

Inclusive business through partnerships

**Special Contribution to Fourth High Level Forum
on Aid Effectiveness**

**29 November – 1 December 2011
Busan, Korea**

**THE PARTNERSHIPS
RESOURCE CENTRE**



Colofon

© 2011, the Partnerships Resource Centre

Internet: www.partnershipsresourcecentre.org

Postal address

Burgemeester Oudlaan 50, room T7-26
3062 PA Rotterdam, the Netherlands

This paper has been written by Rob van Tulder, academic director, and Andrea da Rosa, research associate, of the Partnerships Resource Centre (PrC). The PrC is an open centre where scholars, practitioners and students can create, retrieve and share knowledge on cross-sector partnerships for sustainable development. The centre conducts fundamental research, develops tools, knowledge sharing protocols and web based learning modules and gives executive training. Most of these activities are open to the general public and are aimed at enhancing the effectiveness of partnerships around the world. The Partnerships Resource Centre was set up jointly by a number of business universities, the Dutch government, international NGOs and firms in November 2009.

No part of this publication may be reproduced, stored in a retrieval system, or transmitter in any form, or by any means, electronic, photocopying, microfilm, on audiotape or otherwise, without the prior written permission of the author.



Inclusive business through partnerships

Special Contribution to Fourth High Level Forum
on Aid Effectiveness

29 November – 1 December 2011
Busan, Korea

1. Introduction

Academic and policy thought on economic growth and sustainable development in the 21st century represents a breach with traditional thinking. Traditional development approaches are getting replaced by new and more modern development thinking that adopts a contingency approach towards development. Development requires tailor-made, multi-faceted and multi-level thinking. In addition to governments, multilateral organizations and NGOs, (multinational) enterprises are considered relevant agents of international development and change (Dunning and Fortanier, 2007). They can and do play a role in achieving pro-poor growth or alleviating poverty, either on their own (Jain and Vachani, 2006) or through partnerships (Austin, 2000). Prahalad's (2005) Bottom of the Pyramid (BOP) idea provided a strong argument for executives that poverty alleviation and profit-making can be aligned. But his reasoning remained primarily prescriptive, based on 'outlier' examples, and difficult to operationalize beyond case studies. Until now BOP strategies have been tried in particular by smaller, so called 'niche' players. But what about the largest firms in the world? Through their innovative capacity and strong position in supply chains, they are able to act as 'agents of change', but they can also act as barriers to further progress if they will not be able to include the new paradigm into their overall business models. An increasing number of the world's largest companies are experimenting with these ideas as this report will explore. There is a potential, therefore, to link the idea of 'inclusive growth' with that of 'inclusive business' which could substantially facilitate the spread of business involvement in pro-poor growth strategies. This requires that these concepts improve in descriptive depth, and become better to operationalize and to study on a comparative (multi-level) basis. In order to be effective – also from a donor perspective in which 'inclusive business' propositions need to be selected – there is a need to classify and measure the impact of inclusive business projects¹. Not all models have a positive impact on development.

This paper argues that at this stage of the discussion, managers of multinational enterprises as well as academics are in need of more sophisticated business models that can establish the link between the micro level of corporate strategies ('inclusive business') and macro models of development ('inclusive growth'). The search for empirical evidence on a case by case basis should ideally be preceded by more conceptual clarity that would allow for more solid description and analysis. It will be difficult otherwise to assess the nature of organizational innovation and its contribution to 'inclusive growth'. Witness, for instance, the statements in Box 1 of five exemplary Global Fortune 100 companies on their approach towards poverty alleviation (which comes closest to the idea of inclusive business/ growth) in their 2010/2011 sustainability reports and websites. Around fifty out of the one hundred largest firms issued specific statements on poverty alleviation in their 2010/2011 reports.

¹ www.wbcsd.org, accessed on 27 September 2009

Box 1: Narratives for inclusive business - quotes from Global Fortune 100 companies



"We believe that tackling the world's social problems requires more than traditional development aid or charity. We see significant potential and need for market-based solutions to address global poverty and inequality. These solutions support initiatives such as microfinance, small and medium enterprise financing, energy services for the poor, agribusiness, healthcare, education, and water and waste management. J.P. Morgan is committed to generating social, environmental and financial returns through growing the impact investing industry." (J.P. Morgan Chase & Co, 2011)



"Creating Shared Value is a fundamental part of Nestlé's way of doing business that focuses on specific areas of the Company's core business activities – namely water, nutrition, and rural development – where value can best be created both for society and shareholders. [...] As the world's largest food company and with operations in so many countries, Nestlé must increase its advocacy role in support of rural development as a critical element of any poverty reduction strategy." (Nestlé, 2011)



"Our world faces a major challenge: meeting rising global energy demand—which lifts people out of poverty and improves living standards—while addressing the environmental impacts that come with energy use. It is this challenge that lies at the heart of discussions about sustainability and the energy industry. Without energy, there can simply be no improvement in the quality of life of the world's citizens. (ExxonMobil, 2011)



"The growing gap between rich and poor creates enormous needs for innovative, affordable mobility solutions that meet human needs and help people build a better way of life. Unequal access to transportation often limits the opportunities available to those most in need. Better mobility is part of the solution to unemployment and income disparities." (Ford Motor, 2011)



"Our corporate citizenship activities help advance the United Nations' Millennium Development Goals and the principles of the UN Global Compact. Our efforts include heightening awareness of responsibility for protecting the environment and the climate, and taking steps to combat poverty and corruption." (Siemens, 2011)

What do these statements represent? Do they represent integrated business strategies or incidental cases, window-dressing and a reaction to critical stakeholders, or authentic efforts to deal with the issue? Are they a first step towards a sophisticated approach on inclusive business and growth? A sophisticated business model normally goes together with a sophisticated mission and vision. In the corporate communication literature, corporate statements are expressions of the quest for a 'sustainable corporate story'. In a sustainable corporate story, firms convincingly analyse the issue, sufficiently specify primary responsibilities and credibly elaborate the approach chosen at both the strategic and operational level. This requires that the macro problems of inclusive growth are linked to the micro problems of inclusive business. The more sophisticated the 'story' of a corporation is, the more it receives a 'moral authority' in a particular issue, which as a consequence increases its 'license to operate' and its overall legitimacy. Stories or 'narratives' not only set the agenda from the perspective of firms, but – when contained in public statements like corporate responsibility reports and/or codes of conduct - often also represent their strategic reality.

The aim of this paper is to link the macro concept of "inclusive growth" and the micro concept of 'inclusive business' at the firm level, with special attention to the role of cross-sector partnerships. In case the firm level is represented by the largest firms in the world, the chances that this link can actually be achieved are the greatest. The main contribution of this paper is to create a taxonomy of CSR business models in which the direct and indirect consequences for inclusive growth are taken into account. The taxonomy should make it possible to study multinational corporations on a comparative basis, distinguish patterns and determinants of strategies, and identify more or less 'credible stories' vis-a-vis the issue of inclusive business and growth at the level of the individual firm. This paper consists of five sections. Section two gives a short overview of the state-of-the art thinking about concepts of inclusive business and inclusive growth and presents two conceptual challenges. Section three discusses the first conceptual challenge: to move from macro-level claims on the relationship between firm strategies and development (inclusive growth). Section four examines the second challenge: proposes a way to classify the most important components of an 'inclusive business model' into a taxonomy of corporate strategies. Section five applies this taxonomy by analysing the progress by the largest Fortune 100 firms in linking 'inclusive business' and 'inclusive growth' as a business model and as a partnering strategy. Section six concludes and specifies areas for further research.

2. Linking inclusive business and inclusive growth

'Inclusive business' has had a longer gestation period than the concept of 'inclusive growth'. It can be traced back to 1988, when a number of non-governmental organizations initiated the first labelling for fair trade. At that time, however, the concept lacked specificity and business relevance which made it rather short-lived. At the start of the 21st century, the idea was rejuvenated by business groups and international organizations at approximately the same time. The World Business Council on Sustainable Development (WBCSD) initiated a 'sustainable livelihoods business' concept, which was quickly redrafted into the concept of 'inclusive business'. The WBCSD operationalized a pro-poor business model at the *base* of the pyramid, 'doing business with the poor in ways that benefit the poor and benefit the company'. Whilst the BOP strategy is primarily aimed at involving poor people as consumers, an inclusive business strategy aims at low income communities as consumers as well as producers. For instance, this can form part of a global commodity chain in which multinational corporations often act as 'lead firms'. The World Bank defines inclusive business as 'making low income communities part of the core business of companies, as an option for significant and sustained impact on poverty'² (see Box 2 for other definitions of inclusive business). All organizations acknowledge that inclusive business requires building cross-sector partnerships with governments and NGOs, and integrating core business activities (Box 3). But the term 'inclusive business' is not well established; other business organizations like the World Economic Forum (WEF), also stress the importance of pro-poor business models, but do not use the concept of inclusive business (Box 4 provides a number of different terms that are used to characterise the concept of inclusive business).

Since around 2005, the concept of 'inclusive growth' has been embraced by multilateral organizations like the World Bank or the UNDP. In 2008, the UNDP initiated the 'Growing Inclusive Markets' platform, which is aimed at facilitating exchange of information amongst more than fifty inclusive business case studies. Inclusive growth stands for 'equitable development' or 'shared growth' and thus can be considered to follow on from the pro-poor growth policies of the 1990s, and now includes the explicit notion that the benefits of growth should be equitably distributed as a prerequisite for sustained growth.

