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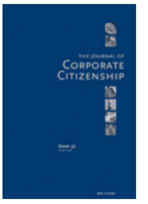

World Review

April–June 2010

A synopsis of the key strategic developments in corporate responsibility around the globe over the last quarter

Jem Bendell
Associate Professor, Griffith Business School

Ian Doyle
Associate, Lifeworth Consulting

Tapan Sarker
Research Fellow, Asia Pacific Centre for Sustainable Enterprise, Griffith Business School

From Global Compact to global impact

IN JUNE, THE LARGEST CORPORATE responsibility (CR) initiative in the world, the United Nations Global Compact (UNGC), celebrated ten years since its launch, with a Leaders Summit in New York. Celebration was justified, as the UNGC has done more than any initiative to globalise the idea that voluntarily enhancing the social, environmental and ethical performance of business can be both good for business, and important for the world. But introspection was also required, for two main reasons. First, the relationship between business and society has not improved markedly in the last ten years, with problems including spiralling inequality, rising carbon emissions, commodity inflation and speculation, and financial crises, all suggesting ineffective economic governance. As has been argued in these pages over the past years, corporate responsibility (CR) practitioners need to grapple more clearly with these systemic problems if we are to provide significant solutions for sustainable development. Second, as CR is now an established agenda and there are hundreds of CR initiatives worldwide, so the role for the UN in the CR space will need to evolve. Therefore the UNGC may need to clarify its role, specifically what the UN brings to CR and what CR brings to the UN. Given that the UN is the premier global political forum, and the UNGC is about business, so global economic governance would appear a natural and needed niche for the UNGC to embrace. Therefore, to coincide with the anniversary, the *Journal of Corporate Citizenship* published an analysis of the currently limited role of the UNGC in addressing economic governance.[1] It argued the need for business support for an enhanced role for the UN in helping member states regulate markets for the common good.

The tenth anniversary prompted others to discuss the role of the UNGC, both past and future.[2] The Leaders Summit reflected some of that thinking, with emphasis placed on the need to reach a 'tipping point' in corporate responsibility and sustainability. Yet, if it is to be effective over the next ten years in encouraging that tipping point, the UNGC may need to evolve its approach. Previously the international reach and pulling power of the UN flag was enough to make the UNGC a remarkable contribution, but in future it may need to add a third strength: interfacing CR with economic governance challenges. In doing that, its secretariat and participants could enhance their understanding of four interconnected areas: social change processes, the ethics and accountability of new governance mechanisms, ways and means of reforming economic governance towards sustainable development, and the evolving role of the UN in world affairs, including economic affairs.

Some limitations of the UNGC's current approach were illustrated by (not within) the report on CEO opinions on CR and sustainability, by an international consulting firm, which set the tone for the Leaders Summit. On the one hand, it had some useful analysis of cross-cutting changes that are needed in mainstream CR, such as changes to the investment practices and regulations to internalise more externalities.[3] It is promising to see

TONY HAYWARD: DID HE PARTICIPATE IN THE UNGC'S REPORT ON CEO OPINIONS ON CR AND SUSTAINABILITY?

such ideas expressed by CEOs, as hitherto they had only been discussed by more critical analysts, such as in these *World Reviews* and the *Lifeworth Annual Reviews* (particularly the review of 2005, *Serving Systemic Transformations*, and the 2006 *Tipping Frames*).[4] On the other hand, the report and the research behind it appeared designed to make the participating businesses feel comfortable, avoiding challenging questions. So much so that, of the 766 CEOs who responded, 81% agreed that CR issues are 'fully embedded into the strategy and operations of my company'.

The identity of those CEOs was not revealed, so some participants speculated on whether BP's Tony Hayward had participated in the survey. *The Economist* even reflected that, as BP had been considered a leader in CR and a member of the UNGC, the deep-water disaster was casting an 'oily cloud' over the celebrations in New York. They wrote, 'Among the many victims of BP's catastrophic oil spill in the Gulf of Mexico is the campaign to promote

1 J. Bendell, 'What if we are Failing? Towards a Post-crisis Compact for Systemic Change', in *Journal of Corporate Citizenship* 38 (2010); globalcompactcritics.blogspot.com/2010/06/what-if-we-are-failing-towards-post.html.

2 See, for instance, the series of reflections published by Griffith Business School, at: www.griffith.edu.au/business/sustainable-enterprise/resources/the-un-global-compact-looking-forward-ten-years-after.

3 'Chief executives believe overwhelmingly that sustainability has become critical to their success, and could be fully embedded into core business within ten years: UN Global Compact and Accenture release findings of largest CEO research study on corporate sustainability', Accenture, 22 June 2010; newsroom.accenture.com/article_display.cfm?article_id=5018.

4 These reviews are now available in the book *The Corporate Responsibility Movement* (ed. J. Bendell; Greenleaf Publishing, 2009; www.greenleaf-publishing.com/productdetail.kmod?productid=2767).

socially responsible behaviour among big companies.'[5] Writing before the Summit in the *FT*, Professor David Scheffer, of the Northwestern University School of Law in Chicago, wrote that the BP disaster illustrates how 'corporate self-regulation and public oversight have failed. We need to rethink how companies operate in a fragile world and how governments monitor them.'[6] Over 5,000 CEO members of the UNGC did not even respond to the opinion survey requested of them by the UN. Some delegates thought the questions were rather bland, with delegate Dr Ven Pillay of the University of Pretoria wondering why CEOs were not asked direct questions such as whether they would have their bonuses linked to independent measures of their firm's social and environmental performance: surely not a worry for them if CR is embedded in strategy and operations already?

