Leveraging the Development Impact of Business in the Fight Against Global Poverty

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April 2006 Working Paper No. 22

A Working Paper of the:
Corporate Social Responsibility Initiative

A Cooperative Project among:
The Mossavar-Rahmani Center for Business and Government
The Center for Public Leadership
The Hauser Center for Nonprofit Organizations
The Joan Shorenstein Center on the Press, Politics and Public Policy

HARVARD UNIVERSITY

Citation

This paper may be cited as: Nelson, Jane. 2006. "Leveraging the Development Impact of Business in the Fight against Global Poverty." Corporate Social Responsibility Initiative Working Paper No. 22. Cambridge, MA: John F. Kennedy School of Government, Harvard University. Comments may be directed to the author.

This paper was written for the Brookings Blum Roundtable, "The Private Sector in the Fight Against Global Poverty," held in Aspen, Colorado, in August 2005. It is forthcoming as a chapter in *Transforming the Development Landscape: The Role of the Private Sector*, edited by Lael Brainard. Washington, DC: Brookings Institution Press.

Corporate Social Responsibility Initiative

The Corporate Social Responsibility Initiative at the Harvard Kennedy School of Government is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public contributions of private enterprise. It explores the intersection of corporate responsibility, corporate governance and strategy, public policy, and the media. It bridges theory and practice, builds leadership skills, and supports constructive dialogue and collaboration among different sectors. It was founded in 2004 with the support of Walter H. Shorenstein, Chevron Corporation, The Coca-Cola Company, and General Motors.

For Further Information

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LEVERAGING THE DEVELOPMENT I

I. Introduction

> *One of the key leadership challenges of our time is to find new ways to harness the innovation, technology, networks and problem-solving skills of the private sector, in partnership with others, to support international development goals. And to do so in a manner that makes sound business sense, and does not replace or undermine the role of government. Business leaders have a growing interest, both in terms of risk management and harnessing new opportunities, to get engaged.*
>
> "Partnering for Success: Business perspectives on multi-stakeholder partnerships" The World Economic Forum, the International Business Leaders Forum, and the CSR Initiative, Kennedy School of Government, Harvard, January 2005.[1]

Over the past two decades, the forces of political transformation, economic globalization, and technical innovation have resulted *market and social value*. And it involves efforts by the private sector, working in partnership with others, to **help establish the appropriate conditions, institutions and enabling environment** for good governance and private sector development.

None of this is easy. The challenges of ensuring efficient markets and good governance should not be under-estimated. These challenges include overcoming 'bad governance' such as corruption and the legacy of repressive regimes, failed states and conflict, and improving 'weak governance' resulting from inadequate public capacity and administrative and institutional capability to serve citizens' needs. They also require efforts to address 'indifferent governance' or lack of political will, in both donor and developing countries, when it comes to prioritizing and allocating resources to urgent development needs.

Nor should we under-estimate the complex and at times contradictory set of pressures and capacity and administrative capability. A few of the hundreds of examples that are emerging are outlined in Box 1.

(ii) ***The collective engagement of companies through sector-based, issue-focused or national business coalitions***. Companies working together, often with major competitors, to tackle social, environmental and development challenges that no one company can address effectively on its own. They include national business leadership networks such as Philippine Business for Social Progress, the Thai Business Initiative for Rural Development, South Africa's National Business Initiative, Tanzania's Private Sector Initiative, and Brazil's Instituto Ethos. Issue-focused alliances are also emerging, such as the Global Business Coalition Against HIV/AIDs and the Business Alliance for Food Fortification, as are industry-wide initiatives, such as the chemical industry's Responsible Care initiative, the International Council for Metals and Mining, the International Tourism Partnership, and the Equator Principles, which bring together the world's major providers of project finance.