² www.worldbank.org, accessed on 18 December 2008

Box 2: Definitions of Inclusive Business



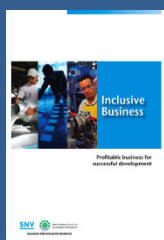
UNDP, Creating Value for All: Strategies for Doing Business with the Poor, 2008

“Inclusive business models include the poor on the demand side as clients and customers and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit. The benefits from inclusive business models go beyond immediate profits and higher incomes. For business, they include driving innovations, building markets and strengthening supply chains. And for the poor, they include higher productivity, sustainable earnings and greater empowerment” (p. 2)



IFC, Accelerating Inclusive Business Opportunities, 2011

“Inclusive business models expand access to goods, services, and livelihood opportunities for those at the base of the pyramid in commercially viable, scalable ways. Inclusive business models are helping companies turn underserved populations into dynamic consumer markets and diverse new sources of supply. In the process, companies are developing product, service, and business model innovations with the potential to tip the scales of competitive advantage in more established markets as well.” (p. 2)



WBCSD & SNV, Inclusive Business- Profitable Business for Successful Development, 2008

“An Inclusive Business is an entrepreneurial initiative seeking to build bridges between business and low-income populations for the benefit of both [...] An inclusive business therefore is one which seeks to contribute towards poverty alleviation by including lower-income communities within its value chain while not losing sight of the ultimate goal of business, which is to generate profits” (p. 2)



Endeava, Inclusive Business Guide, 2010

“These [inclusive business] models involve doing business with low income populations anywhere along a company’s value chain: they are incorporated into the supply, production, distribution and/or marketing of goods and services. This generates new jobs, incomes, technical skills and local capacity. Likewise, poorer consumers can benefit from products and services that are not only more in line with their needs but are also affordable” (p. 3).

Box 3: Partnering for Inclusive Business

UNDP, 2008 - Creating Value for All: Strategies for Doing Business with the Poor

“Like many business models, inclusive business models often succeed by engaging other businesses in mutually beneficial partnerships and collaborations. They also make use of collaborations with nontraditional partners, such as nongovernmental organizations and public service providers. Through such collaborations, businesses can gain access to complementary capabilities and pool resources to work around or remove constraints in the market environment. By combining complementary capabilities with other organizations, inclusive business models can capture capabilities and resources that a business could not provide alone.” (p. 9)

Endeva, 2010 - Inclusive Business Guide: How to Develop Business and Fight Poverty

“Partnerships between the private and public sectors can play a decisive role for sustainable development. In the last 10 years, German development policy has established new forms of partnerships with the private sector leading to activities in more than 70 developing and transition countries. Our programme for development partnerships with the private sector (www.develoPPP.de) has been commended as innovative in this field. Indeed, we have many success stories to demonstrate the value of those partnerships. Business and development objectives often complement one another and can be achieved more effectively in a joint effort.” (p. 16)

IFC, 2010 - Inclusive Business Solutions: Expanding Opportunity and Access at the Base of the Pyramid

“Based on client experience and a growing body of research in this area, IFC has found that companies developing inclusive business models must address five core challenges [i.e. Expanding reach, facilitating access to finance, changing mindsets and behaviors, designing appropriate products and services and developing pricing and payment policies] that cut across the industries they are in. Patterns in the tactics they use for each challenge are emerging. In addition, partnerships and technology commonly act as enablers.” (p. 3)

Harvard Kennedy School & Business Action for Africa Report, 2010 - Business Partnerships for Development in Africa: Redrawing the boundaries of Possibility

“As this report demonstrates, effective collaboration and partnerships between the various sectors of society are now a critical success factor in the development and implementation of inclusive business approaches, and create a powerful means for us to think in new ways about how to tackle some of the most intractable and daunting development challenges.” (p. 3) ... “We are seeing partnerships for Africa’s development evolving in scope, with a wider range of partners tackling more complex, interdependent issues using increasingly innovative approaches that would not have been possible for any single actor working alone”.(p. 30).

Box 4: Other terms for inclusive business

Inclusive business – refers to the inclusion of people living in poverty into business processes along the value chain. This term is used by the alliance between the World Business Council for Sustainable Development (WBCSD) and the Dutch development organization, SNV, as well as by the United Nations Development Programme (UNDP) within the “Growing Inclusive Markets Initiative”. The non-profit organization, Ashoka, uses the term **Full Economic Citizenship (FEC)** for this concept.

Business linkages – refers to possibilities for establishing business ties with small companies and microenterprises in developing countries. The International Business Leaders Forum (IBLF) organizes dialog forums on this topic together with the International Finance Corporation (IFC) and the Harvard Kennedy School.

Pro-poor value chain development – a method used by development organizations to integrate producers, especially small farmers, more effectively into value chains.

Responsible supply chain management – summarizes management methods for sustainable supply chain organization. One focus is on the fair inclusion of micro-producers, for example, for agricultural products.

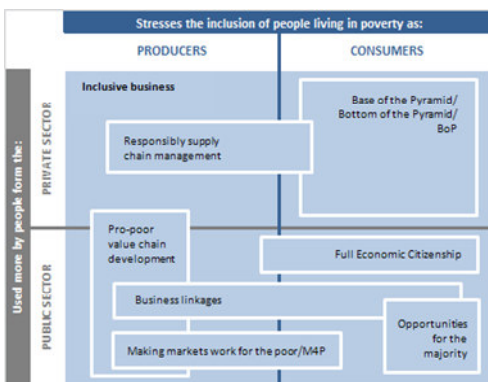
Base (or Bottom) of the Pyramid (BoP) – refers to the idea of acquiring people living in poverty as consumers, thus fighting poverty and tapping into a huge market. The focus is usually on the marketing aspect. The Inter-American Development Bank (IADB) calls this “opportunities for the majority”.

Making markets work for the poor/ MMW4P/ M4P – a development strategy that aims to make markets work more effectively and thus increase the income and improve the quality of life of those living in poverty. At the forefront of this effort are the development organizations DFID, SDC and SIDA.

The inclusive business model also frequently appears in connection with the following two concepts:

Social enterprise/social business – refers to companies that pursue social objectives as part of their business model, among them fighting poverty. Social enterprises apply business logic to at least cover their costs.

Corporate social responsibility – refers to the responsibility of companies to make a contribution to society and prevent damage. Many companies strive to integrate CSR activities into their core business. Inclusive business pursued by companies also falls into this category. In fact, these types of initiatives also often originate in the CSR department in larger companies.



Source: Gradl and Knobloch (2010) "Inclusive Business Guide: How to develop business and fight poverty" (Endeva)

The concepts of inclusive business and inclusive growth have not been adopted (yet) by multinational corporations around the world. A recent check on the websites and CSR reports of the Global Fortune 100 resulted in almost negligible results. Corporations conducting business with one of the above mentioned multilateral organizations have started to adopt the jargon, but not at any level of sophistication. This is also due to the weak operationalization of the concept. The corporate approach towards 'poverty alleviation' will be used as a proxy for corporate receptiveness towards the idea of inclusive business/growth.

Attention for the two concepts in academic writing and research is scarce (Table 1). Of all the (28,321) articles published between January 1990 and December 2009 in 26 leading management and development journals, only nine (0.0003%) articles refer in one way or another to one of the two concepts. However, two articles in The Journal of Business Ethics (JBE) and in the Journal of International Business Studies (JIBS) do not really use inclusive business and growth in the manner intended for pro-poor strategies, leaving seven articles. Development journals focus only on inclusive growth (Paus, 1995; Pieters, 2009; Gore, 2000; Pastor and Conroy, 1995), and management journals also look primarily at inclusive growth (Ancona et al, 2007; Karnani, 2007). Only one article mentions inclusive business (Olson & Boxenbaum, 2009). Of these seven studies, four mention inclusive growth once, as an environmental factor, which leaves three studies that discuss the issue in any depth. All apply a case study method, either at the country level (Pieters, 2009, for India; Paus, 1995, for El Salvador) or at the company level (Olson and Boxenbaum, 2009, for the small Danish biotech company, Novozymes). None of the studies combine both the concept of inclusive business and growth (or impact on development), which would represent a multi-level approach. This relatively dismal state-of-affairs is probably due to the complexities of the issue, the difficulty of adopting multi-level research techniques, but also to a lack of clear conceptualizations at the level of a company's business model.

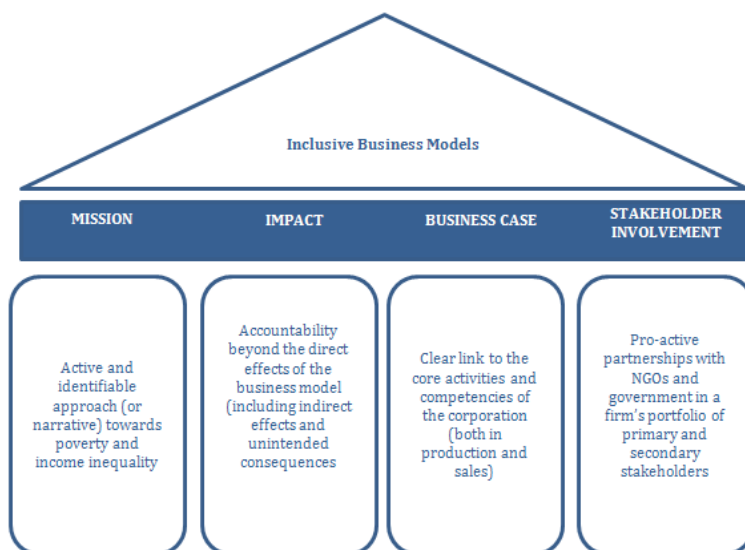
Table 1: Academic coverage of inclusive growth/business (1990-2009)

| Category | Journals | Total no of articles | Inclusive business | Inclusive growth |
|-------------------------------|------------------------------|----------------------|--------------------|------------------|
| Development | World Bank Res. Observer | 384 | 0 | 0 |
| | World Development | 2700 | 0 | 4 |
| | World Bank Economic Rev. | 459 | 0 | 0 |
| | Sustainable Development | 508 | 0 | 0 |
| Mainstream management | Ac. Of Management Journal | 1277 | 0 | 0 |
| | Ac. Of Management Review | 890 | 0 | 0 |
| | Organization Science | 887 | 0 | 0 |
| | Adm. Science Quarterly | 518 | 0 | 0 |
| | Strategic Management Journal | 1749 | 0 | 0 |
| | Journal of Management | 984 | 0 | 0 |
| | Management Science | 2551 | 0 | 0 |
| Journal of Management Studies | 990 | 0 | 0 | |

| | | | | |
|----------------------------------|----------------------------------|------|---|---|
| International business | Journal of Int. Business Studies | 977 | 1 | 0 |
| | International Business Review | 609 | 0 | 0 |
| | Journal of World Business | 667 | 0 | 0 |
| Functional areas of mgmt. | Marketing Science | 719 | 0 | 0 |
| | Journal of Marketing | 834 | 0 | 0 |
| | Leadership Quarterly | 563 | 0 | 0 |
| | Supply Chain management | 525 | 0 | 0 |
| | Human Resource Management | 732 | 0 | 0 |
| Business ethics | Business Ethics Quarterly | 612 | 0 | 0 |
| | Journal of Business Ethics | 4523 | 1 | 0 |
| | Business & Society | 607 | 0 | 0 |
| Practitioner | Harvard Business Review | 3056 | 0 | 1 |
| | California Management Review | 650 | 1 | 1 |

The need and urgency for inclusive business models seems clear. The following requirements (Figure 1) have to be addressed in order to establish a link with inclusive growth: (1) *Mission*: an active and identifiable approach (or narrative) towards poverty and income inequality, (2) *Impact*: accountability beyond the direct effects of the business model (including indirect effects and unintended consequences); (3) *Inclusive business cases*: a clear link to the core activities and competencies of the corporation (both in production and sales); (4) *Stakeholder involvement*: pro-active partnerships with NGOs and government in a firm's portfolio of primary and secondary stakeholders.