The report was what one would expect from a consultancy that seeks to tickle not ruffle the feathers of c-suite executives. That 81% figure may do wonders in drumming up new business from CEOs feeling they are behind the game. In the past decade the UNGC has utilised the pro bono support of management consultants to establish its work programmes—with the consulting firms receiving high-profile access and acclaim in return—and been keen to appear a trusted and careful partner of business. This input has helped the UN to speak the language of business, and be understood. However, the established consulting firms rarely challenge large corporations as they seek to serve them, and they rarely generate ideas with impact because their business model does not allow time for a depth of reflection and research. Going forward, the UNGC needs to reach out beyond the conservative consulting firms in order to better encourage learning on how to reach a tipping point. Might the UNGC have reached a stage after ten years where it need not concern itself with appearing corporate-friendly and focus more on setting an ambitious change agenda, generating and disseminating methodologically sound, incisive and informative data on the realities of corporate responses to sustainable development? If so, are the academics up to it? There is less institutional self-interest in a university spending resources on a CEO opinion survey—they can not leverage the relations and profile in the same way after such a study.

The hope of having a wider systemic impact was expressed by the UNGC secretariat, in part by their increasing use of the terminology of sustainable development as an integrated goal for economy and society, which corporate responsibility initiatives should work towards. This new emphasis was captured well by Professor Malcolm McIntosh of Griffith Business School, during the leaders' commentaries posted on the summit website.[7] A goal of reaching 20,000 members in ten years was presented by the UNGC as a vision in keeping with its new emphasis on systemic change, which raises questions about people's understanding of 'systemic'. Member recruitment has been a key focus for the UNGC during its first ten years. That has meant it has sought to appear a safe and trusted partner to most corporations. However, that approach has meant that some more challenging issues have been sidestepped or sidelined. To achieve greater change, these difficult issues need to be addressed, which will mean some companies become nervous or critical. Might the time be right for the UNGC to show leadership in pressing ahead in concert with true global leaders, rather than seeking to satisfy a greater number of business members?

5 'Wrapped in the flag', *The Economist* online, 22 June 2010; www.economist.com/blogs/newsbook/2010/06/corporate_ethics.

6 D. Scheffer, 'BP shows the need for a rethink of regulation', *Financial Times*, 27 May 2010; www.ft.com/cms/s/0/919f37fe-69c1-11df-8432-00144feab49a.html.

7 Professor McIntosh called for a focus on creating a sustainable economy; the video can be seen at: www.un.org/webcast/globalcompact/leaderssummit2010/?mediaID=ls100625-8.

UNGC DEPUTY DIRECTOR GAVIN POWER: COMPANIES AND INVESTORS MUST WORK TOGETHER TO OVERCOME BARRIERS TO SUSTAINABILITY

The Deputy Director of the UN Global Compact, Gavin Power, expressed a more ambitious call that 'companies and investors must now work together to identify and overcome the barriers that prevent sustainability from being permanently embedded into the majority of global business activity'.[8] In releasing *The Blueprint for Corporate Sustainability Leadership* the UNGC sought to define what it wants to see from participants, though they made it clear this document did not constitute a new requirement. The blueprint includes some useful emphasis on 'taking action in support of broader UN goals and issues' including 'advocacy and public policy engagement'.[9] It is a start in outlining the importance of contributing to a movement for a transformation in economy, but it provides thin advice on what is a highly complex area. The phrase 'tipping point' was used throughout the Leaders Summit, which was appropriate given we were in the city that is home to journalist Malcolm Gladwell who popularised the term. However, as any social scientist who has read his book understands, there is no clear theory of what a 'tipping point' is or how it is reached. If our topic here is how to create systemic change, where sufficient numbers of individuals or organisations change in order to re-pattern the way most of us behave, then there are many fields of social science that we can draw upon. Draw on them we must, if we are to be serious and not rhetorical about seeking systemic change.

Insights on social change processes (in society and in meetings) can come from organisational change management, marketing, innovation and entrepreneurship, behavioural economics, social movements studies, network sciences, systems theories and cybernetics, institutional theory, social psychology, sociologies of power, design thinking, theories of art practice, and more. As sustainability and CR professionals begin to talk more explicitly about catalysing change in society, we need to find ways to draw upon such fields, integrate their insights and make them practical for practitioners and policy-makers.

Two examples of the application of schools of thought on social change to the CR field are social movements theory[10] and network sciences.[11] However, the fields receiving the most attention are those that are most known to management consultants—such as marketing (the basis of most of the evidence in the book *Tipping Point*) and organisational change management (for instance, the current popularity of the U-process to structure the design and facilitation of change-oriented meetings). It is not certain that the leading management consultants recognise the wealth of knowledge on social change. For instance, in April, McKinsey published a matrix on social change, suggesting it was a new contribution,[12] when it was an unintentional recycling of philosopher

8 'Global CEOs want investors to act to create sustainability tipping point', UNGC press release, 24 June 2010; www.unglobalcompact.org/news/49-06-24-2010.

9 UN Global Compact, *Blueprint for Corporate Sustainability Leadership* (2010); www.unglobalcompact.org/docs/news_events/8.1/Blueprint.pdf.

