and in conjunction with an earlier document *Laborem Exercens* (John Paul II, 1981), focused on promoting worker dignity (Zigarelli, 1993). The timing of the CA encyclical seemed not only chronologically but also contextually apropos given the emergence of "downsizing" and "outsourcing" as coping strategies to the challenges of burgeoning globalization. Various academic writings subsequently attempted to illustrate the value of CA as an actionable moral theory (Williams, 1993) as well as suggest that it held implications for the organizational work design via profit sharing, team management, ESOPS, etc. (Naughton, 1995; Naughton and Laczniak, 1993). One writer even opined that the normative recommendations of CA were highly consistent with the empirical findings of Collins and Porras (1994), described in their business bestseller *Built to Last*, a book that had captured the adulation of the business community; here, Abela (2001) contends that profit maximization, conceived as an *end* rather than a *means*, diminishes rather than enhances long-term business success – a fundamental message of CST and a basic lesson of *Built to Last*. Nonetheless, the acceptance of the precepts of CST for ethical business operation by the mainstream business community remains relatively muted (e.g., Marens, 2005).

The messages of CST continue to be proffered, albeit in dribs and drabs. For example, mostly under the radar of business, the Vatican Pontifical Council for Social Communications (1997) published a pamphlet on "Ethics in Advertising," derived from the principles of CST (see Laczniak, 1998 for a full discussion). There is even a Vatican document (Vatican Pontifical Council for Social Communications, 2002) concerning "Ethics in Internet" inspired by sundry Catholic social writings. As recently as September 23, 2007, Pope Benedict XVI, in his address before the Angelus, says, "Profit is naturally legitimate and, in just measure, necessary for economic development." However, Benedict also goes on to observe that the logic of profit and a more just distribution of goods in society – a mandate of Catholic social doctrine – are *not* in contradiction.

Nevertheless, this tension between an economic model that emphasizes "profit maximization," ala the thinking of economist Milton Friedman, and a more communitarian "ethic of greater wealth sharing" at the heart of CST, seems a central intellectual impediment to the widespread acceptance of CST principles by greater numbers of business executives (Cima and Schubeck, 2001). Despite that tension being a reality, it ought not prevent public policy analysts and progressive corporations from drawing upon CST to help inform their corporate mission statements and codes of ethics. It is interesting that when business executives are asked from where they draw the inspiration for the moral and social values they hold, the majority report that they look to their religion, especially the Bible (McMahon, 1989). Ironically, this is precisely from where CST derives much of its rationale. That said, it is also worth noting that the essential principles of CST most often advocated for business application – human dignity, the common good, option for the poor, stewardship – can be deduced from various nonreligious, philosophical sources (Laczniak, 1999). Thus, while focusing on the doctrinal basis of CST, we could also offer CST as a blended philosophical theory of corporate duty that can be utilized to reason toward ethical obligations that business ought to uphold when marketing to the impoverished. We attend to that task of connecting CST and marketing to the poor in the paragraphs below.

CST and marketing to the poor

A fundamental economic assumption made in the theory of exchange is that both parties to the exchange are on an equal footing, which is very often not the case (cf. Mascarenhas et al., 2008). In fact, it is precisely because of the *inequalities* that exist in the exchange process that we see an ever-increasing amount of injustices. Therefore, a major challenge in the construction of "just" markets is of creating economic "win–win" situations for all participants. The principles of CST offer a framework for creating such "win–win" situations. Based on this framework, we delineate some of the characteristics that "just" markets, particularly those targeted at impoverished segments, should have.

Authentic engagement with consumers

If all human persons, as CST points out, have an inviolable dignity, then treating any person as merely an object or means to the profitability of the company is a violation of the principle of human dignity. Consistent with philosopher Immanuel Kant's second formulation of his categorical imperative, Laczniak (1999) points out that "members of the human community, particularly those most subject to exploitation, should never be used as an expedient means to a financial end" (p. 126). An example of companies taking advantage of the vulnerabilities of consumers is that of the prepaid phone card industry (Grow, 2007). For many immigrants, particularly those from Latin America, prepaid phone cards are their main connection to their families back home. Unfortunately, as Grow (2007) indicates, most providers of prepaid phone services engage in deceptive marketing and even fraud. These providers routinely manipulate the minutes that consumers can use and also charge a wide array of service fees, which are sometimes part of the fine print but cannot be easily deciphered by a largely illiterate population.

