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# OF FAIR MARKETS AND DISTRIBUTIVE JUSTICE

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**OF FAIR MARKETS AND DISTRIBUTIVE JUSTICE**


## ABSTRACT

The authors argue that a free market paradigm facilitates wealth creation but does little to distribute that wealth in a just manner. In order to achieve a social goal of distributive justice, the concept of a fair market is introduced and explored. The authors then examine three drivers that can help improve the lives of all people, especially the poor: civil society, its institutions, and business. After exploring the roles these drivers might play in developing fair markets, we describe three enablers that serve as catalysts for change, including the effects of globalization, the impact of technology, and the emergence of entrepreneurial activity. We conclude by making recommendations for establishing fair markets, and provide exemplars of two firms that embody the arguments made in the paper.

# OF FAIR MARKETS AND DISTRIBUTIVE JUSTICE


## KEY WORDS

civil society

distributive justice

fair markets

institutions

wealth distribution

**OF FAIR MARKETS AND DISTRIBUTIVE JUSTICE**

Standards of living and the amount of wealth created are at a historic zenith. In spite of this level of prosperity, much has been written recently in management literature and the popular press about economic inequality and wealth stratification (Friedman, 2009; Pope, 2009). Implied in much of this literature has been the view that a trade-off between wealth creation and inequality is essential—either that business must tone down or abandon its zeal for profit or that societies must accept the notion that the pursuit of profits and poverty alleviation are mutually exclusive domains.

In keeping with the view of Collins and Porras (1997), the "Genius of the AND"—the ability to embrace both sides of an apparent dichotomy—we reject the idea that such a trade-off is mandatory. Our underlying thesis in this paper is that societies can indeed create economic systems in which private enterprises enjoy significant profitability AND contribute to widespread economic well-being and social development. French president Sarkozy's recent call for a new method of measuring well-being, rather than just GDP (Davies, 2009), reflects our thesis.

Although corporate profits and economic wealth creation have set records over the past several decades, it is equally clear that the distribution of this wealth has been limited, and is becoming progressively more unequal. In fact, income inequality in the USA is the most pronounced since the U. S. Census Bureau began reporting on this measure (Phillips, 2002).

> In 2007, America's top 1 percent held nearly $3.3 trillion more wealth than the entire bottom 90 percent.…Income—what people take in on an annual basis—also tilts toward the top in today's United States. In 2006, the nation's top 1 percent raked in 50 percent more income than the bottom 40 percent (Council on International and Public Affairs, 2009).

Income and wealth generation is stratified along two dimensions. On one hand, nation-states differ sharply in their shares of global wealth and income. This phenomenon is widely recognized in the terms *developed* and *developing* nations. Political correctness has all but eliminated the more pejorative, but perhaps more descriptive term, third-world countries. In 2003 GNP per capita exceeded $30,000 in developed countries (and more than $65,000 in some), while the poorest sixty countries had $1,000 or less (Students of the World, 2009).

The second dimension of income and wealth stratification occurs within discrete societies, and is widely recognized in discussions of socio-economic classes. At one time, the United States was thought to be a classless society (Morin, 1991; Shepard, 2005). That is decidedly not the case now, and the stratification of income and wealth is rapidly becoming more pronounced. "A century ago, income in America skewed steeply toward the top, but in the mid 20th century the United States became significantly more equal…, before turning back toward greater inequality" (Council on International and Public Affairs, 2009). It is this dimension of income and wealth inequality with which we are primarily concerned in this paper.

Our concern is not limited to the size of the gap in wealth and income—we also question the very rationale that underlies its philosophical roots. One of the questions that early economic/political philosophers wrestled with was how to justify the transformation of commonly-held property into privately-owned resources. Many early societies and economic systems viewed natural resources as property provided to all members of society. When capitalism was becoming a popular economic system in Western Europe, people needed a way to make the intellectual leap from common to private property. One of the most regularly cited philosophers to address this issue was John Locke, who claimed that property held in common could be converted to private ownership by mixing one's labor with property that was not privately owned. He stated three limitations on the accumulation of property, that 1) a person may appropriate only as much property as she can use before it spoils, 2) one must leave "enough and as good" for others, and 3) someone may appropriate property only by means of one's own labor (Locke, 1988/1680-90). Locke's work is a primary foundation of capitalism and democratic forms of government, but his three limitations are regularly forgotten or ignored. What seems clear is that property 'enough and as good' should be available to all members of society, not just those in the middle and upper socio-economic classes. Furthermore, it is apparent that we have long since passed the benchmark of 'enough and as good' for others, and that accumulating wealth solely through one's own labor is no longer a limit for the owners of corporations (many claim that the first limitation has been obviated because value can now be stored in a medium that does not decay, i.e., money). [1]

To do away entirely with the concept of private property may be philosophically defensible, but it is most certainly a practical and political impossibility at this time in history. Although the very basis of private property can legitimately be called into question, our focal question is the one of distributive justice. Distributive justice is defined as "normative principles designed to guide the allocation of the benefits and burdens of economic activity" (*Stanford Encyclopedia of Philosophy*, 2007). Some of the methods commonly used to allocate resources are egalitarianism, John Rawls's difference principle, and resource-based, welfare-based, and desert-based principles. The way that people are most typically compensated in Western economies is the contribution category of the desert-based principle, in which they are rewarded for their work activities according to the value of their contributions (Miller, 1976, 1989; Riley, 1989).

