Poverty and the New Economy
The Promise of Shared Value and Inclusive Business

The emerging new economy presents both opportunities and challenges. Many of the challenges of this new economy were presented in the previous report. The focus of this report is on the emerging opportunities the new economy presents. These opportunities arise from changing economic and business models that offer the potential for creating a more inclusive economy with higher quality employment.

Some of the key challenges facing advanced western economies include increased income inequality, wage stagnation, a polarization of jobs and earnings and increased precarious employment. These trends are raising concern because of their potential effects on social cohesion, political stability and support for trade. Of significant concern in Canada is the rise of the 1% involving a large and rapid concentration of income among those at the top of the income distribution due to a skewed rate of income growth. This trend is related to ongoing wage stagnation and the decline of the middle class, which is in turn is related to a decline in the labour share of income (St. Hilaire, 2017).

The paradox of the new economy is that, while it has disrupted our traditional business and economic practices and, in so doing, has left workers and communities in greater degrees of precariousness, this new economy is also spawning innovative new approaches to business that provide a light at the end of the tunnel. Many large corporations are coming to realize that the destabilizing forces which are creating vast inequalities and diminished human and social capital, is actually bad for business.

In 2018 the consulting firm Deloitte conducted a survey of business leaders and reported the following:

“A more connected society, driven by rapid technological change and an increasingly purpose-driven agenda, has positioned global executives to think more holistically about the impact of economic growth. As we have seen, economic growth and the advances of globalization do not directly correlate to the improvement of all people’s lives. This recognition is driving an increasing focus on inclusive growth – ensuring an equality of opportunity for all. Recognizing that business cannot succeed if society fails, businesses are increasingly broadening their strategic focusses on financial and nonfinancial measures of success, including societal impact.”

This insight echoes the findings of another respected management consulting firm, FSG, who reported a shift among large corporations in their thinking about the relationship between business and society, stating:

“Rather than seeing business and society in opposition, they recognize the enormous potential of business to contribute to social progress. At the same time, they understand that firms depend on healthy and well-functioning societies to thrive. Such companies
Poverty and the New Economy: The Promise of Shared Value and Inclusive Business

seek to create ‘shared value’ – incorporating social issues into their core business strategies to benefit both society and their own long-term competitiveness.” FSG

While many businesses have traditionally contributed philanthropically to their communities, what is emerging now is a greater sense that business can have a significant role to play in creating a positive social business context through their core business practices.

As inequality increases, there is growing emphasis on generating a different kind of economic growth that distributes the benefits of growth more fairly and evenly. This concept of “Inclusive Growth” is defined as growth that “can create opportunities for all segments of the population and distribute the dividends of increased material prosperity fairly across society.” The concept of “inclusive growth” proposes two equally important societal goals: creating opportunity for all segments of the population as well as better distributing the dividends of such growth fairly across society (St. Hillaire, 2017).

The possibility for inclusive growth arises from a new understanding that corporate and community interests are not in competition, but in fact complement each other. This idea is articulated in the emerging language of “shared value”. The concept of ‘shared value’ emerged from two perceived deficiencies of traditional corporate social responsibility (CSR). First, CSR tends to view business as pitted against society rather than recognizing their interdependence. Secondly, CSR doesn’t typically take a strategic view and CSR initiatives don’t tend to be incorporated into core business strategies (Williams and Hays, 2013). Shared value refers to investments in long-term business competitiveness that simultaneously address social and environmental objectives. It is distinguished from “business value” which refers to investments in long-term competitiveness. At the same time, it goes beyond mere “social value” which refers to investments that address social and environmental objectives (Bockstette and Stamp).

Recognizing the inter-dependence between business and society, shared value approaches focus on the “competitive context” of business. This competitive context has four elements: factor conditions or inputs; demand conditions; context for strategy and rivalry; and, the nature of supporting industries. Focus on the competitive context leads firms to collaborate to upgrade the conditions of the local society. Ways to improve the competitive context include improving the quantity and quality of business inputs (e.g. labour through training); changing the rules of the game (e.g. intellectual property rights); improving the sophistication and size of local demand; improving local availability of supporting industries; product and value chain innovation; and improving the social context (e.g. through up-skilling) (Williams and Hays, 2013)

The opportunity for inclusive growth and shared value approaches to business arise from two distinct but related developments: a) social purpose business and b) social business practice. A social purpose business is a type of business that focusses on the creation of social value using a business model. It can include a variety of business forms including social enterprises,
cooperatives, non-profit organizations, public sector organizations and private for-profit companies. This is often referred to as the “social economy” (Quarter, Mook and Armstrong, 2018). Social purpose business refers to “what” the organization seeks to do. Essentially they apply entrepreneurial principles and business solutions to social problems. Such enterprises can provide goods and services as well as employment and training opportunities for low-income people. They can also contribute to local economic development and stability (Holmgren et al, 2016)

In contrast, social business practice refers to “how” an organization operates and the social value generated through its normal operations. This can include internal and external practices that either seek to improve the well-being of workers within the organization, and / or seek to enhance the quality of life of workers and communities beyond the corporation through inclusive business strategies that seek to intentionally integrate low-income communities as customers, suppliers, retailers and distributors (Jenkins and Ishikawa, 2010). Social purpose businesses may or may not engage in social business practices, while organizations engaging in social business practices may or may not have a defined social purpose.