Figure 1: Four requirements for inclusive business models



3. Challenge #1: from macro to micro

In management and development studies, the relationship between Foreign Direct Invest (FDI) and ‘host country’ development generally mirrors the relationship between inclusive business and inclusive growth (Meyer, 2004). Recent thinking argues that the various mechanisms through which multinational enterprises (MNEs) can affect development need to be addressed for an understanding of that relationship. For example, creating local backward linkages is often seen as very beneficial for local firms, as these can increase their sales and gain better access to markets, and enables them to benefit from technology transfer and training of the MNE. However, there are many other mechanisms that play a role and need to be addressed when evaluating the consequences of foreign firms, foreign investments and partnerships of MNEs with local firms for the development of the host country. Examples of such mechanisms include technology transfer through labour migration or demonstration effects, competition and market structure effects, the sheer size effects of investments, and forward linkages. These have all been identified in the economic and business literature as the economic growth consequences of FDI. This also calls for a more active approach of MNEs as key partners in the process of societal transformation (Stiglitz, 1998), and in activities related to Corporate Responsibility such as implementing environmental, health and safety management systems at their production sites, and engaging in philanthropic projects (Table 2).

Table 2: Mechanisms through which MNEs affect sustainable development

| Type of effect | MNE role | | INCLUSIVE BUSINESS ↓ |
|----------------------------|--|--|-------------------------|
| | Passive | Active | |
| Direct (at MNE site) | Size effects (for capital base, employment, environment) | EH&S practices, labour conditions | ↓ |
| Indirect (beyond MNE site) | Competition, technology transfer, linkages, alliances, income distribution | Philanthropy, public private partnerships, supplier conditions | |
| INCLUSIVE GROWTH → | | | |

Source: based on Dunning and Fortanier, 2007

In Table 2, the type of effect is positioned on the vertical axis, and the role of the multinational enterprise on the horizontal axis. The type of effect captures the conventional distinction between the direct effects of an investment, which occur solely at the site of the MNE, and the indirect effects, that occur at firms related to the (activities of the) MNE. For example, the workers employed by an MNE constitute the company’s direct employment effect; whereas the employment an MNE creates at a local supplier due to increasing demand for this

supplier's products, constitute part of its indirect effects for employment. The second variable, the role of the multinational, distinguishes between active (purposeful) and passive roles.

Passive effects

The passive effects of an MNE for host country development are those that occur through 'standard business practice'. They are relatively well documented, especially for the economic dimensions of development. *Direct* passive effects occur when an investment by an MNE adds to the host country's savings and investment volume, and thereby enlarges the production base at a higher rate than would have been possible if a host country had to rely on domestic sources of savings alone. Foreign direct investment (FDI) may thus develop sectors or industries in which local firms have not (yet) invested, or enlarge the scale of existing farms, plants or industries. Positive direct effects may also lie in salvaging and recapitalizing inefficient local firms (Lahouel and Maskus, 1999), thereby assuring that the scale of production at least does not decrease. Direct passive effect can be measured rather easily: the direct passive effect is the net increase or decrease in output and productivity, employment (quantity and quality), and pollution, at the site of the MNE investment.

The *indirect* passive effects are those of inward investment that are generally designated as 'spillovers' or 'multiplier effects' in the economic literature. For example, linkages with buyers and suppliers are an important means through which MNEs can impact economic growth since it is unlikely that MNEs can fully appropriate all the value of explicit and implicit knowledge transfers with their host country's business partners (Blomström et al., 1999). Many empirical studies have found evidence of the creation of both backward linkages (e.g. Alfaro and Rodríguez-Clare, 2004; Javorcik, 2004), and *forward* linkages (Aitken and Harrison, 1999).

In addition, an investment by an MNE changes the market structure of the industry. Such investments can stimulate competition and improve the allocation of resources, especially in those industries where high entry barriers reduce the degree of domestic competition (e.g. utilities). Fears are sometimes expressed that MNEs may also crowd out local firms. This is not problematic if they are replaced by more efficient firms, but that could also increase market concentration to such an extent that resource allocation could diminish (Cho, 1990). From a political and social view point, it may also be seen as undesirable.

Finally, since MNEs are frequently key actors in creating and controlling technology (Markusen 1995, Smarzynska 1999), they can be important sources for spreading managerial skills, and expertise on products or production processes – either intentionally or unintentionally – to host-country firms (Blomström et al., 1999). Macro-economic studies on the net effect of FDI on host country development focus primarily on these passive effects and are rather inconclusive on their outcome. It has been found that the net effect strongly depends on such contingencies as the country of origin of the investment, host country institutions, sector effects and the nature of the strategy of the multinational corporation itself (Fortanier, 2008).

Active effects

The active effects of MNEs are receiving increasing attention. The active role of MNEs in fostering development can also be divided into direct effects – that occur at the facilities of the MNE themselves – and indirect effects – that occur externally.

Direct active effects encompass the environmental, health and safety, and employment practices of a multinational at its subsidiaries. Recent studies (Fortanier and Kolk, 2007) show that approximately 70 percent of the largest global 250 firms actively promote workforce diversity and equal opportunity, good working conditions, and training. A similar number of firms address climate change issues and direct green-house gas emissions. Labour rights, such as collective bargaining and freedom of association are mentioned by one-third of all firms. In addition to engaging in CSR activities within a firm’s boundaries, MNEs have also started to contribute to society in a more indirect way (i.e. outside their own facilities) through philanthropy and community investments, or by requiring their suppliers to adhere to social and environmental standards as well. A KPMG (2005) study shows that 75% of the largest global 250 firms say to be involved in philanthropic activities; and almost 50% have their own corporate charitable foundation. Schooling and educational projects are most popular (66%), followed by health programs including HIV/AIDS relief efforts (40%). These corporate philanthropy activities signal the growing acknowledgement of the importance of ‘social capital’ and of civil society for the correct and profitable operation of business (cf. Wood et al., 2006). Philanthropy has thereby become a vital aspect of (global) corporate citizenship. According to Zadek (2003), MNEs are entering the phase of ‘third generation corporate citizenship’ which represents a far more active and open approach to civil society than before.

When active (inclusive) business models reinforce the positive indirect effects that go beyond the direct impact of corporate activities (beyond the MNE site), inclusive business and inclusive growth models are mutually reinforcing (Table 2 – see shaded areas).

4. Challenge #2: from general to specific – classifying inclusive business models

In the 1990s, companies did not really have inclusive business models available. This has rapidly changed since the early 21st century. First, measurements on the impact of MNEs activities on poverty alleviation became available. The Global Reporting Initiative (GRI) links the core activities of businesses to the Millennium Development Goals (MDGs) in the form of concrete reporting guidelines, for example by measuring the creation of jobs in the formal sector, which is considered critical in escaping the poverty trap. Secondly, labelling represents another way companies can have an impact on poverty. Labels have enabled companies to communicate their commitment to society and provide consumers with information on the quality and contents of products. Especially fair trade labels have started to serve as a means of communicating the corporate approach to poverty alleviation. Thirdly, codes of conduct help corporations to level the playing field and promote standards that can overcome the lack of regulation in many countries on issues related to poverty (in particular on working conditions and minimum wages). Important developments include the Ethical Trading Initiative (ETI) and the Fair Labour Association (1998), which sought to define, for instance, a 'living wage' and 'no excessive working hours'. Fourthly, new business models have become available that approach the issue of poverty from either a positive or a negative side. The 'Bottom of the Pyramid' thesis (Prahalad, 2005) takes the positive road. It advises companies to focus their resources on four billion 'forgotten' consumers and to develop products and services that meet the needs of the poor. A major problem with the BOP strategy, however, is that part of the 'market' at the bottom of the pyramid is, already served by local firms and the informal economy. Multinationals can crowd out more local firms and local employment than they create. Two types of BOP strategies have to be distinguished: a 'narrow BOP' strategy that only focuses on the market opportunities and a 'broad BOP' strategy that takes the wider repercussions and the net (direct as well as indirect) effects of the strategy into consideration. A narrow approach has 'market substitution' effects, whereas a broad BOP approach aims at 'market creation'. Only the latter approach can turn BOP strategies into a viable business contribution to inclusive growth.

Wilson and Wilson (2006) take the negative road and point at the threat to reputation and security of international corporations in particular if the 'issue' of poverty and the relationships with developing countries are badly managed. They include the 'country risk' argument from International Business theory. The claim is that there is a true new business model developing in some developing countries. Prahalad (with Krishan, 2008) later extends these same ideas to produce an even more generic model of innovation in which producers

and communities (of users, suppliers and the like) 'co-create' systems that are claimed to be economically feasible, but also socially desirable.

Finally, partnerships are an important part of an inclusive business strategy. Austin (2000: 44) labelled partnerships between public and private parties as the "collaboration paradigm of the 21st century" needed to solve "increasingly complex challenges" that "exceed the capabilities of any single sector" (cf. Selsky and Parker, 2005). Since the 2002 World Summit on Sustainable Development (WSSD), 'cross-sector' partnerships have become important instruments for addressing problems of global development and reaching the Millennium Development Goals (MDGs), in which the contribution of companies is seen as crucial. All multilateral institutions that propagate 'inclusive business and growth' have identified meaningful cross-sector partnerships as a prerequisite for active business models.