A central question in desert-based principles of distributive justice concern what ends are most valued by a given society, and consequently, which activities contribute to those ends, and the relative contributions of various activities (Lamont, 1994). Many scholars in Western societies, particularly in the United States, have begun to re-think this question. Concurrent with the recent melt-down of financial markets, the sub-prime lending disaster, and dubious value of hedge funds, derivative financial instruments, and the like, citizens are wondering whether these highly remunerated industries truly bring value to the larger society (Krugman, 2009). Although we do not attempt to definitively answer the question of which method of distributive justice is most appropriate, we do acknowledge serious reservations about the current emphasis on the contribution type of desert principle. As we discuss later in the paper, we propose a system based more on Rawls's difference principle than is currently in vogue.

The ability to create wealth and generate profits in the short term is beyond debate. We have fully proven our capabilities to achieve those objectives. What we have yet to master is devising a system of distributive justice that provides a decent standard of living for *all* members of society.

**WEALTH DISTRIBUTION, NOT JUST CREATION**

Concern about the poor has been a significant component of society since the beginning of recorded history, and is a central theme in all of the world's major religions. The ancient Greeks, early Christians, Muslims, and innumerable others have addressed treatment of the poor. It is beyond the scope of this paper to address the full extent of those writings. We focus on the recent discussions in management and strategy, which began, in large part, with the 'bottom of the pyramid' discussions (Prahalad and Hart, 2002; Prahalad, 2005; Hart, 2007). These articles and books generated much discussion; some of it critical, due to the authors' supposed focus on the poor as additional consumers for multinational corporations' products and services (Karnani, 2007).

Those who contest Prahalad's argument contend that the focus should be on the poor as producers rather than consumers. As producers, the counter-argument goes, the poor would be able to generate more income, which would create a multiplier effect among other poor people, thus creating sufficient income and wealth to become bona fide consumers.

The current focus of capitalism is on wealth creation, not distribution. "New Labour's Stephen Byers, in his first speech as trade and industry secretary in 1999 declared, 'Wealth creation is now more important than wealth distribution'" (Hertz, 2001). In fact, distributive justice typically does not even enter economists' discussion.

> Classic economic theory dictates that when impediments to free trade are removed, the system of market exchange is highly efficient and aids in the creation of wealth. Despite these advantages, economists are usually careful not to claim that there is anything inherently fair, just, or morally legitimate about market procedures and outcomes. In fact, it is rare for economists to even address the "moral standing of the market," as Sen (1985) put it. When buyers and sellers converge on a market-clearing price that is driven by their individual preferences, wealth creation may be maximized, but fairness simply does not enter into the evaluation" (Jost, et al., 2003: 3).

It has been readily apparent for some time that capitalism is adept at wealth creation, but that the distribution of its fruits is not as widespread nor as just as it could (and depending on one's ideology, *should*) be. We see one of the basic tenets of Western capitalism, free markets, as a significant source of the problems encountered in achieving a more equitable form of distributive justice. In our view, the issue is *not* the overall economic system. Other systems have been tried and found wanting—the barter system, feudalism, socialism, communism (although the system as envisioned by Marx and Engels was never implemented). One view is that all of human history has been pointing toward liberal democracy and capitalism (Fukuyama, 1992). Another view of the situation is that capitalism, in the form of free markets, is not the culprit; rather it is the distortions of the system, in the form of vested interests and incumbent players, that cause shortcomings (Rajan and Zingales, 2003).

In our view, free markets are precisely what allow the formation of vested interests and incumbent players (i.e., powerful market participants). In his description of capitalism, Adam Smith made several important, yet unrealistic assumptions about the operation of a market economy. Some of those assumptions are perfect knowledge, perfect information, full rationality, and the absence of market power. A relatively new branch of economics, known as behavioral economics, seeks to acknowledge the shortcomings of neoclassical theory, and address how *real* people in *real* markets *really* behave. Without seeking to recreate behavioral economics *in toto*, we invite our readers to think about what actually happens in situations where there are no rules, or where the consequences of ignoring the rules are minimal. For purposes of this exercise, we define free markets as unregulated markets.

We assert that, in the absence of enforced rules governing behavior, economic actors usually will seek to manipulate the environment for their own benefit. Those who prove better at this machination over time gain wealth and market power, thus placing them in a position of advantage over those not so skilled or fortunate. Adam Smith apparently believed that this type of behavior exists (although he assumed it away through the process of the famous invisible hand, whose operation appears much the same as the mathematician's proof in the accompanying cartoon), as borne out in his famous quotes regarding the butcher, the brewer, or the baker; and people of the same trade conspiring against the public (Smith, 1985/1776). A more recent economist explains his view of free markets this way, “Left to themselves, economic forces do not work out for the best except perhaps for the powerful” (Galbraith, 1973: x, xiii).