The rising importance of inclusive growth from a business perspective is highlighted in a recent survey by the consulting firm Deloitte (2018) which reported that progress toward inclusive growth / sustainability was the second most important concern of global executives (65%), after keeping up with technology / competitiveness (77%). It ranked as more important than client / customer trust, employee skill development, employee hiring and retention, and shareholder value. Another recent survey found that Canadian businesses are actively contributing to inclusive growth in a variety of ways including traditional CSR activities such as making financial contributions to charities or donating goods and services, providing sponsorships, or engaging in cause marketing. In addition to financial or material contributions, businesses also provided volunteers to non-profit organizations through employee volunteer programs, or helped community organizations by supporting fundraising initiatives. At the same time, about 1 in 5 firms (21%) also went deeper than traditional CSR activities and sought to create social value by purchasing goods and services from a charity or non-profit supplier (Hall et al, 2008).

**Inclusive Growth Strategies**

There are several different approaches to shared value or inclusive growth that comprise the domain of social business practice. Inclusive Business Models (IBM) is a specific shared value strategy that aims to directly involve the poor in their value chains. Williams and Hays (2013) identify four distinct inclusive business types:

- Commercial businesses that sell products needed by the poor which possess a high development impact (e.g. financial services).
- Companies that impact the poor in the normal course of their operations (e.g. mining companies that improve local value chains).
- SMEs that are embedded in the local economy and are therefore dependent on its development.
Companies with a social product / purpose but with a commercial mode of delivery.

Social business practices therefore can be operationalized as both internally focused actions as well as externally focused through the business relationships the organization has with the broader community.

**Internal Business Practices**

First, as a principle, we can decide that nobody who works full-time should be living in poverty. In response, organizations can enact living wage policies both for their own employees as well as for contractors. Not only is this a good principle for society, research has found that investing appropriately in your workforce is very good for business. It increases productivity and quality, reduces turnover, significantly builds your human capital and has important reputational advantages in the community. “Businesses that adopt a living wage policy are generally rewarded with increased employee productivity, decreased staff turnover, and reduced hiring and training costs; employees enjoy increased economic security and reduced stress and hardship; the community benefits from a larger taxpayer base and increased consumer purchasing power; and because working families tend to spend their dollars locally, Living Wage dollars are often injected right back into local economies.” (Holmgren et al, 2016 p. 16).

Secondly, reducing our reliance on non-standard employees and moving our non-standard employees to a more standard employment relationship has great benefits to both employees and businesses. Where employers continue to need non-standard workers, there are a variety of strategies that can be employed to increase workforce security among non-standard workers described by KPMG and the United Way of Toronto and York Region (2017), including, first, providing income benefits. These include health and disability benefits, childcare support and non-wage financial supports (e.g. RRSPs). “Offering more income benefits to insecure workers could result in decreased income related stress, improved health and well-being, increased support for children, and increased community engagement and volunteering. From a business perspective, it could help increase productivity, employee engagement and satisfaction, increase the supply of qualified temporary workers, as well as improve talent attraction and retention efforts.” (KPMG and UWYTR, 2017 p. 14).

A further practice that can improve job quality for non-standard employees involves providing predictability in scheduling. Options to improve predictability include providing sufficient advance notice of schedules or having guaranteed hours of work per week. “Providing increased predictability could result in decreased anxiety, improved household well-being and happiness, and decreased delays in starting relationships and / or families. From a business perspective, it could improve employee morale, engagement and productivity, as well as decrease turnover.” (KPMG and UWYTR, 2017 p. 19).

Finally, employers can enhance the quality and value of work for non-standard employees by providing similar opportunities to non-standard employees as are provided to regular employees. This
includes opportunities for advancement and skill development, including onboarding training, specialized training, performance management and mentorship. Employers should also ensure that non-standard workers are included in the social and cultural aspects of the business both as a participant and as a leader. This includes aspects such as communications, planning efforts and social activities, as well as involvement in recognition and rewards programs (KPMG and UWYTR, 2017).

