THE LEGITIMACY OF DIRECT CORPORATE HUMANITARIAN INVESTMENT

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Abstract: Private firms are uniquely positioned to provide significant relief to the misery that pervades the developing world. Global misery has persisted due to a variety of failures in the provision of relief by nation-states and non-governmental organizations, including corruption and the absence of strong background institutions in the countries in need of aid. In many situations, private firms have a comparative advantage over these entities in the provision of aid. Examples such as Merck and the cure for river blindness show how firms can use their specific competencies and knowledge to relieve misery through Direct Corporate Humanitarian Investment (DCHI). DCHI is legitimized by marketplace morality and is consistent with the role of business within society, including legal dimensions. Shareholders may formally approve a corporation's DCHI strategy and all stakeholders may act in support of their moral desires with respect to the firm and its DCHI strategy.

> Global business can no longer "assert that 'the only business of business is business.' It should seize the opportunity to be an active participant in contributing to greater stability, prosperity and sustainability." Caux Round Table 1997, p. 7

Humankind has the current capacity to alleviate the appallingly high levels of human misery[1] that exist at the end of the 20th century. The reasons for the persistence of misery are varied and complex. A critical dimension is the failure to direct readily available resources to those in greatest need. Many public and private entities seek to deal with dimensions of misery by providing essential supplies and services or by seeking to eliminate the causes of misery. Among the relief providers, private corporations play a vital, though often indirect, role in reducing misery. But to date, the efforts of all of the providers have not been nearly enough. This essay advocates and justifies a strategy of voluntary direct corporate humanitarian investment as a powerful, targeted weapon against misery.

I. Direct Corporate Humanitarian Investment

Direct Corporate Humanitarian Investment (DCHI) involves a firm using its resources and know-how to alleviate a particular instance of human misery. It requires that corporate employees and resources be used in reference

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to a specified humanitarian goal or target. DCHI is a purely voluntary act reflecting and demonstrating the core values of a firm. It does not require or involve any form of compulsion. Passive corporate philanthropy—where only money is given toward a cause and the donee is allowed full unsupervised discretion as to the use of the funds—is not synonymous with the concept of DCHI.[2]

Examples of DCHI include Merck's development and distribution of ivermectin to control onchocerciasis (the cause of river blindness) in Africa (Bollier 1991), Intel's contributions to math and science education programs in developing countries (*Business World* 1998), Johnson and Johnson's efforts to provide relief to victims of natural disasters (Johnson and Johnson 1999), Monsanto teaching farmers in impoverished regions of Africa and Southeast Asia the necessary techniques to grow crops in adverse conditions (Monsanto 1999), British Petroleum providing solar-powered refrigerators to doctors in Zambia to store anti-malaria vaccines (Garten 1998), and UPS airlifting food shipments to Kosovo refugees (Freudmann 1999). These examples are only a few among many, but they serve to demonstrate the wide variety of strategies and needs encompassed by the concept of DCHI. The definition of "humanitarian" is open to diverse and creative interpretations, ultimately to be tested in the morality found in consumer and capital markets.[3]

In the sections that follow, we identify some of the reasons for the persistence of human misery, ask whether private firms have some comparative advantages *vis-a-vis* other sources seeking to alleviate misery, describe in greater detail some representative examples of DCHI strategies, including joint ventures, and finally, discuss whether DCHI strategies are consistent with current ideas concerning the role of the business firm in developed nations.

II. The Persistence of Human Misery

> Threats to a prosperous and sustainable society include the gulf between rich and poor both within nations and between the successfully industrialized nations and their less developed neighbors. Social unrest and discontent are increased by deprivation, inequalities, religious fanaticism and organized crime. Caux Round Table 1997

The global economy has seen an enormous increase in wealth during the last decade. Simultaneously, humankind has continued its century-long increase in the storehouse of knowledge about how to relieve misery through interventions that improve human health and well-being, food production, environmental control, and similar vital practices. In spite of these positive developments, millions remain without an opportunity to obtain the core elements for living an acceptable existence: sufficient nutrition, adequate health care, basic education, sustaining employment, and protection from physical harm. The degree of deprivation is nearly beyond comprehension for those living in comfort in developed countries. In developing countries, over one billion people live on less than one U.S. dollar a day, one-and-ahalf billion do not have safe drinking water, and nearly 900 million are malnourished (Speth 1999).