10 Bendell, *The Corporate Responsibility Movement* (see footnote 4).

11 Jem Bendell and Annekathrin Ellersiek, *Noble Networks? Advocacy for Global Justice and the 'Network Effect'* (Geneva: United Nations Research Institute for Social Development [UNRISD], 2009).

12 John Elkington, 'A New Paradigm for Change', McKinsey & Company: What Matters, 6 April 2010; whatmatters.mckinseydigital.com/social_entrepreneurs/a-new-paradigm-for-change.

DIRK MATTEN: UNGC IS PART OF AN EMERGING GLOBAL GOVERNANCE ARCHITECTURE

Ken Wilber's four-quadrant model of the locations of change.[13]

If the Leaders Summit marks the beginning of a wider acknowledgement among the CR and sustainable business professions of the need to serve systemic transformations, then it needs to be followed rapidly by a new awareness about where to learn about such change. The famous management consultancies may not be the places to look for the relevant expertise, as there is a level of conceptual development required that costs time and money that most consulting firms cannot afford.

As becoming smarter about social change processes is a key imperative for the UNGC and its members, then being smarter about the ethics of shaping such change is also key. The UNGC is said by some, such as the official summit blogger Professor Dirk Matten, to be a part of an emerging global governance architecture.[14] If initiatives such as the UNGC and other private regulatory initiatives do achieve such power so that governance is a useful term to describe their role, then this raises issues of accountability and fairness. In whose name do they govern?[15] A prerequisite for addressing this issue and developing appropriate processes is for it to be recognised as warranting attention. Too often when people raise these issues, including at the Leaders Summit, senior business people cite how their business-like approach means they do not have time for such philosophical debates.

To become smarter about the new mechanisms of governance, we could look towards the political economists who have been looking at business–state relations in depth for decades. The UN's own research institute on development issues published a book in 2010 looking at precisely this issue.[16] Through conceptual and historical analysis, as well as case studies from Brazil, Chile, India, Mexico, Peru, Russia and South Africa, this book examined the means by which corporations influence social, labour market and development policy, the reasons for their positions and the scope of their influence. It demonstrated how, under appropriate conditions, and with the right guidance, the inevitable political influence of large firms can be prevented from undermining inclusive development. Such in-depth examinations of the issues have not found a place within the debates and initiatives of the UNGC these past years. One reason for this is the interests of the political economists themselves, where the focus is on academic publishing rather than engaging policy-makers, civil society and companies to see how their insights are relevant to practice. Another reason appears to be the limited interest from UNGC participants and conveners in engaging with intellectually challenging analyses, where synergies with voluntary corporate action are not immediately obvious. If these silos persist for the next ten years then we will

13 Ken Wilber, *A Theory of Everything: An Integral Vision for Business, Politics, Science and Spirituality* (Boston, MA: Shambhala, 2000). (Note that this is not an actual model of change, but a tool for helping people to think outside and inside their existing focus for the object of their change intention.)

14 'The Elephant in the Room', Crane and Matten blog, 25 June 2010; craneandmatten.blogspot.com/2010/06/elephant-in-room.html.

15 For a discussion of this issue, see J. Bendell, 'In Whose Name? The Accountability of Corporate Social Responsibility', *Development in Practice* 15.3–4 (June 2005): 362-74.

16 José Carlos Marques and Peter Utting, *Business, Politics and Public Policy: Implications for Inclusive Development* (Basingstoke, UK: Palgrave, 2010).

not progress far in enhancing the accountability and ethics of the emerging forms of private governance.

A third area to become smarter about is economic governance. The question at the heart of CR in general and the UNGC in particular is the impact of business and finance on society. The most important changes in that relationship have gone unaddressed by the UNGC. In recent years the financial crisis has highlighted the social impact of changes in market governance. Key issues include monetary reform and commodity market regulation, as recognised by the G20 French presidency. Large corporations and their associations have an impact on those policy deliberations, so their positions on these issues should be under examination and discussion within the UNGC.[17] The UNGC has stayed clear of issues of trade and investment policy in the last ten years. This approach has allowed it to move the CR agenda forward without protracted and highly politicised debates about trade agreements. However, the time has now come for core economic governance issues to be addressed, as well as the influence of business over related policy-making, if a tipping point in CR is to be reached. UNGC has increased its work on the public policy dimensions of CR, for instance with the Bertelsmann Foundation[18] and through a 'Guide on Responsible Business in Conflict-Affected and High-Risk Areas,' which was particularly welcomed by Asian business delegates during speeches from the podium.[19] This work will be important to scale up; indeed, it could be the start of a more comprehensive engagement with economic governance issues at national and international levels.

