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2017 Bannan Memorial Lecture
The Moral Margins of Poverty and Prosperity:
Toward an Integrative Justice Model in Business

Santa Clara University, May 2, 2017

Nicholas J.C. Santos, S.J., Ph.D.

Thank you, Theresa, for that kind introduction. In terms of an overview, I will first provide some context, then I will elaborate on the integrative justice model with a brief summary of Catholic social teaching, share the results of a short survey that we conducted, and discuss the application of the IJM to the field of social entrepreneurship.

But first, as Theresa mentioned, I did spend three wonderful years here at Santa Clara. That experience was made possible because of three people whom I would like to acknowledge. The first is unfortunately no longer with us, former President and Chancellor of the University Fr. Paul Locatelli, S.J. In a keynote address at the joint meeting of the International Association of Jesuit Business Schools and the Colleagues of Jesuit Business Education at Fordham University in 2008, Fr. Locatelli spoke about Santa Clara's efforts of promoting a humane capitalism and creating a just and sustainable world. I think he was largely referring to the work of the Miller Center for Social Entrepreneurship, which was at that time the Center for Science, Technology and Society. Fr. Locatelli's speech resonated with me because that was the focus of my dissertation: creating just and sustainable marketplaces particularly for impoverished populations. At that meeting was another person from Santa Clara: Kirk Hanson, the executive director of the Markkula Center. I was also impressed with Kirk's presentation which focused on five distinctive characteristics of Jesuit business education, one of which is the preferential option for the poor. I was honored to have Kirk attend my presentation, after which he extended an invitation to come to Santa Clara as a visiting scholar at the Ethics Center. I was really excited about this and did obtain permission from my Jesuit provincial back in India to accept this invitation. However, there was a problem: the Jesuit residence at Santa Clara did not have space. Fr. Locatelli, who was based in Rome at that time, intervened on my behalf with the rector of the Jesuit community, and I was allowed to apply to be a resident minister. My interviewer was

none other than Theresa Ladrigan-Whelpley, who was the director of Resident Ministry at that time. If Theresa had failed me in her interview I would not have been able to come to Santa Clara and likely would not be here delivering this lecture today. The reason I share this with you is to show how the Spirit works in our life.

If it were not for these three people I would have missed the rich encounters that I had with people at the Markkula Center, the Miller Center, the business school, the Justice in the Arts initiative, campus ministry, other areas of the university, and the local community.

Theresa mentioned my involvement with Step Up Silicon Valley. I just want to share how that came to be, another example of the working of the Spirit. A retired diocesan priest, Fr. Larry Largente, who passed away a little while ago, was a regular at the Jesuit community evening mass. Once we got chatting and I was sharing with him my area of research. His eyes immediately lit up, and he said he should introduce me to a friend of his, a lady by the name of Terrie Iacino who was heading up this new initiative of Catholic Charities of Santa Clara County called Step Up Silicon Valley. So, we met. Step Up at that time was organized around issue areas such as hunger, education, housing, and so on. Each issue area was headed by a leader who would convene meetings of a group that would be committed to working on that area. One issue that did not have a leader was the income issue area. After hearing about my research and background, Terrie seemed to think that I would be a right fit to lead that issue area, and so I was given the opportunity to do so. One of the people whose help I sought early on was somebody I got to know through the Ethics Center, a lady by the name of Almaz Negash. Almaz now heads Step Up, and she has done an incredible job in taking it forward. My experience with Step Up was very rich. I realized that it was quite a challenge to work across organizations, but more so, it was an eye opener to me about the extent of poverty in Silicon Valley.

I was aware of the poverty in Oakland, having spent a year at the Jesuit School of Theology in Berkeley, which is now part of Santa Clara University, but Silicon Valley came across as a relatively well-off area. After all, it was Silicon Valley—the technology capital of the world.

While one might assume that the booming tech industry is a sign of prosperity in the valley, it is unfortunately also the cause of rising poverty. Extremely high rent costs and the increased cost of living push many people into the poverty bracket. The Department of Health and Human Services in its 2017 poverty guidelines published in January show the poverty threshold for a family/household with four persons to be about \$24,600. Interestingly, the level for Hawaii is \$28,290 and for Alaska \$30,750. But even the Alaska threshold is still way low for Silicon Valley. An article by Olivia Solon on February 27, 2017 in *The Guardian* reveals that many tech workers earning six figure annual incomes feel poor in the Valley. If that is the case, what about those who do *not* earn six figure incomes? The high cost of living in Silicon Valley is not only contributing to an increase in poverty and homelessness in Silicon Valley but is also having a spillover effect on neighboring rural areas in the Central Valley such as Patterson and Modesto, as Lauren Hepler reveals in an article on April 13, 2017, also in *The Guardian*.