Another important strategy that generates both business and social value is intentionally striving for diversity in the workforce through equity and diversity strategies. Such strategies work to increase opportunities for traditionally marginalized populations, and also increases the resilience of the organization. Diversity not only brings new insights to the business, it also opens up relationships with new potential customers or suppliers and allows for product innovation.

Tailoring recruitment practices to embody equity, inclusion and diversity could include accessibility plans, accommodating flexible work hours and providing on-site daycare. It could also include purposefully recruiting from diverse ethnic backgrounds and recognizing foreign credentials. Businesses can also create training opportunities, internships and apprenticeships to provide important work experience. “These practices increase the representation of under-represented groups in the workforce, and increase workforce participation, which in turn, decreases spending on social programs and benefits us all.” (Holmgren et al, 2016 p. 17)

Finally, organizations can support both standard and non-standard workers with important non-monetary benefits. This could include benefits such as flexibility of time and work location, paid leave or the provision of services such as childcare. Such strategies help workers better balance work and home responsibilities while also increasing productivity (KPMG and UWYTR, 2017 p.16). At the same time, it can open up job opportunities to workers who might otherwise be excluded from the job market.

External Business Practices

Externally focused social business practices can be broadly classified as inclusive business strategies. The World Business Council for Sustainable Development (WBCSD) defines inclusive business as a strategy that integrates low-income communities into companies’ value chains as customers, suppliers, retailers and distributors and which seeks to contribute towards poverty alleviation while not losing sight of the ultimate goal of business, which is to generate profits. The UNDP further elaborates on such strategies which “include the poor on the demand side as clients and customers, and on the supply side as employers, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit.” (Jenkins and Ishikawa, 2010).

CSR Asia (2015) describes inclusive business strategies as ones that “seek to contribute towards poverty alleviation by including the poor and low income communities in its business processes in a commercially viable way and increasing the competitiveness of its value chain.” (CSR Asia, 2015 p. 1). Successful inclusive
business strategies have the following characteristics:

- They provide improved living conditions for low-income households by generating increased incomes and employment opportunities as well as opportunities for skill development, access to markets, improved infrastructure, and access to goods and services.
- They create shared value by productively integrating communities into efficient value chains of large companies thereby increasing incomes and living standards while also creating a more competitive value chain.
- They improve commercial business success by lowering supply costs, increasing productivity, improving quality and providing opportunities for market expansion. (CSR Asia, 2015)

Related to the concept of “inclusive business” is the strategy of “inclusive markets”. This strategy is similar, but expands the inclusive business concept from the firm to the entire economy, and includes factors such as policy and institutional infrastructure, entrepreneurship development and corporate social responsibility, in addition to firm-focused strategies of value chain integration. Inclusive business / markets differs from traditional CSR in that while CSR focusses on the well-being of societies, it doesn’t necessarily include integration of social good into its business strategy (Heierli, 2011). Inclusive business strategies can include the following dimensions:

- **Supply Chain Integration** – One important strategy businesses can employ to generate social value is by intentionally integrating low income or marginalized workers or communities into the value chain as producers or suppliers. This can provide employment and income which increases living standards, as well as increasing human capital and thereby productivity (Heierli, 2011). This could also involve investing in entrepreneurship and new small businesses that can be integrated into the value chain (CSR Asia, 2015). This could include intentionally targeting certain types of businesses and building their capacity to compete for contracts. For example, preference could be given to workers in low-income neighbourhoods for employment, or to catering companies that employ or are run by women or newcomers. This focus can be supported by social procurement policies and strategies which can establish procurement expectations related to social and environment standards such as equity and diversity, or occupational health and safety.

- **Integration into Distribution** – Similar to supply chain integration, organizations can also integrate low-income or marginalized workers or communities into their distribution network. Heierli (2011) notes “By including individuals from low-income sectors as distributors, retailers or service providers, business can expand their market zone to low accessibility areas.. In this model companies can decrease their transaction costs and the poor receive new income opportunities that increase their living standards.”

- **Products and Services** – Thirdly, companies can target goods and services to meet the needs of low-
income communities. Often goods and services are designed to meet the needs of those with higher purchasing power while ignoring the needs of those with less disposable income. Those living in poverty often lack access to all the goods and services needed to achieve a minimally acceptable standard of living. Corporations can address this need by providing goods and services to this population. Pralahad and Hart (2002) developed the concept of the consumer pyramid, demonstrating that most products and services are directed to upper or middle income consumers. However, they argue that a significant investment opportunity exists for those who target products and services to the poorest segments of the population.