(insert cartoon about here)

Thus, we view free markets as the *incubator* for ‘vested interests and incumbent players’ (Rajan and Zingales, 2003), rather than the *victim* of bad actors. The argument put forth by Rajan and Zingales sounds eerily similar to the view that guns don’t kill people, the people with guns kill others. In this view, it is not the tool (e.g., the gun or the free market) that is the problem, but the person using the tool. Although we see some logic in this argument (if only human nature was uniformly “good” we would not have problems with guns or free markets), we also believe that it is useless to wish that human nature was different. By definition, human nature is immutable, and so we must attempt to control its effects through behavioral controls, rather than wishing the basic nature would change. Thus, in the case of economic markets, we must effectively regulate the behaviors of actors to protect the less powerful from the more powerful, and to provide a more just system of income and wealth distribution.

We are well aware that Western economic markets are not truly free—they are all regulated to one degree or another. Regulations run the gamut from antitrust laws to license fees to packaging standards. Given this reality, why is the concept of free markets still alive and powerful? We believe it is the overarching paradigm of wealth accumulation rather than distribution that motivates the inequities currently seen in Western economies.

**FAIR, NOT FREE, MARKETS**

Because we believe that the overall emphasis on free markets is the primary culprit behind the concentrations of wealth, we suggest a paradigm shift to the concept of 'fair' markets. Fair markets appear to be a relatively unexplored concept in economic and management literature.

One paper defines fair market ideology as "the tendency to view market-based processes and outcomes not simply as efficient, but as inherently fair, legitimate, and just" (Jost et al., 2003: 3). Although these authors' purpose is somewhat different than ours, their definition of fair market ideology does encompass fairness, legitimacy, and justice; hallmarks of what we envision in a fair market system.

One of the methods commonly suggested for allocating resources in distributive justice literature is the difference principle (Rawls, 1958, 1971). Three concepts utilized in Rawls's work are particularly important to our argument. First, the *veil of ignorance* is a "situation [in which] no one knows his place in society, his class position or social status, nor does any one know his fortune in the distribution of natural assets and abilities, his intelligence, strength, and the like….This ensures that no one is advantaged or disadvantaged in the choice of principles by the outcome of natural chance or the contingency of social circumstances" (Rawls, 1971: 12).

Second, the *difference principle* suggests that the aspirations for improvement held by "those better situated are just if and only if they work as part of a scheme which improves the expectations of the least advantaged members of society. The intuitive idea is that the social order is not to establish and secure the more attractive prospects of those better off unless doing so is to the advantage of those less fortunate….Then the difference principle is a strongly egalitarian conception in the sense that unless there is a distribution that makes both persons better off…an equal distribution is to be preferred" (Rawls, 1971: 75-76). Finally, the *maximin* *rule* "tells us to rank alternatives by their worst possible outcomes: we are to adopt the alternative the worst outcome of which is superior to the worst outcomes of the others" (Rawls, 1971: 152-153).

Using these three principles (and others), Rawls constructs a hypothetical scenario in which rational actors choosing the principles of a social contract to govern themselves would logically be likely to choose rules that tend to protect the least advantaged people in society, rather than grant unlimited opportunities to the more advantaged (i.e., using the maximin rule). Greatly simplified, his implicit assumption is that, in a position where personal outcomes are unknown (i.e., the veil of ignorance), people are more likely to seek protections for the poor than they are to assure favorable circumstances for the rich. This scenario is in stark contrast to the more realistic situation in which those already advantaged in a society craft the rules. An excellent example is the formation of the United States of America, in which wealthy, male Anglo-Saxon landowners wrote the laws which, not surprisingly, favored wealthy, male Anglo-Saxon landowners.

Placed in the context of our current inquiry, Rawls's *Justice as Fairness* can be interpreted as a blueprint for a just system of income and wealth distribution. We endorse this conception of distributive justice, but also recognize that, given other methods such as resource-based, welfare-based, and desert-based principles, it may not be the ideal system (if such a thing even exists). The contribution category of desert-based principles of distributive justice is so engrained in Western culture that it is difficult to imagine moving away from it entirely. If, as we believe, that type of distributive justice will remain in force, we see the need for a bridge to bring us closer to Rawls's idea of the difference principle and maximin rules. Hence, the need for a way to wrest some of the power from existing economic elites, since those in power do not willingly give it up (Young, 1990).

Therefore, we also draw upon the concept of countervailing forces (Galbraith, 1952, 1967). One such countervailing force has been labor unions. Labor unions achieved marked success in several areas, including higher pay, shorter work weeks, increased fringe benefits, and better working conditions. It is not merely coincidence that income and wealth has been increasingly concentrated at the ownership and top management levels as unions have lost power. Labor unions at one time represented thirty-five percent of private sector employees, but today represent only about eight percent of such workers (Monkerud, 2009). Nor is it coincidence that many corporations (WalMart being merely the most obvious example) actively seek to limit or abolish union activities.

So, what would fair markets look like, and how would they be different from free markets? First, let us describe what they are *not*. We do not envision them as centrally planned, socialist, or communist. Capitalistic economic systems can be designed to be much fairer than they currently are, without lapsing into an entirely different economic system. What we envision has much more to do with more equitable distribution of profits, in the form of higher wages, more job security, improved working conditions, and better benefits than it does aid to the poor from government handouts or through common ownership of the factors of production.

