

GROWTH FOR GOOD OR GOOD FOR GROWTH?:

How Sustainable and
Inclusive Activities are
Changing Business and
Why Companies Aren't
Changing Enough

Citi Foundation



THE FLETCHER SCHOOL
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OVERVIEW

Economic growth in emerging markets has outpaced the growth of the supporting institutions that make up the broader context in these markets. There are many “contextual gaps,” which can give rise to political, social and environmental challenges. For businesses, both multinational and local, these markets offer some of the most promising growth opportunities.

These businesses cannot afford to wait for governments, grassroots enterprises or civil society to close the contextual gaps; nor can they rely on prevailing business-as-usual practices to automatically overcome or resolve the gaps. Businesses must actively find ways to reinforce the contexts that support the very markets they need for sustaining their growth aspirations.

With emerging markets accounting for two-thirds of global GDP growth over the past decade and about 40% of current global output, investing in contextual strength is becoming an essential business need.

Consider the case of Yum! Brands. It derived about half of its revenues from China and faced a sharp decline in 2013 in the Chinese market because of an antibiotics scare in the local poultry supply chain. The company's ability to grow in additional markets also ran into barriers: for example, the growth of its KFC franchise in sub-Saharan Africa was capped by the lack of local modernized poultry farming practices. Supply chain deficiencies are one facet of the contextual gaps we alluded to earlier. Alternatively, natural and environmental challenges and inadequate institutions to protect against them can represent a different form of a gap. Consider the cases of Coca Cola and Nike. Both companies found that their global growth opportunities were at risk of being severely affected by environmental and climatic changes. Droughts, more unpredictable weather patterns, and more frequent major floods are threats to Coca Cola's supply of key ingredients – such as sugar cane, sugar beets and citrus for its fruit juices – sourced from agricultural sectors highly dependent on natural water supplies. Similarly, Nike has had to contend with factory shutdowns due to floods in Asia.

In the face of these challenges, leading businesses are investing in initiatives to close the gaps through a variety of **sustainable and inclusive business activities** – we shall refer to them as **SIBA** – that address the contextual gaps and create social, environmental and economic value. Of late, numerous case studies and illustrations have appeared in the media, in corporate publications and in the academic literature that describe such activities. The present study was motivated by the need to understand the incentives behind SIBA: the drivers and inhibitors within business organizations that help explain *why* managers undertake SIBA and why they may not. SIBA is, after all, a relatively new phenomenon, is not uniformly conducted at scale, and is not necessarily tied to a company's strategy focused on its core markets. It is important to understand the reasons behind why businesses invest in them to understand the degree of commitment to SIBA and its effectiveness in addressing the contextual gaps, creating social impact and supporting the core business objectives over the longer-term.

Our investigation of SIBA, involving primary research of over 40 companies, is novel in its focus on corporate incentives. One of our key findings is that the motivation to pursue such practices ranged from “maintaining competitive position” as the leading motivator, followed

Where companies once viewed the wider context that surround the business opportunities and the challenges therein, such as poverty, poor sanitation, poor governance, missing institutions and unskilled labor, through the lens of corporate social responsibility (CSR) or philanthropy, today many of these “contextual gaps” pose real threats to business expansion and long-term success in emerging and mature markets.

by “avoiding reputational damage,” “avoiding future supply disruptions,” and “capturing revenues and building loyalty.” “Avoiding regulatory disruption,” “responding to internal demand from employees or shareholders,” and “differentiating products” were the least motivating. These findings have implications for how much priority investments in SIBA can garner within a typical corporate decision making structure.

In our study of situations where companies have been the most active in promoting SIBA, there are five key elements that characterize successful SIBA: Cost recovery; alignment with core businesses; ability to leverage partnerships; positive outcomes for society and the local environment; and scalability.

Our research has several practical implications. The research identified the key barriers and potential remedies that companies should implement to overcome these barriers:

Top Barriers to SIBA

1. Absence of Common Strategic Motivation and Vocabulary: SIBA does not constitute a natural business function. No widely agreed-upon vocabulary exists to engender a common conversation and collective buy-in across various groups of stakeholders and decision makers. The language of inclusive markets, sustainability or shared value continues to be used primarily by NGOs, consultants and academics; these terminologies have not been uniformly adopted by business. Businesses rely on the language of commercial viability (e.g., net present value, break-even levels, and return on investment), strategic alignment, scalability, goodwill and brand-building, etc. In some cases, the association of SIBA terms, such as “base of the pyramid” and “inclusive,” with non-profits deters businesses from actively embracing SIBA.

There is no single motivation for businesses to engage in these types of efforts even within an organization, which could result in a loss of critical mass of management support. The majority of motivations cited may be characterized as “defensive” (avoiding loss/mitigating risk) or “maintaining” (staying competitive/keeping up). “Affirmative” motivations (seeking growth/new markets) drew frequent references as well. Interestingly, risk avoidance, while it is not growth-seeking, would have a greater power to mobilize support and approval for investment since its effects are often easier to quantify and communicate and tend to convey a greater sense of immediacy. An objective of “strengthening competitive position” on the other hand, is broad, has payoff over the longer-term and is harder to directly associate with SIBA.

2. Absence of Organizational Home: Should SIBA be incorporated in a business unit, in the corporate center or in its own unit? Businesses have not figured out how to effectively incorporate inclusive and sustainable business practices into the organizational architecture, how to make investment decisions or tie SIBA to the P&L, and how to optimally compensate SIBA managers. Building a viable, scalable practice requires different time horizons, performance metrics and capabilities that might not reside in the organization. Instead they may require significant departures from business-as-usual and may only be available through partnerships.

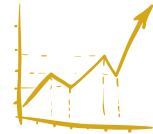
3. Local Constraints: Businesses are constrained by inadequate local infrastructure, challenges in efficiently aggregating and standardizing fragmented suppliers and activity as well as difficulties in measuring and monetizing impact. All of this limits the ability to gain wider support from commercially-oriented business units. Businesses are discovering that it is more productive to work with local partners, governments and NGOs in improving infrastructure. However, these local partners move slowly and such partnerships can be unreliable and with significant political ramifications.

4. Difficulties in Measuring Impact: About a quarter of respondents indicated impact measurement challenges as a key barrier. In the absence of credible, widely acceptable measures and indices of development on key fronts, organizations fail to manage SIBA and allocate budgets appropriately.

Potential Remedies

1. Identify Investments in Resolving Contextual Gaps as Part of Core Growth

Strategy: It is essential to incorporate the contextual gaps in the assessment of the business and its competitive environment; it is wise to expand the notion of “competition” and business challenges to be acted on to include contextual gaps. Once a manager takes such an integrated view, the investments in SIBA – and intervening in multiple points in the value chain if necessary – would naturally become part of the strategic choices.



2. Make Space to Innovate: Actively create “space” within the organization for sustainable and inclusive business practices, with distinct decision rules, incentives, budgets and metrics. Lessons can be learned from “ambidextrous” models tried in the context of developing new venture and innovation units within large incumbent organizations.



3. Partner Strategically and Proactively: Work cooperatively with governments and other institutions to address these gaps. Don't wait for government to address issues of water, sanitation, education, financial literacy and so on, but be proactive in defining and working toward a solution with them. Use public incentives to align partners. Assemble a solution that creates economic and political opportunity for all the relevant stakeholders in the partnerships.



4. Measure What You Value: Create new measurement and feedback frameworks that both track and articulate social and environmental outcomes in business terms. Prove the benefits of allocating and managing resources to SIBA as leading indications of economic growth for a wide group of stakeholders and decision makers.



There are companies that exemplify such approaches. For example, Olam has moved outside its core competency by providing credit to smallholders and collaborating with local governments to develop public-private partnerships for filling infrastructure gaps, and with NGOs to support farmer organizations as well as to leverage technology for improved processing, distribution and logistics. Novartis conducts health education and builds local capacity, but requires external support to overcome public health infrastructure constraints.