For-profit corporations, assisted by public policies freeing markets and supporting the autonomous choice of individuals, are at the heart of many of the recent advances in wealth and knowledge. The primary contribution to the alleviation of misery by private firms has occurred through job creation, thereby empowering people to seek and obtain the core elements of an acceptable existence for themselves and their families. But in order for economic empowerment of employees to alleviate misery, health care, education, police protection, and other vital services must be available locally at reasonable prices. Often these are not available and even those people with jobs end up living lives of misery. Private corporations, however, have some capacity to influence the provision of essential services by local governments, particularly within market environments allowing resources to be allocated as desired by local populations.

Although this essay focuses on the role of private corporations, the direct alleviation of human misery has been part of the agenda of a wide variety of public and private agencies and entities. Developed countries provide a significant amount of financial aid to the less fortunate countries. For example, Japan, which was able to rebuild itself after World War II with the critically necessary help of foreign aid, has become one of the largest providers of aid, giving over $9 billion in 1997 (*Daily Yomiuri* 1998). In terms of aid as a percentage of economic output, Denmark gives almost 1 percent of its GNP to developing countries (Deans 1997). Developed countries also sponsor specific operations, such as the educational and agricultural assistance associated with the justly praised United States Peace Corps. Private charities and NGOs, such as the Red Cross, sponsor critical interventions, as do wealthy individuals acting alone. UN and other international or regional governmental entities, for example, the European Community, respond to needs within the areas of their interests and defined agendas. The international lending agencies, the IMF and the World Bank, have initiated programs to deal with specific problems, such as arsenic poisoning in Bangladesh (World Bank 1998b), in addition to their general policies focused on poverty reduction (World Bank 1993). Certainly a, if not the, critical role, in either contributing to or alleviating human misery is the role of nation-states. The front line is typically the nation-state that acts as a direct provider of social services, educational programs, public health projects, and personal security.

III. Factors Contributing to the Persistence of Misery

Do private corporations possess key comparative advantages versus other agencies and entities in acting to alleviate misery? There are many culprits in the crime of continuing misery. A brief consideration of the most obvious will help in assessing any significant advantages for humanitarian actions by business.

First and foremost among the culprits is the insufficiency of background institutions in the nations where the needs are the greatest. Critical institutions include public health centers, police, schools, hospitals, and agencies charged with inspecting workplace conditions or environmental discharges. These institutions also include the political bodies charged with establishing policies on the allocation of resources. When underfunded and lacking competent staff, they are incapable of providing a minimally acceptable response to misery. In a recent study on the effectiveness of foreign aid, the World Bank found that aid has little impact when the necessary institutions are weak or missing (World Bank 1998a). Purely financial interventions from the outside can easily be rendered useless by misguided policies in the donee country. It is reported that over a 20-year period Tanzania spent $2 billion on building roads that deteriorated at a faster rate than they could be built (World Bank 1998a). Weak policies or simple incompetence can also contribute directly to human suffering when, for example, HIV-infected blood is given to patients (Updike 1996), defective bridges and buildings are built (Promfret 1999), or the distribution of defective drugs results in the deaths of many children (Masland and Marshall 1990). Poverty often begins at home and because they are often significant contributors to the misery to begin with, weak, corrupt, or ineffective local governments are constitutionally incapable of participating in major programs of alleviation.