Nor do we conflate fair markets with so-called ‘simple living’ or depressed standards of living. In fact, it is our desire to see widespread increases in the standard of living that motivates us to investigate fair markets. However, we also recognize the limitations of our global natural resources, and are convinced that whatever economic system is in place, those limits must be acknowledged and respected (Friedman, 2008).

We envision a fair market whose primary guiding principles are the good of society as a whole, not the enrichment of a select few. Certainly, we anticipate and see the need for, as did Rawls, differences in the outcomes for various economic actors. Some people have higher skill levels than others, some are willing to work harder than others, and some have skills that are in much higher demand than others. In each of those instances, the contribution category of desert-based principles of distributive justice demands greater rewards for the higher performers. But we also envision adherence to the difference principle, in which greater rewards for the more advantaged also generate greater resources available to the less advantaged. For example, a senior manager may develop a more efficient process for fulfilling customer orders, thereby increasing the corporation's profits. Instead of allocating the majority of increased profits to the senior manager and/or shareholders, a fair market would also allocate a share to the workers who carry out the process.

Fair markets would also be characterized by countervailing forces with roughly equal power. Managers and owners should not be able to unilaterally make decisions that affect the lives of workers without workers having significant input into the decision making process. German corporations are required by law for workers to hold one less than fifty percent of the seats on the board of directors, thereby giving them substantial voice in strategic and economic issues. Consumers would also be represented by some form of countervailing force. Conventional wisdom states that consumers hold the ultimate power in their relationship with producers—if the consumers refuse to buy a producer's products or services, there is little the producer can do. This view, however, fails to recognize the disequilibrium in information and economic power between producers and consumers.

The poor (or, in Rawlsian terms, the most disadvantaged) are in special need of a fair market. Because they have virtually no power either individually or collectively, the poor must be represented by outside countervailing forces. The most logical source of representation is governments and social enterprises. We will discuss this aspect of our argument in later sections of this paper.

Fair markets must encourage innovation. The spread of cheap computing and the Internet is bringing economic opportunity to all corners of the earth as never before (Friedman, 2006, 2008). The earth's natural resource limitations demand that we find more efficient ways to produce, be better at conserving, and develop sustainable business practices (Hart, 2007; Friedman, 2008).

Many will be tempted to interpret our argument as a political call for more governmental intervention in private enterprise. We do see a critical need for greater regulation of economic activity, based on the strong evidence of increased income and wealth stratification presented earlier in this paper. But we also suggest that the debate over the need for more or less government is not the appropriate one in which to engage; in our view the proper debate is about the role that a civil society, its institutions, and business can play in improving the lives of all people, especially the poor.

## ROLE OF CIVIL SOCIETY

*Civil society is arguably more responsible for the structure of economic markets than either government or business (Stone, 1975)*

Civil society, as embodied by non-profits, media, and the judiciary can facilitate the formation of fair markets. Traditionally non-profit organizations have lobbied to ensure that the disadvantaged have a voice and are heard in the current globalized climate. Shepard et al.,

(1995) observed that it is their external oversight that ensures that the amoral theory of business does not become the *de facto* dominant paradigm. More recently, the Gates Foundation, Grameen Bank, and the Ashoka Foundation are effecting profound social change while tackling issues such as primary health, micro-credit, and education. But it is puerile to believe that intervention by the more advantaged on behalf of the poor will be sufficient to reverse our economic ills. As Warren Buffet lamented, "There's class warfare, all right, but it's my class, the rich class, that's making war, and we're winning" (Stein, 2006). True reform and wider distribution of wealth will require legitimate grass roots movements, guided by social movement theory (McCarthy and Zald, 1977; Tarrow, 1994; Hart, 1996; Benford, 1997; Edwards and McCarthy, 2004).

The media has a key role in scrutinizing public policy, ensuring transparency and adopting the role of a watchdog. The tradition of muckraking journalism may be in decline, but as Michael Moore in movies and a variety of bloggers exemplify, it is still alive. A recent example is illustrative. The federal government in India sought to acquire land for the Tata group to set up a factory to build the Nano, the world's cheapest car. The Indian media succeeded in stirring a national debate over this contentious issue. Reacting to this, *The New York Times* commented that, in the Indian context, although land acquisition may be justified from a utilitarian perspective, it is imperative that the fruits of growth be enjoyed by wider sections of society. One of India's best known opponents of large industrial projects argued in the article, "Land is a livelihood, it's not just a property" (Sengupta, 2008: A6).

A fair market would ensure that the fruits of development percolate down to all sections of society. In the Nano factory case just mentioned, a fair market paradigm would require that the land acquisition process be kept entirely transparent. Compensation for land being acquired should include equity and subsequent employment, along with the financial component currently being used. In emerging markets a number of infrastructure projects have been inordinately delayed and occasionally even abandoned due to simmering disputes that arise after the land acquisition process has been completed. More importantly a fair market would guarantee that farmers, whose lands are being acquired for industrialization, will become stakeholders in the new project. Then, post acquisition, when land prices rise as a result of development, the community will not have any regrets about giving up their primary asset for the greater good of the nation.