A fourth and related area for smarter action in future is the role of the UN in global economic governance. Since its creation post World War II, the UN has been marginalised on economic issues by the traditional economic powers. Countries in the OECD and G8 have worked for the World Bank, International Monetary Fund (IMF), World Trade Organisation (WTO) and Bank of International Settlements (BIS) to be the key agents of global economic governance, because that is where they dominate the agenda and/or decisions. The UN is the closest we get to a democratic process representing interests of governments of the world, and so its initiatives on economic governance issues have the backing of the majority of the world's governments, unlike the institutions mentioned above, or latterly the G20 club of powerful nations. Various parts of the UN system have sought a voice on the recent financial crisis, and been roundly ignored by the world's largest economies. Indeed, recommendations from its agencies such as UNCTAD would, if heeded, have averted the current levels of economic inequality and instability that arose from a market fundamentalism imposed on nations by the IMF and World Bank. Some officials within the UNGC may have their own views on economic governance, trade and development, but the UN has in its mandate a role on economic governance. Moreover, as economic power continues to shift from the West to the rest, it is likely that as we emerge from this financial crisis, the majority of UN member states will no longer acquiesce to the dominance of global economic governance by institutions that are not representative of their interests. Therefore, thinking ahead about the future of the UN, it would make sense for the UNGC to consider whether the interests of the majority of its business participants will best be served by a revamped role for the UN in global economic governance. That agenda may not be interesting to some company members based in the OECD or G8 countries, which

17 See footnote 1.

18 The Role of Governments in Promoting Corporate Responsibility and Private Sector Engagement in Development (2010) UNGC and Bertelsmann Stiftung.

19 UNGC and UNPRI (UN Principles for Responsible Investment), *Guide on Responsible Business in Conflict-Affected and High-Risk Areas: A Resource for Companies and Investors* (2010); unglobalcompact.org/AboutTheGC/tools_resources/business_and_peace.html.

GEORG KELL: INCREDIBLE EFFORTS

have been the traditional leaders of CR and active in UNGC. However, the majority of UNGC members are from the rest of the world, and together could become the new leaders in a new phase of CR focused on systemic change in economic governance, that revitalises role of the UN in a more multi-polar world.

Simply through its existence, the UNGC has provided us new opportunities to imagine pathways towards sustainable futures for the planet. That is due to the incredible efforts of Georg Kell and his dedicated band of professionals and volunteers, who have been inspired by the idea that this could be a historic and game-changing initiative. Ten years in, now could be a time for the same level of bold creativity that gave rise to the Compact in the first place: to move from a global compact to a global impact. Some bureaucrats close to Ban Ki-moon regard him more as an administrator than a visionary leader.[20] If that means we won't see the UNGC secretariat leading the way in addressing economic governance issues, then it will be necessary for the progressive participants to join together and form smaller groups that can learn together about social change, governance accountability, pressing economic challenges, and a revitalised role for the UN in global economic governance. If the UNGC does not address these areas in tangible ways in the coming years, then those people who say the UNGC was designed to avoid core economic justice issues will be the ones writing its history.

The buzz on business in development

SEVERAL EVENTS IN THE SECOND quarter of the year highlighted the increasing attention to the role of business in development. In April, the World Business Council for Sustainable Development (WBCSD) launched the 'Inclusive Business Challenge' to encourage more leadership from business in meeting the Millennium Development Goals (MDGs).[21] Also that month an international summit in New Delhi focused on corporate social responsibility (CSR) as a strategy for inclusive development.[22] In New York, the Business Civic Leadership Center (BCLC) and United Nations Office for Partnerships hosted a conference on the theme of 'Investing in the Millennium Development Goals'.[23] In May, the 2010 World Business and Development Awards were launched. Present was Mr Jean Rozwadowski, Secretary-General of the International Chamber of Commerce (ICC), who said that 'increasingly the private sector is a critical component for increasing aid effectiveness and achieving the Millennium Development Goals'.[24] The positive

20 Ewen MacAskill, 'Disquiet grows over performance of Ban Ki-moon, UN's "invisible man"', *The Guardian*, 22 July 2010; www.guardian.co.uk/world/2010/jul/22/ban-ki-moon-secretary-general-un.

21 World Business Council for Sustainable Development, 'WBCSD launches "Inclusive Business Challenge"', 22 April 2010; www.wbcsd.org/Plugins/DocSearch/details.asp?DocTypeId=251&ObjectId=MzgyMjA.

22 Bimtech, 'Corporate Social Responsibility: A Strategy for Inclusive Development'; bimtech.ac.in/images/data/CSR Summit 2010.pdf.

23 Business Civic Leadership Center and United Nations Office for Partnerships, *Investing in the Millennium Development Goals* conference, 8 April 2010; www.un.org/partnerships/Docs/BCLC_Agenda.pdf.

24 Business Call to Action, '2010 World Business and Development Awards Launched', 20 May 2010;

JEAN ROZWADOWSKI OF THE ICC: THE PRIVATE SECTOR IS A CRITICAL COMPONENT FOR ACHIEVING THE MDGS

contributions of business to development were also highlighted in a report launched in June in Amsterdam by the National Committee for International Cooperation and Sustainable Development (NCDO),[25] and with two reports at the Leaders Summit in New York. *A Global Compact for Development* presented a range of initiatives and support for business to contribute to development, and *Innovating for a Brighter Future: The Role of Business in Achieving the MDGs* discussed progress made since 2000 on this agenda with the UNGC.[26]

Given this growing attention to the role of business in development, it is important for a moment to step back from the language and the institutions involved, and note that business did development before development did development. This is to say that business is the process of making and trading things with and for each other and is therefore a process through which people, families and societies advance—the very meaning of 'development'. It has only been since the late 1940s that the modern concept of international development as a project that would be pursued by national aid agencies, international bodies and non-governmental organisations began to take shape.[27] In the past few years this 'international development community' has begun to engage business in new ways, rather than simply through seeking its regulation by government for more social development gain. In addition, with the rise in voluntary acceptance of corporate responsibility for impacts on society, and new creative thinking about how social and environmental challenges can become drivers of innovation, so companies have been looking again at the preoccupations of the international development community. In 2005 in this *World Review*, the authors Jem Bendell and Wayne Visser called for the two academic communities connected to each area, namely business studies and international development studies, to find more means of sharing their insights and learning from each other.[28] Events and discussions in the second quarter of 2010 highlighted the need for still further engagement across disciplines, and between businesses and experts in international development.