“In short, the poorest populations raise a prodigious new managerial challenge for the world’s wealthiest companies: selling to the poor and helping them improve their lives by producing and distributing products and services in culturally sensitive, environmentally sustainable and economically profitable ways.” (Pralahad and Hart, 2002 p. 3)

This can involve providing high quality products and services to meet basic needs or reconceiving products and markets to provide appropriate services to meet unmet needs (WBCSD, 2016; Williams and Hays, 2013). However, as this customer base is not the typical customer that corporations are used to dealing with, innovative ways to provide such goods and services will need to be found (Heierli, 2011).

- **Capacity Development** – In order to effectively deliver the inclusive business strategies outline above, organizations may be required to work to develop the capacity in the local context. As noted by Bockstette and Stamp “Companies do not operate in isolation from their surroundings. To compete and thrive, they need reliable local suppliers, a functioning infrastructure or roads and telecommunications, access to talent, and an effective and predictable legal system.” For low-income or marginalized communities, their ability to participate effectively in the economy is limited by lack of physical and institutional infrastructure such as credit, insurance, transportation, energy and communications (WBCSD, 2016). This may require providing new innovative ways for people to access information as well as potentially developing new distributional approaches (Pralahad and Hart, 2002). Innovations must be cognizant of the local culture, should nurture local markets and leverage local solutions. This requires corporations to “combine their advanced technology with deep local insights” leading to targeted product development and bottom-up innovation. Key to this will be empowering local entrepreneurs and enterprises (Pralahad and Hart, 2002).

Developing the local context may also require improving the quantity and quality of business inputs (e.g. labour through training). Other aspects of capacity development may involve changing the rules of the game (e.g. intellectual property rights), improving the size and sophistication of local demand, improving local availability of supporting industries and improving the
social context (e.g. through up-skilling) (Williams and Hays, 2013). Investing in skills development and education that can improve productivity and income may also be required (CSR Asia, 2015; Williams and Hays, 2013).

- **Leveraging Assets**: Businesses can contribute their own expertise and resources directly based on their own business acumen. E.g. financial institutions can provide financial literacy resources and tax advice (Holmgren et al, 2016).

- **Certification**: For organizations that are very intentional about their impact strategy, there are a variety of certification programs that can verify their conduct. One important emergent form is the B-Corporation. B-Corporation certification verifies that the company adheres to strict social and environmental performance standards. Other less strict verification regimes include living wage certification or ISO 26000.

Impact Investing

Increasingly, social purpose business and social business practice are encouraged and enabled by impact investment. Impact investment refers to “investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social and environmental impact along with a financial return” (RIA, 2016 p. 1). According to the Responsible Investment Association, in 2016, there were over $9.2B in assets under impact investment management in Canada. The vast majority of impact assets are held in B.C. ($4.6B), Ontario ($2.6B) and Quebec ($1.2B) (RIA, 2016).

Impact investing is gaining momentum in Canada. Between 2013 and 2016, the value of investments under impact management rose by 123%. This growth is attributed to increased demand from institutional and high net worth investors, the growing availability of impact investment products, and increased accounting of impact investments as investors gain understanding of how they can generate positive social and environmental value. A growing number of impact assets are directed to companies or organizations with an environmental or social purpose (RIA, 2016).

Investments are distributed across a wide variety of sectors, but top sectors are housing / real estate (27%); clean technology (21%); energy (13%); Non-profits / social enterprise (11%); Aboriginal business (6%). (RIA, 2016). Impact investors indicated they were most likely to increase their investments in the following sectors: Non-profits / social enterprise (17%), community development (14%), food / agriculture (13%); clean technology (9%); Aboriginal business (8%) and housing / real estate (8%). (RIA, 2016)

The largest amount of impact Investments are held by Credit Unions ($3.5B), followed by Impact Investments Funds Managers ($2.3B); Foundations ($1.2B); Quebec Solidarity Finance ($1B); Community Finance Organizations ($351m); Community Futures ($301m); Cooperatives ($257m); Non-profits ($148m); Government ($73m); Development Finance ($24m); Chartered Banks ($24m) and Other ($32m) (RIA, 2016).
Motivations and Drivers of Inclusive Business Practice

As companies and organizations increasingly embrace shared value / inclusive business practices, the motivations for doing so are diverse. First, there are reputational advantages for doing so. This may involve seeking to avoid reputational damage (Chakravarti, MacMillan and Siesfield 2014), but also proactively to strengthen an organization’s relationship with their community. For others, such practices are seen as an extension of their company’s tradition and values (Hall et al, 2008). In many cases, the adoption of such practices are in response to demands from employees, customers and shareholders (Chakravarti, MacMillan and Siesfield 2014).