*Trias politica* (i.e., the separation of powers) is intended to ensure that each of the branches of the state have separate and independent responsibility in order to ensure good governance. The judiciary needs to adopt the role of a guardian or protector of citizens' rights. This becomes especially germane in the current milieu, where governments are often eager to attract foreign investment even on less favorable terms (Hertz, 2001). Ideally both the media (by highlighting excesses) and the judiciary (through *su motto* interventions) should be countervailing forces and proactive in unearthing corruption that is often endemic in some such agreements.

Thus, we suggest that non-profits, media and the judiciary do have critical roles in developing fair markets. However given the extent of the problems that we confront, they cannot do it by themselves.

**ROLE OF INSTITUTIONS**

*The impact of institutions—whether political, social, cultural or administrative—on poverty reduction is pervasive (Deolalikar et al., 2002)*

We are, in this paper, primarily concerned with the role of government and education in advancing fair markets. We hold the view that emphasizing the failure of the state on multiple fronts (education, health care, infrastructure, etc.) does not serve any useful purpose. As we have elaborated earlier, all prevalent economic systems have serious limitations. Moreover, research in other domains, like social entrepreneurship, suggests that, especially in the nascent stages, institutions can play a crucial role in the growth and development of a field (Sud et al., 2009).

We are aware of Guthrie and McQuarrie's (2005) argument that any social benefit resulting from regulation arises mainly from accidental loopholes. Our research, however, suggests that strategic intent can and does result in public benefit, especially among marginal sections of society that markets have largely ignored. Government can also assume the role of a facilitator by providing incentives, or conversely by imposing penalties, which are then used to subsidize initially non-lucrative sectors. This will ensure widespread and, over the long run, more equitable development.

An outstanding example here is the Government of India's (GOI) telecom policy. GOI quickly recognized that telecom infrastructure is a key to rapid economic and social development especially in rural areas. It was also felt that, on their own accord, service providers would prefer to confine their focus to comparatively rich urban areas. Towards this end GOI made specific policy interventions to ensure rural area coverage through various incentive packages. Ironically the initial thrust to achieve this objective as an obligation is now being viewed as a business opportunity. The telecom industry, which extensively covers both rural and semi-urban areas, recently added fifteen million subscribers in March 2009 alone (*Business Standard*, 2009). Economies of scale and scope have enabled extremely low rates—incoming calls are free and outgoing are as low as two cents per minute.

Following this lead, a local government created a special economic zone to facilitate investment in telecommunications. Aiming to be an early entrant in the field, Nokia committed to set up a manufacturing facility in this area. This resulted in the company's component suppliers setting up base close to the Nokia plant. The industrial park has also served as a magnet to attract other international players, all of who wished to invest in the rapidly growing market. All this activity has resulted in the creation of a number of jobs and large-scale socio-economic development of the region.

The other major role of government is stability in decision-making and facilitating conflict resolution, both of which send out positive market signals. Tom Friedman regularly points to the US government's failure to do this in the alternative energy field as a primary reason why America lags behind other countries in developing viable clean energy technologies (Friedman, 2008). Infrastructure investments invariably have long gestation periods, particularly when they are interlinked with the social sector. The government should also set up a regulatory authority to ensure a level-playing field, especially if it is a player in that industry. When inter-firm conflicts occur, as has happened in the Indian mobile phone space, an independent regulator can resolve disputes in an expeditious and equitable manner.

Other government actions, such as limiting the size of firms, or enforcing existing antitrust laws also benefit the poor by making more self-employment opportunities available. Nearly every major industry in the United States is an oligopoly, if not an outright monopoly; and yet the U. S. government has virtually ceased prosecuting violators of its antitrust laws. The most obvious example was the case brought against Microsoft during the Clinton administration—and promptly dropped when the Bush administration took office. These laws were originally passed to prevent unlawful restraints, price-fixing, and monopolies, to promote competition, and to safeguard public welfare (*West's Encyclopedia of American Law*, 2009). Abandoning enforcement of antitrust laws arguably harms the poor not only by allowing price fixing, but also by limiting the competition that the less advantaged could bring to the market as producers.

We also point out the pivotal role that education can and should play in creating fair markets. The American educational system is routinely criticized for de-emphasizing emphasis on the liberal arts (Faust, 2009) and becoming training facilities for corporate employment (Slouka, 2009). To the extent that this accusation is true, it would seem to promote a free market ideology among the populace, while simultaneously dampening the critiques that could lead to a fair market paradigm. Bill Gates bemoaned his lack of social awareness, despite having attended Harvard,

> I left Harvard with no real awareness of awful inequities in the world—the appalling disparities of health, and wealth, and opportunity that condemn millions of people to lives of despair….[H]umanity's greatest advances are…in how those discoveries are applied to reduce inequity. Whether through democracy, strong public education, quality health care, or broad economic opportunity—reducing inequity is the highest human achievement. I left campus knowing little about the millions of young people cheated out of educational opportunities here in this country. And I knew nothing about the millions of people living in unspeakable poverty and disease in developing countries (Gates, 2007).

