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LINKING INCLUSIVE BUSINESS MODELS AND INCLUSIVE GROWTH

Cross-Sector Partnerships in Poverty Alleviation Strategies of Multinational Enterprises

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Working Paper Series

November 2010
Working Paper 004

Colofon

The Partnerships Resource Centre: Working Paper Series
ISSN 2211-7318

Internet: www.partnershipsresourcecentre.org

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This paper contains research supported by 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.

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Abstract

This paper links the macro concept of "inclusive growth" tothe micro concept of "inclusive business". Its main contribution is the creation of a multi-level taxonomyof business models that can be applied by (large) multinational corporations and in which the direct and indirect consequences for inclusive growth are taken into account. One of the links that is clearly missing between the two dimensions is cross- sector partnerships. They form the meso-level link between micro-level business models and macro-level national development strategies. The taxonomy makes it possible to comparatively study large corporations across national and cultural boundaries, distinguish patterns and determinants of strategies,and examinecorporate claimsregardingtheir contribution to inclusive growth. A first application of this taxonomy on the business and partnership models adopted by the first one hundredGlobal Fortune companies, shows that particularly European firms are proactively applying inclusive business models, and are proactively engaged in cross-sector partnerships. Very advanced business models for inclusive growth, however, have not yet been developed.

Key words:

Business model, poverty alleviation, partnerships, inclusive growth, inclusive business, sustainable development, Multinational Enterprise (MNE)

1. Introduction

In many respects, academic thought on economic growth and sustainable development in the 21st century represents a breach with traditional thinking. The traditional development paradigm – based on the Washington Consensus – has been replaced by new and more modern development thinking that takes a contingency and multi-level approach on development. Next to governments and multilateral organizations, (multinational) enterprisesare 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 operationalisebeyond case studies. The concepts of 'inclusive growth' and of 'inclusive business' have recently been (re)introduced by multilateral organizationsand could facilitate the spread of(active) business involvement in pro-poor growth strategies. But most of these concepts lack descriptivedepth, and are difficult to operationalize and to study on a comparative (multi-level) basis. As a consequence, itis very difficult to measure the impact of inclusive business projects (WBCSD, 2009). The main question is under which conditions can business in general and multinational enterprises in particular have a positive impact on development?

This paper argues thatat this stage of the discussion,managers of multinational enterprises as well as academics are in need of more sophisticated business modelsthat 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 following statements of four exemplary Global Fortune 100 companies on their approach towards poverty alleviation (which comes closest to the idea of inclusive business/growth) in their 2006/2007 sustainability reports and websites. These four statements weretaken from around sixty of the one hundred largest firms thatissued statements on poverty alleviation:

- British Petroleum (UK): *"Our primary means of making a positive impact on poverty is through aligning our own operations with local people's needs. (…) We can sell affordable products that enable people to improve their standard of living, including motor and heating fuels. (….) Energy is a major factor in lifting people out of poverty. (…)"*
- Proctor and Gamble(USA): *"While we remain humbled by the scale of poverty and disease and lost human opportunity that the world faces, we feel we are making progress toward our vision of sustainable development. (…) A key challenge when linking business opportunities with corporate responsibility is whether we can create new business models appropriate to low-income developing markets."*
- HSBC Bank: *"Supporting microfinance is one of the ways in which financial institutions can support the UN Millennium Development Goal of eradicating extreme poverty."*
- Matsushita (Japan): *"At present, the world has a large number of people living in poverty and needs a level of economic growth sufficient to raise their standard of living. At the same time we must not be allowed to damage the environment (…). We are thus faced with the problem of combining economic growth and environmental conservation. (…) Enterprises around the world are now under pressure to put in place sustainable business models that will allow the two to be combined."*

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'. Ina sustainable corporate story, firms convincingly analyse the issue,sufficiently specify primary responsibilitiesand 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. 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 studymultinational corporations on a comparative basis, distinguish patterns and determinants of strategies, andidentify 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 aboutconcepts of inclusive business and inclusive growthand 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 fiveapplies this taxonomy by analysingthe 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, whichwasquickly 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' (Worldbank, 2008). All organizations acknowledge that inclusive business requires building cross-sector partnerships with governments and NGOs, andintegrating core business activities. 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.

Since around 2005, the conceptof 'inclusive growth' has beenembraced 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.

The concepts of inclusive business and inclusive growth havenotbeen adopted (yet) bymultinational corporations around the world. A recent check on the websites and CSR reports of the Global Fortune 100 resulted in almost negligible results. Corporations that 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 I). 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 twoconcepts. 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 I: Academic coverage of inclusive growth/business (1990-2009)

Category	Journals of articles	Total no business	Inclusive growth	Inclusive
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		1	1

The need and urgency for inclusive business models seems clear. The following requirements have to be addressed in order to establish a link with inclusive growth: (1) the business model should include an **active** search for particular effects on poverty alleviation, (2) the **direct effects and the indirect effects** of the business model should be taken into account, (3) there should be a link to the **core activities and competencies** of a corporation, otherwise the activity remains marginal and could be susceptible to window dressing, (4) the activity requires **cross-sector partnerships** with NGOs and/or governments in order to achieve effectiveness.

3. Challenge # 1: from macro to micro

In management and development studies, the relationship between Foreign Direct Invest (FDI) and 'host country' developmentgenerally mirrorsthe 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 betteraccess 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 firmsfor 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 II).

Table II: Mechanisms through which MNEs affect sustainable development

Type of effect	MNE role		
	Passive	Active	
Direct (at MNE site)	Size effects (for capital base, employment, environment)	EH&S practices, labour conditions	INCLUSIVE BUSINESS ↓
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 II, 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 netef-fect 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 arereceiving 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 ex-ternally.