The passing of the influential management academic C.K. Prahalad in April 2010 led to a new wave of discussion of one concept about business and development that some corporations have been pursuing for the past five years: namely, business directed at the Bottom, or Base, of the Pyramid (BoP).[29] BoP discussions

bcta-initiative.org/2010/05/20/2010-world-business-and-development-awards-launched-2.

25 National Committee for International Cooperation and Sustainable Development, *Business Impact Report 2010: Scanning the Contribution of 20 Multinationals to the Millennium Development Goals* (2010); ncdo.nl/docs/uploads/Business Impact Report 2010.pdf.

26 UNGC, *A Global Compact for Development* (2010) and UNGC, *Innovating for a Brighter Future: The Role of Business in Achieving the MDGs* (2010); unglobalcompact.org/AboutTheGC/tools_resources/partnerships.html.

27 J. Bendell, *Barricades and Boardrooms: A Contemporary History of the Corporate Accountability Movement* (Geneva: UNRISD, 2004).

28 J. Bendell and W. Visser, 'World Review', *Journal of Corporate Citizenship* 17 (2005); www.greenleaf-publishing.com/greenleaf/journaldetail.kmod?productid=140&keycontentid=7.

29 Stefan Stern, 'Manifesto writer for business survival', *Financial Times*, 18 April 2010; www.ft.com/cms/s/0/35ed5a1a-4add-11df-a7ff-00144feab49a,dwp_uuid=02e16f4a-46-f9-11da-b8e5-00000e2511c8.html.

C.K. PRAHALAD: 1941–2010: PROGRESS STILL TO BE MADE AROUND HIS BoP LEGACY

ANEEL KARNANI: FIRMS MUST BUY FROM THE POOR, NOT JUST SELL TO THEM

and initiatives centre on the development of products for the poor in ways that are commercially viable. The type of initiatives praised and the problems with these from a deeper development understanding, highlight how there is still much to be learned. As Anand Kumar, assistant professor of marketing at IIMA, has pointed out, many existing initiatives fail to target those who are truly needy. Instead, many corporations engaged in BoP focus on providing non-essential products to those with disposable income.[30] Some BoP initiatives also see large multinational corporations displacing local competition and local labour by importing goods, materials and labour.[31] Too often there is a net benefit for the multinational corporation but no enduring benefit to the disadvantaged communities in the form of employment or infrastructure.[32] As Aneel Karnani, associate professor of strategy at the University of Michigan, suggests, the eradication of deprivation will require firms to buy from the poor,[33] instead of simply selling to them.[34] Furthermore, Suparna Chatterjee, adjunct to the department of Economics at Xavier University, suggests that 'there is very little evidence that selling to the poor is a profitable venture which benefits large companies as well as the poor . . . [and] one must not just talk about fortune at the bottom of the pyramid but also fortune for the bottom of the pyramid.'[35] The main fallacy of BoP approaches has been to assume that reducing prices through techniques such as smaller servings constitutes a form of social development, when, if these are simply consumer goods, then it does nothing about the problem of people being cash-poor.

But, in light of the calls for greater dialogue between academic disciplines and the above challenges,[36] little progress has been made at a conceptual level with BoP. Numerous examples show how enterprise can be undertaken to deliver specific development impacts, yet these rarely in-

30 Anand Kumar Jaiswal, 'The Fortune at the Bottom or the Middle of the Pyramid?', *Innovations* 3.1 (2008): 85.

31 J. Bendell, 'From Responsibility to Opportunity: CSR and the Future of Corporate Contributions to World Development', *MHCi Monthly Feature*, February 2005.

32 J. Bendell, 'Making Business Work for Development: Rethinking Corporate Social Responsibility', *id21 insights* 54.4 (2005): 1.

33 Andrew Crabtree, 'Evaluating the Bottom of the Pyramid from a Fundamental Capabilities Perspective' (Copenhagen Business School, 2007); openarchive.cbs.dk/cbsweb/handle/10398/6755.

34 Aneel Karnani, 'The Mirage of Marketing to the Bottom of the Pyramid: How the Private Sector Can Help Alleviate Poverty', *California Management Review* 47.4 (Summer 2007): 90.

35 Suparna Chatterjee, 'Selling to the Poor: Reflection, Critique and Dialogue' (2009); warrington.ufl.edu/academics/pdbp/docs/proposals/2009_SuparnaChatterjee.pdf.