It seems apparent that educating students to recognize the inequities suffered by the poor is a key to shifting to a fair market paradigm.

## ROLE OF BUSINESS

*Every single social and global issue of our day is a business opportunity* *in disguise (Peter Drucker, as quoted in Cooperrider, 2008)*

Can for-profit firms play a significant role in ensuring the emergence of fair markets? We strongly believe that the answer lies in the affirmative. Even if solely viewed from the perspective of their own long-term survival and growth, firms must play a major role in this domain. Our research illustrates that multiple advantages accrue from drawing the marginalized into a firm's supply chain, one of which is enhanced efficiency at the ground level.

We acknowledge the argument that business may have contributed far more to creating social problems than to alleviating them (Kelley, 2003; Nace, 2003). Recent corporate scandals bear testimony to this. However, we have identified a few exemplars that have used innovative business models to herald a new paradigm. These firms offer important lessons as they have successfully combined making a profit while creating a much fairer environment for their stakeholders. More importantly, as contrasted with corporate social responsibility (CSR) efforts, they are clearly profit driven business initiatives and hence likely to be sustained in the long run.

Business can and must be an agent for social change. The focus of organizations, as we have argued earlier, should not be confined to viewing the poor as consumers. Including them in the supply chain, as one of our exemplar firms, ITC, has so creatively done, will enable the poor to increase their disposable income. This leads to a multiplier effect, which ultimately converts them into consumers and opens up new markets for the firm's own goods and services.

Our research indicates that while attempting to maximize profits, firms should adopt a multi-pronged focus that includes CSR, sustainable business practices and wider profit distribution. Through an abundance approach (Cameroon and Lavine, 2003), systemic change can then be achieved. A discussion on CSR and sustainability are beyond the scope of this paper; however, we observe the irony in the need to be concerned about the poor in the midst of the most affluent period in history. This is evidence that capitalism, as practiced in much of the west, is not doing a good job of distributing its fruits to the lower socioeconomic classes (Middle Class Task Force, 2009).

Firms need to recognize the entrepreneurial ability latent in the poor. Their aversion to risk is merely a manifestation of their constraints, such as limited sources of credit, lack of physical infrastructure, absence of scale volumes, and a weak farm-to-market supply chain. Once these bottlenecks are eliminated, the poor can become active contributing members of society while simultaneously improving their own quality of life. Significantly, our other exemplar company, Fabindia, has negotiated an arrangement with one of India's largest private sector banks to provide capital loans to its weavers against a guaranteed buying commitment (Khaire and Kothandaraman, 2008). ITC has similarly offered its own e-Choupal network as a delivery platform for a bank to deliver credit cards to rural customers who are often the firm's own suppliers (Farhoomand, 2008).

Civil society, social institutions, and business must all be involved in creating fair markets. Moreover, these drivers (as we refer to them) must work cooperatively to bring about this change. Below, we identify certain factors that will allow these drivers to work together more effectively.

**ENABLERS**

Our research has identified three enablers that are assisting the emergence and proliferation of fair markets. Equally important, the enablers facilitate interaction among the drivers described earlier, thus serving as a catalyst towards this end. These enablers are the consequences of globalization, the impact of technology, and the emergence of entrepreneurial activity. All three are dramatically altering the social and industrial landscape and have the ability to effect a paradigm change in the way firms connect with society. We find that the exemplar companies have, to varying degrees, utilized these enablers to empower the poor and marginalized, and to ensure that they then become productive members of the economy. More pertinently, we observed that they were doing this not merely with altruistic motives, but with a continuing focus on profits and delivering stakeholder value. ITC and Fabindia clearly show us that the tradeoff between these aspirations and the greater social good exists only in the minds of managers and scholars, and that their convergence is not only possible, but is being achieved in two vastly dissimilar domains.

(insert Figure 1 about here)

Our model in Figure 1 illustrates how the drivers impact fair markets. We have intentionally connected the drivers due to the influence that they have on each other and the imperative for them to collaborate. For example, civil society's influence on business and institutions is well known and accepted. Similarly, business can engage in conversations with institutions like the government on the need for effective policy making that will work at the ground level. This will facilitate greater investment, leading to further development. Business can also leverage the connections that civil society has with government policy makers. Institutions, in turn, should dialogue with both civil society and business to find ways and means to ensure that growth and development are all inclusive.

Globalization's biggest impact has been to open markets, both nationally and internationally, to small producers who otherwise may not have access to them. As Mr. Sivakumar of ITC maintains, "What farmers need first is empowered access to markets. If that is available, the awareness of rights will follow" (Farhoomand, 2008: 5). We discuss this in further detail in our case studies. In the services domain, globalization has resulted in the emergence of an outsourcing revolution. The global delivery model adopted by IT firms has enabled work to be disaggregated into independent smaller modules and then distributed. Multiple locations and time zones, besides introducing efficiencies and consequent cost reductions, enable a twenty four hour work day, considerably shortening the time taken to complete a project.