A taxonomy

The contribution of CSR strategies to align the interests of the poor and consequently to lead to an 'inclusive business' model, depends on the circumstances and the concrete elaborations of business strategies in developing countries (Blowfield, 2005). The attempt to classify business models in terms of their drivers and dynamics goes back to Post (1979), who was the first to introduce the distinction between reactive and proactive strategies. With this distinction, he followed a 'stakeholder' view of the firm. In this approach, firms in interaction with increasingly critical stakeholders such as NGOs and governments face the tension between a defensive (reactive) and an accommodative/preventive (proactive) strategy. All taxonomies in the tradition of the stakeholder theory of the firm introduce comparable distinctions. The resource based view of the firm adds 'intrinsic' motivations to the stakeholder view. Depending on their capabilities and own ambitions, managers manage the tension between an inactive and active attitude. These two types of tensions applied to two types of general strategies introduced earlier (passive/active) result in four specific CSR approaches with different procedural attributes in which the very CSR abbreviation also has four different meanings (Van Tulder et al, 2009). Table 3 summarizes the key characteristics of the four CSR approaches. It shows the indicators of inclusive business strategies, which link the macroeconomic modelling of firm strategies to the strategic perspective and narratives of individual firms in this section.

An *inactive* approach reflects the classical notion of Milton Friedman that the only responsibility companies (can) have is to generate profits, which in turn generates jobs and societal wealth and can therefore be considered a form of CSR. This is a fundamentally inward-looking (inside-in) business perspective, aimed at efficiency in the immediate market environment. Entrepreneurs are particularly concerned with 'doing things right'. Good business from this perspective equals operational excellence. CSR thus amounts to 'Corporate Self Responsibility'.

Table 3: Four CSR Approaches towards inclusive growth

| PASSIVE | | ACTIVE | |
|--|--|--|--|
| INACTIVE | ACTIVE: go-it-alone | | |
| | REACTIVE | PRO-ACTIVE: partnership | |
| Definition of CSR | | | |
| "Corporate <i>Self</i> Responsibility" | "Corporate Social <i>Responsiveness</i> " | "Corporate Social <i>Responsibility</i> " | "Corporate <i>Societal</i> Responsibility" |
| Main characteristics | | | |
| <ul style="list-style-type: none"> * Legal compliance and utilitarian motives * Efficiency * Indifference * Inside-in * 'doings things right' * 'doing well' | <ul style="list-style-type: none"> * Moral (negative) duty compliance * Limit Inefficiency * Compliance/reputation * Outside-in * 'don't do things wrong' * 'doing well and doing good' | <ul style="list-style-type: none"> * Choice for responsibility and virtue * Equity/Ethics * Integrity * Inside-out * 'doing the right things' * 'doing good' | <ul style="list-style-type: none"> * Choice for inter-active responsibility * Effectiveness * Discourse ethics * In-outside-in/out * 'doing the right things right' * 'doing well by doing good' |
| <ul style="list-style-type: none"> * Resource based view * marketing/demand approach | <ul style="list-style-type: none"> * Shareholder view | <ul style="list-style-type: none"> * Capabilities view * marketing and production: supply and demand | <ul style="list-style-type: none"> * stakeholder view |
| Approach to poverty alleviation | | | |
| <ul style="list-style-type: none"> * No explicit statements on poverty * We create jobs and employment (by-product of profits) * Affordable products * No code of conduct and low compliance likelihood * No explicit support for labels * No separate business model for poor | <ul style="list-style-type: none"> * Narrow BOP * Creation of local employment used defensively * Micro-credits as philanthropy * Vague code and low specificity as regards poverty * Support for Global Compact and modest support for GRI * Dialogue vaguely mentioned | <ul style="list-style-type: none"> * Statement on moral unacceptability of poverty * Definition of 'decent wage' * Broad BOP * Micro-credits as business strategy * Technology and knowledge transfer * Explicit support for MDG1 * Support for GRI * Specific codes on poverty and fair trade | <ul style="list-style-type: none"> * Separate (strategic) business model for the poor * Explicit support for all MDGs * Active partnerships on poverty * Explicit codes, strong support of GRI * Technology and knowledge transfer specified for poverty * high specificity and high compliance likelihood of codes * Dialogues as an explicit tool |
| Link between inclusive business model and inclusive growth: | | | |
| <ul style="list-style-type: none"> * No link | <ul style="list-style-type: none"> * Weak defensive link | <ul style="list-style-type: none"> * Weak positive link | <ul style="list-style-type: none"> * Strong positive link |

This narrow approach to CSR requires no explicit strategy towards poverty alleviation. It aims at the prime 'fiduciary duties' of managers vis-à-vis the owners of the corporation, which could imply affordable products, company growth, payment of taxes and job/employment creation, but only as indirect by-products of a strategy aimed at profit maximisation. When faced with the trade-off between job creation and efficiency enhancement (or shareholder value maximisation) these firms will choose for the latter. The company is relatively indifferent towards the issue of poverty. The corporation stresses economic growth (general efficiency) and its general contribution to poverty alleviation, without further specifying its own contribution. The company is extremely passive towards including poverty related initiatives in its (core) business practices.

A **reactive** approach shares a focus on efficiency but with particular attention to avoiding mistakes ('don't do anything wrong'). This requires an outside-in orientation. CSR translates into Corporate Social *Responsiveness*. Corporate philanthropy is the modern expression of the charity principle and a practical manifestation of social responsiveness. In this approach, the motivation for CSR is primarily grounded in 'negative duties' where firms are compelled to conform to informal, stakeholder-defined norms of appropriate behaviour (Maignan, Ralston, 2002). The concept of 'conditional morality', in the sense that managers only 'react' when competitors do the same, is also consistent with this approach. This type of firm deals with the issue of inclusive business primarily when confronted with actions of critical stakeholders, for instance in the area of 'working poor' (Wal-Mart) and in an effort to limit the negative influences of firm strategies on poverty or restore corporate legitimacy (Lodge, Wilson, 2006). Primarily in reaction to concrete triggering events – and often not spontaneously – these companies legitimise their presence in developing countries or in socially deprived regions by arguing that they potentially transfer technology, contribute to economic growth and create local job opportunities, but without specifying it in concrete terms or assuming direct responsibility. The company just wants to reduce its vulnerability as regards the issue of poverty. Poverty even becomes an opportunity when the growth possibilities in the existing markets are declining. The bottom of the pyramid is narrowly addressed as a marketing opportunity. Support for guidelines like the UN's Global Compact – which was neither specific nor required high compliance before the secretariat introduced a major upgrade in 2008 – is the typical approach of a reactive CSR strategy (see Kolk and Van Tulder, 2005).

An **active go-it-alone** approach to CSR is explicitly inspired by ethical values and virtues (or 'positive duties') of the entrepreneur itself. Such entrepreneurs are strongly outward-oriented (inside-out) and they adopt a 'positive duty' approach. They are set on doing 'the right thing'. In this approach, CSR gets its most well-known connotation – that of Corporate *Social Responsibility*. This type of firm has a moral judgement on the issue of poverty and tries to develop a number of activities that are strategic (core activities) and/or complementary to its own corporate activities. Such firms can define what 'decent wages' are and can come up with substantial philanthropy activities towards poverty alleviation in markets where it is not active. The reactive firm will primarily locate its philanthropy in the vicinity of its corporate activities (thus the growing attention for 'strategic philanthropy'). In contrast, the active company

accepts (partial) responsibility for the issue of poverty, in particular where it is directly related to its own activities and responsibilities. Poverty (the bottom of the pyramid) is explicitly addressed as a morally unacceptable issue for which perhaps entrepreneurial solutions exist. The (indirect) job creating effects of the company with its suppliers are also specified. In case this company embraces, for instance, micro-credits, it is not only seen as a regular market opportunity or a PR instrument, but as a strategic means to reach the real bottom of the pyramid for which concrete criteria should be developed to measure its effectiveness and create ethical legitimacy.

A **proactive** CSR approach materializes when an entrepreneur involves external stakeholders right at the beginning of an issue's life cycle. This proactive CSR approach is characterized by *interactive* business practices, where an 'inside-out' and an 'outside-in' orientation complement each other. In moral philosophy, this approach has also been referred to as 'discourse ethics', where actors regularly meet in order to negotiate/talk over a number of norms to which everyone could agree (cf Habermas 1990): 'doing the right things right' (or 'doing well by doing good'). This form of Corporate *Societal* Responsibility (Andriof, McIntosh, 2001:15) shifts the issue of CSR from a largely instrumental and managerial approach to one aimed at managing strategic networks in which public and private parties have a role and firms actively strike partnerships with non-governmental organisations to develop more structural solutions to poverty. The former CEO of Unilever, Anthony Burgmans, equates 'CSR' with 'Corporate *Sustainable* Responsibility' – thus combining inclusive business and inclusive growth. Firms that aim at a proactive poverty strategy are most open to the complex and interrelated causes on poverty and acknowledge that poverty can only be solved through partnerships and issue ownership of all societal stakeholders involved. This type of firm is also willing and able to see the problematic relationship between low wages and/or low prices and low economic growth which could hamper a more structural approach to poverty. A possible legal elaboration has been provided by Lodge and Wilson (2006) who introduced the construct of a "World Development Corporation" - an UN-sponsored entity owned and managed by a number of MNEs with NGO support.