36 See footnote 28.

volve international companies in ways that meet their normal expected return on investment. That situation casts doubt on the rhetoric that 'shared value' is a non-philanthropic strategy guiding the whole of a large corporation such as Nestlé. Instead, the successful examples of enterprise solutions to social development problems are usefully described by the term 'social enterprise'.[37] The concept of social enterprise appears more useful than BoP, as the examples discussed usually have a clear social purpose at their heart, rather than seeing the poor as simply a new market for making a fortune. Seeking enterprise solutions to social challenges of all kinds is an important approach, as it promises scale without reliance on continued charity. The community of people engaging around the idea of social enterprise is one of the most dynamic in the field of business–society relations, as was demonstrated by the energy at both the Skoll Foundation and Schwab Foundation forums on social entrepreneurship in April 2010.[38]

One of the most famed examples of entrepreneurship being the vehicle for advancement of millions of poor people is that of the Grameen group of businesses, whose founder Muhammad Yunus received a Nobel Peace Prize in 2006.[39] In addition to the well-known work on micro-finance, providing small loans to groups of women to start businesses, Grameen is engaged in sustainable energy and telecommunications. The severe energy shortage in his home country Bangladesh contributes to its environmental degradation, poverty and inequality.[40] The Grameen Bank has sought to combat this by providing solar technology to individual households at the same cost as kerosene.[41] Since the project began in 1996, the Grameen Bank reports it has installed more than 285,000 solar hot water systems, constructed 7,000 Biogas stoves, produced 40,000 improved cooking stoves, created 20,000 green jobs, and trained 3,000 women as Renewable Energy Technicians.[42]


MUHAMMAD YUNUS: GRAMEEN GROUP FOUNDER

Providing telecommunications was soon recognised as an important means for enhancing the economic and social development of rural areas of Bangladesh, where isolation and poor infrastructure is the norm.[43] With this in mind, the Grameen Bank established GrameenPhone as a joint venture with Norway's Telenor.[44] GrameenPhone makes telephone services available to rural villages in Bangladesh, by one member of a community taking a loan to acquire the handset, which is financed by charging the rest of the community for access. After almost ten years of operation, there are now 50

37 Social enterprise was first discussed in the *World Review* in *JCC* 13 (2003), and in eight subsequent reviews.

38 www.skollworldforum.org; www.schwabfound.org/sf/Events/WorldEconomicForumEvents/2010/index.htm.

39 Nobel Foundation, 'The Nobel Peace Prize 2006'; nobelprize.org/nobel_prizes/peace/laureates/2006. See also Bendell and Visser 2005 (see footnote 28) for other discussions on the Grameen group of businesses.

40 Grameen Shakti, 'Bringing Green Energy, Health, Income and Green Jobs to Rural Bangladesh' (2009); www.worldfuturecouncil.org/fileadmin/user_upload/Presentations/Grameen_Shakti_Bangladesh_Part_1.pdf.

41 *Ibid.*

42 *Ibid.*

43 GrameenPhone, 'Every Opportunity Counts: Community Information Centre'; www.grameenphone.com/index.php?id=426.

44 *Ibid.*

million telephone users in the country, 80% of these being mobile phones, making GrameenPhone the leading telecommunications provider in Bangladesh.[45]

A question that has interested some consulting firms, including Volans, as well as many business schools with research centres on development, is how large corporations and investors can relate to these social enterprises and to the cause of international development more broadly. The Grameen case demonstrates there are opportunities for partnership, as they have done with Telenor, Danone and others. The finance, resources, technologies, staff skills and access to markets that large corporations can bring are important to social enterprises. Yet what can companies do beyond partnership with social enterprises or seeking to develop new products for BoP markets? Discussions and initiatives in response to this question have given rise to the popularity of 'inclusive business' as a framework for understanding business contributions to development.

The business of inclusion

THE TERM 'INCLUSIVE BUSINESS' describes the belief that business can have a greater positive impact on development by adapting their core business to encourage development outcomes, rather than through new niche BoP initiatives, corporate philanthropy or support for social enterprises.[46] 'Inclusive business' is defined by the United Nations Development Programme (UNDP) as 'business models that create value by providing products and services to or sourcing from the poor, including the earned income strategies of non-governmental organisations'.[47] The focus is less on small enterprises seeking to address social needs profitably, but large firms being able to adjust their core businesses to benefit more people as either consumer, employee or supplier.

An April 2010 report by the International Finance Corporation (IFC) entitled *Scaling Up Inclusive Business* marked a watershed in the discussion of business contributions to development, as it uncovered some myths and mapped out a new agenda.[48] First, they found that most companies that engage in more inclusive business practices do not do it for reputation, risk management or innovation promotion. Those traditional drivers of voluntary responsibility are not sufficient to make a real difference to investment strategy. Instead, there has to be an obvious model for sales growth for companies to invest significantly in including more people in the sphere of their positive impact.

Second, they did not find any success from specialist base-of-the-pyramid approaches, but a 'whole-pyramid approach'. Beth Jenkins and her co-authors explained that

> most of the commercially viable, scalable examples . . . take more of a 'whole pyramid' approach in which the poor are segments within a much broader overall market, supplier base, or distribution network . . . Cemar, for example, was required by law to electrify the entire state of Maranhão in Brazil's low-income northeast region. The company was permitted to charge higher-income, higher-usage customers higher tariffs—enabling it to cross-subsidize those with low

45 *Ibid.*

46 Caroline Ashley, 'Harnessing Core Business for Development Impact: Evolving Ideas and Issues for Action', Overseas Development Institute, Background Note, February 2009; www.odi.org.uk/resources/download/2714.pdf.