This juxtapositioning of rising prosperity as well as rising poverty that we witness in Silicon Valley and its neighboring areas provides a good context for my talk this evening. Previous speakers of the Bannan Institute such as Fr. Matt Carnes, S.J., and Prof. Bill Sundstrom have pointed out the economic inequalities of our present times. In January 2016, a few weeks prior to Fr. Carnes' address, an Oxfam International briefing report mentioned that in 2015, 62 individuals owned the same amount of wealth as 3.6 billion people, or half of the world's population. This year in January 2017, a few weeks prior to Prof. Sundstrom's talk, Oxfam updated its findings with new and better data showing that instead of 62 people it was just eight men who own the same amount of wealth as 3.6 billion people. The immensity of this disparity is astounding and mind-boggling, so much so that the issue of inequality featured at the center of the discussions at the World Economic Forum in Davos earlier this year.

While the number of people living in extreme poverty fell below 10 percent in 2015, the unfortunate reality of our time and of our common home is that a substantial number of people around the world struggle to make ends meet, lack adequate nutrition, access to education, sanitation, clean water, and even shelter. These people constitute

what has been labeled the “base or bottom of the pyramid” segment. Traditionally, marketers shied away from this population as they were perceived to have little purchasing power. As a result, this population was underserved, as well as bore the brunt of ironically paying more for products and services, what is called the poverty premium. Think about a 3,000+ percent annualized interest rate on loans or rent-to-own products that work out to be many times more than the actual cost of the product. The impetus for multinational corporations to market to the poor was largely provided by analysis demonstrating an emerging profit potential in low-income markets. The first such comprehensive argument was provided by Professors C.K. Prahalad and Stuart Hart in an article in *strategy+business* in 2002, in which, with the help of case examples, they pointed out that low-income markets provided big companies the opportunities of amassing their fortunes as well as bringing prosperity to the world’s poor. In *Fortune at the Bottom of the Pyramid*, published in 2004, Professor Prahalad claimed that the collective fortune to be made in these markets was in the vicinity of US\$13 trillion.

I stumbled across Professor Prahalad’s book while researching possible topics for my doctoral dissertation. At that time, I was largely interested in nonprofit marketing or even something in church marketing. But something drew me to the book. Professor Prahalad made some good points, such as that the poor have legitimate needs, are brand conscious, and are underserved. However, the idea of a fortune to be made at the bottom of the pyramid was a bit troubling to me. I thought that if big companies were going to be attracted to this segment only because of the fortune to be reaped, the possibility of a greater exploitation of poor and disadvantaged consumers existed. Historic business involvement with low-income consumers has been rife with a plethora of unethical and exploitative practices: predatory lending, tainted insurance, unconscionable labor practices, and exorbitant rent-to-own transactions.

In conversations with my doctoral guide, Professor Gene Laczniak, we thought it might be a useful contribution to develop a normative ethical framework for “fair” and “just” engagement with impoverished populations. This of course meant changing direction. Thanks to Ignatian spirituality and the tool of discernment, I was able to pray

over this and did surrender to that change of direction. With regard to the theory building, we used a normative theory building protocol advocated by the philosopher John Bishop. I am not going to get into the details of that theory building except that two components were recommended: values, and the grounds for accepting those values. The primary question was, “How can market exchange situations that are directed at impoverished segments be better shaped in order to be fair and just to both parties (that is, the business and the consumer), but especially the poor?” I considered thirteen different frameworks/theories: (1) virtue ethics; (2) Sir William Ross’ theory of duty; (3) Jürgen Habermas’ discourse theory; (4) Immanuel Kant’s categorical imperative; (5) John Rawls’ theory of justice; (6) classical utilitarianism; (7) Amartya Sen’s capability approach; (8) stakeholder theory; (9) triple bottom line; (10) sustainability; (11) socially responsible investing; (12) service-dominant logic of marketing; and (13) Catholic social teaching.

Though listed last, Catholic social teaching was one of the first frameworks I looked at, perhaps because of my religious affiliation and vocation. So, permit me to share a little background about CST for those not familiar with it.

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 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 permanent principles of the Church’s social doctrine:

- 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. In fact, the whole of CST unfolds from this first principle. Basically, what the Church affirms is that human life is sacred, and human beings by virtue of being created in God's image have a certain "inviolable dignity." This dignity is not something that is acquired by one's efforts, but rather, it 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, 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. A significant implication of it is the universal destination of goods—God gave the goods of the earth 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." However, it does mean that "each person must have access to the level of well-being necessary for his [or her] full development." While CST clearly upholds the right to private property, it also requires that all people have equal access to the ownership of goods.