(iii) ***The establishment of cross-sector or multi-stakeholder alliances.*** Companies are also partnering with governments and/or civil society organizations to jointly support eD rtif.a Td117ieptly2diotTw Ttio/Sovernmiativ7nP /<MCID 5 n tif..00w 07t(vil 15 0T.845 -1.1Bu

BOX 1: INNOVATIVE NEW BUSINESS MODELS AND INVESTMENT STRATEGIES BY INDIVIDUAL FIRMS [4]

Some of these examples are hybrids of philanthropic models that harness core commercial competencies, skills and products, while others are being established as profit-making ventures and business activities – but all are focused on improving the access of low-income households, entrepreneurs and communities to essential products, services, resources and opportunities:

SPREADING ACCESS TO ECONOMIC OPPORTUNITY:
In Ghana and Tanzania, Unilever is working with small-scale producers to source raw materials from indigenous plants, and enabling small-scale distributors to sell affordable products to low-income households in countries such as Brazil India and Indonesia. In Mexico, Starbucks is working with Conservation International and local farmers to support sustainable coffee production and more reliable incomes. SC Johnson is undertaking similar efforts with KickStart and small-scale growers of pyrethrum

In summary, there are a growing and wide-ranging number of examples where companies are actively engaged in supporting international development goals. Such initiatives cannot, and should not, replace the role of government, but they can make a valuable contribution. The following section provides a conceptual framework for analyzing this contribution.

II. The Potential Contribution of Business to Development

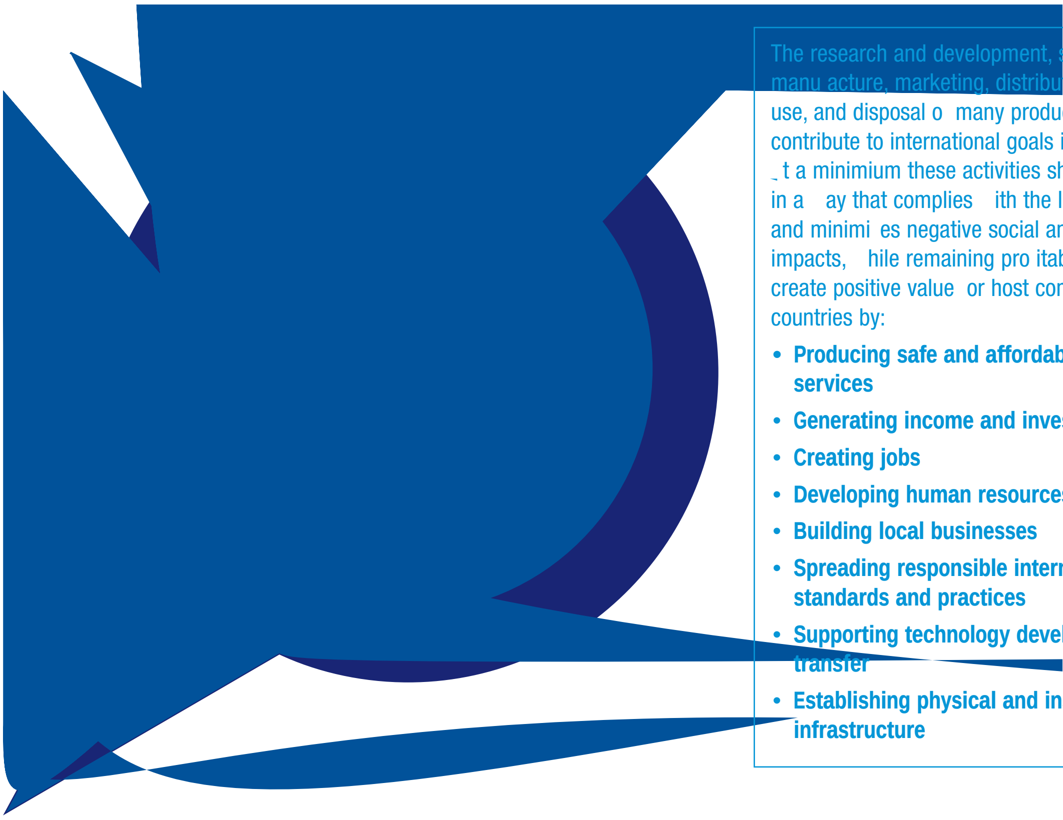
> *Private firms are at the heart of the development process. Driven by the quest for profits, firms of all types – from farmers and micro-entrepreneurs to local manufacturing companies and multinational enterprises – invest in new ideas and new facilities that strengthen the foundation of economic growth and prosperity. They provide more than 90% of jobs – creating opportunities for people to apply their talents and improve their situations. They provide the goods and services needed to sustain life and improve living standards. They are also the main source of tax revenues, contributing to public funding for health, education and other services. Firms are thus central actors in the quest for growth and poverty reduction.*
>
> 2005 World Development Report, The World Bank[5]