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% havetheir 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 cor-porate activities (beyond the MNE site), inclusive business and inclusive growth models are mutually reinforcing (Table II – 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 con-sidered critical in escaping the poverty trap. Secondly, labelling represents another way companies can have an impact on poverty. Labels have enabledcompanies 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 Trad-ing 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 fourbillion '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 crowdout 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 [21]st 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) andan 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 III summarizes the key characteristics of the four CSR approaches.It shows the indicators of inclusive business strategies, which link the macroeconomicmodelling 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'. 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 chose 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 specifyingits 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).

Table III: Four CSR Approaches towards inclusive growth

PASSIVE		ACTIVE	
Inactive ← - - - - - - →		**Active: go-it-alone**	
	Reactive ← - - - - - - →		**Pro-active:partnership**
Definition of CSR			
"Corporate *Self* Responsibility"	"Corporate Social *Responsiveness*"	"Corporate Social *Responsibility*"	"Corporate *Societal* Responsibility"
Main characteristics			
• Legal compliance and utilitarian motives • Efficiency • Indifference • Inside-in • 'doings things right' • 'doing well'	• Moral (negative) duty compliance • Limit inefficiency • Compliance/reputation • Outside-in • 'don't do things wrong' • 'doing well and doing good'	• Choice for responsibility and virtue • Equity/Ethics • Integrity • Inside-out • 'doing the right things' • 'doing good'	• Choice for interactive responsibility • Effectiveness • Discourse ethics • In-outside-in/out • 'doing the right things right' • 'doing well by doing good'
• Resource based view	• Shareholder view	• Capabilities view	• Stakeholder view
• Marketing/demand approach		• Marketing and production: supply and demand	
Approach to poverty alleviation			
• No explicit statements on poverty • We create jobs and employment (by-product profits) • Affordable products • No code of conduct and low compliance likelihood • No explicit support for labels • No separate business model for poor	• 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	• Statement on moral unacceptability of poverty • Definition of 'decent wage' • Broad BOP • Micro-credits as business strategy • Technology and know-ledge transfer • Explicit support for MDG1 • Support for GRI • Specific codes on poverty and fair trade	• Separate (strategic) business model for the poor • Explicit support for all MDGs • Active partnerships on of poverty • Explicit codes, strong support of GRI • Technology and knowledge transfer specified for poverty • High specificity and high compliance likelihood of codes • Dialogues as explicit tool
Link between inclusive business model and inclusive growth:			
• No link	• Weak defensive link	• Weak positive link	• Strong positive link
Partnership approach: • No partnership • Disaster relief • Sponsorship • Micro-finance (narrow approach) • Education/Literacy partnerships • Health (HIV/Aids)/Water provision partnerships • Community development • Sustainable/fair trade/wages/taxes • Financial sector development (broader than micro-finance)			

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 UNI'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' - a UN-sponsored entity owned and managed by a number of MNEs with NGO support.

Table III also tries to classify the various types of partnerships that exist. 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.

The more firms consider inclusive business strategies as part of their core business/competencies, the more they also need to develop sustainable corporate stories. Asustainable 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.

5. Searching for inclusive business models – first results

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 havestarted 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 100 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 supporteda 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.

Inclusive business models

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

Table IV: 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 takeninitiatives 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 observablein 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 pro-active strategies. The search is for the creation of appropriate preconditions. The business models are there.

Inclusive partnerships

Cross-sector partnerships form an increasingly important tactical and strategic link between inclusive business and inclusive development strategies.One out of five corporations of the global 100 iscurrently searching for a more active strategy through partnerships with NGOs and international organizations in areas related inclusive growth (next to more prevalent initiatives in ecology). European MNEsare embracing partnerships more frequently and proactively than American MNEs. This is relatively independent of the actual number of partnerships. American firms,in turn,embrace partnerships more often and more (re)actively than leading Asian firms. This conclusion is further supported by other studies, for example, on corporate natural disaster relief (Muller and Whiteman, 2008).The European lead in partnerships is also due to the fact that governments, development NGOs and firms share a tradition of more cooperative (or corporatists) institutional relationships in their home countries.

6. Conclusion

Linking inclusive business modelsto inclusive growth requires sophisticated and active corporate multinational strategies 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 identifiedcore elements of an inclusive business model for multinational enterprises. This paper has also argued that managerial unwillingness to assume responsibility for inclusive growth is only partly to blame for the lack of sophisticated business models. The conceptual and strategic ‘poverty’ surrounding the issues of inclusive growth and inclusive business hasequally contributed to the problem As a result, still rather narrow approaches for entrepreneurial solutions to poverty prevail, whilst only a few proactive approaches have been implemented. Convincing ‘sustainable corporate stories’ have yet to emergein which leading firms have developed and implemented poverty alleviation strategies at the operational as well as at the strategic level. The chances that these stories will materialize with some of the leading European firms are the greatest. They have developed the most interesting examples of partnerships, have adopted broader approaches to the bottom of the pyramid, and are developed novel business models. But even for these firms, it does not seem easy to change their strategic orientation.

A first– exploratory - analysis shows that no multinational has yet succeeded in linking inclusive business and inclusive growth at any level of sophistication. MNEs are strongly influenced by their countries of origin. This is partly due to the regulatory framework in these countries, but also due to sector dynamics. Different sectors face different problems and are at different stages when it comes to alleviating poverty. So a way forward, in this regard,might be to create an enabling environment that facilitates dialogue and subsequent action at the sector level. Now, NGOs and international organizations tend to approach single, individual (often high profile) MNEs. Complementarily, the GRI and other international organizations couldimprove reporting guidelines and develop specific inclusive growth or poverty alleviation indicators per sector.

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.

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