In some cases, the association of SIBA terms, such as “base of the pyramid” and “inclusive,” with non-profits deters businesses from actively embracing SIBA.

THE EMERGENCE OF SUSTAINABLE AND INCLUSIVE BUSINESS ACTIVITIES (SIBA)

With about half of global output in purchasing power parity terms – about 40% in market value – originating in emerging markets, the global economy has reached a crucial tipping point: emerging markets are essential to the future of businesses seeking international opportunities.

Emerging markets will comprise 58% of growth in global GDP from 2010 to 2015, compared to just 32% for the economies of the G7.¹ Further, global companies invested more in emerging markets than in the U.S., Europe and Japan for the first time in 2012.²

Even companies that do not yet generate revenues in emerging markets see these markets as a priority for generating future revenues. This not only includes the BRICs (Brazil, Russia, India and China) but also large parts of Latin America (outside Brazil), Eastern Europe, the Middle East and sub-Saharan Africa, home to six of the ten fastest-growing economies over the first decade of this century.^{3, 4}

It is becoming a strategic imperative to create the markets and supporting institutions businesses need to sustain their economic growth. As the world economy shifts, so too have traditional calculations of value – and with them, emergent areas of growth, partnership and (possibly) peril have appeared.

Even companies with a strong emerging market presence have to grapple with how to expand their reach in the fastest growing countries and find growth in second tier and more rural areas as well as through new market segments. For these companies, the competition is not only with other international players, but also with local players that might have a stronger sense of realities on the ground. A recent study found that 40% of executives feel that local competitors in emerging markets are a major challenge.⁵

Where companies once viewed the wider context that surrounds business opportunities and the challenges therein, such as poverty, poor sanitation, poor governance, missing institutions and unskilled labor, through the lens of corporate social responsibility (CSR) or philanthropy, today many of these “contextual gaps” pose real threats to business expansion and long-term success in emerging and mature markets.^{6, 7} Leading businesses are experimenting with ways to create social, environmental and economic value by addressing these gaps through **sustainable and inclusive business activities (SIBA)**.

These initiatives constitute the beginnings of a transformational shift in how companies approach their growth opportunities. Companies are developing sustainable practices, i.e., using environmentally and financially resilient methods of conducting business – particularly in relation to the supply chain – and experimenting with inclusive business models that incorporate new customers, suppliers, distributors and partners beyond those “in the core” or represent the highest near-term value.

To innovate through new products and business models that enhance competitiveness while addressing wider contextual gaps requires a company to consider many changes. These changes include those in managerial mindsets, organizational structures and in the practical aspects of decision making. The specific needs of hereto underserved consumers, the social challenges facing local suppliers, and the limits of infrastructure and education require a sustained commitment to particular markets and openness to partnerships with a host of organizations in the private, public and social sectors. At the same time, traditional consumers and, increasingly, governments, demand ‘ethical consumerism’ and better environmental and social performance from companies. Companies themselves are becoming ever more aware that social and ecological changes may be putting some supply chains – and ultimately, the long-term sustainability of their own business – at risk. Many early implementers of SIBA have

addressed these risks with longer-term planning horizons, new forms of collaboration, innovative products and business models, and addressing the various gaps and pain-points throughout the value chain.

While companies are making investments in SIBA for a range of business and socio-economic motivations, the most forward-thinking among them are looking to such models as key drivers of innovation and competitive advantage that are critical for future business success. They are not waiting to be forced to do so by regulators or customers.

A number of successful sustainable and inclusive business initiatives have been written about in case studies and are now well-known, including Unilever’s Shakti, ITC’s eChoupal, and Safaricom’s M-PESA. These case studies clearly demonstrate that what is good for business can also be good for society by generating double- or triple-bottom lines. In addition, few companies are doing it alone. They are engaging the help of partners, such as non-profit and development organizations and the government, that recognize the need to engage the private sector to fulfill global development objectives and have impact at scale. Shrinking public development budgets and the sheer size of the global development challenge are also driving traditional donors and funders to work with companies to find profitable business solutions to poverty.

Consider the case of Mars Incorporated, one of the world’s leading food manufacturers and its efforts to innovate both its products and business model in order to pursue SIBA. To promote environmental sustainability and ensure access to future supply, it is applying genomics to enhance the productivity of small farmers, while moving towards a 100% certified sustainable sourcing for most of its key agricultural raw materials. Moreover, it is working to ensure that certification does not constitute an economic burden for the farmers and puts them on the path to prosperity. In addition to turning to investments in science, Mars has also leveraged several partnerships in order to meet its objectives. These partnerships include one with the International Finance Corporation (IFC) in Indonesia, where the company set up the Cocoa Sustainability Partnership, a multi-stakeholder forum on cocoa collaboration. With the Rainforest Alliance, Mars has established programs to train farmers in sustainable cocoa practices, through a project funded by IFC’s Biodiversity and Agricultural Commodities Program (BACP).⁸



WHAT DRIVES COMPANIES TO INVEST IN SIBA?

Although many of the SIBA cases mentioned above are well-known, *why* companies develop such initiatives and *how* they move from inception to implementation is much less clear.

Development organizations, such as government aid agencies, multi-laterals and non-profits, are increasingly looking to the private sector to help alleviate poverty through “inclusive business” or “inclusive markets,” yet limited knowledge exists about the companies’ internal perspectives on the perceived and real core benefits of these activities to the corporation and how non-profit and public sector organizations can engage private sector companies more effectively. This gap in our understanding has motivated a multi-year study, conducted in partnership with The Citi Foundation, The Institute for Business in the Global Context at Tufts University’s The Fletcher School, and Monitor Institute, to look at precisely these questions.

We set out to discover: How do companies frame the challenge of sustainable and inclusive business? What frameworks do they use to talk about it? What really motivates their strategy? How do they structure internal systems to manage these initiatives? How do they set targets, and how do they measure and communicate results? What barriers do they face? These questions and many others have not been addressed adequately in the discourse – and certainly not from the viewpoint of the company, its managers and internal decision making systems.

The research and analysis that informed this report concentrated on:

- **Language frameworks:** How do companies define sustainable and inclusive business activities (SIBA)? What language do they use to talk about these issues internally and how does it differ from the language used by the development sector?
- **Motivation and Social/Business Case:** What rationale(s) do companies cite for developing these activities? How do they articulate the social and business case?
- **Internal Structuring and Organization:** How do companies structure and support such initiatives internally? How do they address: investment time horizons, payoff uncertainty, profitability, reporting, etc.?
- **Partnerships and Execution:** What additional capacity do companies have to develop to successfully execute and scale these initiatives? What varieties of partnerships enable them to succeed?
- **Enablers and Barriers:** What are the key drivers and barriers for companies seeking to unlock impact at scale through these activities? What is the role of philanthropic and public support in shaping and growing this space?

We review top-level findings for these five areas below. We believe that the study’s findings make a meaningful and differentiated contribution to this nascent topic and continue to point to areas rich for future discovery.

Methodology and Coverage

Primary Research:

In-depth interviews with managers and executives at 40 large companies and experts.

Detailed long-form survey of 220+ companies, yielding n=42

Companies profiled:

- 50% of the sample report revenue >\$5Bn
- 55% engage Bottom of the Pyramid (BoP) as suppliers
- Across the value chain, and multi-industry (63% operate in Agriculture, F&B or CPG)
- Covering 8 regions around the world.