There is wide variation in the specific contributions that different companies can make to protecting and creating social and market value, and to supporting key development goals such as poverty alleviation. Their contribution depends not only on the type of development intervention needed – such as increasing access to jobs, income, education, health, energy, water, technology, markets etc. or improving governance and public capacity - but also on factors such as the industry sector and the company's business model, ownership structure, and size. While recognizing the crucial development role of small, medium and micro-enterprises, this chapter focuses primarily on the contribution of large companies, both multinationals and large national companies.

Despite these differences, almost all companies regardless of industry sector and other variables have the potential to make a contribution to development and poverty alleviation through the following three spheres of business impact and influence[6]:

Mobilise core competencies and resources such as money, products, skills, premises and people to help support or strengthen local communities by:

- **Supporting enterprise development, education, training, youth development, environmental, and health and nutrition projects in local communities**
- **Building managerial, technical, financial and governance capacity of local community leaders, social entrepreneurs , technical specialists and their organisations**



The research and development, sourcing, manu acture, marketing, distribution, pricing, end use, and disposal o many products and services can contribute to international goals in a number o ays t a minimium these activities should be carried out in a ay that complies ith the la , manages risks, and minimi es negative social and environmental impacts, hile remaining pro itable They can also create positive value or host communities and countries by:

- **Producing safe and affordable products and services**
- **Generating income and investment**
- **Creating jobs**
- **Developing human resources**
- **Building local businesses**
- **Spreading responsible international business standards and practices**
- **Supporting technology development and transfer**
- **Establishing physical and institutional infrastructure**

POLICY DIALOGUE AND ADVOCACY ACTIVITIES

Take individual and or collective action to in luence the enabling environment, build public capacity, promote good governance and support more systemic change at the local, national or global level:

- **Supporting effective implementation of international norms relating to human rights, labour rights, bribery and corruption, and the environment**
- **Sharing business skills, know-how, technology and resources with government to help improve public capacity and service delivery in key economic, education and health areas**
- **Helping government to attract and retain foreign investment and to access foreign markets**
- **Advocating for fair trade and effective aid**
- **Engaging in multi-stakeholder dialogues around complex public problems such as corruption, healthcare, education, security, climate change etc.**

*** Enabling framework** = regulations, legislation, fiscal incentives, voluntary guidelines and codes of conduct, public opinion, institutional structures, financing mechanisms, research, training and capacity-building, media etc.

One of the most interesting developments in recent years has been the emergence of what can be described as **'hybrid approaches'**. These are essentially business models, practices or partnerships that combine the company's core competencies and commercial acumen, with social investment, philanthropy and/or public finance[7]. Such approaches are being used to support projects that may not currently meet commercial hurdle rates, but have the potential of becoming commercially viable over the longer term, while explicitly addressing a development or social need.