In contrast to examples of companies that exploit the vulnerabilities of consumers, there are several commendable cases of companies that genuinely seek to address the disadvantages that consumers face. One such instance is that of the Grameen Bank in Bangladesh, which was awarded the Nobel Prize for Peace in 2006. Grameen Bank started as an initiative in 1976 to provide small loans to entrepreneurs who could not qualify for loans from traditional banks (http://www.grameen-info.org/ bank/GBGlance.htm). In 1983, it was set up as a formal bank. Since its inception, Grameen Bank has disbursed about $6.5 billion in loans. Its total number of borrowers total 7.31 million, of which 97% are women. An innovative approach of Grameen Bank is that the borrowers of the bank own 94% of the equity of the bank, with the remaining equity being held by the government. Grameen Bank does not require any collateral from its borrowers nor does it require its borrowers to sign any legal document as it does not wish to take borrowers to court for non-repayment. Despite this, the repayment rate is about 98%, which is much higher than the repayment rate of most traditional banks. Among several notable aspects of the Grameen Bank example is the idea that [impoverished] customers of the bank have been not only made partners in an economic exchange process but also that the outcome of the transaction has allowed them to be a stronger future participant in the marketplace.

The difference between companies that exploit the vulnerabilities of consumers and those that seek to reduce the vulnerabilities or disadvantages that consumers face is that the latter are able to view their businesses as serving a greater social purpose than simply the relentless pursuit of profits. In viewing customers, particularly impoverished ones, not as objects to be taken advantage of but rather as subjects who have legitimate needs, these companies adhere to CST's principles of the dignity of the human person, the common good, and solidarity. Using the example of companies such as the Grameen Bank, an important characteristic of a "just" market that emerges involves an *authentic engagement with consumers, particularly impoverished ones, with non-exploitive intent.*

Co-creation of value

In their path-breaking work involving the services-dominant logic (SDL) of marketing, Vargo and Lusch (2004) argue that Marketing is transforming to a new evolutionary logic, 'one in which service provision rather than goods is fundamental to economic exchange" (p. 1). According to Vargo and Lusch (2004), "a service-centered dominant logic implies that value is defined by and co-created *with the consumer* [emphasis added] rather than embedded in output" (p. 6). In the SDL, customers are treated as operant resources (producers of effects) rather than operand resources (something to be acted upon). Such a shift is in keeping with CST's emphasis on the inherent worth of each individual person. Thus, for instance, while the impoverished customers might have limited purchasing power, they have a wealth of knowledge, skills, and ideas that can be potentially beneficial to business enterprises (Prahalad and Ramaswamy, 2004). For example, Ogilvy & Mather (O&M) use traditional folk performances to appeal to rural customers (Sinha et al., 2007). This approach uses the skills of the folk performer to create brand value among customers for whom these traditional art forms have tremendous meaning and significance. Therefore, a second key characteristic of a "just" market that emerges is that *value ought to be co-created with customers, particularly, those who are impoverished*.

Investment in future consumption

The U. S. Catholic Bishops (1986), in their pastoral letter *Economic Justice for All*, assert that an economic system should be judged "by what it does *for* and *to* people and by how it permits all to participate in it" (p. 574). An authentic engagement with consumers and co-creating value with them undoubtedly enhances their participation in the economic system. However, the participation of particularly impoverished consumers is restricted by their lack of access to capital and other resources. Making capital and other resources available to impoverished consumers increases the potential of these consumers to participate in the market economy. We see evidence of this in the example of Grameen Bank. Further, Marwaha et al. (2007) point out that "any attempt to grow the poor's capacity to consume must focus on increasing their income" (p. 168). One result of business engagement with the impoverished market segment is the increase of employment opportunities. This can be either directly, by way of employment with the business firm, or indirectly, as suppliers, distributors, and retailers. In part, the emerging popularity of "Fair Trade" products (e.g., coffee, cocoa, and tea) with consumers embodies this trend. While the "fair trade" movement has often been a *consumer-driven* social phenomenon, allowing buyers to "feel good" that they have not purchased products produced under "exploitive" conditions, the net effect has been to institutionalize a living wage and improved working conditions for partners in the supply chain. These conditions, often at short term cost to the most powerful channel members, have often allowed weaker channel members to continue as partners in a future cycle of economic exchange. Thus, a third characteristic of a "just" market that emerges is an *investment in future consumption*.

Interest representation of all stakeholders

In the last few decades, multinational corporations have been involved in developmental projects in developing countries. While many of these projects were meant to help the ultimate beneficiaries, the poor, it was realized that instead they ended up with the poor being even worse off than before (Caufield, 1996; Hoffmann, 2002; Rangan and McCaffrey, 2004, 2006; Stiglitz, 2002). For example, Caufield (1996) cites the example of the Narmada Dam Project in western India. An objective of building this mega dam was to help irrigation, particularly, in the drought hit areas of states such as Gujarat and Maharashtra. It was argued that by enabling irrigation, the productivity of the land would be improved, and the economic conditions of these areas would improve. However, the dam resulted in the displacement of hundreds of thousands of tribal people who resided on the banks of the Narmada River. The resettlement plan was very poor and the affected people were given arid land in exchange for the fertile land they previously held. The Narmada Dam Project, thus, resulted in pushing a large number of people into poverty instead of providing citizens in the area an opportunity for jobs and the monetary rewards to engage better in the consumption process.