Secondary Research:

Through literature review of existing writings and case studies

FINDINGS: AN EMERGING TREND WITH POCKETS OF INNOVATION

Our findings suggest that even as more companies invest in sustainable and inclusive business practices, the results are still best characterized as evolving and emergent. Though there are notable pockets of innovation, and perhaps even distinct segments (more on this below) among companies engaging in sustainable and inclusive business, the space currently lacks cohesion.

In many instances, SIBA makes for an interesting case study or illustration for a corporate report or article, but it may not have been deployed at scale. In some markets, such as India, CSR is mandated by law. India's Companies Act of 2013 requires that 2% of average net profits over the three preceding years of companies incorporated in India (foreign or domestic) that meet certain financial criteria must go towards CSR activities, defined as activities such as those promoting poverty reduction, education, health, environmental sustainability, gender equality and vocational skills development. Such mandates can certainly have the impact of putting internal processes, systems for implementation and measurement, definitions, etc. in place. It will be interesting to evaluate how SIBA evolves as companies in a market as significant as India respond to the CSR law and there is widespread adoption. Still, this study's findings, below, present a foundation for future growth and evaluation.

Definitions Matter

One significant insight gleaned from our research is the lack of common language among actors in this field. There has been a proliferation of buzz words and terminologies – a clear sign of growing momentum, but no common and clearly bounded set of concepts has gained dominance. Academics, consultants and development actors often use terms such as “inclusive business” and “shared value,” however our research shows that the business community has not embraced this language and there is, as of yet, no alternative terminology or standard definition among companies. In fact, fewer than 1 in 5 companies interviewed reported using these terms and, in some cases, managers claimed that terms such as inclusive business or social business risk diminishing the strength of the business case for investment and avoid using them. Instead, companies are using more accepted business language and terminology related to innovation, market expansion and meeting customer demand to speak about these issues internally.

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How Managers Make the Case for SIBA Internally

Our in-depth interviews with corporate and non-profit practitioners revealed that there were many different journeys that companies have taken to their investments in SIBA initiatives. The initiation of SIBA itself seemed quite idiosyncratic in many instances. One company narrated how their commitment to greater sourcing from smallholder farmers in Sub-Saharan Africa was a direct result of their CEO being questioned by Kofi Annan at the World Economic Forum meeting in Davos. Others pointed to the success of M-Pesa and how the availability of public catalytic funds enabled them to take on experiments they were reluctant to on their own. Some, who were making forward-looking investments in human capital for their supply chains, cited the need to ensure that their future supply base did not disappear. Not only are the motives for engaging in inclusive and sustainable business varied but companies also tended to cite multiple motives for engaging this way. In our survey, companies cite an average of 4.6 motivations for engaging in SIBA, ranging from social impact to business case rationales. Three in five companies (61%) cite generating social or environmental impact among their top three motivations, while nearly all (95%) cite at least one business case rationale.

Even among the business case rationales, there is great variance. The motivations can be grouped into seven categories. Even though the majority of the motivations cited may be characterized as “defensive” (avoiding loss/mitigating risk) or “maintaining” (staying competitive/keeping up), there are frequent references to “affirmative” rationales as well (seeking growth/opening new markets).

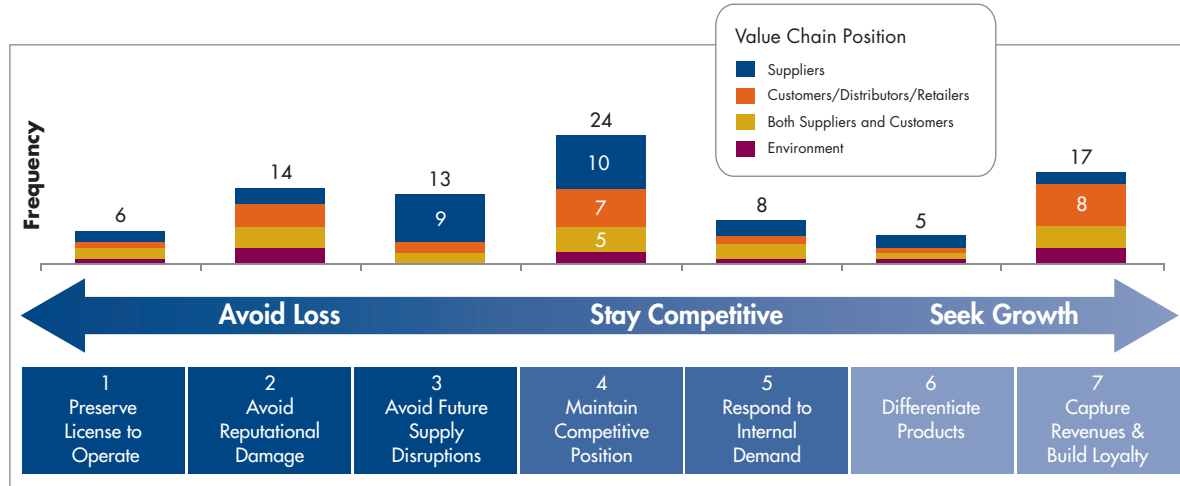
The top business-related motivations for SIBA included:

- 1. Preserve License to Operate:** Mitigate risk of disruption to operations or increased cost of doing business due to regulatory action. *Includes local sourcing and processing; adaptation of processing technologies; smallholder development to improve quality/yields*
- 2. Avoid Reputational Damage:** Mitigate risk of lost revenue due to reputational damage. *Includes efforts to promote traceability through audits and/or certification; measurement and communication of positive social and environmental impact*
- 3. Avoid Future Supply Disruptions:** Mitigate risk of future scarcity of supply and resulting price increases due to rising demand for key commodities coupled with saturated traditional sources of supply. *Includes incorporation of smallholders into sourcing models; provision of inputs, credit, aggregation to smallholders to improve quality/yields*
- 4. Maintain Competitive Position:** Keep up with competitors who adhere to and actively promote higher standards. *Includes adherence to industry norms for traceability, transparency and certification*
- 5. Respond to Internal Demand:** Recruit, retain and motivate top employees through the development of an impact agenda. *Includes establishment of volunteer programs or SIBA business units to leverage employees' core competencies*
- 6. Differentiate Products:** Differentiate products or services to gain share and/or command price premium. *Includes adherence to higher standards; product certification (such as Fair Trade, Rainforest Alliance, Utz, etc.)*
- 7. Capture Revenues & Build Loyalty:** Develop new revenue streams by accessing new customers and markets, and build awareness and brand loyalty among customers in high-growth markets. *Includes development of new products and/or distribution models; demand generation; consumer education*

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The relative importance of each motivation across the businesses surveyed is indicated by the figure below.

Figure 2: Frequency of Citation of Business Case Rationales



These results have several implications. First, there is a wide range of potential motivations to prioritize and invest in SIBA. This diversity of motivations can even exist within a single organization. In other words, there can be a fragmentation of the interests to promote SIBA, thereby making it difficult to build a critical mass of support behind it. Second, different organizations get galvanized by different kinds of motivations to place initiatives on the top of their investment priorities due to their organizational imperatives, management culture, position in the industry and corporate governance systems at a particular point in time. The SIBA motivations would

have to dovetail into the corporate imperatives in order for SIBA to garner the requisite levels of managerial and financial support. Third, depending on the primary motivation, the “ownership” of SIBA could be located in different places in the organization. This location could influence the degree of corporate support and visibility that SIBA enjoys. Finally, some motivations, more than others, may make it easier to quantify and communicate the impact of SIBA; for example, avoiding loss is easier to explain and quantify than one that involves a longer-term, more diffuse objective, such as growth.

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Internal Structuring and Locating of SIBA within the Corporate Organization

A critical barrier to institutionalizing and scaling-up SIBA is an organizational one: the majority of companies interviewed have not yet settled on how and where best to house SIBA internally, as they require new internal organizational structures, including compensation, talent management and measurement systems, along with new business models and new partnerships.