Other companies recognize that shared value / inclusive business practices can provide a competitive advantage. By differentiating themselves and / or their products they can gain or maintain a competitive position. This may arise from the reputational advantages of such strategies. Alternatively, their competitive position may be enhanced by capturing new revenues through new products and markets, or by building and maintaining loyalty (Chakravarti, MacMillan and Siesfield 2014). Jenkins and Ishikawa (2010) report that the primary driver for adoption of an inclusive business strategy was growth, where companies identify a market opportunity where unmet need was combined with an ability to pay. The ability to pay emerged from innovation where companies were able to bring the product / service in at an affordable price-point. Often this required a whole of pyramid approach that permitted cross-subsidization.

The changing workforce is a further driver leading to greater adoption of inclusive practices. In a survey of business leaders, Deloitte (2018) highlighted talent issues that will affect business in the future include the growing skills gap and wage disparities. In particular, the way businesses approach learning and skills development will be crucial to their long-term success. In addressing the emerging skills gap, they note:

“Businesses, in collaboration with education systems, need to invest in delivering lifelong education and skills development that do not end once people enter the workforce. By breaking down these barriers, businesses can increase employment inclusivity and make progress toward inclusive growth and addressing social mobility.” (Deloitte, 2018 p. 12)

Finally, risk management is a motivating factor. Many global companies have identified environmental and social crisis as risks to their long-term growth, such as supply or regulatory disruptions (Chakravarti, MacMillan and Siesfield 2014). As such, many are adopting sustainable and inclusive business practices as a risk mitigation strategy. This is related to a growing recognition of the importance of the social context in which businesses operate and a realization that building strong communities is good for business (Hall et al, 2008). Reflecting on global disparities, Pralahad and Hart (2002) note that “… investment at the ‘bottom of the pyramid’ means lifting billions of people out of poverty and desperation, averting the social decay, political chaos, terrorism and environmental meltdown that is certain to continue if the gap between the rich and
poverty continues to widen.’” (Pralahad and Hart, 2002, p. 3). Given the rising inequality within western societies, a similar claim could be made for developed countries as well.

With this recognition, many companies and organizations are struggling to (re-) define their roles as contributors to stable social environments. Deloitte (2018) note that a majority of business leaders believe that “the impact of new technology on the workforce will require new social solutions, but executives and business strategists often do not address what those solutions are and business’s role in achieving them.” (Deloitte, 2018 p. 11). This effort to redefine roles in an increasingly complex social and economic environment is opening new opportunities that can benefit both business and society. Bockstette and Stamp note:

“… the most advanced companies have begun to look at social engagement through a different lens. Rather than seeing business and society in opposition, they recognize the enormous potential of business to contribute to social progress. At the same time, they understand the firms depend on healthy and well-functioning societies to thrive. Such companies seek to create ‘shared value’ – incorporating social issues into their core business strategies to benefit both society and their own long-term competitiveness.”

**Strategies for Inclusive Business**

Creating shared value and embracing an inclusive business approach requires deliberate strategic action. A strategic framework for such action involves the following building blocks.

**Vision:** An explicit vision of the company as an engine for creating shared value. This requires commitment from the top with engaged senior leaders. Without this commitment, it will be difficult for companies to harness the resources, focus and long-term commitment that is required (Bockstette and Stamp).

**Leadership:** Business leaders can be important champions both within their organizations and in the broader community. Holmgren et al (2016) state: “Great local business champions lead by example and act as catalysts for change. They know how to use their experience, expertise, and networks to galvanize, educate, and involve their peers in poverty-related challenges and solutions. They also encourage other sector leaders to think about how they can contribute to local poverty reduction efforts.” This can also involve raising awareness. Fostering empathy can shift a community’s perception of poverty. Business leaders can use their influence to change people’s perceptions of poverty (Holmgren et al, 2016).

**Analysis:** A successful strategy requires a careful scoping that includes a rapid market assessment, stakeholder engagement, market research and identifying possible interventions. It also requires important value chain analysis that describes the value chain and conducts deeper engagement and market research (CSR Asia, 20015).

**Strategy Formulation:** A robust strategy that identifies a clear focus and articulates ambitious goals. This involves businesses
integrating social and environmental goals into their return on investment calculations to reflect their social responsibility goals. This may include scaling up community investment programs, providing training and mentoring opportunities, supporting research and leveraging their communication channels and networks (Holmgren et al, 2016). The strategy should focus on a limited set of relevant opportunities that reflects the companies “unique positioning, capabilities, and competitive landscape. It should identify a handful of genuine social challenges that also represent cost-reduction or growth opportunities, and prioritize the areas where it is best placed to act.” (Bockstette and Stamp). Such a strategy should identify entry points, design interventions and indicators along with possible partners / stakeholders including lead companies, government, producers and suppliers, distributors, consumers and civil society organizations (CSR Asia, 2015).