A second vitally important culprit that is only recently getting appropriate attention is the persistent and widespread existence of corruption at all levels of the process by which efforts are made to alleviate misery. Corruption is particularly appalling when it involves the diversion of foodstuffs intended to eliminate famine, or the diversion and resale for personal profit of medical supplies sent in response to an emergency. For example, recently in Puerto Rico, several public officials pled guilty to, and the Governor has been accused of, embezzling $2.2 million in aid intended for the treatment of AIDS victims (Perry 1999). Corruption is particularly and disproportionately associated with public and quasi-public agencies. The enormous diversions of national resources into private accounts that occurred in places such as Nigeria and Indonesia are matched by allegations of similar actions against the members of the European Commission and even the claim that the World Bank is a "beehive of corruption" (Dunne 1999). In Zaire, Mobuto Sese Seko reportedly amassed one of the world's largest fortunes by diverting much of the foreign aid sent to alleviate misery in his beleaguered country to his own off-shore accounts (World Bank 1998a). Most importantly, corruption often interferes with the provision of the core services necessary for the elimination of poverty. An IMF economist has found indications that the more corruption that exists in a country the less that is spent on education and public health services (Mauro 1998). In countries such as Angola, nurses making less than $2 a day are demanding bribes from patients in exchange for medical supplies (Murphy 1998).

A third factor is the phenomenon of local armed conflicts that prevent even competent local institutions from providing services and cause the destruction of needed supplies. Military interventions may also interfere with private provision of relief. In Sudan, where civil war has been waged nearly ceaselessly over the last 40 years, it is estimated that over two million people face starvation. In response, the UN has provided its largest food aid to date, with costs at times exceeding $1 million per day. However, the Sudan People's Liberation Army has taken the liberty of assessing a 20 percent "tax" on foodstuffs sent to alleviate famine, resulting in well-fed soldiers surrounded by starving civilians (Lovgren 1998). In the 1980s, civil wars in El Salvador prevented public schools from operating in the rural areas (World Bank 1998a). Armed conflicts also place severe hardships on neighboring countries. The ethnic cleansing campaigns in Kosovo caused thousands of ethnic Albanians to flee the country and seek refuge in Macedonia, Bosnia, and other neighboring states. The huge inflow of refugees placed those countries in a state of crisis and strained the public aid their governments tried to give their own citizens (Smith 1999).

Additional culprits include such things as resistance to innovative strategies by bureaucrats who are threatened by novel strategies. An example of this occurred with Merck's lauded decision to develop and then distribute Mectizan, a drug responsive to the plight of millions of people afflicted by river blindness.[4] In spite of the ultimate success of this strategy there was resistance on the part of governmental groups to Merck's early efforts. For example, the World Health Organization (WHO) had developed a strategy of spraying to kill the flies that transmitted the disease. A substantial bureaucracy had been developed to carry out this program and this may have contributed to the WHO's initial coolness toward Merck's interventions. Similarly, it has been suggested that NGOs often engage in excessive duplication of effort as they compete to receive recognition for providing aid in high-profile crises (Maren 1997). NGOs seek this recognition in order to attract the funding and support they need to survive. The World Bank has found that such donors often like "to 'plant their flags' on something tangible," resulting in lack of coordination among donors and significantly reduced effectiveness of aid (World Bank 1998a, p. 105).

IV. The Comparative Advantages of Private Firms in Alleviating Misery

Perhaps the most significant advantage of private firms is their ability to control the demand side of bribery so that it does not corrupt their own internal operations. Although some instances of private corruption have been identified, as with the case of American Honda marketing executives who took payments in return for decisions to allocate much-in-demand models to dealerships (Dunfee, Smith, and Ross 1999), there are many fewer reported cases of private managers *taking* bribes than of public sector bribery. Thus, it appears that there is much less internal corruption in the private sector.[5] Private firms have extensive systems of internal accounting control, are subject to independent audits as a price of access to capital markets, are able to sanction employees without the intervention of political influence, and are vulnerable to competitive pressures if they consistently allow the second-best decisions that are the likely product of bribes. All of these factors serve to reduce the internal influence of corruption.