The more firms consider inclusive business strategies as part of their core business/competencies, the more they also need to develop sustainable corporate stories. A sustainable story then also becomes part of a 'sustainable competitive advantage' and philanthropy becomes part of a strategic partnership with relevant stakeholders, not just an isolated strategy. An example of such a case is when the inclusive business strategy is managed by a foundation that is relatively independent of the company, instead of part of the strategic planning of the whole company. The poverty alleviation strategy becomes part of the search for a new business model that might contribute to a structural poverty alleviation approach

Basic position in 2006

An application of the taxonomy of inclusive business strategies to the 100 largest firms in the world for 2006/2007 (cf. Van Tulder, 2008), shows that an increasing number of firms and corporate leaders have started to develop inclusive business models. Around 58% took explicit initiative with regard to poverty alleviation. For example, at least four firms explicitly issued a moral statement (active) that poverty was unacceptable. One out of five corporations also developed poverty oriented programs in their philanthropy activities. One out of ten firms, in particular American and Japanese firms, considered the provision of 'affordable products' as an important contribution to poverty alleviation. One out of four firms, on average, stated that creating local employment opportunities was a major issue of development. Half of this group (12) further specified that indirect employment at suppliers was also important. Decent wages, however, were only defined by four corporations. Seventeen corporations expressed general support for the Millennium Development Goals (MDGs). One quarter of the European firms, and less than 7% of the American and Asian firms, supported the MDGs. At least four international retailers endorsed the 'Fair Trade' label for a number of products in their product range. The Ethical Trading Initiative was supported by three corporations. On average, however, most large companies still favoured own labels and own poverty related codes, whilst not endorsing already existing codes or standards, such as the International Labour Organization (ILO) standards. As many as 23 firms from a wide variety of industries considered micro-credits to be an interesting option as complement to their main business strategy. Eight of the hundred largest firms mentioned the BOP as a possibility, but primarily embraced it as yet another market opportunity to sell products in a poor region. Only two firms supported a broader BOP strategy and are developing an explicit view on how this strategy actually addresses poverty alleviation and/or inclusive growth as a result of direct and indirect effects.

This leads to the following spread of inclusive business approaches with leading firms in the world (Table 4). Most companies have adopted combinations of strategies, which explain why the percentages do not add up.

Table 4: Poverty approaches of Fortune 100 corporations (2006)
[% of row category; overlap possible]

| | PASSIVE | | ACTIVE | |
|------------------|------------|------------|---------------|-------------------------|
| | Inactive | Reactive | Active/ alone | Pro-active/ partners |
| Total (N=100) | 63% | 55% | 33% | 4% |
| Europe (N=52) | 48% | 67% | 52% | 8% |
| USA (N=30) | 77% | 47% | 13% | 0% |
| Asia (N=15) | 93% | 27% | 7% | 0% |
| Developing (N=3) | 33% | 66% | 33% | 0% |

Source: Van Tulder, 2008

European corporations have adopted elements of the most active approaches towards poverty, whereas Asian firms have been most in-active. The active approach gives the CEOs of European multinationals a particular stake in leading the way towards a modern development paradigm. Firms such as Nestle and Shell have taken initiatives which also include a large number of partnerships with NGOs. The corporatist European tradition of institutionalized negotiations with trade-unions and governments has proven to be helpful in this respect. An inactive approach is understandable, in particular for the five Chinese companies that are included in the sample, since the leading paradigm for the national development is still economic growth, which requires that companies concentrate on growth without referring to wider social and ecological dimensions. American firms remain relatively stuck in a reactive strategy. This is particularly due to the legal system in which they operate. In summary, the majority of the firms are still relatively passive in their inclusive business approach, but the trend towards more active (non-reactive) strategies is nevertheless observable in a number of leading sectors. For instance, the banking sector has taken sector-wide initiatives towards inclusive business, thus also contributing more directly to inclusive growth. The financial crisis has further stimulated big companies – all public - to search for bigger societal legitimacy which implies initiatives towards sustainable development. Managers in all major companies, including those in China, have stated in a variety of ways that they are searching for more proactive strategies. The search is for the creation of appropriate preconditions. The business models are there.

5. Challenge #3: from go-it-alone to partnerships

Since 2006, several firms have tried to become more active, for instance by implementing more sophisticated inclusive business models through partnerships. Cross-sector partnerships (see Box 5 for definitions) form an increasingly important tactical and strategic link between inclusive business and inclusive development strategies. At present, every large company seems to have a ‘portfolio’ of cross-sector partnerships (PrC, 2011).

With regard to their partnership portfolio approach, MNEs can also adopt an inactive, reactive, active and/or proactive attitude. Table 4 operationalizes relevant indicators to assess the business models adopted by MNEs along two general partnership portfolio characteristics (issues addressed and form of engagement). Every inactive strategy does not acknowledge the importance of partnerships. Reactive strategies acknowledge the importance of partnerships, but do this primarily for a variety of stakeholder related reasons: either because of government regulation, risk reduction, spread of liabilities or quality enhancement. Active strategies often involve a firm’s strategic core activities. Pro-active strategies can contribute to sustainably solving societal problems and the future strategic position of the MNEs (for instance as regards the bottom of the pyramid).

The classification of the actual partnership approach strongly depends on the nature of the partnership, its relation to the core business of the corporation and the issues involved. In particular, partnerships with NGOs for community development and those that change the institutional rules of the game in whole industries (aimed at fair trade, labor or fair taxation) are illustrative of the more active business models. Partnerships on education literacy, health issues are rarely part of the core business of a MNE, so these represent at best active business models. In case of partnerships that were (temporarily) founded for disaster relief – in the case of ecological disasters such as tsunamis, earthquakes or hurricanes – the approach has to be qualified as ‘reactive’ at best. The same is true for sponsorship and even for most of the philanthropic partnerships in which the link with the core activities of a company are often non-existent.

Box 5: Definitions of Cross-sector Partnerships

“We thus define cross-sector collaboration as the linking or sharing of information, resources, activities, and capabilities by organizations in two or more sectors to achieve jointly an outcome that could not be achieved by organizations in one sector separately.” (Bryson, Crosby, and Middleton-Stone, 2006: 44)

“CSPs [cross-sector partnerships] are collaborations between investors, state actors, and citizens (sometimes represented by NGOs) where different actors share in defining or carrying out the purposes of investment. They may also be called pro-poor public-private partnerships (Plummer, 2002), or the “mutual state” (Mayo & Moore, 2001), and may be considered part of the United Nation’s Global Compact as they involve greater involvement of businesses and other non-state actors in implementing developmental policy (Ebrahimian & Gitonga, 2003; Otiso, 2003).” (in: Forsyth, 2007: 1685)

“Multi-stakeholder partnerships between the private sector and public/non-profit institutions are often portrayed as “win-win partnerships with measureable benefits and results” (WEF, 2006, p. 41) that accrue to all actors involved, while the principal of additionality means- in the language of DANIDA- that a partnership lead to an improved “contribution to poverty reduction and sustainable development” (DANIDA, 2004). In a similar vein, the UNDP Commission for Private Sector Development has argued that public-private partnerships (PPPs) can facilitate access to broader financing options, assist skill and knowledge developments, and make possible sustainable delivery of basic services, particularly energy and water (UNDP, 2004, p. 4).” (in: Lund-Thomsen, 2009: 58)

“[...] PPPs. These are general defined as initiatives where public interest entities, private sector companies and/or civil society organizations enter into an alliance to achieve a common practical purpose, pool core competencies, and share risks, responsibilities, resources, costs and benefits.” (Utting and Zammit 2009: 40)

“Cross-sectoral partnerships between governmental organizations, civil-society organizations (CSOs) and corporations are frequently presented as a way to achieve sustainable development (e.g. Ahlstrom and Sjoström, 2005; Hartman et al, 1999; Loza, 2004; Moody-Stuart, 2004).” (in: Egels-Zanden and Wahlqvist, 2007: 175)

“By partnership projects, the Global Compact means active collaboration between business, civil society, and governments under the umbrella of the 10 principles. Partnerships seek to discover a common ground of interests between the private and the public sector and thus combine and leverage available skills and resources on both sides. Often partnerships occur in direct support of issues discussed at the different loci for dialogue”. (Rasche, 2009: 519).

Table 4: Application of CSR approaches to partnership portfolio strategies

| PASSIVE | | ACTIVE | |
|---|---|---|--|
| INACTIVE | ACTIVE: go-it-alone | | |
| | REACTIVE | PRO-ACTIVE: partnership | |
| Focus of the partnership (issue addressed): | | | |
| <ul style="list-style-type: none"> * No partnership * Disaster relief * Arts/culture | <ul style="list-style-type: none"> * Micro-finance (narrow approach) * Education/Literacy * Health (HIV/AIDS) Water and electricity | <ul style="list-style-type: none"> * Community development * Sustainable/ fair trade/ wages/ taxes * Financial sector development (broader than micro-finance) | |
| Forms of engagement: | | | |
| <ul style="list-style-type: none"> * No partnership | <ul style="list-style-type: none"> * Single issue consultation * Employee training/ volunteerism | <ul style="list-style-type: none"> * Research cooperation | <ul style="list-style-type: none"> * Strategic partnerships |
| <ul style="list-style-type: none"> * Sponsorship | <ul style="list-style-type: none"> * Certification / Eco-labelling | <ul style="list-style-type: none"> * Systematic dialogues * Common projects / programmes | |

State of partnerships in 2010

In a first systematic effort to describe and analyze the cross-sector partnership strategies of the world's biggest (multinational) corporations, the Partnerships Resource Centre conducted an exploratory study that targeted the world's largest firms, as represented by the top 100 firms of the Fortune Global list for 2010 (see Box 6 for the key highlights of the study). The study analysed the content of these firms' CSR reports, for their approach towards partnerships and for inclusive business strategies. The concept of "partnerships" was taken broadly in this paper to include what the firms themselves referred to as partnerships or partners. The sample consists of firms that all have activities in developing countries and can therefore be considered interested in inclusive business strategies.

The results of the study show that nearly six percent of the largest firms in the world explicitly mention their involvement in cross-sector partnerships. A cursory search of earlier reports of the same companies shows a clearly increasing trend. The total number of cross-sector partnership projects mentioned by the top 100 firms amounts to 1,753, which therefore represents an average of almost 18 partnerships per company.