Collaboration: Multi-sector collaboration involves business, government and civil society as partners in collective impact strategies. This can include the integration of large public and non-profit institutions as “anchor institutions”. Such institutions “(r)epresenting purchasers of goods and services, hold long-term, place-based economic authority, significant power as employers, and considerable economic clout.” Their greatest lever can be procurement as well as participating in Community Benefit Agreements. They can also incubate social enterprises and / or adopt living wage policies. “Anchor institutions are well positioned to create a supply of decent work opportunities for individuals facing barriers to employment. They play a stabilizing role in the face of economic uncertainty and serve as community role models, inspiring others to follow their lead.” (Holmgren et al, 2016 p.13)

Implementation: At this stage, the organization decides on projects and establishes partnership agreements. An effective delivery that leverages assets and expertise across functions and business units within the company, as well as from external partners and stakeholders. Bockstette and Stamp state that effective delivery requires 3 essential practices:

a. Deploy a range of assets: “These assets can include cash, goods and services, the skills of employees, and political and business influence. The most effective companies bring to bear an imaginative combination of assets in areas where they have an edge over other actors.”

b. Manage efforts holistically across the corporation: “In the most effective companies, social engagement is not confined to an isolated silo, but instead is integrated into a wide variety of roles and functions, and often overseen at the board level.” (Bockstette and Stamp).

c. Collaborate with partners: Effective delivery engages in broad coalitions “that tap into a range of complementary capabilities from across fields and industries to tackle a common issue.” (Bockstette and Stamp).

Performance: Management for performance that seeks to measure and
learn from results, bring successful efforts to scale, and communicate progress. This involves 3 critical spheres of activity:

a. Measure progress on key indicators.
b. Learn from measurement to improve efforts.
c. Communicate progress to internal and external stakeholders.

**Scaling Up:** Finally, strategies need to be brought to scale. Effective scaling requires the identification of barriers to scaling up, replication opportunities and the development of solutions for scaling up.

**Benefits of Inclusive Business Approaches**

There are a diverse range of benefits accruing to organizations that practices shared value / inclusive business practices including:

- **Business and Economic Growth:** Revenue growth and business profitability are important outcomes for businesses that successfully adopted inclusive business strategies. This is due to a company’s improved ability to anticipate customer demands (WBCSD, 2016) as well as to either increasing access to previously unaffordable products, or from bringing informal markets into the formal economy. For the community, the most common development outcomes from inclusive business practices were increased economic opportunity and increased access to needed goods and services (Jenkins and Ishikawa, 2010).

- **Resource and Market Access:** Inclusive business strategies can provide more secure access to resources and markets, allowing companies to strengthen their supply and distribution chains. “Inclusive business models source materials locally from small-scale producers. This helps build stronger and more productive suppliers and enables more secure access to local resources.” (WBCSD, 2016). Access to new markets also arises from an increased customer base as well as increasing sales to existing markets by potentially lower costs through cheaper and higher quality production based on growth-intensive sales and the development of new products (Williams and Hays, 2013).

- **Labour Supply and Productivity:** SV / IB strategies can improve labour supply by expanding the labour pool. “By using local laborers, inclusive businesses have increased access to appropriately skilled and more cost-effective employees. Local populations benefit from better wages and more secure livelihoods and are more able to contribute to local economies.” (WBCSD, 2016 p.3). Such strategies also improve productivity through higher employee engagement. KPMG and UWyTR (2017) report that “Companies with lower employee engagement experienced a 32% drop in operating income and an 11% drop in earnings per share.” As well, they serve to avoid significant turnover costs that both reduce profit and impact the morale and well-being of the workplace. They also serve to reduce absenteeism as workers are able to more predictably balance work and life responsibilities. Finally, such strategies serve to reduce ancillary
costs due to quality challenges or the need for increased worker oversight (KPMG and UWYTR, 2017).

- **Reputation**: Inclusive business strategies can provide significant reputational benefits to companies and organizations. Such strategies enhance brand value and allow companies to differentiate themselves from their competitors (WBCSD, 2016; KPMG and UWYTR, 2017). Such reputational advantages may also lead to enhanced partnerships with customers, suppliers and governments (Williams and Hays, 2013). In their business leaders survey, Deloitte (2018) reported that business leaders believe that investing in inclusive growth initiatives improves relationships with governments and regulators.

- **Innovation**: SC / IB strategies can foster innovation in a couple of ways. First, the challenge of providing goods and services to and for marginalized communities requires new ways of thinking (WBCSD, 2016). Further, such strategies contribute to a learning environment that improves creativity (Deloitte, 2018).

- **Enhanced Risk Management**: Inclusive growth strategies enable organizations to better anticipate, identify and plan for risk (WBCSD, 2016).