Exploring Organizational Models

To explore two very different organizational models, consider the cases of a major cosmetics, skin and hair care company and a large diversified supplier of construction materials.

The major cosmetics, skin and hair care company's model is one of "isolate and replicate." Its structure, funding, metrics and challenges are outlined below:

- **SIBA:** Matrix trains, employs and facilitates credit access for micro-distributors to reach informal hair salons in Brazilian favelas
- Replication supported by CSR Dept.
- **Organizational Structure:** SIBA initiated by regional office in response to business need
- **Funding:** HQ provides matching CSR funds to replicate the Brazilian innovation in Ghana
 - The business side lacks interest and confidence, so we need to provide incentives
- **Metrics:** Sales, number of micro-distributors
- **Challenges:** Adapting model to other regions, attracting investors to de-risk model

The large diversified supplier of construction materials, on the other hand, employs a "let a thousand flowers bloom" model, as outlined below:

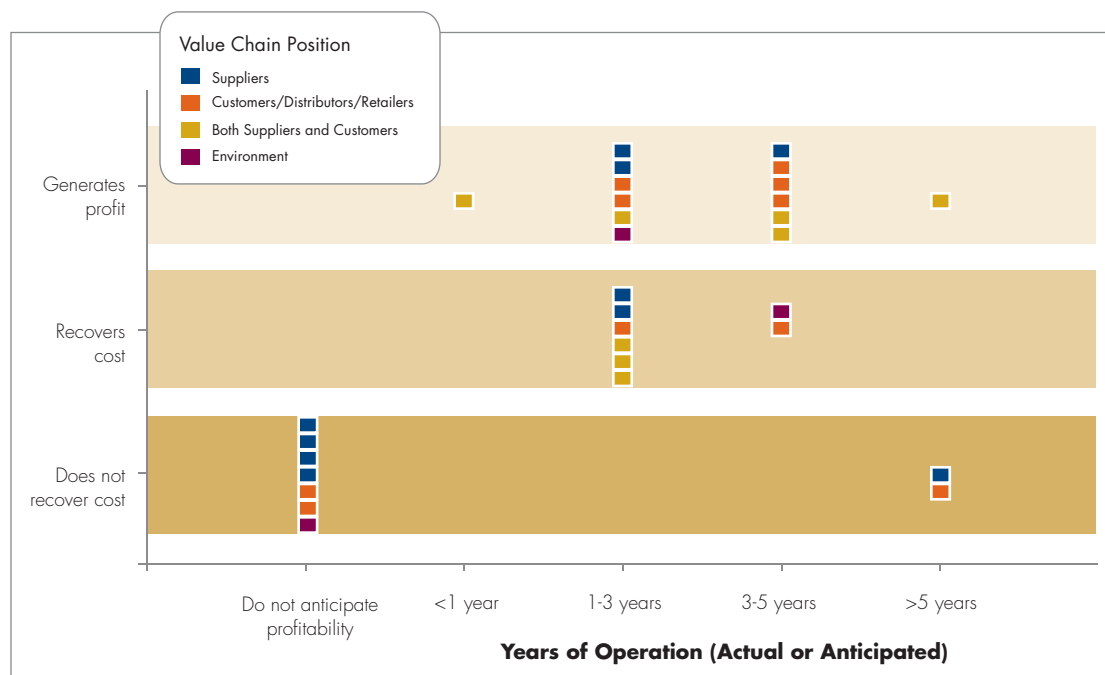
- **SIBA:** Affordable Housing Program (AHP) targets low-income consumers with appropriate building materials
- Company initiates an array of pilots/demo projects through a "portfolio approach"
 - Time horizons range from 1 year to 2-3 years to 5+ years
- **Organizational Structure:** AHP division sits within HQ Innovation Group; activity is highly decentralized, led by regional offices
- **Funding:** Innovation funds; MFI partners provide financing to customers
- **Metrics:** Sales (Innovation Group targets EUR 500M growth), number of houses built and people reached (targets 2M by 2020)
- **Challenges:** Mismatch in time horizons between AHP and partners

As the differences between the models suggest, there is a range of options for SIBA decision makers to consider. The "right" model varies with the nature of the company, the industry and the core areas of SIBA activity. In many instances, the model must evolve over time as the company arrives at the optimal points of focus and scale of the activity.

We see the development of innovative internal structures as critical to overcoming organizational constraints such as:

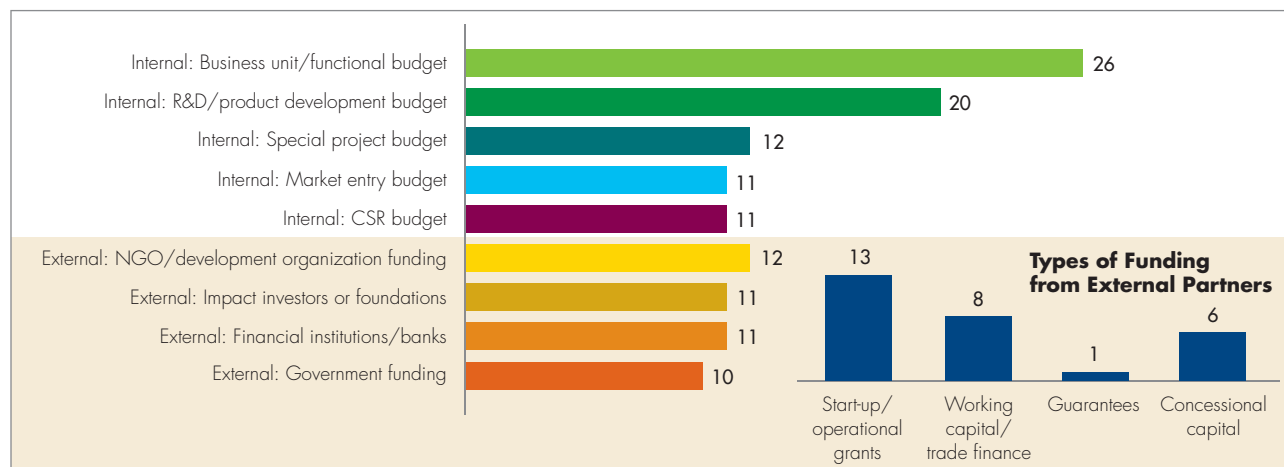
- **Differential Investment Time Horizons:** Over half (53%) of companies report longer time horizons to profitability for SIBA relative to commercial businesses, with only 17% of initiatives reaching profitability within three years.

Figure 3: Time to Cost Recovery/Profitability for Sustainable & Inclusive Businesses



