

Knut J. Ims

Norwegian School of Economics

Bergen

Laszlo Zsolnai

Corvinus University of Budapest

and

ESC Rennes School of Business

Ethics of Social Innovation*

There are a lot of innovations that have created substantial benefits for large groups of people in the Western World. It is not obvious that the same innovations can create the same benefits in the developing world. Technology development has been focusing on products that can be profitably sold, the market-driven development mainly benefits the rich because the rich has much bigger purchasing power than the poor.

According to Schumacher we need methods and equipment which are (i) cheap enough so that they are accessible to almost everyone, (ii) suitable for small-scale application, and (iii) compatible with man's need for creativity. (Schumacher 1999, 20-22).

Farvar and Milton (1972) argue that to have successful transfer of technologies, one need to consider a culture as a whole. Based on her experiences in Ladakh in Kashmir, Norberg-Hodge (2000) gives deep insight in traditional cultures and local communities that are threatened by Western 'hard' technology in the name of economic progress.

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The paper focuses on innovations that are *social*, i.e. innovations that aims at benefiting people who cannot afford to pay the normal market price for products offered by profit driven corporations.

In this paper we try to gain an insight in what makes an innovation successful for local communities in the developing world. There are some ethical concepts, rules and principles that should be taken into consideration to make an overall judgement on innovations in social context. The *vulnerability of people and communities* calls for special ethical attention.

The Imperative of Responsibility

German-American philosopher Hans Jonas (1984) writes that we need a new ethics of responsibility since our human capabilities has expanded immensely. Jonas emphasizes that the *vulnerability of nature* is the first major issue that modern man should take into consideration. In a way “the nature of human action has *de facto* changed, and that an object on an entirely new order - no less than the whole biosphere of the planet - has been added to what we must be responsible for because of our power over it.” (Jonas 1984, 6-7). An additional new factor is that spatial spread and time span of the cause-effect have increased dramatically, and that many of the major effects of the technological interventions are irreversible.

A new role of knowledge follows also from the new power of man. The knowledge must be commensurate with the causal scale of man’s action (Jonas 1984, 7-8). When the predictive knowledge falls behind the technological knowledge, the importance of ethics is urgent.

The Kantian imperative said: “Act so that you *can* will that the maxim of your action be made the principle of a universal law”. On the background of the power of the new technology we need a new law that Jonas formulates as follows: “Act so that the effects of your action are compatible with the permanence of genuine human life”; or expressed negatively: “Act so that the effects of your action are not destructive of the future possibility of such life” (Jonas 1984, 11).

Knowledge and power imply *responsibility*. What we need is a new and substantive kind of responsibility, a forward determination of what is to be done. Since we cannot be sure of the consequences of our actions, we should follow the *precautionary principle*. The principle

recommends humility for the experts in the specialized sciences because they usually do not see the whole picture, the full ecological system. Thus experts should have a humble attitude toward problems they try to handle. Jonas claims that “The existence of “Man” must never be put at stake”, and that this principle “forbids certain technologically feasible “experiments”. It means that we should treat, for the purpose of decision, the doubtful but possible as if it were certain”. In this way *caution* becomes the core of moral action (Jonas 1984, 37-38).

The Concept of Social Innovation

Two criteria are needed to be met for considering something as an innovation: (i) *novelty*; it must be new to the user, context, or application and (ii) *improvement*: it must be more effective or more efficient than the pre-existing alternatives.

Phills, Deiglmeier and Miller (2008) provide a definition of social innovation as follows: “A novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions, and for which the value created accrues primarily to society as a whole rather than private individuals. A social innovation can be a product, production process, or technology, but it can also be a principle, and idea, a piece of legislation, a social movement, an intervention, or some combination of them.” (Phills, Deiglmeier and Miller 2008, 39)

Social innovations are needed when the ordinary market fails, and there is a huge need for creating social value – rather than creating private value for entrepreneurs, investors and ordinary consumers. In order to generate social innovations that do not have dysfunctional effects, one should have a reflection about values that are involved in the innovation process (Grønhaug 1988). Social innovations and ethical reflections should go hand in hand.

Cases of Social Innovation

We will analyze some important social innovation cases which have great and lasting implications for the developing countries. Three cases that we present are exemplary positive cases of social innovations. The first case is *Medicines for River Blindness* by Merck Company. The second case is *Microcredit* by Grameen Bank. The third case is *Fair Trade* by Max Havelaar. In order to explore the relevant ethical aspects of these exemplary cases, the well-known case of *Nestlé’s Baby-Milk Formula* is used as a contrast case.