Private firms are better able to redirect resources in a new direction, or as the popular concept would have it, to reengineer themselves. This means that the type of reactionary resistance engaged in by civil servants may be less likely in private firms. There was no evidence of internal resistence within Merck comparable to that of the WHO. Yet it was possible because those running Merck's veterinarian business may have been concerned that mishaps with human treatments of a derivative drug would have a negative impact on their highly profitable sales of ivermectin, the source drug for Mectizan.

An important comparative advantage for private firms exists in the unique competencies and knowledge they may bring to the solving of a particular problem. Firms may possess patents or have other proprietary knowledge that puts them in the best position for dealing with a particular problem. This was the case for Merck, where their patent for ivermectin limited the ability of other firms and government agencies to conduct effective research on that drug's potential to control river blindness. Further, they already had research experience with ivermectin and knew its impact on animals. In addition to their knowledge about that drug, Merck had systems in place for the distribution of drugs, had experience working with public health authorities, and had worked over many years to refine and make efficient the entire process of drug development, delivery, and administration. As demonstrated by the example of Mectizan, a firm may be in a position to piggyback a humanitarian effort on top of a for-profit operation.

Even though certain comparative advantages for private firms can be claimed, it goes without saying that the ultimate role private firms can play is necessarily constrained by limited resources and capabilities. The fact that they have certain advantages does not lead to the conclusion that they bear the primary responsibility. The scope and depth of the problems of misery are such that international, regional, and local governments will continue to play a leading role in the efforts to alleviate misery. Instead, what is to be hoped is that governments will be open to, and even support, the complementary efforts of private firms. In the process, governments may also learn from such interventions and improve their own performance in these essential tasks.

V. Successful Examples of Direct Corporate Humanitarian Investment

The widely publicized Merck-Mectizan case serves as a prime example of a firm acting within its own specialized areas of expertise to respond directly to a factor causing significant human misery. Merck scientists noted that a veterinarian drug, ivermectin, might have properties that would be responsive to the symptoms of onchocerciasis. This disease, known as river blindness, exists primarily in poorer countries in Africa. The disease is transmitted through the bites of black flies whereby larvae enter the victim's body. The larvae produce offspring that cause itching so severe some people have committed suicide and, if the eyes are affected, blindness. The drug developed by Merck scientists provided significant benefits to those afflicted with just one oral dosage a year.

Merck incurred great costs in developing the drug; costs that could not be recouped directly from those who had the disease because they were too poor to pay a profit-generating price. Ultimately, Merck spent ten years developing the drug and then decided to give the drug away without charge. Moreover, Merck helped distribute the drug to remote areas.

The intervention was significant for another reason; it established a precedent, even a benchmark for Merck's competitors. The major drug companies of the world may have the existing capability to alleviate large pockets of suffering in the developing world. The types of illnesses and afflictions that affect millions globally have already been eliminated or at least substantially controlled in the developed world. Unlike cancer and AIDS, these illnesses lend themselves readily to known treatment regimens.

Merck demonstrated that a firm can act to alleviate misery and it has received praise, not condemnation, for its "diversion" of shareholder resources toward a DCHI strategy. Due to the success of this example, it is not surprising that other firms have followed suit with similar DCHI strategies. Pfizer has announced a $60 million commitment to eliminate Trachoma (an inflammation of the eyelid that is the leading cause of preventable blindness), while SmithKline Beecham has committed a significant sum to donate one of its drugs, albendazole, to assist in the elimination of lymphatic filariasis, known as elephantiasis (Pilling 1998b). These efforts should improve the lives of many unfortunate individuals as horrible diseases with awful symptoms are brought under control.