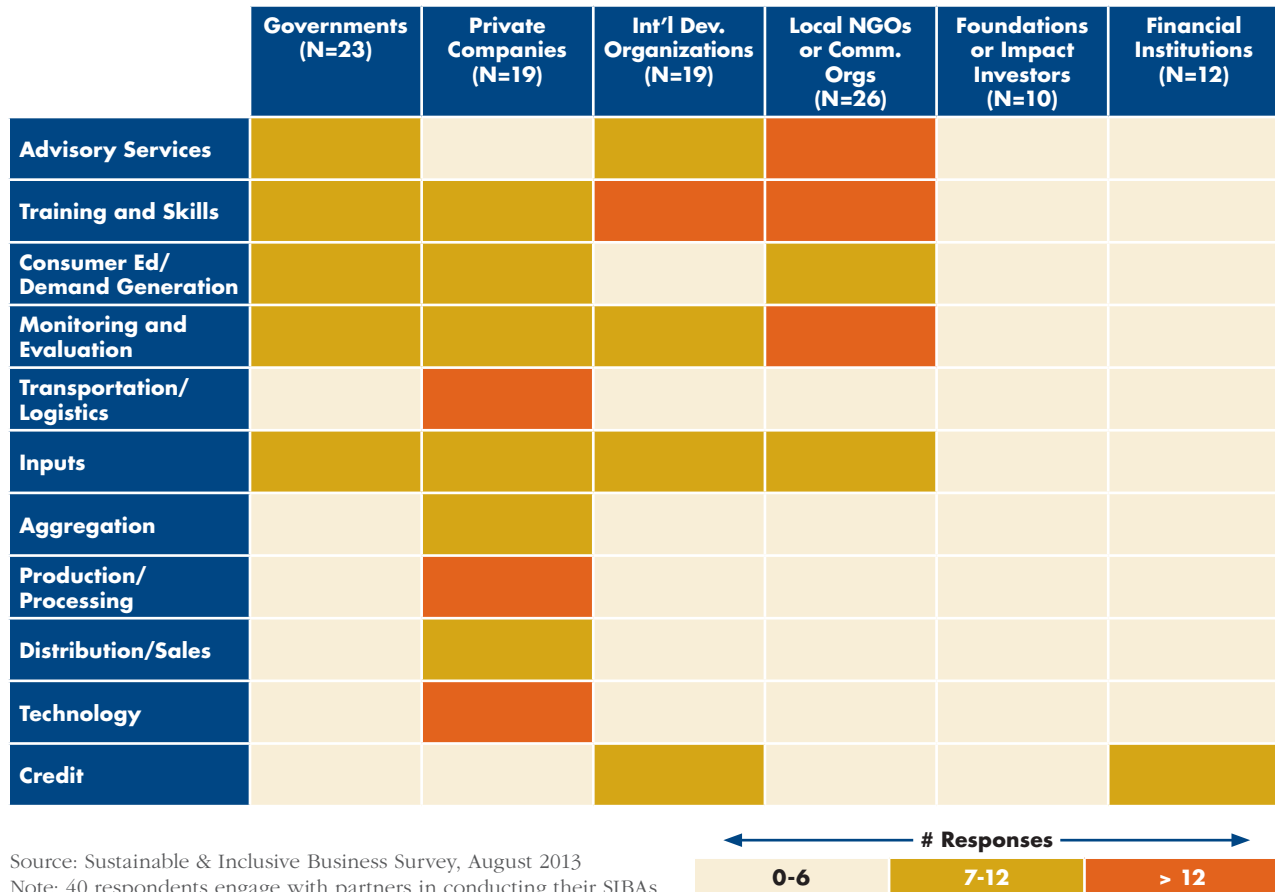
- Quarterly P&L Responsibilities:** Three-quarters of SIBA receives funding from commercial budgets, clearly signaling the expectation of returns, but potentially limiting the ability to take on longer time horizons to prove the business case given higher degrees of uncertainty sometimes associated with SIBA. In some cases, separate CSR funds and external funds are used to de-risk SIBA, enabling companies to accept these longer time horizons.

Figure 4: Funding Sources for Sustainable & Inclusive Businesses



- Inexperience Collaborating with Inter-Industry and Cross-Sector Players:** 98% of companies currently engage with partners to implement SIBA. Cross-sector players, such as NGOs and development organizations, provide essential on-the-ground support, ranging from training and skill-building for suppliers and distributors to consumer education. Private companies provide innovative technologies and services such as transport/logistics and production/processing. In select cases, inter-industry competitors are entering pre-competitive collaborations to develop smallholders and certify supply chains.

Figure 5: Partnerships to Facilitate Sustainable & Inclusive Businesses



Source: Sustainable & Inclusive Business Survey, August 2013
 Note: 40 respondents engage with partners in conducting their SIBAs

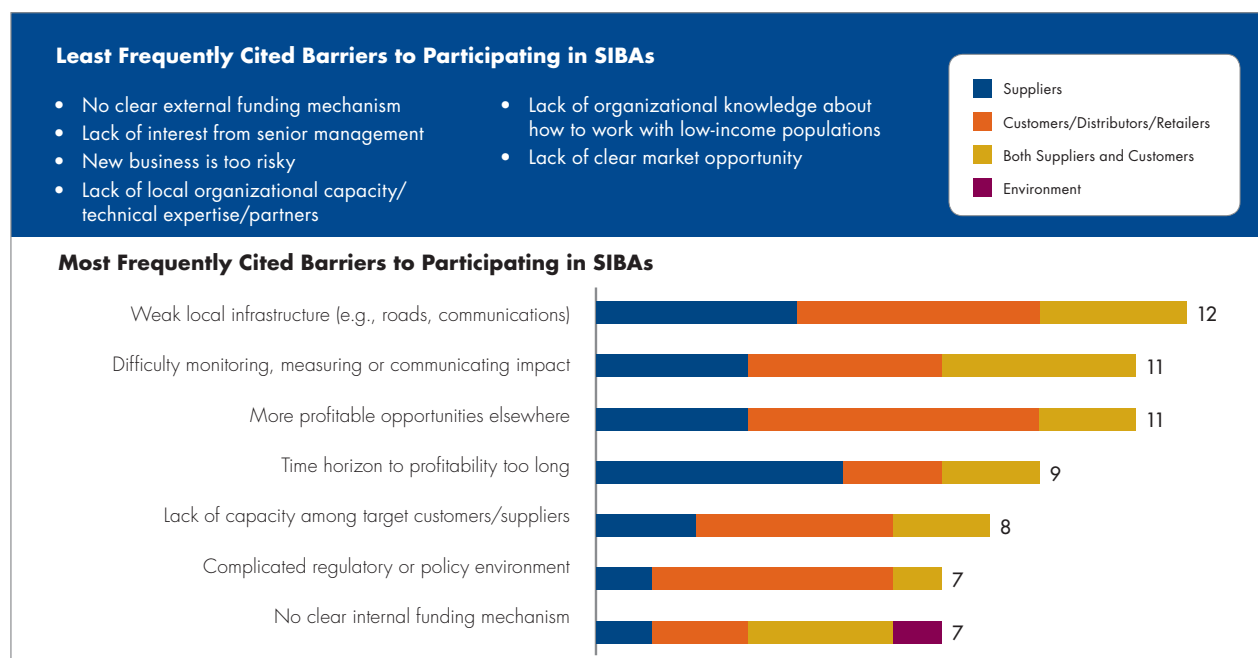
In addition to developing innovative internal structures that nurture SIBA and enable it to succeed, external partners will continue to be essential to overcoming constraints. SIBA calls for heightened forms of collaboration that cross public-private boundaries, as well as, in some cases, involve competitors. We see collaboration as essential to every stage of inclusive business development from success in pilots to scale-up and replication.

One of the key areas whose significance will only grow is that of collaboration between companies and external actors, including NGOs, governmental agencies, development organizations and entrepreneurs as well as collaboration among industry competitors. The World Cocoa Foundation's "Cocoa Livelihoods Program" and the "Roundtable on Sustainable Palm Oil" (RSPO) are examples of successful pre-competitive activities among industry competitors. In the cocoa industry, 16 competitors came together to provide aggregation, training, inputs and credit to smallholders to ensure future supply across the industry. In palm oil, suppliers, traders, brands and retailers came together to certify the commodity sourced from shared origins. ITC was a pioneer in its efforts to develop a shared distribution channel, including transport, warehousing and demand generation, to make rural distribution viable for Indian retailers. Such examples significantly alter the cost curve facing individual companies. As future growth targets require companies to move into lower income, difficult-to-reach segments to acquire new customers and sources of supply, we expect such pre-competitive collaborations to become a new norm.

Barriers to SIBA

Companies identified weak local infrastructure, difficulties measuring impact, issues with profitability and the time horizon to profitability as key barriers to participating in SIBA.