Technology, through the digital and telecom revolution, reduces transaction costs, enables cheap and effective communication, and can alleviate rural isolation. This, in turn, creates a knowledge flow, which can sow the seeds of social and economic transformation. Further, the integration of digital technologies into the supply chain empowers the poor by giving them access to market information previously unavailable to them. This increases the farmer's choice set, resulting in more informed and financially remunerative decision-making.

The third enabler facilitating the emergence of fair markets is the burgeoning entrepreneurial activity across nations and societies. The cultural and economic landscape of the US, has to a large extent, been shaped by entrepreneurial opportunities. As awareness of these opportunities spreads globally, entrepreneurs worldwide are powering change and challenging the present-day order. The conventionally held belief that the poor are risk averse and not good entrepreneurs is also being increasingly challenged. Economists have observed that, given the inherent complexity and limitations in their financial lives, the poor are very sophisticated in their use of financial instruments (Rai and Verma, 2009). Our research demonstrates that, as they benefit from more stable cash flows and have adequate risk mitigation tools at their disposal, the poor are prepared to make higher investments in order to earn higher returns. The success of micro-credit has also illustrated that despite their absence of collateral, the poor are extremely credit worthy and are reliable borrowers.

**THE WAY FORWARD**

Can the key drivers we have identified succeed in effecting the systemic change that is required in the way firms engage with society? We believe that the answer here too is in the affirmative. To achieve this end managers need to adopt an abundance approach (Cameroon and Lavine, 2003), coupled with moral imagination (Werhane, 1999).

While a conventional problem solving approach classifies challenges and then selects the optimal alternative among limited options, an abundance approach recognizes spectacular successes. This creates positive deviance leading to a heliotropic effect (Cameroon and Lavine, 2003) and ultimately leads to extraordinary outcomes. In this paper we have sought to identify the drivers and enablers of spectacular successes in the expectation that they will, over a period of time, be accepted as the norm rather than the exception in the way for-profit enterprises engage with society.

Werhane (2002: 33) urged us to "imagine new possibilities…which include those that are not context dependant and that might involve another mental model." The model of the social benefit to the broader society, which ultimately feeds back in terms of increased demand for the firm's own goods and services, should be the paradigm within which all organizations operate. As we have argued in previous papers, this is not a new view of the role of business—rather it is the one in which corporations were conceived (Sud et al., 2009).

History has taught us that those in power (or with wealth) will not willingly give up their positions (Young, 1990). Thus our suggestions will necessarily entail long term grass roots social movements that will force change from free to fair markets. Marx envisioned one possible way this might happen; we hold out hope that such change can be wrought through more peaceful means. Education is a likely starting point, but even that will require substantial change—universality, improvement in outcomes, changed focus on values and concern for others (Faust, 2009; Slouka, 2009). The economic and educational systems we know are complex, interconnected, and designed to maintain the status quo. Changing that will be incredibly difficult and time consuming.

We hence conclude by suggesting that the seemingly complex, so called intractable problems that appear before us can best be addressed by attempting, over time, to alter basic assumptions and mental models that we have developed, along with a systemic approach to problem-solving, rather than treating problems as isolated incidents. Given that scholars have advised us that there are multiple possible framings of any given situation (Werhane, 1999) we suggest that the new model that our exemplars have established becomes the *de facto* paradigm of business. This in turn will lead to spectacular results and avoid the mutually exclusive goal attainment (my success requires your failure) behavior that scholars have long bemoaned (Kohn, 1992).

## ITC's e-Choupal Initiative

*"A commitment beyond the market"*

(*Deveshwar, Y.C., Chairman* )

ITC, an Indian conglomerate has a wide range of interests in sectors as diverse as hospitality, tobacco, packaged foods and IT. The International Business Division (IBD), established in 1990 to engage in commodity trading, procured soybeans and processed them into high protein soya. IBD's revenues substantially lagged behind other divisions due to issues afflicting Indian agriculture. A virtually non-existent supply chain, weak physical and communication infrastructure, as well as inefficient intermediaries resulted in yields that were a third of global standards. Farmers were, in turn, trapped in an unproductive cycle, losing nearly 70 percent of their crop. Lacking quality inputs (seeds, herbicides, pesticides), access to information (on prices, weather patterns, credit) and critical infrastructure, they were beholden to rent-extracting middlemen and usurious moneylenders. IBD was consequently unable to scale soybean procurement and be internationally competitive.

Facing these seemingly insurmountable challenges, ITC adopted a business platform called e-Choupal (which in Hindi means 'traditional meeting place'). The first phase involved setting up rural infrastructure consisting of Internet kiosks manned by specially trained local farmers. This enabled access to information on prices and global agricultural trends. Also available was data on good farming practices and weather patterns to enable better sowing and harvesting decisions. The kiosks were next equipped with basic measuring instruments to scientifically ascertain the quality of the soybean. Farmers, even before harvesting, were able to establish a price range for their crop. The e-Choupal portal, in addition to providing agricultural guidance, has also become a source of primary education and health care services. The data collected from the network enabled ITC to offer insurance policies as well as reasonable credit.