**Success Factors**

- **Leadership**: One of the critical factors accounting for successful strategy implementation was leadership. In a survey of business leaders, Deloitte (2018) reported that company leaders are seen as most responsible for driving this agenda forward. The report also noted the importance of internal champions.

- **Embeddedness**: It is important that inclusive business strategies are embedded in the company’s strategic priorities and that champions are identified and responsible for driving the agenda (Deloitte, 2018). Further, incentives need to be created within the corporation for the realization of shared value goals making it central to the financial performance of the business unit or company (Williams and Hays, 2013).

- **Market Knowledge**: Successful strategies demonstrate strong local market knowledge including business cultures, consumer preferences and local context (Heierli, 2011). Based on this knowledge, such companies were able to adapt products and processes to respond to the consumer needs and preferences, as well as to leverage networks to reach large numbers of low-income consumers (Williams and Hays, 2013). Finally, they were able to innovate to bring their product / service in at an affordable price-point (Jenkins and Ishikawa, 2010) while also responding to the cash management strategies of low-income consumers (Williams and Hays, 2013).

**Enablers and Challenges**

Reviews of organizations that have implemented shared value / inclusive business strategies reveal some important conditions that enable success as well as present barriers.
• **Collaboration:** The ability to collaborate with the community and across sectors is critical for strategy success. CSR Asia (2015) notes that a successful strategy must engage meaningfully with the local community to ensure that the strategy is accepted and aligned with the aspirations of the community (CSR Asia, 2015). Collaboration can include partnerships with local companies, the public sector or NGOs. Effective collaboration can increase the company skill base available to the company and provide valuable insights into local customer needs and preferences (Heierli, 2011). It can also help to leverage knowledge, infrastructure, finance and training as well as to proactively remove market constraints that would typically be within another actor’s jurisdiction (e.g. investing in education, energy supply or infrastructure) (Williams and Hays, 2013; Jenkins and Ishikawa, 2010).

• **Capacity Development:** Working effectively in and with low-income stakeholders and communities often requires up-front investments to build their capacity to effectively integrate into the development opportunity. Such development is often required of suppliers, distributors and retailers (Williams and Hays, 2013; Jenkins and Ishikawa, 2010). This can involve providing financing through new finance models with various partners and financial instruments (Heierli, 2011). Capacity development may also require investments in training (Jenkins and Ishikawa, 2010).

• **Program Design:** There are various program design features that can enhance strategy success. First, an effective strategy needs to consider the root causes of poverty (such as lack of skills or access to credit) and be intentional about working to improve the quality of life in a community. Programs need to be flexible in design and delivery with a longer term plan for scalability, and integrate good monitoring and evaluation to ensure that impacts and outcomes are being realized (CSR Asia, 2015). Successful strategies were also developed in the context of the larger business strategy to permit cross-subsidization across business lines (Jenkins and Ishikawa, 2010).

### Limitations and Barriers

Reviews of organizations that have implemented shared value / inclusive business strategies also reveal some important barriers to success.

• **Short-term Horizons:** Inclusive-business strategies require a long-term perspective as they require time to scale, need substantial marketing efforts and deal with imperfect or unpredictable regulatory environments. This often conflicts with short-term decision-making mechanisms in most corporations (Heierli, 2011). In its survey of Ontario business leaders, Deloitte found that the most frequently cited to incorporating inclusive business strategies was “short-termism / shareholder expectations” (Deloitte, 2018). This short-term time horizon also affects not only adoption of strategies, but also leads to unrealistic expectations of the time required to scale (Jenkins and Ishikawa, 2010).
• **Confidence and Commitment**: A lack of commitment or confidence in an organization’s ability to make change pose significant barriers to the adoption of inclusive business strategies. In its survey of Ontario business leaders, Deloitte (2018) reported that 30% of respondents identified a lack of perception of the need for inclusive growth (30%) to be key barrier to strategy development, along with a lack of confidence in the company’s ability to influence change (29%). The absence of commitment by senior leadership and a lack of internal buy-in have also been identified as key barriers, along with a lack of clarity about the relative importance of social and commercial (WBCSD, 2016; Jenkins and Ishikawa, 2010). This can be related to the absence of a common strategic motivation and vocabulary that limits collective buy-in across various groups of stakeholders and decision-makers (Chakravarti, MacMillan and Siesfield 2014). Gaining buy-in can be difficult due to short-term time horizons (noted above) along with the difficulty of measuring the impact of the investments (Hall et al, 2008).