Figure 6: Barriers to Participating in Sustainable & Inclusive Business



Infrastructure challenges – missing or unreliable communication infrastructure and transport systems, in particular – present challenges for companies as they move into developing markets. It is notable that 2 of the 5 most commonly cited barriers – weak local infrastructure and limited consumer education – are traditionally challenges addressed by the public sector. However, some companies are (co-)investing to overcome them.

In the long-term, however, government and donor support will likely be required to build enabling ecosystems. Even in many instances where there is a clear market opportunity, the risk of free-riders limits companies' willingness to invest independently in the creation of 'public goods,' such as infrastructure and consumer education. Governments or donors could provide such goods outright or facilitate pre-competitive or associative collaborations where market and infrastructure development would be advantageous to many competitors.

While few companies cited inability to access capital and lack of management support as a key barrier, it is clear that such issues can become a gating factor when substantial budget commitments are needed to conduct SIBA at scale. Questions of profitability and returns on investment will, invariably, become central to the internal discussions.

As SIBA scales up, another critical obstacle that will present a challenge is that of impact measurement. Currently, managers who wish to make the case for greater investment in SIBA within their organizations are hampered by the limited tools available to measure the impact of such investments. Impact measurement is a challenge more commonly faced by NGOs and development agencies. While imperfect, such organizations have developed a body of knowledge and a track record for innovating in measurement and evaluation techniques. Partnering with these organizations, which have already begun to address measurement issues, can improve a company's ability to credibly and (cost-)effectively assess the impact of SIBA.

HOW PRIVATE AND PHILANTHROPIC ORGANIZATIONS CAN SUPPORT SIBA

SIBA continues to gain momentum, market share and headlines. Yet, SIBA is still a nascent and amorphous field, which will require the coordination, collaboration and support of many actors.

Unlike traditional CSR initiatives, SIBA is intended to harness the interests and capabilities of business to address market inefficiencies as part of the natural process of seeking profitable growth, rather than through pure philanthropy or outreach for the purposes of building social and political capital in international markets. Below, we have created a first look at practical steps that the private sector and philanthropy can take to encourage SIBA.

Implications for the Field

An increasing number of businesses recognize that their sustained growth will come from emerging markets and nontraditional consumers and, as such, need to develop business practices that build and sustain the markets they need for their own success. Despite escalating activity and experimentation among businesses, sustainable and inclusive business models are far from proven. There is a handful of well-known success stories but no widespread set of repeatable and scalable standards based on best practices. There has been demonstration of both economic and socio-environmental value of these practices on a case-by-case basis but no proven path as yet that can be applied across a wide range of companies.

Consider the two very distinct experiences of Olam, a leading agri-business operator and Novartis, a leading health care, agri-business and consumer health company, in investing in and managing SIBA. Their respective approaches and constraints are summarized in the following figures.

Impact measurement is a challenge more commonly faced by NGOs and development agencies. While imperfect, such organizations have developed a body of knowledge and a track record for innovating in measurement and evaluation techniques.

Figure 7a: Olam – A Case Study in SIBA

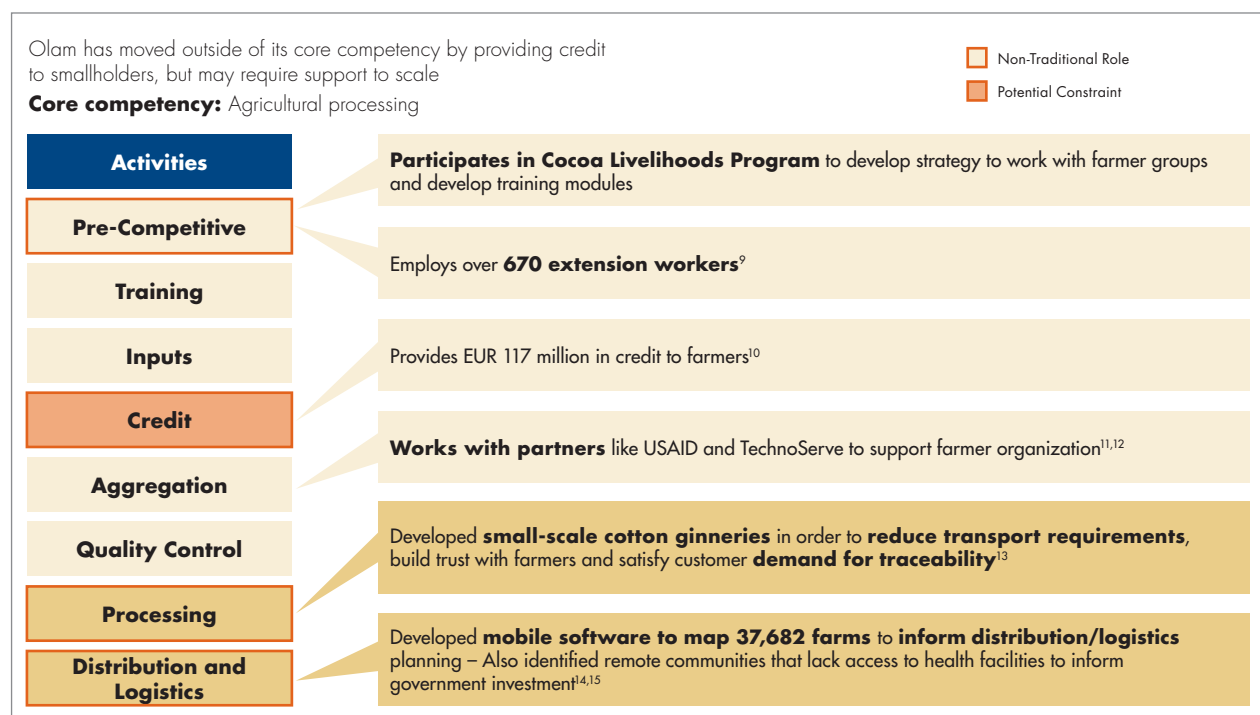
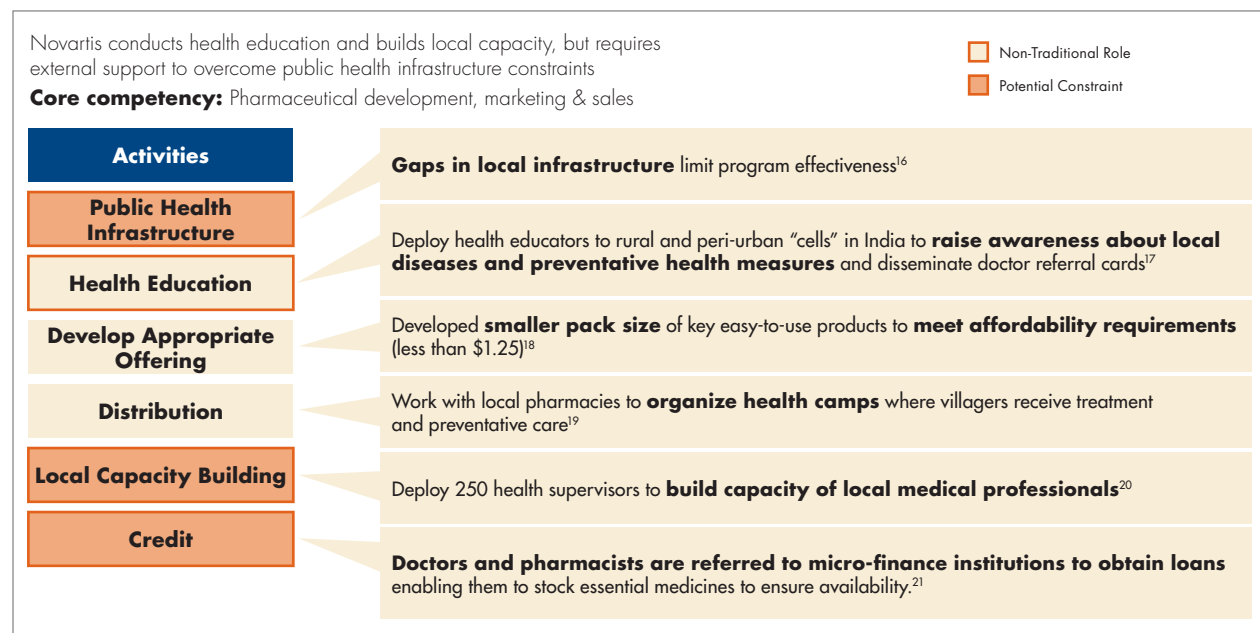


Figure 7b: Novartis – A Case Study in SIBA



Note that in both cases, to be effective, the companies extended beyond a single intervention. Companies that do SIBA well engage at multiple levels. Ideally, this creates a mutually reinforcing system of activities. That said, the degree of success at all points of intervention are not uniform. As is evident from the schematics above, both Olam and Novartis had to contend with multiple constraints that affected the overall effectiveness of the system.