In Rangan and McCaffrey's (2004, 2006) opinion, a major reason that projects such as this resulted in the poor being worse-off than before was that the interests of the poor end client were not sufficiently represented or taken into account. Together with the interests of the shareholders, it is important for the business organization to consider the interests of other stakeholders, particularly, those that do not have much voice in the economic negotiation process. For example, the Brazilian retailer Casas Bahia, which sells products to low-income consumers on an installment basis, has a consumer education process in which salespeople teach consumers to buy according to their budget (Prahalad, 2005). At times, this process might result in the consumer going in for a cheaper product, which could be considered a loss for Casas Bahia. However, this loss is compensated by the relationship and trust that is built with the low-income consumers. Considering the interest of the often voiceless impoverished consumer is in accordance with the principle of the common good and the principle of subsidiarity. Thus, a fourth characteristic of a "just" market that emerges is that of *interest representation of all stakeholders, particularly, impoverished customers.*

Long-term profit management

CST recognizes the legitimate role of profits in the functioning of the business enterprise and for economic development (Benedict XVI, 2007; Catholic Church, 2004). However, a preoccupation with profitability, ironically, can act against the long-term interests of the business organization (Abela, 2001; Collins and Porras, 1994). Such a preoccupation is largely the outcome of a short-term mentality that is driven by quarterly profit increments or even annual ROI targets. The pressure for short-term profit maximization can lead to various forms of unethical business behavior, as evidenced by the corporate scandals that broke out in the earlier half of this decade. The market development of impoverished segments is inherently a longer process than one that is dictated by the length of the Julian calendar and/or annualized share performance scores. An example of a company that has a long-term perspective is the Aga Khan Fund for Economic Development, a for-profit company based in Geneva. Aga Khan, who is the spiritual leader of the Ismaili Muslim sect and the chairman of the company, maintains that he is more focused on long-term outcomes rather than being preoccupied with short-term profits (Zachary, 2007). One of the investments of the Aga Khan Fund is a fish net factory in

Uganda. A project initiated by Karen Veverica, an aquaculture expert with Auburn University, and financed by the United States Agency for International Development is jump-starting a fish-farming industry in Uganda. However, this project requires special types of nets. Currently, there is no demand for these nets, but without them, the fish-farming industry cannot take off. Mahmood Ahmed, the Aga Khan Fund's representative in Uganda, points out that investments such as these require thinking long term. While the fund will not enter a business without the promise of profit, there are more considerations than just profit (Zachary, 2007). According to CST, the individual profit of a business enterprise should never become the sole objective of a company. Rather, it should be considered together with another equally fundamental objective, namely, social usefulness. A company is more likely to consider its social usefulness when it has a long-term rather than a short-term perspective. Thus, a fifth characteristic of a "just" market that emerges is a *focus on long-term profit management rather than short-term profit maximization*.

Conclusion

Prahalad (2005) points out that "when the poor are converted into consumers, they get more than products and services. They acquire the dignity of attention and choices from the private sector that were previously reserved for the middle-class and rich" (p. 20). An increased business engagement with impoverished customers holds the promise of a more inclusive capitalism. At the same time, there is an increased possibility of exploitation on account of the vulnerabilities or disadvantages of impoverished customers. Drawing on the insights of the four permanent principles of CST, we have identified five key characteristics of a "just" market. These are:

1. Authentic engagement with consumers, particularly impoverished ones, with nonexploitive intent.
2. Co-creation of value with customers, particularly, those who are impoverished.
3. Investment in future consumption.
4. Interest representation of all stakeholders, particularly impoverished customers.

5. Focus on long-term profit management rather than short-term profit maximization.

Our aim has not been to present an exhaustive list of elements of a '"just" market, but rather, to derive from the principles of CST, important characteristics that constitute "just" market situations, particularly, when engaging impoverished segments. Because the conditions of a "just" market presented here represent a normative ideal, it is difficult to specify an agenda for future research. However, it is likely worth charting the degree to which various market sectors conform to the criteria of a "just" market, so that, over time, progress toward the ideal can be marked. Business executives and managers, with an eye to fairness and equity, and inspired by the opening verse of the Book of Wisdom: "Love justice, you who judge the earth" (*Wis* 1:1), will likely find these characteristics helpful markers in conducting their business activities. For, in addition to enhancing justice in the marketplace, these characteristics, as the examples of Grameen Bank and the Aga Khan Fund for Economic Development indicate, can also make good business sense.

Notes

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