47 UNDP, 'Creating Value for All: Growing Inclusive Markets' (2008); www.undp.org/gimlaunch.

48 Beth Jenkins, Eriko Ishikawa, Alexis Geaneotes and John H. Paul, *Scaling Up Inclusive Business: Advancing the Knowledge and Action Agenda* (Washington, DC: International Finance Corporation and the CSR Initiative at the Harvard Kennedy School, 2010); www.ifc.org/ifcext/advisoryservices.nsf/AttachmentsByTitle/BOP_Scaling_Up_Inclusive_Business/$FILE/BOP_Scaling_Up_Inclusive_Business.pdf: 36.

> requirements and abilities to pay, with the government providing additional subsidies. In the telecommunications cases, the companies started in markets at the top of the pyramid to develop steady revenue streams and recoup their infrastructure investments, which eventually put them in a position to develop products and distribution channels for lower-income clients, with lower average revenues per user.

They continue that their findings

> may signal that new or more nuanced thinking is warranted on some of the assumptions that have become generally accepted knowledge in the inclusive business space—for instance, that 'doing business with the world's [poor] will require radical innovations in technology and business models.'[49]

Instead, it points to the needed role of government.

This leads to their third key finding, which is the essential role of governments in creating enabling conditions and even imperatives for inclusive business. One of the most successful examples in the report was from the Philippines, and the often highly charged issue of private provision of water services. The report highlighted how the Manila Water Company is effectively providing water for impoverished communities due to the company and the government planning to ensure the successful meeting of public need and private expectations. Through a series of partnerships between the company, municipal governments and local communities, low-income neighbourhoods not only have access to water but are themselves central to the efficiency and cost-savings components of Manila Water's inclusive business model. Metering systems were developed to ensure ease of monitoring and transparency and where such systems were not practical, usually in very poor communities, bulk metering and cost-sharing programmes were introduced which permitted self-monitoring through collective responsibility. The community is engaged to administer collections and maintain the system which directly supports local employment, generating a local interest in the entire system, including on-time payment, discouraging water theft. The resulting benefit to the community is superior service and water quality while actively participating in keeping the costs of water low.[50] In many countries the private provision of water by large corporations has created criticism and even protest. Perhaps one of the most important means of ensuring that the costs have been kept down and thus maintained Manila Water's licence to operate is that the government required the company to cross-subsidise, so that they charge wealthier consumers more in order to fund the infrastructure for poorer consumers. This suggests a key government role to encourage some forms of inclusive business, including through regulations that require inclusive practices in return for licences.[51]

A fourth finding was the general lack of good examples of inclusive business by large firms. 'Large-scale success stories—reaching large numbers of poor people directly or via replication—are still the exception, not the rule,' wrote Beth Jenkins and her co-authors.[52] Given the companies in their investment portfolio are receiving funds from a development-oriented institution, one might assume some examples of inclusive business, yet only about 100 were found to have a potential inclusive business dimension, in addition to about 100 micro-finance initiatives. That is roughly 13% of the IFC investment portfolio.[53]

49 *Ibid.*

50 *Ibid.*

51 Ximena Mora Lopez, 'Promoting Inclusive Business: Seeking Opportunity in crisis' (Asian Development Bank/Alliance WBCSD-SNV, 2009); www.adb.org/Documents/Events/2009/Poverty-Social-Development/promoting-inclusive-business-Derksen-Lopez-paper.pdf.

52 See footnote 49.

53 IFC funded 1,579 companies in 2009. IFC, 'Annual Portfolio Performance Review—

The fifth finding, and main purpose of the report, is the need for greater collaboration on enabling conditions for inclusive business, if they are to be mainstreamed beyond the current low level. For this purpose, more collective action is called for on issues such the dual evaluation of business activities, the development of in-depth market information on the needs, aspirations, capabilities and limitations of low-income consumers and producers, as well as on awareness-raising, education and training for low-income consumers, suppliers, distributors and retailers. In a seminar on this topic co-hosted by IFC and Harvard University, participants described a need for 'greater transparency [from potential donors to inclusive business projects] about what is possible and on what terms; faster decision-making and execution; and more judicious, strategic communication with external parties and the public at large'.[54] Therefore donors will need to become clearer about what kinds of projects are worthy of support and what management systems need to be in place to promote success. Some donors have measurement systems, such as the IFC's own 'Development Outcome Tracking System'; however, such systems do not yet include the social and environmental standards that are already agreed by the wider international community as important aspects of sustainable development. Other goals, such as the MDGs, and standards, such as the ILO conventions, were not designed for business directly, while the UNGC only provides generic principles that are not comprehensive (not including health, for instance). Attempts to make broad goals such as the MDGs relevant to companies by using them as the basis for measurement tools, as with the MDG Scan, are useful for bringing attention to core business contributions to development, but they do not assess the full impact of business. For instance, the data on employment creation does not distinguish between a decent job and forced labour. Standards such as the ISO 26000 social responsibility standard, which was agreed in 2010, may prove useful, but, as it focuses mostly on reducing negative impacts of business practice, it will not be sufficient for guiding inclusive business and social enterprise, where the intention is to generate positive impacts in specific ways.

JEM BENDELL: CALLING FOR A FORM OF SUSTAINABLE INCLUSIVE BUSINESS

Therefore, during a keynote at the launch of the report on Dutch companies use of the MDG Scan, the lead author of this review, Jem Bendell, called for a more holistic and integrated approach to business contributions to development and their measurement—a form of sustainable inclusive business. He said the field had grown enough now for a new management system for sustainable inclusive business, which could form the basis of new trainings and education. To begin with, it is necessary to define the personal qualities of managers (see Box 1) and the characteristics of business projects (see Box 2) that enable beneficial engagements by large enterprises in low-income com-

FY09' (IFC/R2009-0227; 25 August 2009): 14.