Though 95% of respondents cite a business case rationale as the top motivation for engaging in SIBA, less than 20% of initiatives are currently profitable.

Recommendations

Below, we outline some suggestions for managers and executives as they plan for building out their SIBA strategies:

- **Create the “Space” for SIBA:** Companies are, in general, not yet structured to support and scale-up SIBA – a new type of innovation challenge which may require new structures, new business models and new partnerships. Innovative internal structures are critical to overcoming traditional constraints such as short investment time horizons and inexperience collaborating with cross-sector and inter-industry players. While a few companies are experimenting with innovative approaches and taking them further, most are still in the early stages of development and have yet to result in proven, repeatable and scalable initiatives. Companies must continue to boldly experiment with new funding structures, reporting structures, success metrics (e.g., time horizons and profit expectations) and measurement schema. Borrowing from the models used to incubate and scale-up new venture units might offer a possible route to institutionalizing SIBA within traditional corporate structures.
- **Use Public Incentives and Participate in Multiple Partnerships:** Though 95% of respondents cite a business case rationale as the top motivation for engaging in SIBA, less than 20% of initiatives are currently profitable. At least for a subset of the barriers, and for solutions that have demonstrated public benefit, companies can avail of public monies and incentives to show ‘proof of concept’ models. Managers should actively seek out such opportunities for risk-sharing and leverage the on-the-ground relationships and local knowledge of NGOs and public sector organizations.
- **Explore New Pre-Competitive Paradigms to Overcome Market Failures:** 2 of the 5 most commonly-cited barriers to participating in SIBAs – weak local infrastructure and limited consumer education – are traditionally addressed by the public sector. In developing markets, however, companies cannot always wait for governments and donors to fill these gaps. Companies must invest and co-invest to overcome exacting market conditions, such as low margins, low volumes, poor infrastructure, low consumer awareness, low skills and poor training, etc. Where free-rider problems limit companies’ incentives to invest, associative/collaborative action is a viable, if under-utilized, alternative. We have seen successful collaboration that addresses supply chain and distribution/route-to-market issues, and expect to see more in the future. Critical areas for collaboration include channel development, customer education, supplier development and policy influence. Doing so requires companies to work with donors and “honest brokers” to mitigate potential risks that arise when competitors ‘collaborate’ (e.g., when there is a perception that collaboration can lead to collusive behavior).
- **Develop Tailored Performance Measurement Frameworks:** Impact measurement and communication of outcomes is increasingly essential for multinational companies with clear impact agendas: 57% of Fortune 500 companies report on environmental, social and governance impacts. Consumers are demanding clear, comparable impact information. Governments and donors supporting multi-national companies (MNCs) require more than periodic reporting; they are seeking assurances that interventions are creating the kind of social change promised by the companies. Managers require information to make informed investment decisions. Where impact efficiency and effectiveness is tied to financial performance, regular assessment is a key management tool. Managers need to go beyond periodic sustainability reporting to assess their long-term social and environmental impacts. They should strive for simplicity and clarity, while also espousing a degree of standardization across sectors.

Implications for Philanthropy

It is our strong belief that while companies themselves must be motivated by a strong business case to ensure the sustainability of SIBA, philanthropy has a catalytic role to play in removing barriers and enabling impact at scale. Donors, foundations, impact investors and NGOs can shape the future of this growing area by helping companies articulate the business case, de-risking innovation, setting clear expectations, and facilitating enabling systems.

There are 5 key areas of action that we recommend:

1. Track the Space and Set Expectations: The sustainable and inclusive business field is young and made up of small scale, disconnected activities spread out across multiple industries and geographic contexts. Continuing to monitor the evolution of companies' thinking on and activity in the sustainable and inclusive business space will be essential to ensuring that support is efficiently deployed. A survey should track the evolution of language, size and scale of activity, and key barriers to participating in SIBA over time. An annual or bi-annual survey could be deployed independently or as part of an existing data collection effort; it should be accompanied by regular "state of the field" briefings.

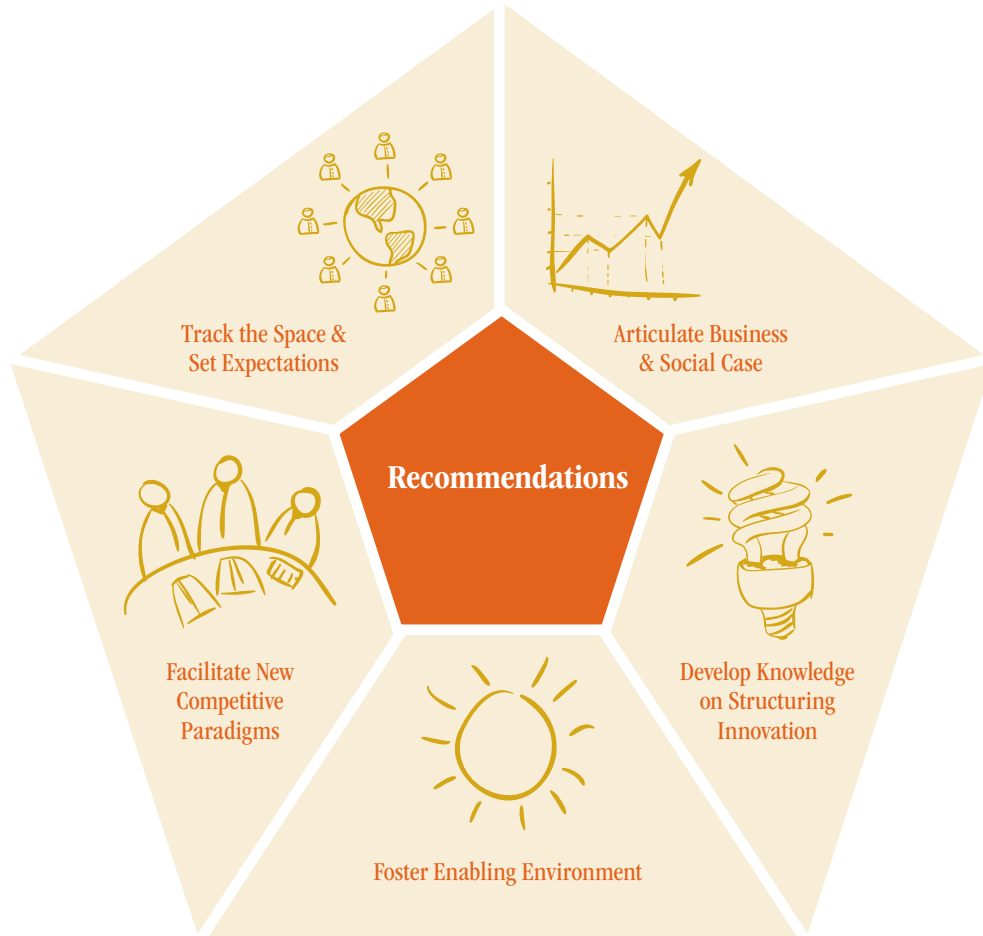
- **Set Guidelines for Impact and Performance:** Monitoring companies' activities in the field will also enable players to set clearer guidelines for impact and performance across key definitional dimensions (e.g., profitability, time horizon, and social and/or environmental impact at scale). Setting impact thresholds should be a collaborative effort involving public sector and corporate stakeholders to align on simple, comparable metrics.