The third principle, 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." 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.

The fourth principle of solidarity affirms the intrinsic social nature of the human person and the awareness of the interdependence among individuals and peoples. 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." 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.” The principle of solidarity requires 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.”

A fundamental economic assumption of the theory of exchange is that both parties to the exchange are on an equal footing, which is very often not the case. 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 the creation of economic “win-win” situations for all participants.

Reflecting on the notion of “fairness” or “equity” in marketing transactions involving impoverished populations from the perspective of the four foundational principles of CST as well as the other frameworks, five key elements emerged:

1. Authentic engagement with consumers, particularly impoverished ones, with non-exploitative intent.
2. Co-creation of value with customers, especially those who are impoverished or disadvantaged.
3. Investment in future consumption without endangering the environment.
4. Interest representation of all stakeholders, particularly impoverished customers.
5. Focus on long-term profit management rather than short-term profit maximization.

Instead of discussing the theoretical derivation of these key elements, I would like to briefly elaborate on each of them a bit.

1. *Authentic engagement with consumers, particularly*

impoverished ones, with non-exploitative intent.

The corporate scandals at the turn of the century, the financial meltdown in 2008, and continued corporate abuses such as the Volkswagen emission case contribute to a fundamental breakdown of trust. An important means of restoring this trust particularly with impoverished consumers is of engaging them with non-exploitative intent. An authentic engagement is one that should possess the intrinsic quality of being trustworthy, as well as being a process that aims at winning the trust of the constituents engaged. Professor A. Coskun Samli, in his book titled *Globalization from the Bottom Up*, makes the distinction between greed and ambition. A company motivated by greed will attempt to win in any way, shape, or form; get as much for themselves as they can; and move as fast as they can get it, paying little heed to the external environment. In contrast, an ambitious company realizes that working and collaborating with others increases opportunities for progress and benefits a larger number of people. The Aravind Eye Care system in India, whose mission is to eradicate needless blindness by providing appropriate, compassionate, and high-quality care for all, is a good example of an organization that authentically engages consumers without intending to exploit them.

2. *Co-creation of value with customers, especially those who are impoverished or disadvantaged.*

Co-creation of value is an emerging approach in marketing which holds that instead of autonomously positing what constitutes value for consumers, a business firm ought to involve such consumers in the value-creation process itself. One of the easiest ways to generate creative and ethical symbiosis and avoid negative outcomes is to partner with impoverished customers from the beginning. For example, Amanz' abantu Services, a South African provider of water and sanitation services, involves consumers from the beginning of the innovation process itself. A direct inquiry process conducted during the incubation phase enables customers to select the design of the sanitation structure. Additionally, rural community-based village groups called project steering committees enable villagers to play an active

role in a project's design and implementation, thereby leading to greater ownership. Such an open innovation paradigm grants consumers the role of a "prosumer," integrating them actively and deeply in one or ideally all stages of the innovation process (invention, incubation, market introduction, and diffusion).

3. *Investment in future consumption without endangering the environment.*

One of the fears of expanded marketing to impoverished market segments, particularly in developing countries, is that an exponential increase in overall consumption could have dire consequences on an already battered planet. However, a major assumption made is that present production patterns will be used to support such expansion, which need not be the case. There are numerous examples of disruptive innovations such as solar energy or mobile phones. Mobile phones, for instance, have enabled poor consumers in rural areas to have access to modern technology, eliminating the need to set up phone cables and connections in these areas. But investment in future consumption should be seen as encompassing more than merely proposing a budget for increasing consumption. Linked with Amartya Sen's idea of expanding the capabilities and freedoms of people, it proposes better participation of the impoverished in the market system.

4. *Interest representation of all stakeholders, particularly impoverished customers.*

Harvard researchers V. Kasturi Rangan and Arthur McCaffrey in a book chapter titled "Globalization and the Poor" argue that one reason trillions of dollars spent on development aid hardly made a dent in global poverty was because the interests of the poor were never sufficiently considered. In addition to the interests of shareholders, companies need to consider the interests of other stakeholders, particularly those who do not have much voice in the economic negotiation process. Considering the interest of the often-voiceless impoverished consumer is in accordance with the principle of the common good and the principle of subsidiarity.