Nestle and the Marketing of Baby-Milk Formula in Africa

The history of Nestle is connected to the invention of infant formula. Henri Nestle, the founder of the company developed the modern form of baby-milk substitute more than 100 years ago. First, the formula targeted upper-middle class women in Europe, in particular mothers who were not able to breast-feed their babies. The product was also marketed in USA, and after some time the promotion of the product became so successful that by the end of 1960s only 25 % of babies born in North American hospitals were breast-fed after their mothers returned home. However, there has been a strong evidence that breast feeding is superior to any kind of milk substitutes from a health and nourishment point of view.

When birth rates began to decrease in industrialized countries, Third World countries became an attractive market for baby-milk substitute products. In the late 1970s, Nestlé received much criticism for its baby milk marketing policies in developing countries. This centered on the company's promotion strategies which presented Nestlé milk substitutes as a risk free, healthy product which is more beneficial than breast milk. As a result, mothers who might otherwise have breastfed or nursed started using Nestle's infant formula products. The babies then exposed to widespread health problems caused by mixing formula with contaminated water. UNICEF estimated that a non-breastfed child living in disease-ridden and non-hygienic environment is between six to 25 times more likely to die of diarrhoea and four times more likely to die of pneumonia than a breastfed child.

Nestlé allegedly violated the International Code of Marketing of Breast-milk Substitutes ("International Code"). This led to a boycott coordinated by the International Nestlé Boycott Committee by the International Baby Food Action Network. In 1982 Nestlé finally implemented the International Code in its marketing practices in developing countries. (For the whole account of the Nestle case see Sethi (1994) and Post (1995).)

River Blindness and Merck & Co.

Merck & Co. is an American drug company with a worldwide sale of USD 2 billion a year. In 1977 a researcher who worked for the company, discovered that an animal drug, *Ivermectin*, might eradicate the parasites that cause river blindness. The question soon became pressing; should the company work further in order to develop and produce the medicine for humans in

large quantities to cure river blindness? (Velasquez 1998, Weiss and Bollier 2013, and Musings 2012)

River blindness is a serious disease that affects more than 80 million people in tropical regions of Africa and Latin America. The disease is also known as Robles' disease, and is caused by a parasitic roundworm which is transmitted to a person through the bite of a black fly. The worm grows inside a human's skin in a circular shape, reaching up to two centimeter in diameter. The worm also reproduces by releasing millions of microscopic bacteria called microfilaria that cause intense lesions and itching and ultimately blindness. The itching in itself has been so tedious that infected persons have committed suicide.

The people who effected by this disease are typically living in remote villages. They are very poor and their purchasing power is almost zero. There is therefore no prospect for making a profit in the ordinary sense with developing and marketing such a medicine for these people.

Scientist William Cambell and his research team appealed to Merck's Chairman P. Roy Vagelos to receive a funding for developing the drug. The Merck top management was faced with a number of issues including

- The cost of research and development of the drug would be more than USD 100 million while the prospect for profit is minimal because the victims in general were too poor to afford to pay for the drug.
- The distribution of the drug requires a huge investment in infrastructure and distribution channels.
- The reputation of Merck would be negative if the drug did not have the intended effect on people, and this impact might reduce the sales of the animal version of the drug.
- The US Congress was about to pass the Drug Regulation Act, which shortens the time for patents, and in effect increase the competition in the drug industry.

These conditions were not favourable for the funding of the river blindness drug project. However after several meetings, Merck's Chairman, Vagelos concluded that the project should be funded due to the moral obligation to the affected people in spite of the costs and the little chance of making a profit. The potential benefits of a drug for river blindness were too significant to ignore. The main argument to support the project was Merck's celebrated credo: "*Medicine is for the people. It is not for the profits. The profits follow*".

After seven years of research and a number of clinical trials, Merck had developed a medicine that was able to eliminate the parasite that cause river blindness and prevent new infections. The next stage was to sell the pill and Merck's officials contacted World Health Organization, the US Government, and the governments of nations affected by the disease in order to have compensation for the production of the pills.

Merck then decided that the drug should be free for the victims of the disease. But which distribution channel can be used? In cooperation with WHO, representatives of Merck financed an international committee to provide the necessary infrastructure for distributing the drug to people in the developing countries.