2. Articulate Social and Business Case: Little is known about how companies make the "business case" for SIBA. Developing an "evidence base" to evaluate the business case for specific models would benefit companies initiating SIBA by providing a repository of comparable, high-quality data on questions such as:

- What is the economic return from SIBA? What factors drive this?
 - How do companies internally evaluate the gain from competing motivations? What time horizons and investment expectations do they operate against?
 - How do they value intangibles, such as goodwill, brand value, employee retention/satisfaction? How does this vary by industry or customer group?
- **Develop Actionable Toolkits:** Detailed business school-style case studies should also inform the development of actionable toolkits to help new companies replicate SIBA. By highlighting industry-specific best practices and individual success stories, toolkits should help companies implement inclusive business models, as well as illustrate the ways in which they can create value for businesses. They may also include frameworks and tools for cost-effective impact assessment and forecasting, and guidance on communicating results. Promote informal knowledge exchange through roundtables, blogs, etc. that complement these toolkits by providing a forum for real-time feedback and discussion.

It is our strong belief that while companies themselves must be motivated by a strong business case to ensure the sustainability of SIBA, philanthropy has a catalytic role to play in removing barriers and enabling impact at scale.

Figure 8: What Can Philanthropic and Social Sector Stakeholders Do?



We expect to see more collaboration through new competitive paradigms, such as pre-competitive activities. Donors have an essential role to play in facilitating these schemes.

3. Develop Knowledge on Structuring SIBA Innovation: Companies themselves need to experiment with innovative structures to facilitate SIBA innovation. Donors and business associations can support them by recommending optimal structures to meet specific challenges. A comparative analysis should highlight the evolution and current operations of SIBA within MNCs across a variety of corporations (e.g., centralized vs. decentralized operations, R&D-focused vs. sales & marketing-focused, platform-driven, etc.). They should include details such as decision rights, reporting lines, funding, time horizons, success metrics (ROI calculation), leadership commitment, use of partners, in order to set expectations of what is required to develop successful inclusive businesses.

4. Foster Enabling Environments: While governments and international organizations are chiefly responsible for tackling infrastructure and policy impediments, donors can be instrumental in facilitating dialogue on policy priorities and standards to support companies undertaking SIBA. By convening corporate and public sector leaders, they can aid policy-makers in prioritizing actions according to cost and potential for impact and promoting alignment with key policy bodies (e.g., World Bank, business associations). Donors may also experiment with external incentive schemes to enable companies to overcome internal challenges, such as longer time horizons and greater degrees of uncertainty. Such schemes may include challenge funds, external awards or recognitions, guarantees, and risk defeasance.

5. Facilitate New Marketplace Paradigms: We expect to see more collaboration through new competitive paradigms, such as pre-competitive activities. Donors have an essential role to play in facilitating these schemes. In addition to actively brokering such schemes, donors should consider how best to target their support by studying the conditions under which such collaborations arise and identifying where targeted investor support and facilitation is required. For smallholder supply chains, this means determining which combination of conditions has led to the development of pre-competitive collaborations in the past, to inform deployment of targeted support to future schemes. Beyond supply chains, the exercise should be more opportunistic. For potential future collaborations, such as shared channel development, consumer education and R&D, donors should map industry-specific cost curves to understand where it is unprofitable for firms to invest independently and, thus, where external support is required. They may also explore strategies to mitigate risk that collaborations would be perceived as collusive or otherwise anti-competitive.

In conclusion, SIBA is on the rise, and with the geographic dispersion of markets and sources of inputs, such activities are increasingly viewed as a business imperative. Numerous illustrations and case studies have raised the awareness among managers about this growing phenomenon and about alternative models of SIBA being pursued by companies across multiple sectors and multiple markets. The focus of our research was to uncover the primary incentives — motivators and barriers — that govern why companies invest in SIBA and what inhibits such investments. Our findings reveal that the incentive structures are quite complex and require a systemic approach to getting to the ideal solutions. Multiple actors can play critical roles to help move towards such solutions; these include companies, philanthropic organizations and multiple forms of partnerships involving companies acting in concert with social and public sector organizations. The key is to locate the levers that will help facilitate the motivators and remove or bypass the barriers and identify actors with the best access to such levers. This research represents the beginning of a longer journey towards understanding the further challenges associated with executing on SIBA and understanding its role in building competitive advantage over the long-term. Future research will focus on these issues and offer additional actionable implications.

ABOUT

THE CITI FOUNDATION

<http://www.citifoundation.com>

The Citi Foundation works to promote economic progress in communities around the world with a focus on initiatives that expand financial inclusion. The Citi Foundation collaborates with best-in-class partners to create measurable economic improvements that strengthen low-income families and communities. Through a “More than Philanthropy” approach, Citi’s business resources and human capital enhance its philanthropic investments and impact.

The Citi Foundation utilizes a results-oriented measurement framework that informs the way it assesses the impact of the programs it funds. Every grant is carefully tracked to identify ways to ensure success and understand what works and why. This framework helps it define more clearly the results we seek in each of its core focus areas, which include: Financial Capability, Youth Economic Opportunities, Inclusive Finance and Urban Transformation.

THE FLETCHER SCHOOL’S INSTITUTE FOR BUSINESS IN THE GLOBAL CONTEXT, TUFTS UNIVERSITY

<http://fletcher.tufts.edu/IBGC>

The Fletcher School’s Institute for Business in the Global Context was founded in recognition of the need for a new approach to the study of international business and capital markets – one that prepares global business leaders with essential “contextual intelligence,” to incorporate key non-business factors, such as geopolitics, security, the environment and the changing state of the human condition into business decisions. The Institute is situated within The Fletcher School, the oldest exclusively graduate school of international affairs in the U.S., widely considered among the pre-eminent institutions in its field in the world.

The Inclusive and Sustainable Business Project at the Institute aims to change the way corporations think about, talk about, finance and encourage innovative inclusive business practices by providing data-driven, rigorous and impartial thought leadership and community-building around Sustainable and Inclusive Business activities, models and practices.

The Inclusive and Sustainable Business Project within IBGC’s Inclusive Growth Initiative pushes beyond the scope of traditional research by partnering with world class institutions, engaging with experts and contributing original, rigorous and practical insights into the quickly emergent field of inclusive business through research, consulting, conferences and funding startups.

MONITOR INSTITUTE

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Monitor Institute is a social enterprise that surfaces and spreads best practices in public problem solving and pioneers next practices – breakthrough approaches to addressing social and environmental challenges. It partners with mission-driven organizations and their leaders, helping them make the hard choices and take the necessary actions to reach a new level of impact. Its approach marries deep grounding in strategy, networks, social innovation and human systems with the fundamentals of professional advisory services – effective project management, skilled facilitation and well-timed intervention.

As part of the global strategy firm Monitor Deloitte, it is able to draw on the strategy, innovation, marketing and change management expertise as well as the knowledge and experience of global colleagues in over 20 offices worldwide. Since 2005, it has worked with more than 100 social sector and global development organizations, including seven of the ten largest U.S. foundations and many groundbreaking social innovators. Its team of practitioners is based in Monitor Deloitte's New York, Boston and San Francisco offices.

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