A similar example is Intel providing education in math and science in countries in which they have plants. Education is an essential component of improving conditions in a developing country. Adverse conditions in a country, such as corruption (Mauro 1998), can lower government spending on this necessary institution. Intel has aided the countries in which it operates by not only providing money and resources, but having its employees volunteer and work as mentors for the students. A manager for Intel Corporate Contributions states, "This is a strategic investment. Every one of our programs has a component in which an employee has to be involved" (*Business World* 1998). These programs began in the U.S. and have shifted to Ireland, Malaysia, the Philippines, and Costa Rica. In the Philippines, where almost one-third of the country earns less than $1 a day (Speth 1999), children in many schools have gone from no exposure to technology to receiving Intel's used computers (a practice termed "waterfalling") (*Business World* 1998). In addition, Intel sponsors an international science fair, which brings high school students from over 40 countries to the United States to compete for prizes, and more importantly, may provide a gateway to higher education at home or abroad.

To help alleviate poverty, Citicorp has provided significant funding to Microcredit Summit. Microcredit Summit is a group of over 1,000 private organizations that provide small loans, generally less than $100, without collateral, to individuals in developing countries attempting to start a business. The "microcredit" practice was pioneered over 20 years ago by Muhammad Yunus, who founded the Grameen Bank, and used premiums from insurance policies initially to provide small amounts of credit to groups of people, often for the development of a crafts business (Melvin 1998). Since that time, the Grameen Bank alone has lent $2.1 billion to over 2 million people in Bangladesh, 94 percent of whom were women[6] (Authers 1998, Melvin 1998). The payback rates have been exceptionally high. The success stories for microcredit arrangements throughout the world are many. For example, a 72-year-old woman living in a "squatters village" in Manila, Philippines, took out a $133 loan to begin a kerosene lamp making business with her three adult children. She was then able to begin buying glass jars from a dump to build the lamps and create a business that soon profited $30 a day (*Washington Post* 1998). Microcredit loans are not a panacea for poverty, but they are a valuable aid and allow developing countries' economies to be strengthened from the bottom up. While several sources report a repayment rate of over 95 percent on these loans (Authers 1998, Platt 1998, *Washington Post* 1998), the subsidization by corporations such as Citicorp is necessary to provide below-market rates of interest and to allow the microcredit industry to attain its goal of providing loans to 100 million families throughout the world (Platt 1998).

VI. Joint Venture DCHI Strategies

To most effectively combat human misery, it will often be necessary for corporations to combine their efforts. As discussed briefly above, some argue that NGOs and other donors often fail to act together, resulting in duplicated efforts and general inefficiency. These donors often focus on staking ownership claims on specific projects, and quantity has regularly taken priority over quality (World Bank 1998a, p. 117). These factors can make coordinated efforts extremely difficult, to the detriment of the aid-dependent country. Only time will tell if similar factors will be a problem for DCHI, but the increasing use of alliances in the private sector suggests that corporations know how to, and are willing to, leverage each others' distinctive competencies to produce results (see Dyer and Singh 1998, Gomes-Casseres 1994). These alliances are not simply two-way relationships, but groups of corporations working together. In a country where the needed background institutions are missing and policy is misguided, and it is therefore necessary for any donor "to take service provision directly into its own hands" (World Bank 1998a, p. 104), an alliance of corporations (which could also include NGO donors) may be the most effective way to provide aid.

Take for example the problem of AIDS in the developing world. In 1998, 2.5 million people died from AIDS. Of the more than 30 million people infected with HIV, 90 percent live in the developing world. In some African countries, between 1993 and 1998 the spread of AIDS caused the life expectancy to drop by more than twenty years (*Observer* 1998). There is no cure for AIDS, but many preventive steps can be taken—steps that few political leaders have made a priority (*Economist* 1999).