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

CST recognizes the legitimate role of profits in the functioning of the business enterprise. However, a preoccupation with profitability, ironically, can act against the long-term interests of the business organization. Such a preoccupation is largely the outcome of a short-term mentality 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 continue to break out. 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. If companies are intent merely on short-term profit maximization, they will be, first and foremost, reluctant to enter impoverished markets given the low purchasing power of these consumers and various barriers to entry such as inadequate infrastructure, lack of knowledge of these markets, and so on. Secondly, if they do enter this market, because so many in impoverished segments have low literacy and minimal economic choices and education, corporations will be tempted to indulge in exploitative practices that will further disadvantage the impoverished customers. Instead, if companies take a long-term profit management perspective, they will view these markets as “a source of opportunity, innovation, and competitive advantage.” Further, they will be less prone toward being exploitative, as it makes little sense to exploit a segment whose growth is vital to the company’s own long-term success. Taking the long-term view also enables a company to support local communities in their holistic development, as such development is beneficial to the company in the long run.

To assess managerial perceptions toward the IJM elements, primary data was collected from marketers and managers in both for- and

nonprofit organizations in the U.S. and abroad. The sample size was 118, with 46 percent from for-profit corporations and 25 percent from nonprofits and social entrepreneurs. Seventy-eight percent were U.S.-based, with the remaining from overseas. The data indicated support for the IJM constructs; in fact, they pointed toward an additional construct of amplifying the voice of the poor consumer.

[Application to social entrepreneurship]

Over the last decade or so, phenomenal growth in the field of social entrepreneurship has ably demonstrated how technology, innovation, and an entrepreneurial spirit can afford better solutions to the vexing social and environmental problems of our time than can traditional aid and charity based efforts. While there is no clear-cut definition of social entrepreneurship, a key differentiator is that in social entrepreneurship the primary value accrues to society rather than to the individual or the organization. The Miller Center at Santa Clara has played and continues to play a significant role in helping social enterprises all over the world—including the U.S.—to have a greater impact in achieving their objectives. I have been privileged to work with the Miller Center, with whom Marquette has a Memorandum of Understanding, and we have used the GSBI Boost curriculum for social entrepreneurs in Milwaukee. Social entrepreneurs are playing a significant role in making available off-the-grid energy solutions, clean cooking and water technologies, healthcare advancements, sustainable livelihoods, and so on. As social entrepreneurship is aimed at solving social problems, an assumption is that all is good and ethical and fair. As such, little research or publications on ethical issues in social entrepreneurship exists. A special issue of the *Journal of Business Ethics* in February 2016 on social entrepreneurship and business ethics asks the question whether social equals ethical. And, as the articles in that issue suggest, this is not always the case.

In applying the integrative justice model to the context of social entrepreneurship, a few modifications were made. For example, it meant focusing on authentic engagement allowing for empowerment and value-creation that aimed at solving the root causes of problems associated with poverty. The application of the IJM to social

entrepreneurship also generated some points that managers of social enterprises ought to consider:

- To what extent are our processes and functioning aimed at empowering the constituencies we engage?
- Is there a system in place for shared control and succession planning?
- Do we co-create solutions with our target groups?
- To what degree do we collaborate with other CEOs—those within the same sector we operate in and those in other sectors?
- What is the composition of the decision makers? Are the voices of marginalized groups included in decision making?
- How does our business plan ensure financial stability not just for the present but also for the foreseeable future?

I began by highlighting the issue of inequality. However, as an article in this past weekend's *Wall Street Journal* argues, inequality isn't the real issue. The real issue is fairness.

I hope that the integrative justice model inspires business practitioners and social entrepreneurs to reflect on the conditions of a marketplace that currently includes too many vulnerable people who lack bargaining power. Whether residents of rural India, denizens of a Brazilian favela, or recent U.S. immigrants scraping together a coach fare for a visit back home to see an elderly mother, vulnerable people require the assurance of fairness when securing their economic needs. The IJM represents some essential ideals of fair exchange against which current selling practices to poor consumer segments can be measured. Awareness of the IJM is a small and hopefully helpful step for those involved with impoverished customers in aiding that process.

I would like to end with an excerpt from Pope Francis' Ted talk delivered from the Vatican at the TED Event in Vancouver last month.

“Hope is the virtue of a heart that doesn't lock itself into darkness, that doesn't dwell on the past, does not simply get by in the present, but is able to see a tomorrow. Hope is the door that opens onto the future. Hope is a humble, hidden seed of life that, with time, will develop into

a large tree. It is like some invisible yeast that allows the whole dough to grow, that brings flavor to all aspects of life. And it can do so much, because a tiny flicker of light that feeds on hope is enough to shatter the shield of darkness. A single individual is enough for hope to exist, and that individual can be you. And, then there will be another 'you' and another 'you' and it turns into an 'us.' And so, does hope begin when we have an 'us'? No. Hope began with one 'you.' When there is an 'us,' there begins a revolution."

Thank you for being here. I think we have a revolution.