Box 6: The State of Partnerships Report



The State of Partnerships Report 2010

How the world's leading corporations are building up a portfolio of cross-sector partnerships

The complete report is available at the PrC's website:
www.partnershipsresourcecentre.org/

Highlights

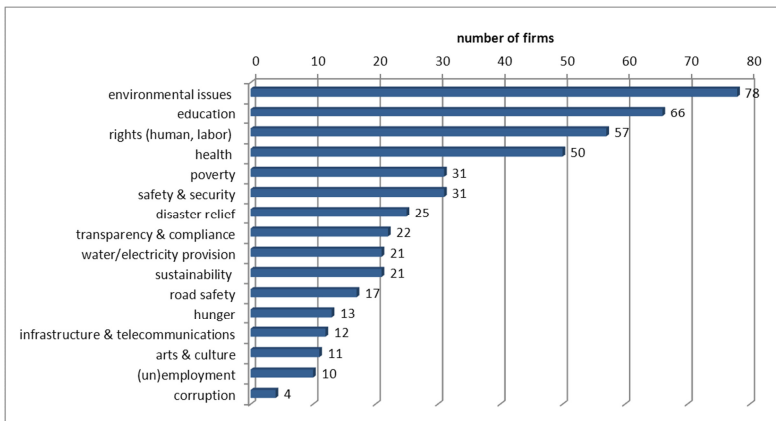
- The partnering paradigm is definitively embraced by leading companies.
- Ninety-six percent of the largest firms in the world are actively involved in collaborations with non-market actors (e.g. cross-sector partnerships) and this represents an increasing trend.
- On average, firms have 18 cross-sector collaborations.
- The biggest companies give the most attention to partnering.
- More than two thirds of the companies are involved in multi-stakeholder initiatives and in tripartite collaborations. An even larger number (more than 80%) explicitly engage in profit-nonprofit and in private-public collaboration projects.
- The degree of internationalization affects the partnering strategy, but it plays a more limited role than the country of origin of a firm.
- The big linkers – those organizations that perform a central role in the networks of partnerships of firms – include four NGOs (Red Cross, WWF, Habitat and Feeding America), three governmental organizations (UEPA, European Commission, USAID) and three hybrid organizations (UNICEF, IUCN, WHO).
- The most popular form of engagement in partnerships is common projects/programs, strategic partnership and systematic dialogues.
- The environment is by far the most important issue which induces companies to engage in partnerships. Education is the second most important issue.
- On average, companies are involved in 6.1 different types of issues. North American companies are more focused (5.1 issues), European companies are most diversified (7.0 issues on average), Asian companies are somewhere in between.
- Business-NGO (profit-nonprofit) relationships pay relatively more attention to human rights than business-government (private-public) collaborations.
- All types of collaboration have relatively little interest (yet) in developing regions.
- More than 50% of the partnerships that are implemented in Africa focus on health, education, and water/electricity provision.
- No company has formulated a coherent strategy towards cross-sector partnerships. The actual management of a partnership portfolio, therefore, still represents a 'black box'.

Focus of the partnerships

Cross-sector partnerships address a large variety of issues. They include, among others, unemployment, women's rights, digital inclusion, water provision, road safety. There seems to be a cross-sector partnership for every conceivable issue. On average, top 100 companies are involved in 6.1 different types of issues. North American companies are more focused (5.1 issues), European companies are most diversified (7.0 issues on average), and Asian companies are somewhere in between with 6 issues on average addressed.

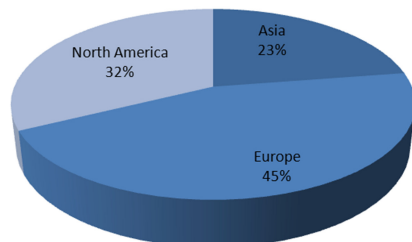
The environment is by far the most important issue which induces companies to form cross-sector partnerships (Figure 2). The second most important issue for cross-sector partnerships is education, while the issue of poverty receives relatively less interest. In total, 31 firms (out of 100) addressed poverty by means of cross-sector partnerships (see examples of poverty focused partnerships in Box 5).

Figure 2: Number of firms engaged in partnerships that address specific issues



Out of the 31 firms that address poverty by means of cross-sector partnerships, 45% are European firms, while 32% are North American, and 23% Asian (Figure 3).

Figure 3: Region of firms that address poverty through partnerships (N=31)



Box 5: Examples of 'poverty' focused partnerships



*“A partnership with the Association of Business Women of Kazakhstan and local government agencies began in 2009 to address high rates of unemployment and **poverty** among women in Astana and the Almaty area. The program focuses on training women in food preparation, home repair and child care. More than 440 women participated. Eighty percent found employment, and 10 percent started their own businesses. The project coincided with a government-initiated program, Road Map, to increase professional development and support employment and self-employment”. (Chevron, 2010, p.30)*

*“To help its residential customers through downturns, EDF has added new social measures. The Group participated in the creation of a National Fuel **Poverty** Monitoring Center and increased its contribution to Housing Solidarity Funds from €20 million to €22 million to help 211,000 households pay their electricity bills. It also supported the basic necessity tariff (Tarif de première nécessité en électricité), which benefited 820,000 people. Efforts were stepped up with partners to guarantee that the most vulnerable customers have access to energy efficiency measures. Examples include the distribution of one million low-energy light bulbs through Restos du coeur, the sale of used energy efficient electrical appliances at low prices through the Envie federation, and support for home improvements through the Abbé Pierre Foundation. EDF also introduced a personalized demand management service for customers in precarious situations, maintained energy supply at the same level, and reinforced its partnerships for facilitating social mediation (115 offices and 400 local jobs).” (Électricité De France, 2010, p. 49)*



*“In November 2009, in partnership with the UK Department of International Development and Chatham House, we began a programme to study how effective retailer supply chains are in reducing **poverty**, increasing opportunity and helping to meet the Millennium Development Goals. Our initial findings show that workers are typically paid above local averages for their work, and their families are able to access better healthcare and education. We will perform three more such studies in 2010”. (Tesco, 2010, p. 36)*



*Committed to the fight against marginalization and **poverty**, GDF SUEZ has partnered with Emmaüs France. A first three-year agreement had been signed for the 2006-2009 period; it was renewed in February 2010 for the same duration. Many activities were conducted during the first period: energy audits and renovation of heating plants in the Emmaüs communities, mobile phone and vehicle donations, and more. (Suez, 2010: p. 84)*

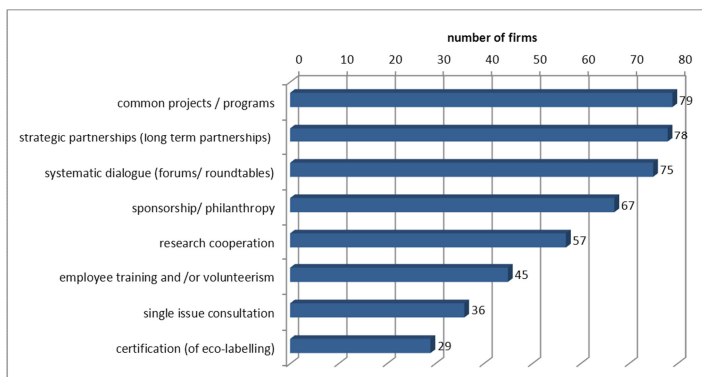


Forms of engagement

Partnering can include a wide variety of forms of engagement, such as long term relationships, common projects/ programs, and systematic dialogues, certification, training, research cooperation, issue consultation, sponsorship. This particular sequence of engagement forms also represents a more or less declining scale of partnership sophistication, and consequently has a different meaning for inclusive business. A long term collaboration project is a deeper form of mutual engagement than a sponsoring relationship. One can even question whether the latter can indeed be considered a true partnership. However, firms present it in this way, so we follow their own reasoning.

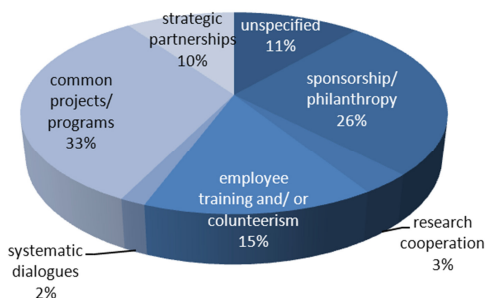
The most popular among the top 100 firms are common projects or programs, strategic partnerships, and systematic dialogues.

Figure 4: Number of firms engaged in specific forms of engagement



Out of all partnerships that address poverty (N=61), the majority takes the form of common projects or programs (33%) and sponsorship/ philanthropy (26%). Only 10% of partnerships that address poverty are strategic/ long-term partnerships (Figure 5).

Figure 5: Form of engagement of poverty partnerships (N=61)



Partnership portfolios

The final part of this report provides first compiled impressions on the actual portfolio of cross-sector partnerships of two of the world's largest companies (Box 6 and Box 7). In general, companies do not release comprehensive statements on the way they manage their whole portfolio of partnerships. But all firms do have a portfolio of partnerships, although they are perhaps only recently becoming aware of the need to actually manage this portfolio. The development of many cross-sector partnerships tend to be ad-hoc, uncoordinated and decentralized, which raises serious but very basic questions. What pattern of partnerships has emerged, with whom and why? How should success be measured? What is the impact of this portfolio on the performance of the firm? And, *what is the impact of this portfolio on poverty alleviation?* Whereas smaller firms can focus on niches and single markets, big multinational enterprises face a host of portfolio management challenges. These include establishing effective product/ market combinations, combining high tech and low tech activities, engaging in various financial risk categories, doing business in a good mix of geographic markets, and creating appropriate firm-firm alliances. The challenge is to optimize these portfolios and relate them to the prime aims and core competencies of the corporation.

The effective management of an (optimal) portfolio of cross-sector partnerships largely remains unknown territory for scholars and practitioners alike. The intra-sector (firm-firm) alliance literature identified three general topics in partnership portfolio management as a future research agenda (Wassmer, 2010) that a fortiori also apply to cross-sector partnerships: emergence, configuration and management.

[1] Partnership portfolio emergence: why and how do organizations build partnership portfolios? For cross-sector partnerships companies search for partners in particular because of shared societal problems (issues), complementary competencies and the like. This process has been largely bottom-up, opportunity driven and based on ad-hoc considerations. A major boost to partnering has been provided by (inter)governmental organizations like the UN that asked for partnerships instead of subsidy relationships (Van Tulder, 2010). Why partnership portfolios are build is relatively clear, why they are sometimes not build [even when there is ample reasons to do so] is less clear, how they are build is mostly unclear.