One area where the risk of AIDS transmission can be significantly lowered is the transfer of HIV from a mother to her baby.[7] Recent studies have shown that administering a short course of the drug AZT to the mother can reduce the transmission rate by up to 80 percent if the mother also does not go on to breast feed (Pilling 1998a). In the developed world, this treatment would cost $1,000, which is prohibitively expensive. Glaxo Wellcome, the manufacturer of AZT, however, has negotiated a deal with UNAIDS to sell the drugs at a substantial discount, which could place the cost of a functional, short course of AZT at around $50 (Pilling 1998a). Of course, the problem cannot be solved that easily as the mothers must find a safe and cost-effective alternative to breast milk. In the developing world, the risks to the baby from drinking impure water may be greater than the risks of contracting HIV from the mother (Pilling 1998a). Thus, to provide effect treatment,[8] several corporations with varying resources and competencies must work together in an alliance, providing the needed drugs, safe drinking water, a breast milk alternative, and so on. Since political bodies have not made this a priority, and the various aid agencies do not have the needed resources or alliance-forming capabilities (or are prevented by some conflicts of interest), corporations are arguably in the best position to end this type of misery. Thus, joint alliances between different firms, or among firms and government agencies, may be the most effective solution to critical aspects of misery.

VII. Legitimizing Direct Corporate Humanitarian Investment

DCHI involves a firm engaging in a strategy of direct response to a particular source of human misery. This is in contrast to a charitable contribution where a corporation simply gives money to another entity to further a particular cause, e.g., a donation to a university to support research responsive to a certain problem. DCHI is seen as preferable to corporate philanthropy in that it involves a corporation using its particular competencies and advantages to deal with a problem of special interest to the firm. Direct corporate involvement is consistent with today's spirit of volunteering in which individuals seek to apply their own skills and talents to solve community problems as opposed to just giving money to a charity.[9]

The key normative question is whether DCHI is consistent with the role of a corporation in a capitalistic, democratic society. The first author has recently argued (Dunfee 1999) that a social contracts based analysis recognizing manifest morality within capital, consumer, and labor markets can be used to justify the following principles of corporate governance:

1. There is a (rebuttable) presumption that all corporate actions must be undertaken to maximize shareholder wealth.

2. Managers must respond to and anticipate existing and changing marketplace morality relevant to the firm that may have a negative impact on shareholder wealth.

3. The presumption in principle 1 may be rebutted where clear and convincing evidence exists that marketplace morality relevant to the firm would justify a decision that cannot be shown to directly maximize shareholder wealth.

4. Managers must act consistently with hypernorms (manifest universal norms and principles).

Because marketplace morality is the ultimate test of whether a particular DCHI strategy is sufficiently humanitarian, the DCHI concept is fully compatible with these four principles. Perhaps most important, however, is whether the DCHI concept is compatible with the law of corporate governance in the United States and other developed countries. It would be tragic if it was not. However, sound arguments can be made, reflecting even the arguments of some of the most conservative scholars, that a DCHI strategy, properly employed, may be considered perfectly legal. A. A. Sommer, Jr. (1999), commenting specifically on the four principles listed above, sees them as compatible with extant law if their effect is limited to a demonstrable connection to shareholder wealth. But shareholder consent may also be a device for legitimizing DCHI strategies. Consider the argument of Easterbrook and Fischel, two noted, highly conservative law and economics scholars:

> [W]hat is the goal of the corporation? Is it profit, and for whom? Social welfare more broadly defined? . . . Our response to such questions is: who cares? If the *New York Times* is formed to publish a newspaper first and make a profit second, no one should be allowed to object. Those who came in at the beginning consented, and those who came later bought stock the price of which reflected the corporation's tempered commitment to a profit objective.
>
> . . . Similarly, if a bank is formed with a declared purpose of giving priority to loans to minority-owned businesses or third-world nations, that is a matter for the venturers to settle among themselves. So too if a corporation, on building a plant, undertakes never to leave the community. (Easterbrook and Fischel 1991, pp. 35–36)

