



Core business competencies for development impact: moving beyond CSR

Meeting Summary

Wednesday 11th February 2009, 17.30 to 19.00 followed by reception, **The Shell Centre**, London SE1 7NA

Speakers:

- **Gareth Thomas** – Minister of State; Department for International Development (DFID) and the Department for Business, Enterprise & Regulatory Reform (DBERR)
- **Mike Barry** – Head of Corporate Responsibility, Marks and Spencer's (M&S)
- **David Burling** – Commercial Director of TUI UK
- **Graham Baxter** – Director, Responsible Business Solutions, International Business Leaders Forum (IBLF)

Chair:

- **Simon Maxwell** – Director, ODI

Summary: *This meeting, the second in the [series on Harnessing the Private Sector for Development Impact](#), looked at how companies are using their core business operations to boost development. The Minister set the wide agenda of change needed to help business do business in developing countries. The panel discussion then explored practical examples from Marks and Spencer's, TUI Travel, and several other companies. Three main themes were developed. Firstly, a set of useful lessons about 'how' companies are adopting the core business approach. The 'how' relates as much to internal change, and adapting mindsets, as it does to engagement with external stakeholders. Secondly, the need to test and interrogate the model and its weaknesses, at the same time that we advocate it. Thirdly, questions about how this approach gets rolled out beyond the converted to the mainstream of operational departments. Participants were also reminded of the importance of other factors that also shape the development impact of business, ranging from infrastructure and good governance by the public sector, to public dialogue and social investment by companies.*

Simon Maxwell introduced the event by emphasising the main focus of the 2009 event series: how we can harness the power of business for development impact beyond corporate philanthropy (also summarised in a recent [ODI Background Note](#)). He referred to this year's World Economic Forum meeting in Davos, where business leaders reported that they have less cash but huge interest in contributing to development.

Gareth Thomas (GT), first noted that the current global economic crisis, presents a whole new set of challenges for both the developing and the developed world. However, at the same time, the role of business in development is getting better understood in the development and amongst the business community.

In order to move further on from traditional CSR, GT emphasised **five areas** where governments and business working in development need to do more (also summarised in this [blog](#)):

Firstly, we need **partnerships** amongst businesses, governments, producers and consumers in developing countries that create new business opportunities and deliver goods and services that improve the lives of the poor. Business needs to recognise the potential markets among the poor. A good example is the mobile phone and banking

revolution in developing countries and approaches from companies such as Vodafone. Through the Business Call to Action and working in partnership with other organisations such as the IBLF, the government tries to encourage more businesses to adapt new business models. The key point for success is that companies are adapting solutions through their core business.

Secondly, more **sourcing of goods from developing countries**, along with better pay and working conditions along supply chains, are needed. For example, Unilever Indonesia sources 85% of its inputs through local supply chains. But there is a way to go. Collectively, UK Supermarkets spend just 3% of their turnover on goods from developing countries.

Thirdly, we need to **champion good governance**. Governments need to deliver the right conditions for business investment in developing countries, including political stability, functioning courts and transparency. The Extractive Industries Transparency Initiative is setting a global standard for companies to publish what they pay and for governments in turn to publish what they receive in tax and other payments from the extractives sector. 'Sister' initiatives are now developing in medicine and construction.

Fourthly, we need to help developing countries to participate better in the global market by supporting **infrastructure programmes**. In April 2009 there will be an infrastructure conference in Zambia to help try and secure the new funding that is required to remove bottle necks, transport costs across Southern and Eastern Africa.

Lastly, we need to **improve access to finance in developing countries**. DFID provides technical assistance for sound financial systems including support for capital markets, pensions and insurance policy. Since developing countries already suffer losses of foreign direct investment due to the economic crisis, DFID works with the World Bank in order to try to increase lending for vital infrastructure and other poverty reduction projects.

GT concluded his presentation by emphasising the **obligation for governments to provide open and competitive markets** so that companies can tap into these markets to harness their potential for development impact.

Q&A:

Simon Maxwell asked what impact the global recession will have on the issue. GT answered that businesses that already have interests in developing countries are not likely to change their focus. However, the challenge will be to raise the interest of other businesses. He noted that the full impact of the crisis on developing countries is not yet clear.