In the next phase the entire farm to market network was revamped by creating rural hubs to facilitate procurement. These were intentionally located within tractor driving distance of each village. This improved supply chain efficiencies by avoiding wasteful intermediation and multiple handling costs (bagging, repeated transportation, and storage) as well as exploitation and unfair business practices (erroneous weighing of the output, delayed payments). Farmers now had an incentive to act entrepreneurially and enjoyed a degree of freedom never experienced before. Strategically ITC never insisted that the crop be sold only to the company. However, given the better price they offered, transparency in the buying process and most importantly the dignity with which they treated the rustic farmer, this objective was achieved voluntarily.

Farmers quickly adopted modern agricultural practices resulting in improved crop yields. ITC, by eliminating the middleman, reduced its procurement cost while achieving substantially larger volumes and effectively built a distribution platform into rural India. With a potential market of 700 million, this segment is rapidly becoming a marketing opportunity for foreign multinationals. The company set up its own rural hypermarkets at the distribution center. Farmers who had come to sell their crop buy seeds, fertilizers and oral care products. An unintended offshoot is that the company's IT services wing, responsible for developing the kiosks, has received consulting enquiries from many developing countries wishing to replicate its success.

All stakeholders have benefited from this innovative business model that has linked the farmer to global markets. IBD's CEO Sivakumar remarked, "The primary purpose of any commercial organization is to deliver shareholder value. If one can do that through serving society—as we have done—then nothing can be more exciting and sustainable" (Farhoomand, 2008: 7).

## FabIndia

*"Yes, it seems contradictory that we pursue both a social goal and profit, but I believe this is the only way to do it"*

(*Bissell, W. Managing Director, Fabindia* ).

In 1958 John Bissell, a Connecticut resident, was traveling in India under a Ford Foundation program to advise India's emerging textile industry. With prior experience as a buyer for Macy's, he identified an entrepreneurial opportunity and established Fabindia in his new home in New Delhi, with the intention of exporting hand woven rugs. John's vision was to sustain employment among rural artisans by providing them access to western markets.

At that time the Indian government was encouraging handloom (cloth made from yarn and spun by hand) production. This unorganized sector generates the largest employment outside agriculture and provides livelihood to craft families. Their hand weaving has a distinctive and naturally occurring quality. Rural artisans, for example, use natural vegetable dyes and wooden hand blocks to produce textiles and finely embroidered products. Being labor intensive and widely dispersed, this cottage industry offered tremendous scope for self-employment. However without access to markets, weavers often lived in abject poverty and were rarely compensated for their efforts, resulting in the sector being in danger of extinction.

William Bissell, the founders' son assumed the position of Managing Director in 1992. Coincidentally around that time Fabindia's main buyer in the UK terminated its long relationship with the company. This was a period when India, having embarked on liberalization, began experiencing high growth rates. The country's $230 billion retail market was, however, dominated by mom-and-pop operations with the organized sector confined to just 3 percent of the market.

Faced with this scenario, Fabindia adopted a retail strategy and attempted to re-define market categories for their products. Using contemporary styles and designs the company created a perceived value in the mind of the customer. Fabindia invested in high-end designer stores and extended their product line beyond home furnishings to include apparel, furniture, organic food and body care products. Being aware that the product had certain inherent drawbacks when compared to mass produced mill yarn (initially they tend to bleed color and shrink), Fabindia made customers aware of the company's ideology and the nature of the unique product they were purchasing . The off shoot is that an 'ethnic look' has become 'trendy and cool' among India's burgeoning middle class as well as discerning international buyers. It is central to our argument regarding fair markets that Fabindia's success was achieved at the same time that prolonged governmental efforts to promote handloom production had generated, at best, mixed results!

In the new business model fabric from suppliers is sent directly to tailoring units to create merchandise. Rural artisans have been integrated into Fabindia's supply chain through the establishment of centers, each incorporated as a company. This has resulted in a ramp up of incoming merchandise as a result of a mutually beneficial relationship with over 15,000 artisans. Being shareholders, they have a sense of ownership, besides enjoying a captive market and an international platform for their products.

In 2009 Fabindia had more than one hundred retail stores and achieved sales of $70 million (Karmali, 2009). This is in spite of the booming retail sector attracting large Indian corporate houses. Foreign MNC's, with their well-established operations and large volumes, have also been wooing the middle class with aspirational brands. Fabindia's success, however, revolves around the sense of ownership in the stakeholders and the crucial linkages they have established with rural artisans and their customers. For example, in order to increase its overseas footprint, Fabindia purchased equity in a 70-store retail chain in the UK in 2009. Significantly, these strategies have succeeded while adhering to the duality of a social mission embedded within a for-profit business model. This is particularly relevant in an emerging market context where, all too often, social tensions emerge when all segments of society do not partake in the fruits of economic liberalization.

William Bessel commented, “I don’t believe in charity or giving things for free. I believe the only way to alleviate rural poverty is to generate sustainable employment and the only way to do that is if we run our business in a profitable manner” (Khaire and Kothandaraman, 2008).

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Business
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Institutions
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[1] Although Locke could easily have conceived the earth providing "enough and as good" for everyone at the time of his writing, world population growth has made this assumption much less fitting. Thus, this limitation would appear to be even more important now than it was in 1690; accumulating more than one can use in a time of surplus is one thing—doing so in times of scarcity has even greater moral ramifications.