By 1996, the drug was successfully brought to millions of affected people through the help of voluntary organizations and governments.

Microfinance by the Grameen Bank

The idea of microfinance is that poor people, especially women, should be provided with financial capital upon reasonable terms. In this way poor people could avoid high usury charges. By lending small amount of loans ('microloans') to poor people they could realize their dreams, for example starting a small business or earn some income. The need was to develop a new type of banking and providing a safe place to keep the borrowers money. One way was to develop a system of community banking where small informal groups can do business with the banks.

The idea of microcredit has been developed by Mohammad Yunus, the founder of Grameen Bank in Bangladesh. The underlying premises is that the poor have skills that are either non-utilized or under-utilized. What make people poor are not the lack of skills, but the institutions that prevail in the society. (Yunus 2011) To eliminate poverty in the society, it is necessary to change the institutional context. The paradox of help is taken into consideration, which means that charity is not the best means to avoid poverty, because it may become counterproductive. Charity usually creates a vicious circle of dependency which may destroy personal responsibility and initiatives. The answer is "fitting help", that is, providing people with the adequate means to help themselves, which increase their self-esteem and unleash their energy and creativity. (Ims and Jacobsen 2010, 170-171)

Solidarity lending is a cornerstone of Grameen Bank. Although each borrower must belong to a five-member group, the group is not required to give any guarantee for the loan received by its members. Repayment responsibility solely rests on the individual borrower, while the group and the centre oversee that everyone behaves in a responsible way and none gets into a repayment problem. Such behavior is facilitated by Grameen's policy of not extending any further credit to a group in which a member defaults.

There is no written contract between Grameen Bank and its borrowers, the system works on trust. To supplement the lending, Grameen Bank also requires the borrowing members to save very small amounts regularly in a number of funds like emergency fund, group fund etc. These savings help serve as an insurance against contingencies. (Yunus 2011)

Fair Trade by Max Havelaar

The 21st century global economy has created massive market driven social changes, and big corporations take the lead the development often characterized as ‘race to the bottom’ in which corporations in many cases exploit the low-cost countries. One result is reduced biodiversity and millions of poor producers in the world caught in poverty trap.

In the 1950s a partnership started between non-profit importers and retailers in the North and small-scale producers in the South. The idea was that local producers need a fair income, and bypassing the middlemen they can get direct access to markets in the developed countries. In 1988 a Dutch NGO, *Solidaridad* developed an innovative way to increase sales for the local small producers of the South. They created a label, called “Max Havelaar” which guaranteed that the goods met certain environmental and labor standards.

Max Havelaar is only one of a number of Western initiatives to create a fairer trade. Other examples include Oxfam, Christian Aid, Tradecraft, Gepa, TransFair USA. However Max Havelaar became one of the most successful innovations. In 1997 Fairtrade *Labelling Organization International* (FLO) was established. FLO is an umbrella organization which set the Fairtrade standards, and support, inspect and certify local products. It includes 17 national initiatives and is the largest social certification system in the world. It is headquartered in Bonn, Germany with offices and network of independent inspectors in Central and South America, Asia and in Africa. Today fair trade certification marks are used for a number of

products including coffee, tea, rice, bananas, mangoes, cocoa, sugar, honey, fruit juices, nuts, fresh fruits, herbs, spices and wines.

The fair trade model implies a partnership - based on dialogue, transparency, and respect - that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers in the South. Backed by Western consumers fair trade organizations are engaged in supporting small producers and their communities and campaign for changes in the rules and practice of international trade.

Several conditions have to be met for becoming part of a fair trade organization (Hira and Ferrie 2006). (i) The producers should receive a price for the product that covers the cost of production. (ii) The local community should get a social premium for funding development projects. (iii) A partial payment should be given in advance to avoid that small producers or their organizations fall into debt. (iv) The producers should have contracts that allow long-term planning. (v) The producers and the importers should develop long-term trade relations that allow sustainable production practices. (vi) Producers must be part of democratically managed cooperatives. (vii) Sustainable environmental practices should be promoted.