In reply to a question on support for diaspora companies, GT noted their contribution. At the same time saying that though remittances are very important, they shouldn't be what we want developing countries to be dependent on. Instead we need to focus directly on the private sector in those countries.

In response to a comment that we should rather focus on the whole supply chain than on individual company approaches, GT said we should not focus on one in particular but need to do both.

On the lack of access to markets for developing countries, GT agrees that this is a crucial issue that needs to be moved forward. It will probably be picked up again during the DOHA round negotiations and the next G20 meeting this year.

Regarding a question on what specific incentives the government provides to businesses to engage in developing countries markets, GT said that the business environment and access to new markets are probably more important incentives than tax relief.

Mike Barry (MB), focused his presentation on three points:

1. Why does it matter?: Why business today has to move beyond traditional CSR to 'sustainable business'
2. M&S experiences: Case studies from M&S
3. Systematic approach to business in development in the future

Why does it matter?

According to current research customers clearly expect business to deal with social and environmental issues. MB emphasised that additionally, sustainable business has a clear business case. M&S's Plan A is a 100 point 5 year plan to address a wide range of environmental and social issues. It was expected to cost £500 mn but actually is cost neutral.

M&S experiences:

- Factories: Examples from the M&S supply chain showed that paying workers more than minimum wage, i.e. moving beyond compliances with basic standards, led to significant increases in the factories productivity.
- Commodities: In order to complement their fair trade offer, M&S collaborates with the Better Cotton Initiative (BCI) supporting their approach to use traditional cotton and reducing inputs (e.g. less fertilizer, less pesticides). This leads to better productivity, it is less harmful for the environment, thus has clear development impacts.
- Farming: M&S buys directly from farmers aiming at differentiation from its competitors regarding product quality as well as social and environmental standards.

MB emphasised that in all three cases there is a **business case emerging**. In his conclusion MB brought out seven lessons that may also be useful for other companies (summarised in his blog) when developing a sustainable business strategy:

1. Companies need to understand their value chain and where to engage
2. Work with stakeholders – both the critical and collaborative ones
3. Potential business benefits need to be clear right from the beginning
4. There is no 'one size fits it all solution'; different tools are needed, for different areas
5. Companies should do trials, grow small, move fast and apply the lessons learnt during the process
6. Develop indicators to measure success
7. Look for the disconnects between environmental and the social impacts
8. Governments can support business by investing in training

Simon Maxwell asked **where we are on the sustainability journey of business**. MB said that there has been a shift from corporate philanthropy, to community investment, to what we call traditional CSR to substantial different business models. That's where we are today. At M&S this means that every aspect of the business is changing but it's still the same business. The next phase to come in 10 to 15 years is sustainable business.

David Burling (DB), covered three main points:

1. The importance of the tourism sector in developing countries
2. Practical steps that TUI has taken to include sustainability in their business activities
3. Potential obstacles and challenges

Referring to Kofi Annan, DB emphasised that tourism can play a major role in helping people lift themselves out of poverty and **tourism is one of the most efficient voluntary transfers of money from the developed to the developing world**. It can be most evident when tourism falls: when tour operators had to pull tourists out of Kenya, there were 20,000 job losses on the Kenyan coast, affecting 100,000 livelihoods. TUI sends 30 million passengers per year to 200 destinations, so has a major impact on destination economies. Fortunately right now, sales to Africa and Asia are robust, having increased not dropped for 2009. Egypt, for instance, is the second largest destination after Spain.

At TUI, recently sustainability has become a bigger part of the company's day-to-day operations. The Tsunami, in which TUI lost 1000 customers and staff, was one catalyst for action. DB highlighted three **practical examples of how core business is changing**:

1. TUI helped to develop the Travelife Sustainability Audit System that allows tour operators to audit hotels' environmental and social standards across the globe. Travelife began in 2006. In 2010 it is being **expanded across every single contract**, with higher audit standards being rolled out in the 60 biggest properties. Initial resistance has diminished thanks to cost-savings.
2. TUI works in partnership with The Travel Foundation to boost linkages with local communities in tourist areas. This includes, for instance, sourcing of local food products or cultural excursion to local villages.
3. Customer education and participation in sustainability e.g. through a scheme that enables customers to donate £1 per adult and fifty pence per child on an opt-out basis. The money is raised for The Travel Foundation and Climate Care (one of the UK's leading offsetting providers). Business innovation is encouraging customers further. One 700-room hotel in Mexico offers a discount on future bookings to customers who offset.