The Easterbrook and Fischel disclosure requirement could be met in a variety of ways. For new corporations, a commitment to humanitarian investment policies could be stated in the prospectus accompanying the initial issuance of stock. For longstanding companies, management could disclose the policies in annual reports or in special reports made to shareholders. However, a change from a prior policy may be unfair to shareholders who purchased the stock based on assumptions about management's orientation toward shareholder primacy. A way to avoid this for an ongoing company would be to get direct shareholder approval of a stated DCHI policy, for example, by having shareholders vote on a resolution to implement a by-law establishing a specified DCHI policy. Although "social issue" shareholder resolutions typically do not fare very well, almost never garnering majority support, this is in part due to the fact that management invariably opposes such resolutions. In this example, the measure would originate from management who obviously would be recommending a vote for the resolution they propose.[10]

Meaningful disclosure would require that the policy be disclosed in detail. It would not be adequate to simply state that the management intends to invest corporate resources toward "humanitarian" causes as it sees fit. In order to meet the goals of disclosure and also to ensure high-quality DCHI strategies, the disclosures would need to be carefully circumscribed. For example, a food services firm might state that it will commit 5 percent (or 10 percent, etc.) of any profit increase in a given year over the prior year, or a five-year average of profit increases, to the distribution of food supplies in countries having significant pockets of malnutrition. Or a firm such as Monsanto might state that it intends to give 1 percent of profits after taxes to assist in the improvement of crop yields in designated areas of Africa or Asia, and so on.

The DCHI concept is completely voluntary, based upon the consent of key stakeholders and the humanitarian concerns of corporate leaders. There would be no government compulsion, either to encourage[11] or to compel such action. The idea is a positive one. It assumes that managers and shareholders, realizing the comparative advantage of private firms, would want to support this type of activity.

The precise meaning of what constitutes a "humanitarian" intervention would be left up to the firms that decide to implement DCHI strategies. Thus, each firm would act on the basis of its own values and the desires of its shareholders and other relevant stakeholders. Presumably firms would act on the basis of their core competencies and their own perceptions of needs. This would in a sense produce a market in humanitarian interventions. As some firms successfully intervene for one set of problems, other firms would design interventions for other types of misery.

Should shareholders support DCHI proposals? Is it somehow subversive of capitalism for shareholders to support activities that support their moral desires but which do not maximize profits? Would this bring inefficiencies into the operation of firms? Consider the response of Milton Friedman (Johnson 1989):

> I would appeal to individuals, when they are spending their own money, to look at the thing from the point of view of supporting the kind of ideas they believe in. There is nothing wrong with that, if I believe in a certain religion or a certain political view, there is nothing wrong with my spending my money to promote that. We want competition in the market for ideas as well as in the market for goods, but we don't want to get the two mixed up.

Friedman recognizes the validity of individual consumers and investors acting in furtherance of their religious and moral preferences.[12] Similarly, von Mises (1949) stated in reference to consumers taking negative actions in support of their moral desires that "[t]he consumers are free to boycott a purveyor provided they are ready to pay the costs." Dunfee (1998) argues that individuals do act on the basis of moral desires in their actions as consumers, investors, managers, and job seekers. Such interventions are not merely permissible, they are highly desirable. Consider capital and consumer markets in which firms are distinguishable, in part, on the basis of their DCHI policies. Current shareholders could monitor their firm's DCHI performance and sell their stock if the strategies were not proving effective (or attempt to get management to redirect the firm's DCHI strategies). Investors could choose to buy a firm's shares on the basis of DCHI strategies. Consumers might align their preferences concerning appropriate humanitarian strategies by choosing to do business with compatible firms and eschewing the products of firms whose policies they find problematic.

Socially screened mutual funds enhance the ability of investors to act upon their moral desires. It has been estimated that over a trillion dollars is subjected to some form of screening (Hutton, D'Antonio, and Johnsen 1998, p. 288). However, most of the screening to date has been in the form of negative screens, in the sense that funds eschew stocks of companies that engage in prohibited practices, e.g., the manufacture and distribution of tobacco or promotion of gambling, or that fail to meet certain minimum standards concerning diversity on boards or among employees more generally. The lack of positive screens in which funds attempt to identify ethical or responsible companies is probably due to the difficulty of identifying and then implementing effective screening programs. The existence of specific corporate by-laws pertaining to DCHI could serve as an initial easy-to-identify screening criterion. Over time, more sophisticated screens evaluating DCHI strategies should emerge.