[2] Partnership portfolio configuration: which configurations choices do organizations make? Our study (PrC, 2011) documented a variety of portfolio sizes with many different partners, and a variety of relational characteristics that have been changing over time. The portfolio of actual partnerships is rather fragmented and seems to lack an overall strategy. How to define and operationalise an optimal partnership portfolio configuration is not yet dealt with neither by management scholars nor by practioners. Some companies have developed a more or less coherent configuration of cross-sector partnerships. These companies bring together a relatively high number of partnerships in relatively dense portfolios in terms of actors, organisations, issues and geography. But even for these firms, it is difficult to draw any lessons

from their actual experience or identify a clear strategy that can also be linked to their core competencies.

[3] Partnership portfolio management: how do organizations manage their partnership portfolio? The fragmented nature of partnership portfolios also affects the way in which organizations manage their partnerships, both in terms of capabilities and management approaches and tools. In the background study for this report, we found a scattered landscape of management tools, unclear capabilities which largely were applied in individual partnership projects. Accumulation and sharing of knowledge within the own organization proves very difficult, not in the least because different functional departments have been involved. Monitoring and evaluation tools are not yet very sophisticated and hardly ever linked to the problem or issue at hand; practical tools are still being developed.

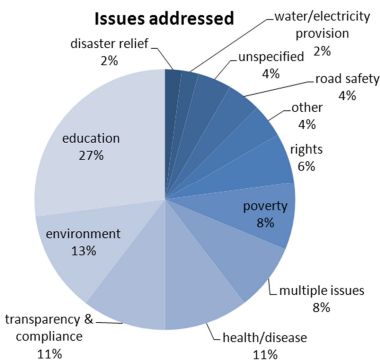
Box 6: Inclusive business through partnerships? – The case of Chevron

Chevron presents itself as a very active firm towards sustainability issues. The “we agree” campaign illustrates the commitment of the entire corporation (including individual board of directors members) to “agree on” the fact that societal and environmental issues should be taken seriously by oil companies. The message in Chevron’s CSR reports express a proactive approach, in which “the value of partnerships” is promulgated.

As part of this strategy, Chevron reports on 48 different cross-sector partnerships in its 2010 CSR Report. But the portfolio does not reveal any consistency. Chevron chooses for a diversified approach in terms of partnership focus, levels of engagement and types of partners who they engage with.

Chevron’s strategy raises, at this moment, more questions than answers as regards its inclusive business approach through partnerships. How strategic is this approach and what is the impact of these partnerships on the issues addressed?

8% of all partnerships explicitly focus on poverty.

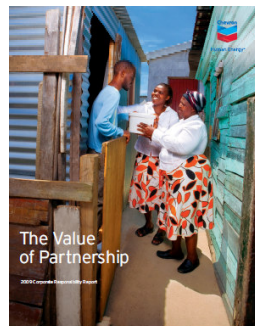


“Partnering for Shared Progress: We believe that business and society are interdependent. This belief drives our commitment to partnership to create mutual benefit, or shared progress. At Chevron, partnership is a value that we honor every day, wherever we operate, from our business to our social investments. [...]”

Chevron’s website: We Agree Campaign



CSR Report 2009: The Value of Partnership



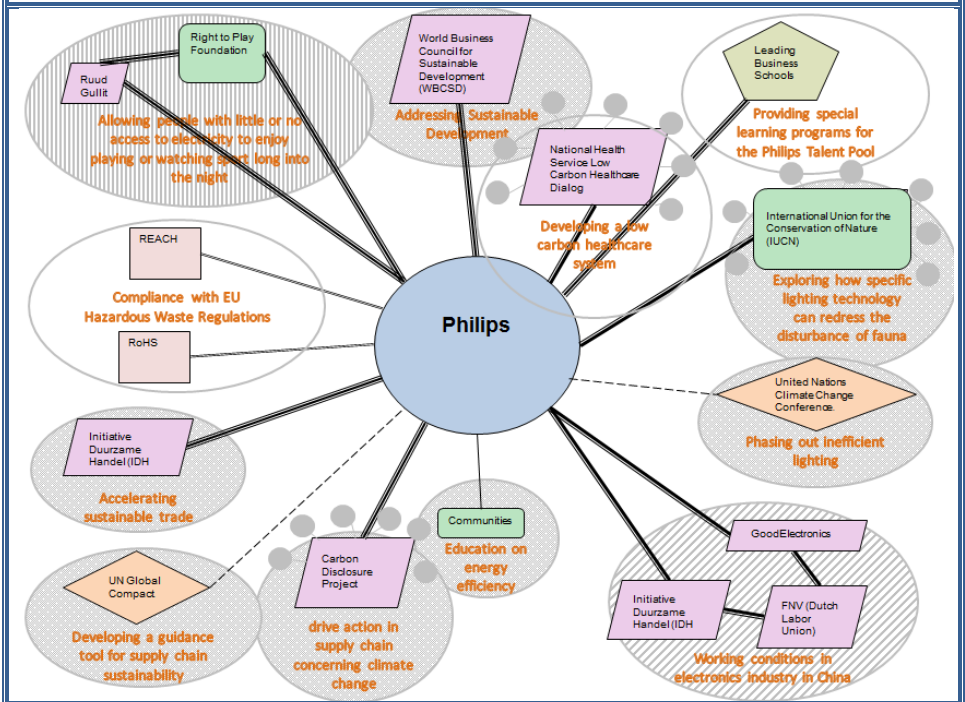
CSR Report 2010



Box 7: Inclusive business through partnerships? – The case of Philips

A partnership portfolio can also be portrayed as a group of different types of partners (form and color of boxes), different forms of engagement (thickness of the lines), and types of issues addressed.

Philips, for example, has a very diverse partnership portfolio. The company is engaged in 13 major cross-sector partnerships organizing 16 different partner organizations. The partners of Philips are quite divers but most of these partnerships have relatively strong ties. One third can be categorized as common projects or programs and another 20% is in the form of a systematic dialogue. The issues addressed are diverse and often related to inclusive business topics, such as sustainable supply chain issues, working conditions in the Chinese electronics industry, phasing out inefficient lighting, and developing a low carbon healthcare system. The diversity of the partnership portfolio of the company creates considerable coordination problems.



6. Conclusion

Linking inclusive business models to inclusive growth requires sophisticated and active corporate strategies across borders towards the problem of poverty alleviation. Real organizational innovations in support of inclusive growth have to be built on this particular link. Neither the management and development disciplines, nor the staff of international organizations or NGOs, have yet been able to develop a sufficiently advanced and multi-level approach to this challenge. This contribution has identified core elements of an inclusive business model for multinational enterprises. The present stage is one of experimentation with new business models and new partnership approaches. Still rather narrow approaches for entrepreneurial solutions to poverty prevail, whilst only a few proactive business models have been implemented. Convincing 'sustainable corporate stories' have yet to emerge in which leading firms have developed and implemented poverty alleviation strategies at the operational as well as at the strategic level. Novel business models, however, are under way. Partnerships increasingly form a necessary condition for inclusive business models. The biggest challenge will become how to manage the ever expanding portfolios of partnerships and measure their impact on inclusive growth. For the moment, the bulk of the partnership strategies of core firms remains limited to relatively 'easy' issues such as climate, for which there already is a clear business case. The issue of poverty and inclusiveness clearly poses a more complex challenge.

This contribution has documented and argued in favour of a move towards more inclusive thinking on sustainable development. Sustainable development depends to a large extent on the *balance* that can be established between the three societal spheres of market, civil society and the state. The recent move towards cross-sector partnerships, can be seen as a logical and new phase of development thinking in which partners commit to long-term, structural interaction based on a shared analysis that every actor suffers from a number of failures, consequently a shared vision of sustainability and a shared ambition that all partners should play a role in its achievement. Partnerships do not only fill up the 'void' left by failing societal actors, but also add a new dimension to the development effort, which has the potential to increase the effectiveness of each partner's effort. Business models that take effective cross-sector partnerships into account seem to be the most promising and most needed subject for future research. They can also be considered the most important organizational innovation for inclusive growth.

7. Bibliography

- Ahuja, G. 2000. The duality of collaboration: Inducements and opportunities in the formation of interfirm linkages. *Strategic Management Journal*, 21(Special Issue): 317-343.
- Aitken, B.J. and Harrison, A.E. (1999), Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela, *The American Economic Review*, 89 (3), 605-618.
- Alfaro, L & Rodriguez-Clare, A. 2004. Multinationals and linkages, an empirical investigation. *Economia*, spring.
- Anand, B. N., & Khanna, T. 2000. Do firms learn to create value? The case of alliances. *Strategic Management Journal*, 21: 295-315.
- Ancona, D., Malone, Orlikowski, T., Wanda J.; Senge, P. (2007), In praise of the incomplete leader, *Harvard Business Review*, 85 (2), 92-100.
- Andriof, J. and M. McIntosh (eds) (2001) *Perspectives on Corporate Citizenship*, Sheffield: Greenleaf Publishing
- are building up a portfolio of cross-sector partnerships”, The Partnerships Resource Centre: Rotterdam. ISBN: 978-90-817372-0-3
- Austin, J.E. 2000. The collaboration challenge. How non-profits and businesses succeed through strategic alliances. San Francisco: Jossey-Bass.
- Austin, J.E. 2000b. Principles for partnership. *Leader to Leader*, 18(Fall), 44-50.
- Bamford, J. D., & Ernst, D. 2002. Managing an alliance portfolio. *The McKinsey Quarterly*, 3: 29-39.
- Baum, J. A. C., Calabrese, T., & Silverman, B. S. 2000. Don't go it alone: Alliance network composition and start-ups' performance in Canadian biotechnology. *Strategic Management Journal*, 21: 267-294.
- Blomström, M., Globerman, S. & Kokko, A. (1999). 'The determinants of host country spillovers from FDI: review and synthesis of the literature'. *SSE/EFI Economics and Finance Working Paper* 239.
- Blowfield, M. (2005). Corporate Social Responsibility – The Failing Discipline and Why it Matters for International Relations, *International Relations*, 19 (2), 173-191.
- Bryson, J. M., Crosby, B. C., & Stone, M. M. (2006). The design and implementation of cross-sector collaborations: Propositions from the literature. *Public Administration Review*, 66(SUPPL. 1), 44-55.
- Doz, Y., & Hamel, G. 1998. Alliance advantage: The art of creating value through partnering. Boston: Harvard Business School Press.
- Dunning, J.H. and Fortanier, F (2007). 'Multinational Enterprises and the New Development Paradigm: consequences for host country development', *Multinational Business Review*, forthcoming.
- Duysters, G., de Man, A.-P., & Wildeman, L. 1999. A network approach to alliance management. *European Management Journal*, 17: 182-187.
- Egels-Zanden and Wahlqvist, (2007) "Post-Partnership Strategies for Defining Corporate Responsibility: The Business Social Compliance Initiative", *Journal of Business Ethics*