Discussion

What was wrong with Nestlé's marketing strategy? In the Third World the *fittingness* of the *product* in the targeted social environment is crucial. Marketing techniques should not exploit the vulnerability of the customers. Nestle did not use post-marketing reviews to monitor the use, resale, and consumption of its products, and did not consider the strategy of demarketing, that is to withdraw of the product or to limit the selling of the product when needed. (Post 1995)

In his book "The Market for Virtue" David Vogel (2005) emphasizes that it was the pressure by the employees in the Merck case that pressed the innovation through the organization. In the case of fair trade organization Max Havelaar, we find that the innovation started by concerned individuals of Western society. The starting point was that a couple of help workers of a NGO had direct meetings with poor Mexican coffee workers. During the dialogue the NGO people developed a clearer understanding of the problems of coffee workers.

In the case of microfinance the role of Mohammed Yunus was crucial. He was member of the upper middle class in Bangladesh. His story began when he started to listen to poor people and learnt what are their main problems. He realized that at the bottom of the pyramid there are many poor people who has initiatives and skills, but lack the money to start projects. Yunus developed a deep understanding of the context and started to act on his insight: lending small amount of money to people who are not trusted by conventional banks and consequently not allowed to borrow money.

It is striking to see how the goals were different in the cases of the two market-driven corporations, Merck & Co and Nestle. While Merck & Co wanted to minimize suffering by helping sick people, Nestle wanted to make profit. We may distinguish between materialistic and spiritual value orientation. Tim Kasser (2011) finds that materialistic value orientation involves placing a high priority to goals such as money, possessions, image, and status. In contrast with materialistic value orientation Kasser characterises spiritual value orientation with goals like reducing human suffering and encouragement of compassionate behaviors. (Kasser 2011)

When Nestle marketers were observed in white clothes like nurses promoting the Baby Infant Formula in Africa, a strong public reaction was made against Nestle. This kind of ‘milk nurses’ were perceived as a manipulative technique to sell a product that might seriously harm babies. Nestle followed a strong materialistic value orientation in this case based upon the belief that the main goal of business is money-making, and that success should be measured by the generated profit only. (See Bouckaert and Zsolnai 2011)

Merck’s medicine developed for the poor is a striking example of a positive treatment of suffering humans. Providing pills to everyone who needs it through health care personals is a safe and effective way to distribute medicines. Nestle sold its baby instant formula that needs educated mothers and modern life-conditions in order to use the product in an appropriate way. Many of the mothers in Third World countries who bought the product did not have the necessary education to understand the requirements.

Farmers who participate in the fair trade projects of Max Havelaar obtain a guaranteed minimum price and receive credits. One of the preconditions is that a part of the profit gained by the producers should be shared with the community in which they live. In this way the individual farmers contribute to important community projects, and thereby increase the life quality of the members of their communities. Using micro-loans the borrowers of Grameen

Bank contributes to the development of their families and the revitalizing of their communities.

Schumacher's emphasis on intermediate technology and local production fits well into the cases of Max Havelaar and Grameen Bank. In both cases local resources are mobilized, and the talents possessed by ordinary human beings are cultivated. When poor people get small money to realize their projects, they find appropriate solutions that advance their communities and culture.

We summarize important similarities and differences among the four cases analysed in the paper by using variables such as goals, means and skills/resources needed for adopting a technology. Our findings are summarized in Table 1.

(insert Table 1 here)

Concluding remark

We have studied fair trade, microfinance and Merck and Co. as examples of social innovations that improved the life conditions of the poor in the developing countries. We contrasted these cases with Nestle marketing of the baby milk formula in Africa. Unlike the Nestle case, none of the exemplary social innovation cases involves profit as the primary goal but emphasize social, spiritual and humanitarian goals such as minimizing suffering and empowering people and communities.

The business models of the *Bottom of the Pyramid* (BoP) approach (Prahalad 2004, Hart and London 2005) receive worldwide recognition today. BoP means developing innovative businesses to serve the largest, but poorest socio-economic group in the world. In global terms, this is about four billion people who live on less than USD 2.50 per day. However, we can predict that if BoP businesses do not transcend the logic of mainstream, materialistic business they will finally fail. *Sensitivity to local cultural needs* and an *ethos for serving the common good* appear as the preconditions of any successful and lasting social innovation by business.

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Table 1 *Comparison of Social Innovation Cases in Developing Countries*

	<i>Goals</i>	<i>Means</i>	<i>Skills and resources needed by the user</i>
Nestle	profit making	aggressive selling strategies using “milk nurses”	demanding product
Merck	minimize suffering	giving medicines for free	product simple to use
Microfinance	empowering people	lending small amount of money to the underprivileged	forming local groups for the lenders
Max Havelaar	helping local producers and their communities	providing access to the market of developing countries	establishing cooperatives for production