VIII. Conclusion

There are many successful examples of Direct Corporate Humanitarian Investment. As more and more occur, they serve as benchmarks for other firms to design and develop their own unique strategies reflecting their core values and competencies. The phenomenon of corporate humanitarian intervention may help to make significant inroads against the persistently high levels of global human misery due to significant advantages possessed by private firms. The phenomenon is also consistent with the role of the firm in modern society and with the idea of open markets. Corporate strategies of this sort empower investors and consumers to act upon the basis of their moral desires.

Notes

[1]Misery involves a condition of suffering and distress due to lack of adequate housing, food, health care, physical security, and so on.

[2]DCHI can involve investment of funds, such as the Grameen Bank in Bangladesh using its capital to support the implementation of micro-credit loans. It can also involve a financial services firm developing a novel application of a new financial instrument, such as the use of catastrophe bonds to help insure against crop disasters or floods in the developing world.

[3]As used herein, *humanitarian* means relieving misery. Although one might be tempted to provide a broad definition, such as compatibility with the U.N.'s Universal Declaration of Human Rights, the value of such an attempt would be illusory. In order to be fully compatible with the idea that firms individually and voluntarily identify needs, any definition would have to be extremely broad. Although that is true of the Declaration of Human Rights, it would not then serve to impose more of a limit on firm DCHI strategies than would the general description of the concept herein provided. For example, a firm might engage in a DCHI strategy to provide birth control, or even the morning-after abortion pill, to a country facing severe overpopulation. Reasonable people can disagree whether such a DCHI strategy would qualify as "humanitarian" under the Declaration. It is better to leave such decisions to the marketplace of morality (Dunfee 1998) than to attempt to provide a limiting *ex ante* definition of the concept. Moral language, concepts, and theories all play important roles in judging whether an action is humanitarian.

[4]The Merck case as discussed further in Part V. Bollier (1991) is the primary source for these discussions.

[5]This is somewhat ironic in that private firms appear to be key players on the supply side of bribery to public officials. Some firms willingly engage in bribery to corrupt others for their own advantage, but understandably resist attempts to corruptly influence their own employees. Competitive pressures and extortion may constitute partial explanations for extensive payment of bribes by private firms.

[6]The loans are primarily made to women because there is empirical evidence that women will spend their money in ways that support the entire family and the loans assist in improving the status of women within both the family and society (Melvin 1998).

[7]Over one-third of pregnant women in Africa are HIV-positive, which causes 500,000 babies to be infected each year (*Observer* 1998, Pilling 1998a).

[8]It should be noted that there still may be many problems with this course of action that have not yet been worked out, including whether this course of action can increase the chance of a resistant strain of the virus to develop (Pilling 1998a).

[9]If this argument is correct, then concerns about the declining level of corporate philanthropy are less critical so long as firms are replacing those efforts, which often were not focused on the problems of misery, with DCHI.

[10]Under the current state of the law, it is unclear whether or not a unanimous vote of the shareholders would be needed for any significant change in the corporation's general profit-making orientation. See the ALI's *Principles of Corporate Governance*, section 2.01, reporter's note 6 (American Law Institute 1994). Even if shareholder approval would not be required by law—section 2.01(b)(3) of the ALI principles specifically allows the donation of a "reasonable amount of resources" to "humanitarian" purposes—the key issue is disclosure to allow shareholders to make fully informed choices.

[11]Current tax policies would be assumed to remain in place so that some DCHI strategies would receive favorable tax treatment.

[12]One qualification must be made. It is not clear what Friedman means by "we don't want to get the two mixed up."

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