- Fortanier, F. & Kolk, A. 2007. 'On the economic dimensions of CSR: Exploring Fortune Global 250 reports', *Business and Society*, 46, (4), 457-478.
- Fortanier, F. (2008) *Multinational Enterprises, Institutions and Sustainable Development*, PhD Dissertation, University of Amsterdam.
- Goerzen, A., & Beamish, P. W. 2005. The effect of alliance network diversity on multinational enterprise performance. *Strategic Management Journal*, 26: 333-354.
- Gore, C. (2000) *The Rise and Fall of the Washington Consensus as a Paradigm for Developing Countries*,
- Gulati, R. 2007. *Managing network resources: Alliances, affiliations, and other relational assets*. New York: Oxford University Press.
- Habermas, J. (1990) *Moral Consciousness and Communicative Action*, Cambridge, MA: MIT Press
- Hoffmann, W. H. 2005. How to manage a portfolio of alliances. *Long Range Planning*, 38: 121-143.
- Jain, S. And S. Vachani (eds) (2006) *Multi national Corporations and Global Poverty Reducti on*, Cheltenham: Edward Elgar.
- Javorcik, B. 2004. Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers Through Backward Linkages. *American Economic Review*, 94(3):605-627.
- Kale, P. & Singh, H. 2009. Managing strategic alliances: what do we know now, and where do we go from here? *Academy of Management Perspectives*. Pp. 45-60.
- Kale, P. Dyer, & Singh, H. 2002. Alliance capability, stock market response and long-term alliance success: The role of the alliance function. *Strategic Management Journal*, 23 (8), 747-768.
- Kaptein, M. Koning, L., Van Tulder, R., Van Vliet, L. 2007 *Report on European CSR Survey*, RSM Erasmus University, July
- Karnani, A. (2007). The mirage of marketing to the bottom of the pyramid: How the private sector can help alleviate poverty. *California Management Review*, 49(4), 90-111.
- Kolk, A., Van Tulder, R., & Kostwinder, E. 2008. Business and Partnerships for Development. *European Management Journal* 26, pp. 262-273
- Kourula, A. & Halme, M. 2008. Types of corporate responsibility and engagement with NGOs: an exploration of business and societal outcomes. *Corporate Governance*, 8(4):557-570
- Lavie, D. 2009. Capturing Value from alliance portfolios. *Organizational Dynamics*, Vol. 38, No. 1, pp. 26-36.
- KPMG (2005) *International Survey of Corporate Responsibility Reporting 2005*, Amsterdam
- Lahouel, M. & Maskus, K. (1999). *Competition policy and intellectual property rights in developing countries*. WTO/World Bank Conference on Developing Countries, Geneva: 20-21 September.
- Lodge, G and G. Wilson (2006) *A Corporate Solution to Global Poverty*, Princeton University Press
- Lund-Thomsen, P. (2009) "Assessing the impact of public-private partnerships in the global south: The case of the Kasur tanneries pollution control project". *Journal of Business Ethics*, 90(SUPPL. 1), pp. 57-78.
- Lunnan, R. & Haugland, S. 2008. Predicting and measuring alliance performance: A multidimensional analysis. *Strategic Management Journal*, 29 (5), 545-556.

- Maignan, I. and D. Ralston (2002) 'Corporate social responsibility in Europe and the US', *Journal of International Business Studies*, 33:3, 497-514
- Markusen, J. (1995), 'The boundaries of multinational enterprises and the theory of international trade', *Journal of Economic Perspectives*, 9: 169-189.
- Meyer, K. (2004) 'Perspective on Multinational Enterprises in Emerging Economies', *Journal of International Business Studies*, 35, 259-276
- Olsen, M. and Boxenbaum, E. (2009), Bottleneck-of-the-Pyramid: Organizational Barriers to Implementation, *California Management Review*, 51 (4), 100-125.
- Padula, G., 2008. Enhancing the innovation performance of firms by balancing cohesiveness and bridging ties. *Long Range Planning*, 41, pp. 395-419
- Parise, S., & Casher, A. 2003. Alliance portfolios: Designing and managing your network of business-partner relationships. *Academy of Management Executive*, 17(4): 25-39.
- Pastor, M. and Conroy, M. (1995) Distributional implications of macroeconomic policy: Theory and applications to El Salvador, *World Development*, 23 (12), 2117-2131.
- Paus, E. (1995), Exports, Economic Growth and the Consolidation of Peace in El Salvador, *World Development*, 23 (12), 2173-2193.
- Pieters, J. (2009, in press), Growth and inequality in India: analysis of an extended Social Accounting Matrix, *World Development*, 12 pp.
- Post, J. (1979) *Corporate Behaviour and Social Change*, Reston Publishing Co.
- Prahalad (2005) *The Fortune at the Bottom of the Pyramid. Eradicating Poverty through Profits*, Wharton School Publishing
- Prahalad, C.K. and M.S. Krishan (2008) *The New Age of Innovation: driving co-created value through global networks*, New York: McGraw Hill
- PrC (2011) "The State of Partnerships Report: how multinational corporations
- Rijken, K. & Van Tulder, R. 2011. Value of Foresight, Rotterdam: PrC Occasional paper #.
- Rondinelli, D. A. and London, T. 2003. How corporations and environmental groups cooperate: Assessing cross-sector alliances and collaborations. *Academy of Management Executive*, Vol. 17, No. 1, pp. 61-76
- Rowley, T., Behrens, D., & Krackhardt, D. 2000. Redundant governance structures: An analysis of relational embeddedness in the steel and semiconductor industries. *Strategic Management Journal*, 21(Special Issue): 369-386.
- Selsky, J.W., & Parker, B. 2005. Cross-sector partnerships to address social issues: challenges to theory and practice. *Journal of Management*, 31(6): 849-873.
- Smarzynska, B. (1999), 'Technological leadership and the choice of entry mode by foreign investors'. *World Bank Working Paper Series in International Economics*, no.2014.
- Stiglitz, J. 1998. *Towards a New Paradigm of Development: strategies, policies and processes*. Prebisch Lecture, Geneva, UNCTAD.

- Stuart, T. E. 2000. Interorganizational alliances and the performance of firms: A study of growth and innovation rates in a high-technology industry. *Strategic Management Journal*, 21: 791-911.
- Toyne, B. and Nigh, D. (1998) 'A More Expansive View of International Business', *Journal of International Business Studies*, 29 (4), 863-875
- Utting, P., & Zammit, A. (2009). United nations-business partnerships: Good intentions and contradictory agendas. *Journal of Business Ethics*, 90(SUPPL. 1), 36-56.
- Van Tulder, R. with Van der Zwart, A. (2006) *International Business-Society Management: linking corporate responsibility and globalization*, London: Routledge
- Van Tulder, R. (2008). *The Role of Business in poverty reduction*, Geneva: UNRISD report
- Van Tulder, R. 2010. The collaborative Paradigm. Dealing with the increasing role of partner ships in sustainable development. Rotterdam: The Partnerships Resource Centre, occasional paper # 1
- Van Tulder, R., J. van Wijk, and A. Kolk (2009) 'From chain liability to chain responsibility', *Journal of Business Ethics*,
- Warner, M., & Sullivan, R. 2004. Putting partnerships to work. Strategic alliances for development between government, the private sector and civil society. Sheffield:Greenleaf Publishing.
- Wassmer, U. (2010). Alliance portfolios: A review and research agenda. *Journal of Management*, 36(1), 141-171.
- Wassmer, U. 2010. Alliance Portfolios: A Review and Research Agenda. *Journal of Management*, 36 (1): 141-171
- WBSCD & SNV (2007) "Promoting Small and Medium Enterprises for Sustainable Development", Development Focus Area, Issue Brief, July 2007
- WBSCD 2010. Vision 2050. The new Agenda for Business. www.wbscd.org
- Wilson, G and P. Wilson (2006) *Make Poverty History: Increase profits and reduce risks by engaging with the poor*, Greenleaf Publishing
- Wood, D., Logsdon, J. Lewely, P. & Davenport, K. (2006), *Global Business Citizenship*. Armonk: M.E. Sharpe.
- World Development, 28 (5), 789-804.
- Zadek, S. (2003), 'In defense of non-profit accountability'. *Ethical Corporation*, 19 September.

Inclusive Business through Partnerships

Developing business while fighting poverty at the same time, represents the ambition of “inclusive business”. Inclusive business is an increasingly popular concept amongst policy makers and is portrayed as a necessary condition for “inclusive growth”. The claim of inclusiveness, however, proves difficult to operationalize and implement at the corporate level. This contribution helps corporate leaders and policy makers to distinguish between more and less advanced inclusive business models. It develops a taxonomy in which various dimensions of the business model are included. The question is addressed to which extent these models can (directly or indirectly) contribute to inclusive growth. Advanced inclusive business models, thereby, build on four strategic characteristics:

- (1) **Mission:** an active and identifiable approach (or narrative) towards poverty and income inequality;*
- (2) **Impact:** accountability beyond the direct effects of the business model (including indirect effects and unintended consequences);*
- (3) **Inclusive business cases:** a clear link to the core activities and competencies of the corporation (both in production and sales);*
- (4) **Stakeholder involvement:** pro-active partnerships with NGOs and government in a firm’s portfolio of primary and secondary stakeholders.*

Partnerships with non-market parties have become a vital prerequisite for the further development of inclusive business models [which explains for the title of this contribution]. Partnerships help build new institutional forms through which firms can compete on a more sustainable basis. A first test of the proposed taxonomy of business- and partnership models is presented. The strategies of the one hundred largest companies in the world are considered. Most firms have only recently started to actively search for inclusiveness at the strategic (core business) level. First cases are documented at the corporate level, which give timely evidence of the efforts of leading firms in developing an advanced and inclusive partnership portfolio strategy.