Finally, DB mentioned some of the **challenges TUI faces**: lack of time, bureaucracy, incompetency, corruption among local partners, lack of understanding of governments in developing countries, seeing companies like TUI as substituting rather than complementing their own investments in infrastructure.

Graham Baxter (GB), started his presentation by outlining four main points **why business gets involved in sustainability**:

1. Risk management and cost reduction
2. Investing in the enabling environment
3. Development of new business opportunities
4. Moral motivation

While harnessing core business is important, we should not forget other two areas of action: **public policy and advocacy debate; and social investment**. Social investment, for instance, not only has several business benefits but can evolve to core business activities. Vodafone's M-PESA started with CSR funding, and is one example for such a transition. On the other hand, raw numbers show how important core business is to development: BP spends £100 million per year on social investment, compared with £17 billion on its core business operations.

GB gave different **examples** of core business activities which fall outside the supply chain areas already covered by speakers:

- Syngenta, developed tropical sugar beet, that can be grown under tropical climate conditions and brings significant advantages to farmers, the environment, the sugar and ethanol industries and the economy.
- Diageo, developed a crop which can be used to produce beer, and which has been introduced to Nigeria together with a training for the farmers to make the switch from their traditional crops to this cash crop.
- ICICI Bank in India has extended their core banking model into rural farming communities on a full profit basis including banking and insurance services.
- Regarding distribution chains, GB mentioned Unilever's Shakti Programme and Coca Cola's manual distribution centres as good examples.

Finally, GB noted that **innovation based on an extension of core business is a key to success**. Forced extensions for the sake of platform opportunities, disconnected commitments, (i.e. CEO speeches which don't have operational grass roots behind them) do not seem to work. He also warned against 'double step outs'; when companies engaging in both a new business areas and a new geographic area.

Discussion:

Two broad themes were raised in discussion and developed by the Chair, Simon Maxwell:

1. What are the **useful practicalities and forms of innovation**? How do companies change internally, and what outside support is needed? Specific issues included:
 - How to extend this beyond the Sustainability Managers to Operational Directors?
 - How to reduce the confusion of buzz-words that exists and help people focus on manageable action?
 - How to develop effective partnerships between business, government and civil society? How government can help set a 'raised' and level playing field to help companies match good practice in core business.

MB described the biggest shift of mindset being the move away from focusing on social issues solely as a matter of risk minimisation to expanding benefits. So much has been investing in minimising risk that diminishing returns have set in. The move now is to combine reasonable risk management, with the business case for contributing to development. On the same issue DB, speaking as an Operational Director not a CSR person, highlighted the importance of internal staff training in order to change how the company works externally. GB emphasised that 'transcending the trade-offs' means finding the win-wins, which in turn requires leadership, time, commitment, and a focus on what makes good business sense.

2. We need to '**stress-test**' the model - be sceptical and testing while supporting the shift to using core business. Discussion raised the need to:
 - avoid models that generate high social benefits in the short term but conflict with low-carbon growth in the longer term. A WWF participant argued that flying tourists to Kenya or relying on refrigerated supply chains risks leading to a dead end, despite immediate social benefits;
 - recognise the real tension between commercial and sustainability objectives, such as the risk that downward pressure on supply prices will squeeze out inclusive business efforts in supply chains, as is seen in IIED research on supermarkets.
 - ask about opportunity costs: which other suppliers or alternative land-uses are displaced?
 - be realistic: if this model is so good, why is it not standard practice?

Regarding climate change, MB noted that 50% of carbon footprint comes from raw material supply –whether animals are reared in Scotland or Argentina makes little difference to this element. What is needed is to assess which carbon-generating elements of the chain make a big difference to development and which do not. Comparing flying cherries from California and beans from Kenya, we need to assess the value-added to developing economies against the carbon disbenefits of importing products.

In responding to concerns about the conflict between commercial and sustainability objectives, panel members re-emphasised the need to be 'smart' and focus on developing the business case for development benefit. And that this is a very long-term process. In her concluding remarks, Caroline Ashley, ODI researcher on corporate engagement, returned to the need to **assess the development impact of core business approaches**, and not just make assumptions. This will be addressed further in future meetings.