54 HKS, 'Starting and Scaling Inclusive Business Models: Summary of a Dialogue' (co-hosted by IFC and the CSR Initiative at the Harvard Kennedy School, Washington, DC, 9 April 2010): 3.

Box 1 PERSONAL QUALITIES OF MANAGERS OF SUSTAINABLE INCLUSIVE BUSINESS

There are key personal qualities that are important for business executives in large corporations to move their organisation towards helping poverty reduction in a sustainable way.

1. Active: aspiring to be a conscious agent of sustainable development in ways that involve core business
2. Coherent: addressing both the positive and negative impacts on low-income communities of current and planned business activities, leaving no issue ignored for long
3. Self-aware: focusing on your new USP—your 'Unique Serving Points'—by identifying the special capabilities you bring to a particular situation
4. Transformative: seeking enterprise opportunities that disrupt obstacles to social progress
5. Creative: using methods and indicators that promote creative team-working to innovate new solutions
6. Inquiring: learning together with unusual colleagues, sharing your own approaches while appreciating low-income communities and their organisations as co-innovators, while increasing your understanding of the complexity of development issues (including by applying the project characteristics)

Box 2 PROJECT CHARACTERISTICS OF SUSTAINABLE INCLUSIVE BUSINESS INITIATIVES

A particular business project should have the following characteristics in order make a positive contribution to sustainable development:

1. Provides products, services or decent work to lower-income communities in ways that stimulate more sustainable production and consumption patterns as a whole
2. If out-competing goods and services produced by locally owned operations, then offers superior eco-social qualities to existing options, and provides local employment
3. Supports a mixed-ownership economy
4. Provides new sources of capital to community members
5. Provides community members with new access to markets, on stable and transparent terms
6. Transfers appropriate technology and skills to community members
7. Generates a return on investment that is acceptable to the company to be part of a scalable business, without future reliance on cash or in-kind subsidy from government or voluntary sector partners
8. Supports good governance and enabling conditions in the local community and nationally, in accordance with relevant UN principles on human rights and development
9. Involves mechanisms for participatory monitoring, evaluation and learning that address each of the preceding characteristics, to inform future strategy and operations

Projects that do not exhibit these characteristics may create some benefit, but risk causing new problems in the communities they affect, and therefore having unintended negative consequences for both sustainable development and the performance and reputation of the organisations involved.

munities.[55] These qualities and characteristics could be sought in those recipients of funds for sustainable inclusive business projects.

The MDGs have played a useful role by focusing minds with time-bound goals. They helped keep poverty and development on the international agenda during a time of competing priorities and policy agendas, such as anti-terrorism. They do not, however, provide or inform a strategy for social development and therefore are weak guides to corporate strategy. With only five years to go to 2015, it is clear we are not on track to meet the MDGs. In the coming years this will make more people realise the futility and unhelpfulness of separating out interconnected symptoms of underlying systemic inequalities and injustices in politics and economy. In 2010 the limitations of a goal-focus began to be discussed by different parts of the development community. Amnesty International published a call for 'all governments to ensure all MDG initiatives are consistent with human rights', as they had witnessed how a focus on the goals had led to matters of accountability and rights being sidelined at times.[56] In May 2010, the UN Non-governmental Liaison Service (UN-NGLS) published a report on the role of employment generation in meeting development objectives.[57] A key point made was that, on a large scale, the poor are not helped by targeting them in particular. Instead, poverty is reduced by helping enterprises generate decent work that create not only the products and services but also the wages for people to buy them. Therefore the creation of decent work opportunities with fair wages is key to all poverty reduction and social development, no matter how the poverty is then manifested. As these realisations spread, it is likely that matters of inequality and human rights will once again become key to the business and development agenda. As a result business leaders may need to learn the fuller lexicon of development, 'where the keywords are not simply market access, linkages with [international companies], philanthropy or infrastructure development through privatisation, but [also] rights-based development, equity, regulation, sustainability and local development'.[58]

If business leaders can then ally with the cause of fairer and more sustainable societies, then this engagement will be worthwhile. It is six years since authors on these pages called for engagement between the professions and academes of business and development. That the silos have persisted raises questions about the courage and commitment of the professionals involved to move outside their comfort zones for the sake of others. The integrating of insights across these fields remains the courageous cause of true leaders.

55 *Ibid.*

56 Amnesty International, 'States must not ignore human rights in efforts to end poverty', 9 June 2010; www.amnesty.org/en/news-and-updates/report/states-must-not-ignore-human-rights-efforts-end-poverty-2010-06-09.

57 UN-NGLS, *Decent Work and Fair Globalisation: A Key to Meeting Development Goals and Eradicating Poverty*, 16 June 2010; www.un-ngls.org/spip.php?article2647.

58 Peter Utting and Ann Zammit, *Beyond Pragmatism: Appraising UN–Business Partnerships* (Markets, Business and Regulation Programme Paper Number 1; Geneva: United Nations Research Institute for Social Development, October 2006); www.unrisd.org/80256B3C005BCCF9/%28httpAuxPages%29/225508544695E8F3C12572300038ED22/$file/uttzam.pdf: 47.

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