• **Profitability**: Any successful shared value or inclusive business strategy must be profitable. However, inclusive business initiatives usually don’t yield the same margin as traditional business strategies, return on investment and margins are lower and the time required to realize both social and financial returns is longer (WBCSD, 2016). There are also inherent risks associated with the development of new strategies, such as mispricing, which could affect profitability as well as a low tolerance for failure (Jenkins and Ishikawa, 2010). Heierli (2011) notes: “Serving the poor means providing them goods and services for a price adjusted to their possibilities. When they are included in the value chain, it means providing them with a wage or price that improves their well-being and lifts them out of poverty. Because, from a MNC-perspective this means either lower revenue (lower profit contribution) or higher costs (higher purchasing prices, wages and product/service development costs), inclusive business has to provide them with a solid, profitable business case.”

• **Internal Knowledge and Capacity**: Successful strategies require appropriate internal knowledge and capacity and the lack of such knowledge and capacity can pose an important barrier. Deloitte (2018) reported that a key barrier to adoption of inclusive business strategies was a lack of clarity about how to achieve the desired results, cited by 30% of the Ontario business leaders surveyed. There can also be lack of clarity about where in the organization leadership for such strategies should be held (Chakravarti, MacMillan and Siesfield 2014). Inclusive business strategies require a certain unique combination of knowledge and skills to conduct business in innovative ways and unfamiliar contexts. Jenkins and Ishikawa (2010) cite the challenges of finding staff with right mix of business and development expertise as a critical barrier. The knowledge and skills required include the ability to manage informal distribution channels and large volumes of small transactions, along with well-developed relationships and
networks. Organizations also often lack information about the purchasing power, consumer needs and behavior, and the skills and capacities or suppliers, distributors and retailers (WBCSD, 2016; Jenkins and Ishikawa, 2010). This can result in difficulty adapting the original business model to new markets and scales (Jenkins and Ishikawa, 2010). Further, there are challenges with assessing the impact of the strategies in the absence of credible and widely accepted measures (Chakravarti, MacMillan and Siesfield 2014).

- **Local Capacity:** The success of any inclusive business strategy will be affected by the capacity of the community with which the organization seeks to engage. A lack of local capacity to engage can pose a significant barrier to success. One key aspect is the lack of key infrastructure, such as transportation or communication (Heierli, 2011; Williams and Hays, 2013; Jenkins and Ishikawa, 2010; Chakravarti, MacMillan and Siesfield 2014). Local capacity may also be weak due to a lack of consumer information about available products and services, as well as a lack of finance for low-income producers and consumers required for large purchases or investments (WBCSD, 2016; Jenkins and Ishikawa, 2010; Williams and Hays, 2013). Local human capital may also be a constraint due to a lack of qualified labour and / or suppliers with the requisite knowledge and skills (Williams and Hays, 2013; Jenkins and Ishikawa, 2010). Finally, the local context may present a challenge due to the lack of appropriate partners in the communities in which the organization seeks to engage (Jenkins and Ishikawa, 2010) along with difficulties coordinating fragmented suppliers (Chakravarti, MacMillan and Siesfield 2014).

- **Regulatory Environment:** A weak policy and regulatory environment in the region where an organization is working can be a significant barrier. In its survey of Ontario business leaders, Deloitte (2018) reported that 31% of respondents cited “regulatory environment / gov’t mandates” as a key barrier to adoption of inclusive business strategies. Heierli (2011) notes the importance of identifying key government actors early on and getting them involved in designing pro-inclusive business regulation.

- **Managing Expectations:** For organizations that do adopt inclusive business strategies, there is a challenge in managing stakeholder expectations. This can include increasing requests for donations (Hall et al, 2008) as well as unrealistic expectations of return (Jenkins and Ishikawa, 2010). This is a related risk that certain segments of the population that the organization or stakeholders may have expected to benefit continue to remain marginalized, particularly the lowest strata of the population. This can further marginalize those are already the most marginalized (Heierli, 2011).

While these challenges can be significant, they can be mitigated through appropriate strategic planning and innovation. The World Business Council on Sustainable Development highlighted the importance of innovation in product design and financing. However, they noted that “In most cases,
though, overcoming these barriers cannot be accomplished by business alone – good governance, economic incentives, appropriate and robust legal and institutional framework conditions, and public-private partnerships are essential for business to maximize its role.” (WBCSD, 2016 p. 4). Williams and Hays (2013) also discuss the importance of new partnerships, suggesting that tackling these barriers requires the development of “‘inclusive business ecosystems’ through ‘strategically engaging the networks of interconnected, interdependent players whose actions determine whether or not their inclusive business models will succeed.’” This could involve the adoption of the Collective Impact model of social change to a business context. Successfully doing this will require that the success factors identified in the previous section, such as leadership and collaboration, are in place.
REFERENCES


ABOUT THIS REPORT

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