Linked to these 'hybrid approaches', the term **'blended value investing'** has been coined to describe private investment strategies and instruments that explicitly include social and/or environmental factors into investment decisions[8]. In their 2005 report, *Private Investment for Social Goals: Building the blended value capital market*, the World Economic Forum, International Finance Corporation and Rockefeller Foundation, comment, "Financial returns in blended value investments may be at risk-adjusted market rates or below market rates. These types if investments inhabit a space between philanthropy, where no financial return is expected and pure financial investments, where social considerations are not a factor and financial profit is market, financial, operational and political risks. Recent research by the Kennedy School's CSR Initiative, Booz Allen Hamilton, and others illustrates the growing value of stakeholder engagement as an effective strategy for this broader approach to risk management. [11]

(iii) **Charity and community investment** - moving from value protection to value creation, companies can create social value, while either protecting or enhancing their own market value, through effective philanthropy or community investment strategies. These are most likely to have a positive impact on both social *and* market value when they are aligned not only to community needs, but also to corporate competencies and interests. Energy companies, for example supporting projects to improve access to energy, logistics companies providing distribution support for humanitarian crises, ICT companies helping to improve access to technology, healthcare companies providing medical donations etc.

(iv) **Creating new social and market value -** the most strategic approach for strengthening the company's contribution to development comes through innovation in new products, services, processes, investment mechanisms, and even business models that directly align development needs with profit-making, business opportunities. As outlined in the previous section, some of these opportunities may offer the company a full market-driven financial return, while others may require a combination of commercial and social or public financing, at least at the outset, in order to make them a viable proposition.

Figure 2:
Strategies to strengthen the contribution to development
at the level of the individual firm

Source: Adapted from Jackson, Ira and Nelson, Jane. *Profits with Principles: Seven strategies for delivering value with values.* Currency Doubleday, 2004

Moving beyond the level of individual firm strategies and management frameworks, there are some development challenges that directly affect a company's profitability or operating environment, which it is unable to address either effectively, legitimately, or to a sufficient scale on its own. Examples could include tackling bribery and corruption beyond the company's own business operations, improving the enabling environment for private investment, supporting education reform, strengthening public capacity and institutions, shifting markets towards more socially or environmentally sustainable paradigms, and ensuring industry-wide ethical, social or environmental standards to avoid 'free-rider' problems. In such cases there are two key strategic options for companies aiming to strengthen their contribution to development

(v) **Collective corporate action –**companies can address certain development challenges by engaging in collective corporate action. This can often be achieved either through representative business organizations, such as Chambers of Commerce, Organizations of Employers, or trade and industry groups. It can also be achieved through more targeted business leadership groups as outlined in part one of this chapter, for example with a specific social and environmental mandate such as national business councils for sustainable development or national business coalitions to tackle HIV/AIDs.

(vi) **Cross-sector engagement and multi-stakeholder partnerships –** a final strategy, with relevance at the global, national or local level, is for companies to participate in formal alliances with key development actors in other sectors – government bodies, donor agencies, NGOs, trade unions, universities etc. Such alliances vary widely in the formality and rigor of their governance and operational structures, as well as in their focus and purpose. They can be structured as consultation mechanisms, or as operational and delivery mechanisms. They can help to protect market and social value – as is the case in alliances to set standards and improve public and private governance systems. They can also help to create new market and social value – as is the case in alliances to mobilize financial and other resources from different sectors to develop new models that support key development objectives.

The 'added value' of collective corporate action and cross-sector or multi-stakeholder partnerships comes from their ability to confer greater legitimacy and/or enable greater leverage of resources than any one of the participants could achieve on its own. But they are not a panacea. Research by the World Bank, United Nations, International Business Leaders Forum, AccountAbility, and others shows that these alliances can have high transaction and operational costs. They may also face substantial governance and accountability challenges. Despite these challenges, they can be a useful addition to a diversified portfolio of strategies used by companies and other development actors to strengthen the development impact of business.

IV. Recommendations

The previous section reviewed strategies that companies can take individually, collectively and in partnership with other sectors to strengthen their own development impact. Clearly, governments and other stakeholders, such as investors, customers, employees, trade unions and NGOs, can also influence the behavior and strategies of business in ways that strengthen the private sector role in development and poverty alleviation.

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